The Francis Forum Newsletter

Create Wealth, Achieve Freedom **Summer 2012**

Manulife Securities

INCORPORATED
INSURANCE INC.

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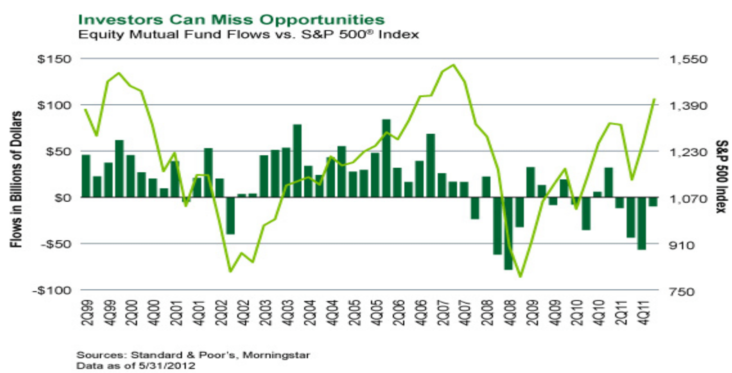
INSIDE THIS ISSUE

What Makes Investors Buy High, Sell Low?

Conventional investment wisdom says: Buy when the price is low, wait for the investment to increase in value, and sell it at the top to realize gains. It seems like a straightforward strategy. So why don't investors follow it?

When the dangers of market volatility appear, investors tend to react emotionally and not stick with a long-term plan. It's understandable, because it can be difficult to see the potential in a stock that's doing poorly (but priced attractively) or the possible risk in buying a stellar performer that could be at or near its peak (overvalued).

The proof is in purchase trends. Equity mutual fund purchases have loosely followed the broad market's ups and downs, contrary to the preferred buy low, sell high approach. As the chart illustrates, many investors are buying when the stock market (as represented here by the S&P 500 Index) is going up, and selling when the market falters.



One of the largest flows into equity mutual funds occurred in early 2000 during a market peak, and one of the largest outflows occurred in the third quarter of 2002, coinciding with a market drop.

More recently, investors scaled back equity fund purchases in late 2008 just before the market dipped to another low point in March 2009. The problem with these actions is that investors realize their losses when they sell and miss opportunities for growth when the market rebounds.

What's the solution? It's hard not to be emotional when your lifestyle and plans for the future depend on the money you've invested. But a long-term investment strategy and a broadly diversified portfolio customized to your individual situation can help you weather market fluctuations and have the confidence to stick to your plan.

As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely,

Duane

http://advisoranalyst.com/glablog/2012/06/26/chart-of-the-week-what-makes-investors-buy-high-sell-low/#ixzz1yvK9sql3

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Why a $1 Million RRSP Isn't a Pension

As stock markets remain volatile, now is a good time to remember that your RRSP – despite its name or its size – is not a pension. More importantly, retirement planning is not just about the size of your number. It's what you do with the number to generate a stable monthly income that counts.

A traditional pension, often called a Defined Benefit (DB) plan promises a guaranteed paycheck during your retirement. The monthly check depends on the number of years you worked for the company and your best salary when you retired.

A classic formula is 2 per cent per year of service times your final year's salary. So, if you worked at the company for 30 years and made $80,000 in your last year, you'd get 60 per cent of that, or $48,000 a year. If you were there for 40 years, you'd get 80 per cent of your final salary, or $64,000 a year. That is paid for life, regardless of what happens to the stock market. The payment is adjusted for inflation or at least comes with a partial cost of living increase.

No worries, no concerns or risks. That's a pension!
These days, fewer and fewer of us get this. If you work for the government, are a teacher, employed by a hospital or work at a university, this might be you. If you work at a handful of large companies, this sort of worry-free retirement is also in your future.

For the rest of Canadians in the labour force, it's just a dream. Sure, the Canadian Pension Plan (CPP) together with Old Age Security (OAS) program are also pensions, but for most Canadians it will replace less than a quarter of their pre-retirement earnings. For many others, this guaranteed income is a fraction of their needs and is thus a rounding error on their retirement budget.

In parallel, an increasing number of companies that did offer DB pensions, have frozen or eliminated their plans and replaced them with Defined Contribution (DC) plans, such as Group RRSP plans or Capital Accumulation Plans.

Other companies never offered Registered Pension Plans (RPPs) and have always left the responsibility in the hands of employees to manage their own RRSPs. Either way, despite the word pension in the titles, absolutely nothing is guaranteed.

The way these (non-pension) plans work, is that you contribute money to an investment account and the company may or may not match a portion of that. Your nest egg is in the hands of the stock and bond market. Most companies are shifting the responsibility of retirement income directly to their employees. The reward but also the risk sits squarely on your shoulder. If markets don't live up to their expectations - and if markets decline at the time people are retiring - the nest egg will be woefully inadequate. Your retirement is at the mercy of the market.

So, what can you do?

In the short-run, nothing. Selling your investments and moving to cash is futile. On any given day, it's impossible to predict how markets will perform. Moreover, market timers have to get two things right: exiting prior to further declines, and entering again prior to the rebound. Some might get the first one right, but the odds of hitting both nails on the head are minute. Professional money managers have an extraordinarily difficult time getting this right, so don't expect any better odds yourself.

This is why pensions are in the news. Federal finance minister Jim Flaherty and his Ontario counterpart Dwight Duncan are among those advocating an increase in the CPP's coverage. Another idea is to encourage Canadians to save more for retirement by taking the money directly from their monthly paychecks.

$1 Million RRSP: Continued on page 3

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$1 Million RRSP: Continued…

One idea is to use Retirement Longevity Insurance. While Disability Insurance replaces your income when you can't work, Retirement longevity Insurance can guarantee a payment for the rest of your life – as long as that might be – which is what a pension is meant to achieve. If your retirement ends up lasting 25, 35 or even 40 years you continue to get your monthly paycheck.

It is sold by a handful of insurance companies under the name of life annuities and segregated funds with income guarantees. There is also a life insurance portion fixed to it which ensures the proceeds upon death are received tax-free, bypass probate and do not get into the hands of creditors.

Now, nobody is suggesting you do this with your entire nest egg, but it is something to consider. If you already have a secure pension income there is likely no need for it.

In sum, if you don't have a true employer pension then take a very close look at your RRSP and other retirement savings and ask yourself whether the number inside is large enough to sustain 25, or perhaps even 35 years of retirement income. If the answer is no, then you might want to consider "pensionizing" a fraction on your nest egg.

http://www.moneyville.ca/article/878143--why-even-a-1-million-rrsp-isn-t-a-pension

When It's Time To Incorporate Your Business

For most businesses, the question is not if, but when, to incorporate.

There are many pros and cons of incorporating a small business, depending a lot on individual situations. But too many businesses fail to revisit the question of whether to incorporate.

As your business matures, and the realities of your legal and tax situations change, asking the question again may bring a different answer.

The pros and cons of incorporating a small business can vary, but here are the most common:

Pros

- Your business is a separate legal entity and as such, creditors or legal actions go against your corporation and its assets, not your personal assets. (There are exceptions, such as personally guaranteed loans, government tax obligations and payroll deductions, among others.)
- Your business has tax flexibility from which you may personally benefit. If you sell shares in your Canadian-controlled private corporation (CCPC), capital gains could be tax-free up to $750,000.
- You can choose the most tax-efficient way to pay yourself, including dividends, salary, bonus or a combination. You can even use dividends as a way to split income with your spouse if he or she is a shareholder in your CCPC.
- If you don't need all business earnings for personal income, you can leave them in the business, deferring personal taxes on withdrawals and possibly enjoying an approximately 15-per-cent preferred tax assessment on the first $500,000 of profit in CCPCs.

When To Incorporate: Continued on page 4

When To Incorporate: Continued…

Cons

- Incorporating costs money. You can do it on your own, technically, but it's more advisable to get the help of a lawyer and an accountant.
- Incorporated entities must file more paperwork, such as separate tax returns, an annual return, one-time articles of incorporation and notifications of share sales, moves or changes of directors.
- Losses in an incorporated company can't be personally claimed. A failed startup can only be "written off" personally to the amount you had invested, not the accumulated negative earnings.

Here are some "need to knows"…

Income Tax filing fees and professional fees for an incorporation can range from $800 to $2,800, so the cost itself maybe be prohibitive for some.

If you are starting a speculative business with low liability and legal risks, and are likely to incur losses in the early days, postponing incorporation may make sense, primarily for the cost savings and tax advantages. As your business grows, the need to incorporate may become greater, so revisit the need for incorporating periodically.

Incorporating later in the life of a business is always an option but a little more expensive, depending on the complexity involved in transferring business assets into the corporation and registering the accompanying tax elections.

As long as you remain a sole proprietorship, all your profits will be taxed as personal income, which could involve tax rates potentially as high as 46 per cent.

If you have a small business, earning, say, $60,000 or so, you may be fine either way. Once, however, you start earning well above that level, you may be missing out on ways to more effectively manage your taxes: income-splitting with family members and/or deferring income taxes.

If you run an incorporated business at a loss and then shut it down, you can't claim the business's losses personally – they are gone. All you can claim personally is money you lent or invested in the business as stock or loans, whereas, in a sole proprietorship, you may be able to claim the full amount of your business losses against other income.

The estimated accounting fees for incorporating a startup business is $1,000 to $2,000.

So, when is it time to incorporate? The answer is: It depends.

A business with anticipated losses and little legal risk can likely start as a sole proprietorship, but increasing risk and more significant earnings will favour incorporating later on.

So when should your buisness incorporate? Keep asking that question until you grow into a different answer, and then you can quickly take action.

http://www.theglobeandmail.com/report-on-business/small-business/sb-money/valuation/when-its-time-to-incorporate-your-business/article4242051/

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It's Painful in the Markets, but Bargain-Priced Stocks Beckon

The world seems to have taken a turn for the worse over the last few weeks. Markets are in risk off mode. The search for nominal preservation of capital has reached such an extreme that people are now paying the German government to hold Euros for them while Swiss banks discuss charging foreigners for the privilege of depositing francs. Government yields in the UK are at levels last seen in 1688. Equity yields in almost every country, (with Greece a glaring exception) including Spain, are higher than 10 year bond yields across the developed world as well as parts of the emerging world. I believe this is due to the very high level of uncertainty where no one cares about making money only about holding on to what they have. The Parable of the Talents springs to mind as an object lesson in what happens to those who settle for zero return.

As value investors, we both loathe and love periods such as the second quarter of 2012. We love them because they throw up attractive values that only occur occasionally and provide opportunities to purchase equities that go on to deliver superior long term rates of return; sometimes even exceptional returns for anyone able to stomach the short term pain. Of course the reason we loathe them is the short term pain. That seems unbearable, and it is almost always at the most painful point when bargains abound. And right now we are spoilt for choice. The best time to buy equities is when you are scared. The most difficult decisions to invest almost always deliver the highest rates of return. When fear is greatest try to do the exact opposite of what you feel you want to do. The time of greatest danger is when things are going well, markets are rising and everything seems easy. That is when mistakes are made and capital is destroyed.

As of June 2012 we are in many ways at such a moment. No one has a nice word to say about equities. Valuation multiples are starting to signal doomsday once again, yet once again most companies owned in your funds continue to increase the value of their business. I hope I do not sound complacent, but we have seen this scenario four times now over the past 15 years. This will be the fifth. And no doubt there will be a sixth later on during this decade. No one can predict the pattern of the next few weeks, but the previous four cycles all evolved in a similar way. Those (few) investors who choose their moment to purchase equities when nearly all news was negative achieved good to spectacular returns within a relatively short time frame. Those (sadly) who left the market during such a period only got back in late if at all and seem destined to repeat a destructive trading cycle. That is why the majority of investors in funds usually see a return below that of the fund.

I think it is fair to say that equity markets have passed what is known as the distribution phase of a sell off and are well into the panic period, with despondency only weeks away. And it is then that one wants to seek out those investments where the market value has sunk yet where fundamentals remain intact.

If this all sounds familiar you are right. That does not make this letter less important nor less relevant. It is every bit as valid now as in 1999, 2001, 2003 and 2008. I have written more or less these same words on several occasions in the past. The names may have changed but the script remains the same. Pain always precedes pleasure. Greece is Europe's dot com. That feckless politicians in a small country cooked the books for decades does without question require a severe downward adjustment of asset values in that country; but whatever occurs in a short-term cycle of creative destruction does not have to translate to lower values elsewhere except in that short term.

Fundamental value always reasserts itself. The bigger and steeper the decline, the greater the likelihood that, a stronger and more robust recovery will follow. We are getting closer to the moment when this transition will be clearer and astute investors will raise their exposure to despised equities at bargain basement prices. By all means, maintain an allocation to cash or bonds, but when everyone else is abandoning equities and the overwhelming funds flow is one way, smart investors will be going the other way.

R. James P. Morton
Chief Investment Officer
Santa Lucia Asset Management Pte Limited

Health and Wellness

Why Sitting Too Much Is Dangerous

Sitting is one of the worst positions for the body to maintain. After just 20 minutes hunched over in a chair, blood pools in the legs and immense pressure builds on the spine. Now, imagine the effects of sedentary workdays long term.

For those that sit at a desk in front of a computer all day, take frequent breaks and stand as often as possible. Prolonged sitting causes discomfort, numbness and spine misalignment. Holding the body upright also increases tension in major muscles and joints. All that means stationary time at work can lead to cardiovascular disease (because of less blood flow), tightened hip flexors, shortened hamstrings, pinched nerves and many physical injuries in the long run.

Why Is Sitting So Unnatural?

Body pain, herniated discs, nerve problems and painful joints are direct results of long office hours. When you're sitting, the spine is under a lot of pressure. Our bodies were made to stand, so maintaining the seated position is physically stressful. Also, the weight is distributed in a standing position and that's not the case with sitting.

When you sit, you distort the natural curve of the spine, which means your back muscles have to do something to hold your back in shape because you're no longer using the natural curves of the spine to lift yourself up against gravity.

Bad posture makes the sitting disease even worse. Slipped discs is a direct result.

Doctor's Orders: How to Prevent Back and Neck Injuries

Good posture when sitting maintains the three natural curves of a healthy spine. The neck is forward, the upper back has an outward curve and the lower back is inward. Elbows are at the sides of the body and shoulders are relaxed — holding shoulders upright for a long time will strain the area.

The main point is avoid slouching, you have to sit up straight and sit all the way back in your chair. The chair should be tucked in close to desk. And, you need lumbar (lower back) support.

Inexpensive remedies are available. Either roll up a thick sweater or use a small pillow behind your back to allow your lower back to curve inward. Aim to insert it in between the small of your back and the chair.

Another recommendation to avoid pulling muscles or causing pain is simply standing every 20 minutes or so. It's the most important thing desk workers can do to give the body a break from a long held position.

That will push the blood out of your legs and will prevent ligaments from getting strained. It starts to stretch out your ligaments.

Simple stretches at your desk such as twisting, turning the head from side-to-side and chin tucks upward towards the ceiling will also help.

Those movements, doing them very regularly, at least once an hour, for 60 seconds will do a lot to relieve chronic pain.

General Tips

- Stand at least every hour at your desk.
- Do simple stretches throughout the day such as placing your hands on your lower back and stretching backwards.
- Get moving! Make conference calls on your feet or suggest a moving meeting — walk up and down the hall.
- When seated, make sure you maintain good posture with your butt all the way back to the chair, feet flat on the floor, head straight and with lower back naturally arched inward.

http://mashable.com/2012/06/18/too-much-sitting/

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Spring Activities

RBC Royal Bank Bluesfest
July 4th – July 15t
www.ottawabluesfest.ca

6th Annual Community Family Fun Day/ Kites4Cancer Fundraiser
July 29th
www.clubsocca.blogspot.com

Rideau Canal Festival 2012
August 3rd – August 6th
www.rideaucanalfestival.ca

Capital Hoedown Country Music Festival
August 10th – August 12th
www.capitalhoedown.net

Ottawa Folk Festival
September 6th – September 9th
www.ottawafolk.com

Wedding Palace Bridal Show - 2012 Fall Show
September 15th – September 16th
http://www.weddingpalace.ca/

Upcoming Events

- Duane was instrumental in helping to raise over $28,000 for the annual **Let's Take A Swing At Cancer Charity Golf Tournament** whose charity of choice is the "Ottawa Regional Cancer Foundation". This year's event took place on June 7th

- Madagascar 3 was our choice for our annual **Family Movie Day**, which took place on June 16th and it was a smash!

H.O.P.E Volleyball Summerfest

This is the 30th Anniversary of HOPE (Helping Other People Everywhere, Ottawa-Carleton Inc.) on Saturday, July 14th. HOPE is a volunteer-driven, not-for-profit events management organization that raises funds for community-based charities. Inspired by Terry Fox's run across Canada, in 1981 a group of friends in Ottawa founded HOPE to make a difference in their community.
HOPE's flagship Volleyball SummerFest event combines recreational volleyball with live rock entertainment. Each year, more than 25,000 players and spectators flock to Mooney's Bay Beach in Ottawa for the greatest summer event in the region. These participants have helped HOPE donate over $3.5 million in support of more than 110 local charities.
The inspiration that led to HOPE's founding thirty years ago continues to guide them today. Now as then, the goal is to serve the community by serving up fun.