The Francis Forum Newsletter

Create Wealth, Achieve Freedom **Fall Edition 2012**

Manulife Securities INCORPORATED | INSURANCE INC.

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INSIDE THIS ISSUE

Even if you are new to investing, you may already know some of the most fundamental principles of sound investing.

Have you ever noticed that street vendors often sell seemingly unrelated products - such as umbrellas and sunglasses? Initially, that may seem odd. After all, when would a person buy both items at the same time? *Probably never - and that's the point.* Street vendors know that when it's raining, it's easier to sell umbrellas but harder to sell sunglasses. And when it's sunny, the reverse is true. By selling both items- in other words, by *diversifying* the product line - the vendor can reduce the risk of losing money on any given day.

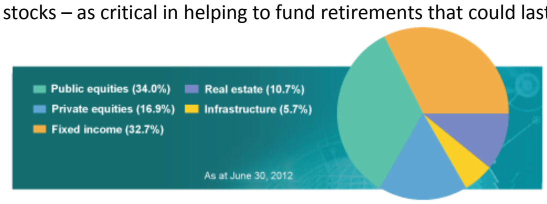
Risk versus Reward

When it comes to investing, risk and reward are inextricably entwined. All investments involve some degree of risk. If you intend to purchases securities - such as stocks, bonds, or mutual funds - it's important that you understand before you invest that you could lose some or all of your money.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals.

Investment Choices

Even Canada's largest pension plans set a compelling example for a diversified, global approach to investing. Their total allocation to stocks range from roughly 40% to 55%, while global stocks range from about 25% to 40%. Institutional investors view stocks – including global stocks – as critical in helping to fund retirements that could last decades.



The CPP Investment Board is an investment management organization with a legislated mandate to achieve "a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations on any given business day."

They continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments. Public and private equities make up about 50.9 per cent, or $84.4 billion, of the investment portfolio.

Why Asset Allocation Is So Important

By including asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can protect against significant losses. Historically, the returns of the three major asset categories have not moved up and down at the same time. Market conditions that cause one asset category to do well often cause another asset category to have average or poor returns. By investing in more than one asset category, you'll reduce the risk that you'll lose money and your portfolio's overall investment returns will have a smoother ride. If one asset category's investment return falls, you'll be in a position to counteract your losses in that asset category with better investment returns in another asset category.

In addition, asset allocation is important because it has major impact on whether you will meet your financial goal. If you don't include enough risk in your portfolio, your investments may not earn a large enough return to meet your goal. For example, if you are saving for a long-term goal, such as retirement or college, most financial experts agree that you will likely need to include at least some stock or stock mutual funds in your portfolio. On the other hand, if you include too much risk in your portfolio, the money for your goal may not be there when you need it. A portfolio heavily weighted in stock or stock mutual funds, for instance, would be inappropriate for a short-term goal, such as saving for a family's summer vacation.

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

Sincerely,

Duane

Housing Prices and Income Ratios

It should be abundantly clear that in order to sustain an increased mortgage burden while still saving for other life priorities, it requires a higher salary. Therefore, house price appreciation and income gains have historically been relatively tethered. Periods of over-performance in house prices are followed by periods of under-performance, and vice versa. The price-income ratio is a fundamental metric that usually exhibits stability over long periods of time. The price-income ratio is calculated by taking a house price measure and dividing it by a measure of income.

Below, we will look at house prices (CREA data) and personal disposable incomes (Conference Board of Canada data). Personal disposable income is a great income measure to use since it removes the impact of different tax regimes across the country. Both house prices and the income data are average figures, not the best metric to use, but in this case they will have to suffice.

Before getting into the data, a brief discussion about the price/income ratio is in order.

The price/income ratio shows stability around a narrow band in most cities. However, that band tends to be much higher in some cities than in others. As a very general rule, the long-term norm for smaller cities seems to be in the range of 5-7. Larger cities seem to be higher. For example, Toronto has been remarkably stable around 10 before exploding higher in the past 5 years. Vancouver house prices are the most notable exception as they have climbed from a low of 8 times local personal disposable income to over 25 times at present, though a 'support' level appears to be in the 15x range, which could still be considered bubble territory.

There's no way to definitively say where the price/rent ratio should be for any given city. There may well always be a premium to live in Toronto or Vancouver as opposed to Regina or Saint John; though it may be the deviation from 'normal' measures that we should be focusing on. One thing that seems to be fairly reliable in economics is that marked deviations from what was at one time a stable mean are very prone to mean-reversion at some point in the future.

The price/income ratio can expand as long as three dynamics are in place:

1) Debt is cheaper over time. This has generally been true in Canada over the past several decades. It will not be the case over the next decade. A best case scenario would be for interest rates to stagnate for a decade. This is certainly not outside the realm of possibility, but they won't be falling as has been the case since the 90s.

2) Credit is abundant. Loosening mortgage requirements have enabled this dynamic. Whether it will persist into the future is debatable. One cannot discount the propensity of politicians to view the housing market as a quick fix for an ailing economy due to the spin-off effects of a strong housing market on employment and consumer confidence. Nevertheless, the recent rounds of tightening by the Feds makes this seem unlikely. In addition, increasing scrutiny of consumer debt levels in Canada and CMHC seem to suggest that the era of highly abundant credit will not last much longer.

3) Consumer psychology is such that people are willing to take on increasing debt levels relative to their income. We are a generation that is staggeringly comfortable with debt. The worry is that the herd is prone to think as a collective. If a widespread deleveraging is likely, that doesn't bode well for house prices or the economy in general.

Below, you'll find graphs for Toronto and Ottawa analyzed for the relative growth of both house prices and personal disposable incomes.

Because of the lack of sustainability of the three dynamics, it is expected that many markets will find their long-term mean. Given the propensity for trends to overshoot, the declines in some centres may be substantial.

http://www.theeconomicanalyst.com/content/house-price-and-income-ratios-canadian-cities-part-3

Death and taxes: Even lower-income Canadians can face top bracket

Many Canadians live frugally for years in the hope of leaving large legacies to their children, but without proper estate planning those legacies can be fraught with complications.

Taxes, real estate passed down and now shared by siblings, and questions about how to best manage a sizeable inheritance can leave people facing issues they've never encountered and are ill-prepared to handle.

It's an issue that's attracting increased attention as Canada's population ages and an estimated $1 trillion is passed along in inheritances.

While beneficiaries don't pay inheritance taxes, settling estates can be daunting tasks for children who are named executors and have to determine how much income taxes and probate fees are owed.

For instance, years of pinching pennies, even by those who survive the poverty line in their later years, can amass sizeable enough portfolios to push them into the highest income tax bracket after death.

A person's estate not only includes their annual income, but also unsheltered investments, registered investments and secondary properties.

Determining what to do with inheritances can pose its own challenges, especially if they are of a magnitude that can be life-altering.

Some people are not used to dealing with large sums of money or haven't been successful in managing their own finances.

The tendency is for these people to quickly make large purchases, undermining the ability for the inheritance to generate a higher standard of living or allow the recipients to fulfil their dreams.
It is recommended that people put the money in some sort of short-term liquid fund like a GIC or money market for up to several months while they work with an advisor to develop a strategy that will incorporate the newly acquired money into their own financial plan.

Ultimately, the plan may be as simple as paying down debt including a mortgage, buying RESPs, topping up RRSPs and buying a tax-free savings account.

But it becomes more complicated with real estate. Do you sell or rent the family home or cottage? Can you get agreement from siblings who may have a different point of view?

Inheriting stocks can pose their own challenges if the recipient already has a large concentration in the same companies.
The key is to have a good financial plan.

Proper planning is also required for those in shaky relationships. Inheritances typically aren't split upon a couple's divorce, but the exemption can be lost if the money is used to pay down the mortgage of the matrimonial home or put into a joint account.

Inheriting money can also prompt beneficiaries into finalizing their own inheritance plans and wills, especially since insurance can make even a young family worth more dead than alive, she added.

Failure to have a will forces a situation in which an estate is administered in accordance with provincial law, which could reduce entitlements to a surviving spouse in favour of children.
A will could also establish trusts for minors and young adults that stagger inheritance payments to later in life instead of giving a lump sum at the age of majority when rash decisions are more likely to occur.

Proper estate planning could also reduce probate taxes — 1.5 per cent of an estate value in Ontario— by rolling over RRSPs to qualified beneficiaries and deferring income taxes by taking advantage of a spousal rollover.

http://www.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/death-and-taxes-even-lower-income-canadians-can-face-top-bracket/article4495569/?cmpid=rss1

Taxes for Teenagers: Nine Ways for Students and Parents to Cash In

Why can't kids take an interest in normal things like tax planning? Forget the tattoos and the Playstation, we should sit around the kitchen table on Friday nights and talk about tax ideas. Most parents don't do this for their kids. You can imagine the disadvantages faced as a result. Here's a list of tax strategies to chat about at the dinner table with the students in your life:

1. File a tax return

As a general rule there's no requirement to file a tax return if your child doesn't have any tax to pay. Not smart. If your child earned any income at all he should file a tax return because he'll create registered retirement savings plan contribution room this way. Later, when he's earning an income, he can make deductible contributions to his RRSP to save tax. Further, filing a tax return could entitle your child to a GST or HST credit worth about $260 in cash once he's 19 years of age.

2. Claim moving expenses

Your child can claim moving expenses if the move to school, or home again, is at least 40 kilometres. She'll have to earn income in the new location to claim the expenses, which can include taxable research grants or other awards. Of course, working part-time at school or in the summer can also create the income needed to deduct moving expenses.

3. Claim tuition and education credits

Your child can claim a tax credit for tuition and an education amount based on $400 a month of full-time ($120 for part-time) attendance in school. If he doesn't need the credits to reduce his taxes to nil, he can transfer up to $5,000 of these costs to a parent, grandparent or supporting spouse, or carry them forward for use in a later year. Be aware that claiming tuition and education amounts for certain online foreign educational institutions has been problematic recently. You might still qualify for credits, but speak to a tax pro first.

4. Claim textbook and ancillary costs

A credit for books, student fees, parking and equipment can be claimed. The credit is based on $65 a month for full-time ($20 a month for part-time) attendance in post-secondary school.

5. Claim student loan interest

If your child borrows money by way of qualifying student loans make sure she claims a tax credit for the interest. The loan must be made under the Canada Student Loans Act or similar provincial legislation to qualify, and an official Canada Revenue Agency or provincial slip should be issued to support the claim.

6. Claim public transit costs

A tax credit is available for the costs of public transit to get to and from school. The cost of monthly (or longer) transit passes for travel within Canada can be claimed. These passes must permit unlimited travel on local buses, streetcars, subways, commuter trains or buses, and local ferries. Passes of shorter duration can be claimed if certain conditions are met.

7. Claim child care costs

A student (or his spouse) may be entitled to claim a deduction for child care costs where at least one spouse attends school full- or part-time.

8. Don't consolidate student debt

It's a popular strategy to take several different debts and roll them into one single loan payment at a more attractive interest rate. This type of debt consolidation can make sense – but not for student debt that will otherwise qualify for the student loan interest credit. You'll lose that credit if you consolidate.

9. Consider the Lifelong Learning Plan (LLP)

If you are an RRSP owner, and a resident of Canada, you can generally participate in the LLP to withdraw funds from your RRSPs on a tax-free basis for full-time education for you, or your spouse or common-law partner (but not your children). You can withdraw up to $10,000 a year for up to four years, but to a maximum of $20,000 in total. After you've withdrawn $20,000, you have the option of repaying your RRSP and then making further withdrawals. Failure to repay the amounts in accordance with CRA's schedule can mean paying tax on the withdrawals.

http://www.theglobeandmail.com/globe-investor/personal-finance/taxes/taxes-for-teenagers-nine-ways-for-students-and-parents-to-cash-in/article4522255/?cmpid=rss1&utm_source=dlvr.it&utm_medium=twitter

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Investing in Real Estate Vs. Mutual Funds

Should you aspire to be the next Donald Trump or the next Warren Buffett? Real estate, stocks and bonds have all had a history of making people rich but also have the potential to lose money for their investors. Choosing which the right investment is will depend on a number of factors, such as your time horizon, your tolerance for risk and how actively you want to manage your investments.

Basics of Mutual Fund Investing

Mutual funds are an easy way to invest in stocks and bonds. You are able to diversify by owning a wide range of individual stocks and bonds while a professional fund manager makes the big decisions. If you have high-risk tolerance, you can buy mutual funds with the possibility of high returns. If you are risk averse, you can make less risky selections. Not all mutual funds are created equally, but when you do your research, you will find funds with low expenses that have performed well historically.

Basics of Real Estate Investing

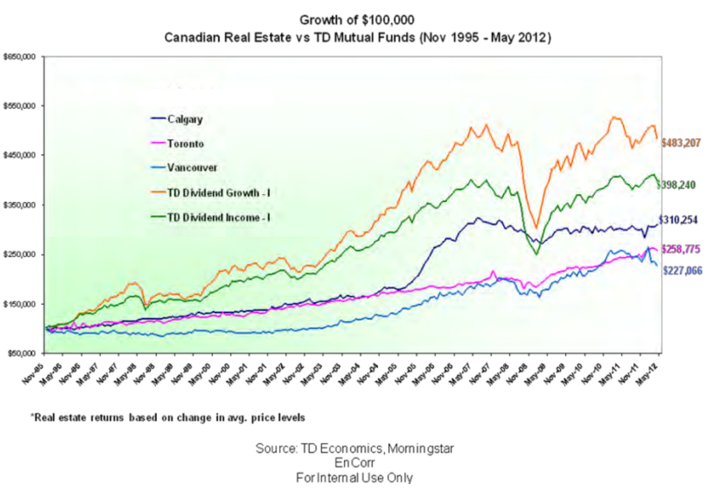
Owning your own home is the most common real estate investment. Hopefully its value will go up over time, but even if it doesn't, you have a place to live. Income property is a different story. In addition to the initial upfront and mortgage costs, you must figure in taxes, insurance, repairs and maintenance. Also factor in the potential for occasional vacancies to check if the math shows your investment will be profitable. Many landlords struggle to barely break even each year, but they invest in the hopes that property values will increase.

The Uncertainty of the Markets

Every type of market has its ups and downs. If you expect to need access to your money in just a few years and wait for things to turn around, you might be better off investing in a stable mutual fund that offers a lower growth potential but holds less volatile investments. Even if you wind up losing money, selling off mutual funds is quick and easy. Real estate is a long-term investment, and unloading a piece of property can take years, even if you are willing take a big loss in a down market.

A Day in the Life of a Landlord

Landlords don't just collect the rent and bask in the glory of their ever-appreciating asset. Being a landlord comes with a lot of responsibility and a certain amount of risk. Not only do landlords have to find tenants, but they also have to make sure the tenants pay rent on time and keep the property in good condition. They also have to field phone calls in the middle of the night for such emergencies as frozen pipes. Commercial landlords usually relegate most repair issues directly to their tenants, but they must still actively maintain their buildings and could always face vacancies. Wall Street may cause you some restless nights in a bear market, but at least you'll never have to shovel its sidewalk or send an exterminator to eradicate its bed bugs.



The Best of Both Worlds

If you want to cash in on the real estate market boom without the day-to-day hassles of being a landlord, there are options. Many mutual fund companies offer real estate funds. You can also invest in REITs (real estate investment trusts), companies that invests in real estate. Like a mutual fund, you can buy shares in a REIT. A REIT distributes its profits annually like a stock dividend, but the trust professionally manages the properties so that you don't get involved in the operations

http://budgeting.thenest.com/investing-real-estate-vs-mutual-funds-3732.html

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Is Eating Eggs as Bad as Smoking?

For years whole eggs with the yolk had a pretty villainous reputation for being cholesterol bombs and an omelet was dubbed a heart attack on a plate. But recently whole eggs have earned a bit of a health halo, making lists with titles like ‘bad foods that are actually good for you’ or ‘surprisingly healthy foods.’ The shift from red light to green light status was largely due to new research, which indicated that eggs really aren’t so bad for your heart, along with studies about the health benefits of a few key nutrients only found in the yolk (more on this below). But a brand new study from the University of Western Ontario has scrambled the issue, generating headlines like, 'Eggs Back on the Naughty List.'

In a nutshell researchers looked at data from just over 1,200 older men and women (mean age 61.5) who were patients at a London hospital. Using ultrasound, scientists were able to measure build-up in the patients’ arteries. They were also asked to fill out questionnaires about their lifestyles, which included smoking habits and the number of egg yolks consumed per week. Researchers found that artery health worsened significantly in heavy smokers and those who reported eating three or more yolks a week. The trouble is, there’s so much this research doesn’t tell us.

First it’s not exact data. It’s an estimate based on asking people to recall what they’ve eaten. And there’s a whole lot we don’t know about the people who ate more eggs, like what else were they eating, and how did they prepare those eggs, info that may very well be responsible for the artery impact. Even the study’s author admits that there are other factors, which could have affected the outcome that weren’t looked at, such as physical activity level. Perhaps heavy egg-eaters are less active. Bottom line: this may be a clue but it’s no smoking gun.

When you look at the overall body of research on eggs, there’s a lot of good news. A University of Connecticut study found that when egg and bagel breakfasts contained an identical number of calories, those who ate eggs reported feeling less hungry and more satisfied for up to three hours and naturally consumed fewer calories later in the day. Another study published in the *International Journal of Obesity* found that eating eggs for breakfast as part of a reduced-calorie diet helped overweight dieters lose 65 percent more weight and feel more energized than those who ate a bagel breakfast with an equal number of calories and an identical volume. And a third bagel versus egg breakfast study found that after eight weeks, egg-eaters lost almost twice as much weight, and had an 83 percent greater decrease in their waistlines, compared to the bagel group.

As for heart health, these studies found no significant differences in subjects’ blood cholesterol levels. That’s not surprising because newer research has confirmed that saturated fat in the diet, not cholesterol, is what influences blood cholesterol levels the most. While whole eggs are high in cholesterol, they’re low in saturated fat. One large egg contains just 1.5 grams, compared to three grams in a cup of two percent milk or seven grams in a tablespoon of butter.

Plus, egg yolks contain some important nutrients that aren’t found in the whites, including vitamin D and choline. If you’re not familiar with the latter, choline is a nutrient needed to produce each of your body’s cell membranes, as well as help support brain health, muscle control, and memory. Choline also quells inflammation, a known trigger of premature aging and disease, and some research shows it helps break down fat deposits in the body.

So if you’re an egg fan, and especially if you’ve recently added whole eggs back into your diet, don’t let this study derail you. Just be sure to go organic, and enjoy eggs “in rotation” with other lean proteins like lentils and seafood, along with fruits, veggies, whole grains, and “good” fats. It’s that pattern of your diet (e.g. an organic egg with a bowl of oats topped with berries, almonds, and cinnamon versus an egg alongside sausage and buttered white toast or a stack of syrupy pancakes) that matters most.

http://www.shape.com/blogs/weight-loss-coach/eating-eggs-bad-smoking

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Fall Activities

The Sears Great Canadian Run
October 13th
http://thesearsgreatcanadianrun.ca/?id=3

The Ottawa Wedding Show
October 13th – October 14th
http://www.ottawaweddingshow.com/

The Ottawa Ski, Snowboard and Travel Show
October 20th – October 21st
http://www.ottawaskishow.com/

Ottawa Celebrity Sports Dinner
October 29th
http://www.celebritysportsdinner.com/

Christmas Bake Sale and Bazaar for Canadian Guard Dogs
November 10th
http://www.guidedogs.ca/index2.php

2012 BIA Santa Claus Parade
November 24th
http://www.ottawafocus.com/events/2012+BIA+Santa+Claus+Parade.aspx

News

- Evening Seminar:
  Mortgage Changes and the Refinancing of Debt
  Wednesday October 3rd, 2012
  1525 Carling Avenue, Lower Boardroom

- The United Way campaign launched on September 27th and will run through to November 30th.

  Duane has been a long supporter of the United Way where he has served as an Account Executive in the Finance Division for over 13 years

Follies of the Fall Forest

The National Capital Commission (NCC) invites residents and visitors to enjoy an encounter with nature this autumn in Gatineau Park. Join us for “Follies of the Fall Forest,” a dynamic, educational program for the whole family.
Located just 15 minutes from Parliament Hill, Gatineau Park is a superb nature reserve that covers 361 square kilometers of forests and lakes in the heart of the Gatineau Hills. The Park hosts about 50 tree species, a rich fauna and a large number of lakes. Unearth some of the secrets of this vast woodland.
Discover nature’s many faces by participating in “Follies of the Fall Forest”
This two-hour program includes a short introduction at the Gatineau Park Visitor Centre, followed by a guided walk on the Sugarbush Trail, and is completely FREE!