The Francis Forum Newsletter

Create Wealth, Achieve Freedom

New Year Edition 2013

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INSIDE THIS ISSUE

Why stocks beat gold and bonds

By Warren Buffett

Investing is often described as the process of laying out money now in the expectation of receiving more money in the future. We take a more demanding approach, defining investing as the transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power -- *after taxes have been paid on nominal gains* -- in the future. More succinctly, investing is forgoing consumption now in order to have the ability to consume more at a later date.

From our definition there flows an important corollary: The riskiness of an investment is *not* measured by beta (quantitative risk) but rather by the probability of that investment causing its owner a loss of purchasing power over his contemplated holding period. Assets can fluctuate greatly in price and not be risky as long as they are reasonably certain to deliver increased purchasing power over their holding period. And as we will see, a non-fluctuating asset can be laden with risk.

Investment possibilities are both many and varied. There are three major categories, however, and it's important to understand the characteristics of each. So let's survey the field.

Investments that are denominated in a given currency include money-market funds, bonds, mortgages, bank deposits, and other instruments. Most of these currency-based investments are thought of as "safe." In truth they are among the most dangerous of assets. Their beta may be zero, but their risk is huge.

Over the past century these instruments have destroyed the purchasing power of investors in many countries, even as these holders continued to receive timely payments of interest and principal. This ugly result, moreover, will forever recur. Governments determine the ultimate value of money, and systemic forces will sometimes cause them to gravitate to policies that produce inflation. From time to time such policies spin out of control.

Even in the U.S., where the wish for a stable currency is strong, the dollar has fallen a staggering 86% in value since 1965. It takes no less than $7 today to buy what $1 did at that time. Consequently, a tax-free institution would have needed 4.3% interest annually from bond investments over that period to simply maintain its purchasing power. Its managers would have been kidding themselves if they thought of *any* portion of that interest as "income."

For taxpaying investors like you and me, the picture has been far worse. During the same 47-year period, continuous rolling of U.S. Treasury bills produced 5.7% annually. That sounds satisfactory. But if an individual investor paid personal income taxes at a rate averaging 25%, this 5.7% return would have yielded *nothing* in the way of real income. This investor's visible income tax would have stripped him of 1.4 points of the stated yield, and the invisible inflation tax would have devoured the remaining 4.3 points. It's noteworthy that the implicit inflation "tax" was more than triple the explicit income tax that our investor probably thought of as his main burden. "In God We Trust" may be imprinted on our currency, but the hand that activates our government's printing press has been all too human.

High interest rates, of course, can compensate purchasers for the inflation risk they face with currency-based investments -- and indeed, rates in the early 1980s did that job nicely. Current rates, however, do not come close to offsetting the purchasing-power risk that investors assume. Right now bonds should come with a warning label.

The second major category of investments involves assets that will never produce anything, but that are purchased in the buyer's hope that someone else -- who also knows that the assets will be forever unproductive -- will pay more for them in the future. Tulips, of all things, briefly became a favorite of such buyers in the 17th century.

This type of investment requires an expanding pool of buyers, who, in turn, are enticed because they believe the buying pool will expand still further. Owners are *not* inspired by what the asset itself can produce -- it will remain lifeless forever -- but rather by the belief that others will desire it even more avidly in the future.

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The major asset in this category is gold, currently a huge favorite of investors who fear almost all other assets, especially paper money (of whose value, as noted, they are right to be fearful). Gold, however, has two significant shortcomings, being neither of much use nor procreative. True, gold has some industrial and decorative utility, but the demand for these purposes is both limited and incapable of soaking up new production. Meanwhile, if you own one ounce of gold for an eternity, you will still own one ounce at its end.

What motivates most gold purchasers is their belief that the ranks of the fearful will grow. During the past decade that belief has proved correct. Beyond that, the rising price has on its own generated additional buying enthusiasm, attracting purchasers who see the rise as validating an investment thesis. As "bandwagon" investors join any party, they create their own truth -- *for a while*.

Over the past 15 years, both Internet stocks and houses have demonstrated the extraordinary excesses that can be created by combining an initially sensible thesis with well-publicized rising prices. In these bubbles, an army of originally skeptical investors succumbed to the "proof" delivered by the market, and the pool of buyers -- for a time -- expanded sufficiently to keep the bandwagon rolling. But bubbles blown large enough inevitably pop. And then the old proverb is confirmed once again: "What the wise man does in the beginning, the fool does in the end."

Today the world's gold stock is about 170,000 metric tons. If all of this gold were melded together, it would form a cube of about 68 feet per side. At $1,750 per ounce -- gold's price as I write this -- its value would be about $9.6 trillion. Call this cube pile A.

Let's now create a pile B costing an equal amount. For that, we could buy *all* U.S. cropland (400 million acres with output of about $200 billion annually), plus 16 Exxon Mobils (one of the world's most profitable companies, earning more than $40 billion annually). After these purchases, we would have about $1 trillion left over for walking-around money (no sense feeling strapped after this buying binge). Can you imagine an investor with $9.6 trillion selecting pile A over pile B?

Beyond the staggering valuation given the existing stock of gold, current prices make today's annual production of gold command about $160 billion. Buyers -- whether jewelry and industrial users, frightened individuals, or speculators -- must continually absorb this additional supply to merely maintain equilibrium at presentprices. A century from now the 400 million acres of farmland will have produced staggering amounts of corn, wheat, cotton, and other crops -- and will continue to produce that valuable bounty, whatever the currency may be. Exxon Mobil will probably have delivered trillions of dollars in dividends to its owners and will also hold assets worth many more trillions (and, remember, you get *16* Exxons!). The 170,000 tons of gold will be unchanged in size and still incapable of producing anything. You can fondle the cube, but it will not respond.

Admittedly, when people a century from now are fearful, it's likely many will still rush to gold. I'm confident, however, that the $9.6 trillion current valuation of pile A will compound over the century at a rate far inferior to that achieved by pile B.

We heard "cash is king" in late 2008, just when cash should have been deployed rather than held. Similarly, we heard "cash is trash" in the early 1980s just when fixed-dollar investments were at their most attractive level in memory. On those occasions, investors who required a supportive crowd paid dearly for that comfort.

My own preference is our third category: investment in productive assets, whether businesses, farms, or real estate. Ideally, these assets should have the ability in inflationary times to deliver output that will retain its purchasing-power value while requiring a minimum of new capital investment. Farms, real estate, and many businesses meet that double-barreled test. Certain other companies -- think of our regulated utilities, for example -- fail it because inflation places heavy capital requirements on them. To earn more, their owners must invest more. Even so, these investments will remain superior to nonproductive or currency-based assets.

Whether the currency a century from now is based on gold, seashells, shark teeth, or a piece of paper (as today), people will be willing to exchange a couple of minutes of their daily labor for a Coca-Cola or some See's peanut brittle. In the future, the population will move more goods, consume more food, and require more living space than it does now. People will forever exchange what they produce for what others produce.
Our country's businesses will continue to efficiently deliver goods and services wanted by our citizens. Metaphorically, these commercial "cows" will live for centuries and give ever greater quantities of "milk" to boot. Their value will be determined not by the medium of exchange but rather by their capacity to deliver milk. Proceeds from the sale of the milk will compound for the owners of the cows, just as they did during the 20th century when the Dow increased from 66 to 11,497 (and paid dividends as well).

I believe that over any extended period of time this category of investing will prove to be the runaway winner among the three we've examined. More important, it will be *by far* the safest.

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

Sincerely,

Duane

Should You Pick an RRSP or TFSA?

Not that long ago, most of us associated retirement savings with the venerable registered retirement savings plan (RRSP). But in 2009, a new option came along: the tax-free savings account (TFSA).
Though the RRSP has been around for decades and the TFSA for four years, Canadians are still confused about the differences between the two and what the best investment option is.

First, it's important to know the key differences between the two vehicles. With an RRSP, you can use your contributions as an income tax deduction and might receive a refund each year. You can contribute up to 18 per cent of your earned income a year to an RRSP, up to maximum of $22,970. However, when you cash in your RRSPs in the future, they are treated as earned income and you'll pay income tax on them. The premise is that, in retirement, most of us will have a lower income, so our RRSP withdrawals will be taxed at a lower rate than during our working lives.

With TFSAs, you can invest $5,500 each year (up from $5,000 last year) regardless of your income. While you receive no tax deduction now, when you take out the funds, you won't pay any tax on the withdrawals, nor will they affect government benefits such as Old Age Security.
While the RRSP is intended specifically as a retirement savings plan, the TFSA can be used to save for anything: retirement, a home or a new car. The investments inside either an RRSP or TFSA can be almost identical and you can buy such products as stocks and bonds, guaranteed investment certificates, mutual funds, mortgages, or you can set up a high-interest savings account.
The freedom to access a TFSA at any time can be one of the pitfalls. While many people have good intentions to use a TFSA to save for retirement, they often don't; whereas RRSPs can't be cashed in without tax repercussions.

For Canadians without a pension plan, an RRSP that you let compound for 20 years is an incredible wealth-building vehicle that is going to provide you with dignity in your older years. Having an extra $100,000 in retirement allows for much more comfort.
Alternatively, about 50 per cent of Canadians have a TFSA and most think it's the best thing since sliced bread for many reasons.

You might not be taxed at as high a rate as you think you are, so you may not need the RRSP contribution deduction. The marginal tax rate for $120,000 is 43.4 per cent, for example, but tax rates are tiered and not all your income will be taxed at that rate; 29.4 per cent is the average rate for Ontarians making $120,000.

It's difficult to predict what will happen in 10, 20 or 30 years in regards to what your taxable income will be, what tax rates might be, or if rules regarding clawbacks will change. Most will make less once retired, but if retirement income is higher than it was during your working years, you could be heavily taxed or subject to clawbacks of Old Age Security (currently subject to clawbacks for incomes of more than $70,000).

While RRSPs are great vehicles for saving for retirement, advice from an advisor is recommended to determine if they're an appropriate investment vehicle to draw income from.

It's also worth considering what happens to the money when you die: If your spouse is the beneficiary for either an RRSP or TSFA, there is a tax-free rollover to them upon your death. But when the remaining spouse dies, taxes will be due on any money left in an RRSP and heirs will get the remainder only after taxes are paid. With a TFSA, only the increase in the value of the TFSA since the date of death is taxed in the year the heirs inherit it.
It's important to consider this since most people still have money left in their RRSPs (or a registered retirement investment fund or annuity that they have to be converted to by 71) when they die.

It is widely regarded that lower-income Canadians are likely best to invest in a TFSA. The threshold? Once people earn more than $60,000 or $70,000, it's likely best to invest in RRSPs. If annual income is less than $60,000, it's challenging to come up with an argument that they are more worthwhile because the tax rates are lower.
In any case, with all areas of government cutting back on benefits, and with fewer Canadians than ever having pension plans, it is more critical than ever to save for retirement.

http://www.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/should-you-pick-an-rrsp-or-tfsa-depends-on-age-stage-and-income/article7427333/

The Value of Financial Planning

This study reveals that Canadians with a roadmap are saving more, living well, and experiencing higher levels of overall contentment in their lives

The Financial Planning Standards Council (FPSC) has recently released this year's results of its "Value of Financial Planning" longitudinal study. For three consecutive years FPSC has conducted a comprehensive evaluation of financial planning activities undertaken by Canadians measuring the impact of financial planning on Canadian's emotional and financial wellbeing. The study sets out to discover whether financial planning really makes a meaningful difference to Canadians; whether Canadians who receive comprehensive planning are better off than those who have only engaged with one or two financial planning services; and if there are differences in Canadians perceived value of planning amongst those who engage with CERTIFIED FINANCIAL PLANNERS/CFP professionals versus those who work with non-certified advisors for their financial planning needs.
A total of 8,546 Canadians participated in this year's study and were segmented into three groups:

1. Those that have comprehensive/integrated financial plans (i.e. the main financial professional has provided financial planning for major life goals and events or at least three of the planning components: household budgeting, tax, retirement, estate planning, investing, debt or risk management).
2. Those with limited planning (i.e. the main advisor has provided advice or services related to one or two elements of the planning components).
3. Those with no planning (this group had not used any services through an advisor).

Do people feel they are better off after they have undertaken financial planning?

Those Canadians who have received "comprehensive/integrated" planning believe they are significantly better off than those who have had "no planning" regardless of their net worth. In fact several overarching measures revealed that Canadians with a comprehensive/integrated plan reported higher levels of wellbeing and contentment than their non-planning counterparts:

Those with comprehensive plans scored 62 per cent more on emotional wellbeing than those without; 85 per cent more on financial wellbeing and 45 per cent more in overall contentment. These findings have been consistent over the three years FPSC has conducted the study. See backgrounder for more highlights and measures that contribute to wellbeing.

Does comprehensive planning make a greater difference, or is it good enough just to do something such as what limited planning would offer?

Once again, the study revealed that those Canadians who have engaged in comprehensive financial planning report significantly higher levels of financial wellbeing compared to their limited planning counterparts (an 18% difference); overall contentment (a 28% difference) and peace of mind (a 17% difference). Equally salient – those with comprehensive plans are far more likely to report confidence that they would be able to deal with an economic downturn than those who do only limited planning (a 31% difference).

Are there differences in Canadians' perceptions of the value of their financial planning amongst those who engage CFP professionals vs. those who engage non-certified advisors for their financial planning needs?

The study reveals that those who work with CFP professionals are more likely to report their financial affairs are "on track" than those dealing with "non-certified" planners (78% vs. 64% respectively). They are also significantly more likely to report having more peace of mind; worrying less about money and being closer to achieving some of their life goals as a result of planning.

Financial Planning Standards Council (FPSC®) is a not-for-profit organization which develops, promotes and enforces professional standards in financial planning through Certified Financial Planner® certification, and raises Canadians' awareness of the importance of financial planning. FPSC's vision is to see Canadians improve their lives by engaging in financial planning. Currently, there are more than 17,500 CFP professionals in Canada and 140,000 CFP certificants in 24 countries worldwide.

https://www.fpsc.ca/newsroom/post/gps-canadians%E2%80%99-financial-wellbeing

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What Is Instagram?

If you're involved on social networks like Facebook or Twitter, you may have come across a photo or two that looks like it had a very elegant vintage filter applied to it. In fact, you may have come across more than just one or two considering the fact that Instagram is one of the most popular mobile photo applications (apps) to download.

If you own an iPhone, iPad or iPod Touch, Instagram could be a great tool to help uncover your inner photography skills.

Creating an Account on Instagram

Before you can start using the app, Instagram will ask you to create a free account. All you need is a username and a password. The reason they require you to create an account is because Instagram is not just a photo app. It's also a popular social network.

Instagram as a Social Network

On Instagram, you can follow other users' photo streams as they post them and you can be followed back by those users (or other users) as well. Using the "Profile" icon located on the lower menu of the Instagram screen, you can search for friends by name or find friends that are already connected to you on other social networks like Facebook or Twitter.

Taking Photos and Applying Photo Filters

After downloading the app and creating an account, you can open the app up and snap a picture through your camera, using either the back or front camera. There is a menu at the bottom of the screen, and you can snap a photo by pressing the camera icon in the middle of the menu, labeled "Share."

Once you select the green checkmark on your snapshot, you will be able to instantly transform the color, texture and overall look of your photo with just a touch of your finger. The available filters appear at the bottom of the screen.

Instagram currently has the following photo filters to choose from:

Amaro	Rise	Hudson
X-pro II	Sierra	Lo-fi
Earlybird	Sutro	Toaster
Brannan	Inkwell	Walden
Hefe	Valencia	Nashville

You can apply each filter as a preview to see how each filter looks. Pressing the green checkmark will the set the chosen filter for your photo. You will then be taken to a screen where you can set up sharing on other social networks and where you can add a caption to the photo.

Sharing Your Instagram Photos on the Web

You can configure your Instagram account to have photos posted on Facebook, Twitter, Tumblr, Flickr or sent by email. If these configurations are all set to "On," then all of your Instagram photos will automatically be posted to your social networks automatically after you press "Done."

Don't worry, Instagram will always take you to the social network configuration page after you snap each and every photo. If you don't want your photo shared on any particular social network, simply set the configuration to "Off."

Additionally, you can switch the "Add to your Photo Map" option to "On" if you want to tag the photo's location to your personal Instagram Photo Map. If you do, you can then select "Name this location" to attach a venue's name to the photo as well.

Keep in mind that Instagram users will still be able to view your photos in their feeds, if they follow you. You must delete your photos from Instagram if you don't want anybody to view them.

http://webtrends.about.com/od/prof4/a/What-Is-Instagram-Wiki.html

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Winter Activities

Winterlude
February 1st – February 18th
http://www.canadascapital.gc.ca/celebrate/winterlude

WinterBrewed Festival 2013
February 16th – February 17th
http://www.eventbrite.com/event/4109295012#

Chinese New Year Carnival 2013
February 20th
http://legendofchina.net/

Ottawa Home and Garden Show
March 21st – March 24th
http://www.ottawahomeshow.com/OHGS/EventsHome.aspx

The National Women's Show
April 13th – April 14th
http://www.nationalwomenshow.com/ottawa/index.html

News

- Evening Seminar:
  Income Tax Planning
  March
  1525 Carling Avenue, Lower Boardroom
- Evening Seminar:
  Paltrak and some Quantitative measures of Investment Selection
  April
  1525 Carling Avenue, Lower Boardroom
- Evening Seminar:
  Funerals and Final Expense Planning
  May
  1525 Carling Avenue, Lower Boardroom

Cross-Country Skiing in Gatineau Park

Gatineau Park has one of the largest networks of cross-country ski trails in North America. You will find over 50 trails, varying in difficulty from beginner to advanced. Enjoy classic cross-country skiing and skate skiing in a beautiful conservation area, located just minutes from downtown Ottawa.
Gatineau Park features:

- **Over 200 kilometers of trails for classic cross-country skiing. This includes 100 kilometers of trails shared with skate skiers, and 45 kilometers of back-country ski trails.**
- **Hilly terrain, ideal for ski touring, with 320 meters (1,050 feet) of vertical drop.**
- **10 day shelters that are maintained daily and come complete with wood-burning stoves and picnic tables.**
- **Cabins, yurts and campsites located just off the ski trails.**