# The Francis Forum

**Create Wealth, Achieve Freedom** **Spring Edition 2013**

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INCORPORATED
INSURANCE INC.


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**INSIDE THIS ISSUE**



## Take control of your Investments

It's often said that Canadians spend more time each year planning their vacations than managing their investments. I can certainly appreciate why. Most people don't understand their investments and don't like to admit it. But that's no way to treat your life savings if you want them to treat you well in retirement.

First off, 1% doesn't seem like much, but it makes a big difference in the long run — whether you're 35 or 65. Earning an extra 1% annually on your investments for the next 30 years will give you about one-third more in value, either for retirement or for your children's inheritance. One per cent will increase the average Canadian's potential standard of living in retirement by about one-quarter.
If you don't care about charts and graphs regarding your investments, ask your financial advisor for charts and graphs about your retirement.

When it comes to your standard of living, do you know how much you need in retirement in order to maintain it? And how much you need to invest each year to get there? And what your rate of return needs to be in order to stay on target?

Knowledge is power and even if understanding the difference between a preferred share and a common share isn't for you, understanding how much you need to save to balance living for today and being secure tomorrow is important. If you don't care about charts and graphs about your investments, ask us for charts and graphs about your retirement. We are happy to produce them for you at your request.

It's important to understand the concept of risk. Most people know stocks are riskier than bonds and that with risk (hopefully!) comes reward. Many investors have become risk averse in the past decade, due in part to external factors (low interest rates and volatile markets) as well as internal factors (the aging of our population). The result is that many Canadian investors are looking for low-risk, high-return investments — but don't look too hard.

Whether you're in the investment industry or selling lemonade on the roadside, marketing is likely to increase sales. A big sign for your lemonade stand will probably help, as will using words like "income" as a way to entice people to invest. But buyer beware, as you might ultimately be buying lemons in both cases.

Take most *Monthly Income Funds*, for example. "Monthly Income" sounds like the sort of thing that everyone should have in their RRSP. Who wouldn't want a big glass of that? However, these funds can have high annual fees or management expense ratios (MER's) that comes right off your return.

At a time when the 10-year Government of Canada bond is yielding 2%, be careful about buying — or owning — income funds that charge more than twice as much in annual fees. "Monthly Income" could easily become "negative returns."

There are also a lot of products out there that provide guarantees. Sometimes, guarantees make sense, but sometimes, not so much.

For a long-term investor with a long-term time horizon, the purchase of an investment product that has some sort of a "guarantee" or that "protects" you in down markets may not be a good choice, especially right now. For the most part, when I hear "guarantee," I think "expensive." You pay for guarantees, and not all guarantees are worth it. Guarantees reduce your risk and no doubt may reduce your reward.

How you invest a charity's savings and how you invest your own savings may be different mandates. It's one thing to be charitable by choice, but if you don't have a clear handle on your investments, you'll give away your retirement savings — figuratively or literally — whether you like it or not.

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

Sincerely,

Duane

## How to avoid costly mistakes when filing your income tax return

It's that dreaded time of year again when you delve through piles of receipts and attempt to reap the biggest tax refund possible.

Tax season can be stressful, but chartered accountants say planning ahead can help you avoid some costly gaffes. Here are some top tips.

**Keep track of receipts:** Start a tax file at the beginning of the year and keep track of all receipts, no matter how small. Those small ones can add up to some big dollars.

**Don't forget an income slip:** The days of paper filing are nearing an end, meaning good bookkeeping skills are more essential than ever. CRA (Canada Revenue Agency) is really emphasizing for people to e-file their returns, so spot checks are now more common. Forgetting an income slip can cost you. Failure to report penalties can be has high as 10 percent of the income you missed reporting. Forgetting to report $1,000 of income for a small part-time job you did back in February, could result in a $100 penalty. If you do forget a slip, be sure to file a T1 adjustment request immediately. If you report it before they catch it, then at least you will avoid the penalty.

**File on time:** The CRA has no patience for tardiness. Late filers will face a penalty of five per cent of any money owed and one per cent for every month after. Even if the government owes you a refund, that's no excuse for filing late. If you don't file within a three-year time frame, they don't have to refund the money to you..

**Don't let money-saving credits pass you by**: The most common mistake people make when filing taxes is overlooking important money-saving tax credits. Here are some of the most commonly overlooked credits:

**Charitable donations:** The government rewards philanthropy, allowing you to deduct 15 per cent of the first $200 and 29 per cent of anything in excess. One trick is to save up charitable receipts to ensure you get the most bang for your buck. If you gave $100 in 2012 and you're planning to give $100 in 2013, you're better off not to claim the $100 this year and save it for 2013. Donations can be claimed up to five years after they were made, provided they haven't been claimed.

**Out-of-country medical:** Do you purchase travel medical insurance when you go on holiday? Don't forget to add it to your prescriptions, dental visits and chiropractor bills. Medical expenses are credited based on a percentage of income (the lesser amount of $2,109 and three per cent of income).

**Moving expenses:** If you move at least 40 kilometres closer to your place of work, then you can offset your moving costs against income. Everything from hiring a moving company, renting a van, temporary living costs if you're between homes for a maximum of 15 days, and even legal and real estate commissions can be deducted.

**Home-based business:** If you work from home, you can claim a portion of your mortgage interest or rent, property taxes, insurance and utilities. The work space can't be your kitchen table, however. It has to be a designated space where you're meeting clients and conducting business activities.

**Child care:** If you require care for your children while you go to work or attend school, you can deduct a maximum of $7,000 for each child under the age of seven, and $4000 for each child between seven and 16.

http://www.ottawacitizen.com/life/avoid+costly+mistakes+when+filing+your+income+return/7996781/story.html

## Are Women Naturally Better With Money than men?

With the world recognizing International Women's Day last month, Canadian banks trotted out a slew of research on gender differences with regards to money matters.

Experts cited women's tendencies to trade more conservatively and their abilities to manage debts better than men.

Could women naturally be better with money than men?

The studies showed women typically have different approaches to investing than men. Female investors tend to be more conservative and risk averse. They often seek out advice, prefer a more collaborative relationship and are more open to assistance.

According to this BMO study, 16% of Canadian women consider themselves aggressive investors, compared to 30% of men; just 13% of women say they are impulsive investors, versus 21% of men.

But does this approach make them better investors? Some research says, "Yes."

"We had a theory that overconfidence leads people to trade too much and hurts their performance," said Brad Barber, a professor of finance at the University of California and co-author of a study entitled *Boys Will Be Boys: Gender, Overconfidence and Common Stock Investment.*

The paper noted psychological research showing that men were more prone to overconfidence than women, particularly in male-dominated realms such as finance. Men were more likely to expect their portfolios to outperform the market.

Using data for more than 35,000 households from a discount brokerage, researchers analyzed stock investments from 1991 to 1997. Men traded 45% more than women and trading costs money. Trading reduced men's net returns by 2.65% a year as opposed to a 1.7% reduction for women.

Women's predisposition for risk aversion as compared to men might explain why they are less likely to take on debt and why more men than women report being compulsive gamblers.

Men are more likely to carry large amounts of debt, with 30% reporting more than $100,000 of debt compared to 22% of women, said a BMO poll. Men were also more optimistic about their ability to pay the debt down (20% said they would do so in the next year compared to 14% of women).

Still, some will point to the stereotype of the female shopaholic, the clotheshorse who will spend hours flipping through every rack at Winners, like they're methodically clacking an abacus. But a 2006 study in the American Journal of Psychiatry established that while 6% of women are compulsive buyers, men are close behind at 5.5%.

At least 80% of women are either the primary decision makers in the household, or share equal decision-making responsibilities; 40% of them handling the day-to-day budgeting and spending, said Betsey Chung, vice-president and head of marketing and client strategy at BMO Private Client Group.

Despite the gains made by women in the world of finance — 31% of wives were out-earning their partners in 2009, as compared to 12% in 1976 — they remain less confident about money issues.

Men are still more likely to handle investments and long-term planning, says a TD poll. Women are less prepared for retirement, even though they live longer (78.8 years for men and 83.3 years for women in 2009) and earn less than men (in 2008, women earned, on average, 83 cents to every dollar earned by men).

"For women, it's about taking care of their families and those important to them and this needs to include taking care of financial matters. This means increasing one's understanding, involvement with and ongoing financial planning. It's never too late to start."

http://business.financialpost.com/2013/03/11/are-women-naturally-better-with-money-than-men/

## Invest In Productive Assets

You should measure the risk of an investment as the potential loss of purchasing power over the holding period.

Investing means committing capital today with the expectation of receiving more in the future.

In other words, investors forgo consumption now, so they can consume more at a later date. This means you should measure the risk of an investment as the potential loss of purchasing power over the holding period.

Take currency-based investments, such as GICs, money-market funds and bonds. These are typically viewed as some of the safest assets available.
Investors are happy as long as they receive their timely payments of interest and principal. But these investments can be far more harmful to your purchasing power than they appear.

When adjusted for inflation, these so-called safe investments yield a negative real return.

The age-old adage attributed to the late Wall Streeter Shelby Cullom Davis, an American investment banker and philanthropist, still rings true today: "Bonds promoted as offering risk-free return are now priced to deliver return-free risk."

**Hard assets**

During times of uncertainty, investors also tend to flock toward assets such as gold. But the price of gold jumped to a record high of $1,900 an ounce in September 2011, during the latest economic crisis.

Although it has since retreated to just above $1,600 an ounce, gold's rise has been fuelled by the world's feeble economic state. As central banks print dollars with the intention of stimulating their economy, investors fret the implications of currency devaluation, so they're moving cash into hard assets as a safety net against inflation.

Gold is an inert asset, and although it makes beautiful jewelry, its practical uses are limited. In fact, 75% of the world's gold supply sits idly and at great expense in bank vaults.

Yet, unlike other investments, gold produces no cash flow and pays no dividend. And despite its rise in the latter part of the last decade, its record of past return isn't impressive (see "Gold's unimpressive history," this page).

**4 Reasons to Choose Productive Assets**

1. Average annual real rate of return of 6.6% over the past two centuries
2. Stocks haven't had a negative return in any 20-year period
3. Dividends cover the rate of inflation
4. Stock returns adjust for long-term inflation

**So Where Should Investors Look For Real Returns?**

Productive assets. Whether a farm, real estate or a business, these investments produce output that retains purchasing power.

Stocks — which represent an ownership share of the underlying business — have beat every other asset class, producing an average annual real return of 6.6% over the past two centuries. So the same $1 invested (while reinvesting all your dividends), would yield $669,500 in purchasing power today.

How did we come up with that number? The historical dividend yield is 4.44% (currently, it's 2.1%) so the 6.6% average annual real return over the last 210 years is made up of dividends (approximately 67%) and real growth (approximately 33%).

In other words:
› $222,943.50 earnings growth › $446,556.50 dividend reinvestments
Total: $669,500

Given this information, why are many investors still so averse to investing in stocks? Over the last few years, the markets saw an increased allocation to fixed-income funds.

It's time to look ahead. Despite the ups and downs of the stock market, and the outperformance of other asset classes over shorter periods of time, it's better to be invested in quality productive assets over the long term, instead of weaving between asset classes.

**Stocks still a good choice**

Even though we've just come out of a lost decade for equity returns, there is no 20-year period where stocks had a negative return. The same isn't true for bonds.

And since the S&P 500 was founded in 1957, the constituents' dividends alone have covered the rate of inflation. Also, just like companies who produce purchasing-power-retaining products, stock

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## Invest In Productive Assets – Continued from Page 4

companies who produce purchasing-power-retaining products, stock returns also adjust for inflation over the long term.

Today's corporate earnings and profit margins are at all-time highs. Companies are sitting on record cash reserves, the U.S. GDP is 50% larger than it was a decade ago, and global GDP has doubled during the same period, according to data from the World Bank.

Yet if we were to graph a straight line representing what the 6.6% long-term real-growth stocks have provided, we'd be plotting our point about 15% below trend. This means the market has a ways to go to reach what we would consider a fair valuation.

Quality productive assets provide better value, and if clients don't overpay, can deliver superior purchasing power for many years to come.

**Gold's unimpressive history**

Back in 1980, amid fears of war and inflation, gold hit a high of $873 per ounce. But when those fears subsided, the price of gold crashed. It retreated to $500 an ounce mere months after hitting its peak, and fell to $300 by 1982.

It then took 28 years for the price of gold to return to its 1980 peak. The research of Jeremy Siegel, a professor of finance at the Wharton School of Business, reveals that between 1802 and 2012, gold has only produced a real return of about 0.7% per year. Put another way: had you invested $1 in gold in 1802, you would have approximately $4.35 of purchasing power at your disposal today.

Yet had you invested in U.S. government-issued bonds over the same period, you would have fared much better. A $1 investment would have become $1,180 of purchasing power today, and had you chosen to reinvest the interim interest payments received, you would have more than $1,600 of wealth at your disposal.

http://www.advisor.ca/investments/market-insights/invest-in-productive-assets-107370

## Planning an Income Stream in Retirement

Retirement is the time to harvest your crop of financial assets. If you have a defined benefit pension, especially one that's indexed, a lot of your problems are solved. Without an indexed DB plan, pension income will slowly fall behind the rising price level. Worse, if you have no job pension and you have to rely on savings, there is all the more reason to read on.

Retirement income can come from fixed income assets like bonds. Government of Canada bonds pay about 2% for 10 years and 2.7% for 30 years. Investment grade corporate bonds add 2% to 3% to federal bonds' payouts. Guaranteed Income Certificates are in the middle with interest over government bonds and below corporate bonds. Finally, lower grade bonds pay 6% to 8% more, but they aren't called "junk" for nothing. Half of the lowest grade junk bonds will default before they mature. They do not furnish dependable retirement income.

Common and preferred stocks may yield 4% to 6% more than government bond income. They have desirable tax characteristics for investing outside of RRSPs and TFSAs and their payouts qualify for the dividend tax credit, which makes their income equal to straight interest plus a 30% to 45% boost, depending on the province. Preferred shares fix their payouts to a certain amount of money or link payouts to a specific formula. Common shares pay what their companies directors wish.

Rising inflation harms the price of existing bonds whose interest rates, often set to lower inflation rates, become unattractive, thus pushing down the price of these old bonds. But moderate inflation helps common stocks in that since the price of goods sold rises with inflation, the earnings of the companies tend to rise as well.

Annuities promise to pay a fixed sum for a specified period, usually the life of the annuitant and often with a guarantee of at least ten years of payments (thus giving the estate or heirs some money even if the annuitant dies prematurely). An annuity purchased for $100,000 for a 65-year old man who does not smoke would pay between as much as $545.20 a month, according to Cannex, a financial services database. That works out to $6,542 per year or 6.54%. It's a lot more than a

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## Planning an Income Stream in Retirement - Continued from Page 5

government bond offers and more than almost any investment grade corporate bond. They are fixed commitments of large insurance companies and therefore have no market risk.

The insurance company issuing the annuity adds a modest return of capital and makes a reverse life insurance bet that the annuitant will die relatively soon after the 10 year guarantee period. The longer the annuitant lives, the less the insurance company makes.

Their downfall is that annuities usually do not pace inflation. These days, with bond interest low, it is not a terrific time to buy annuities. But if they are bought in a ladder, say 10% at 65, another 10% at 70, and so on, there is a good chance they can climb what is likely to be a trend of rising interest rates.

The final category of retirement income products are guaranteed income funds. For a given sum, you get a guaranteed return, say 5% on your money from the time you turn some age – 65 is common, until you die. Unlike plain annuities, guaranteed income funds offer resets, so that if the underlying assets in which the funds are invested have thrived, you can reset to a higher base. Moreover, if you defer drawing income, you get a bonus.

The problems with investing in these GIFs today are their high annual fees — 3.0% to 3.5%, depending on the extras such as guaranteed minimum payments. The issuers disallow investment in straight equities in preference for less volatile balanced funds and bond funds. Also, they may not return capital if they have not matched payouts. In the end, these are expensive balanced funds with some downside protection. They are like annuities with a potential capital base reset, but they can burn up the capital and leave nothing after the owner passes away.

http://business.financialpost.com/2013/02/23/planning-an-income-stream-in-retirement/

## Health and Wellness: Is a Gluten-Free Diet a Good Idea?

Gluten-free diets are certainly on the rise. In part because gluten intolerance, or celiac disease, is on the rise. But they're also becoming fashionable as celebrities and professional athletes are dropping gluten from their diets. A gluten-free diet is often hyped as a way to increase energy, lose weight or deal with certain health problems.

The truth is, though, that a gluten-free diet isn't necessarily a healthy one if you don't need to be on it.

So who does need a gluten-free diet? For starters, it's a necessity for people with celiac disease. Following a gluten-free diet is the only way to treat the condition. People with celiac disease avoid obvious sources of gluten such as bread and pasta but they also eliminate gluten hidden in foods such deli meats, salad dressings and condiments.

It's estimated that 1 in 133 Canadians have celiac disease. It's a lifelong, genetically based disorder that occurs when gluten – a protein found in wheat, rye and barley – triggers an abnormal immune response that damages the lining of the small intestine interfering with the absorption of nutrients.

People who have non-celiac gluten sensitivity will also benefit from a gluten-free diet. These people test negative for celiac disease but react poorly to gluten and may report abdominal pain, headaches and fatigue.

There's no evidence, however, that following a gluten-free diet will promote weight loss or offer any health benefit beyond helping gluten-sensitive people.

If you decide to drop gluten from your diet, be sure to include gluten-free whole grains such as brown and wild rice, quinoa and millet to help you get fibre, vitamins, minerals and antioxidants.

Don't fall into the trap of filling up on gluten-free breads, bagels, cookies and snack foods. Many of these foods are refined and have been stripped of fibre and nutrients. And unlike wheat flour, these products are not fortified with vitamins and minerals. Many are also higher in carbohydrates and sodium.

Gluten-free diets tend to be low in fibre because wheat bran – a major source of fibre – is off limits. To add fibre, include two tablespoons of ground flaxseed in your daily diet. Legumes and lentils are also high-fibre foods appropriate for a gluten-free diet. Eating at least three fruit servings and four vegetable servings every day will boost your fibre intake, too.

http://www.theglobeandmail.com/life/health-and-fitness/ask-a-health-expert/is-a-gluten-free-diet-a-good-idea/article536186/

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## Spring Activities

**The National Women's Show**
April 13th - 14th, 2013
http://www.nationalwomenshow.com/ottawa/index.html

MS Walk – Every Step Matter
April 28th, 2013
http://mssociety.ca/chapters/ottawa/MSWalk/

**The Great Glebe Garage Sale**
May 25th, 2013
http://www.glebeca.ca/events/garage_sale.html

**Ottawa Race Weekend**
May 25th – 26th, 2013
http://www.runottawa.ca/

**The Ottawa International Children's Festival**
May 28th – June 2nd, 2013
http://ottawachildrensfestival.ca/

**CHEO BBQ**
June 9th, 2013
http://www.cheobbq.com/

## News

**Upcoming Client Events**

- **Quantitative Tools for Investment Selection Seminar**
  1525 Carling Avenue, Lower Boardroom
  TBD
- **Corporate Class Investments for Small Business Owners Seminar**
  1525 Carling Avenue, Lower Boardroom
  TBD
- **Family Movie Day!**
  TBD

## The Canadian Tulip Festival is celebrating its 61st year in 2013

First held in the year of 1953 as a Board of Trade initiative, under the inspiration of the internationally renowned photographer Malak Karsh, The Canadian Tulip Festival has grown to become the largest Tulip Festival in the world. This annual ritual of spring welcomes more than 500,000 visitors every year to admire 1 million tulips that are in bloom in the National Capital during this period.