The Francis Forum

Summer Edition 2015

Duane Francis, CFP, CIM, CPCA, FCSI, CIWM
Portfolio Manager/Senior Financial Advisor
Life Insurance Advisor

Mandeville Private Client Inc.
1565 Carling Avenue, Suite 610
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101
Fax: (613) 728-4075
Email: dfrancis@mandevillepc.com

Janet Nunn
Executive Assistant
Telephone: (613) 728-0101 Ext.228
Email: jnunn@mandevillepc.com

INSIDE THIS ISSUE

Wealth-Building Advice

There are three types of wealth-building choices we can make. In a sense, these choices represent a ladder we need to climb in order to build lasting wealth.

Most of us who have a little extra money in our pockets start on that first rung by putting that money into currency-based investments. These investments include so-called "safe" investments like bank deposits, GIC's, and even mortgages. These investments appear safe because of the income we receive, however, after taxes and inflation, we barely break even.

Those of us who have a little more money tend to use it to buy things that we hope to someday sell for a higher price. These assets don't produce anything of value, which is why we call them unproductive assets. Topping the list of assets in this category is our house, however, beyond that, gold, certain types of stocks and even works of art would be considered non-productive. These are assets that could one day increase in value.

Unfortunately, when it comes to building our wealth, most of us never get past the first rung, and those who do tend to get stuck on the second rung. The problem with that is that neither group can actually build real wealth. Instead, the secret to wealth building is found in the third rung of buying productive assets. Here, we include things like stocks, businesses, farms, and real estate.

Most of us think the key to building wealth is found when an asset we buy appreciates in value. That, however, is only part of the story, and it's why so many get stuck on the second rung of the ladder. The key to building lasting wealth is to own an asset that continually produces more value. This is an asset that grows in value because its profits can be reinvested to grow even more value.

In Warren Buffett's 2012 letter to shareholders, he told the story of a farm he bought in Nebraska in 1986. He bought the 400-acre farm at a bargain-basement price. It was an asset that produced corn and soybeans each year that could be sold to earn around a 10% annual return at that time. 28 years later, the farm's earnings had tripled in value so that the farm was now worth five times what Buffett had paid.

Buffett's wealth was built as the farm produced products that could be sold. That income could be reinvested into new machinery that would make the farm even more productive, so that even more products could be grown and sold. In addition, Buffett could have taken some of the excess income and used it to buy additional farms, other businesses, real estate, or invested it in the stocks of other productive businesses. It's this compounding of the income as it is used to buy additional assets that produces lasting wealth.

Most of us probably don't have the capital to buy a farm or even a business -- yet. What we can do, however, is take that next step up the ladder and become an <u>investor</u> by buying assets that produce value instead of becoming a <u>speculator</u> and making attempt after attempt to find that "hot stock". We can join Buffett in buying stocks for the long term, which are pieces of real businesses that will produce real wealth over time.

We continue to approach investing in these markets with measured confidence, value your trust in us and look forward to building your wealth over the long term.

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

Sincerely, *Duane*

Behind the Scenes – Advisor Focus

This is a new section that we have added to this quarterly newsletter which focuses on what advisors in this branch have done to go above and beyond the call of duty. Most of the time, our clients don't ever find out how far we'll go to ensure we put their interests above our own.

By Michael Prittie CFP, CIM, FCSI, CPCA, CIWM
Portfolio Manager, Branch Manager, Senior Financial Advisor
Mandeville Private Client Inc.

Did you know... that as your advisor I regularly attend "due diligence" sessions to learn more about fund companies, their product offerings as well as attend the Annual General Meetings (AGM's) of the companies we invest in?

At one such event last fall, I was sitting beside a mutual fund manager who asked why I did not commit more money to their funds. While I agreed the management style and history was very competitive with respect to risk adjusted returns, I stated that the fees were simply too high when compared to other similar solutions. He was somewhat surprised given that their firms F-Class (fee based) management fee was pegged at 1.00%. I responded that I could not in good faith, move client money from one solution to a comparable, given the higher cost; these other comparable solutions were priced at 0.80%.

Since becoming registered as a discretionary Portfolio Manager (PM), certain mutual fund companies were allowing us to use institutional pricing on mutual funds, as though we were a large pension fund. This is because we are able to "bulk" the purchases. As such, we were given access to lower costs that are usually reserved for the million dollar purchases. If we can achieve, on your behalf, a fee reduction of .20% (or 20 basis points), that amounts to a 20% saving on a 1.00% management fee.

During this discussion, the mutual fund manager asked me to send along some supporting documentation illustrating what a few other fund companies were providing to us. After doing further research and committing to internal discussions, the mutual fund company responded a couple months later by offering a 20% reduction on mutual fund products bought *through a registered Portfolio Manager,* matching that of other participating mutual fund companies.

We advocate for our clients on many fronts. The above is one of many examples that we will publish over the months/years ahead. We feel it's important to demonstrate to you that we try our best to align ourselves with money management firms as opposed to money management *marketing* firms. We are not interested in ball caps, coffee mugs, etc. We are interested in research and value-added information that can assist us in growing your wealth.

When attending any Due Diligence conference, we *always* pay our own travel expenses and hotel costs – these are not provided by any corporation or mutual fund company holding a due diligence or AGM event. They do try to provide reduced pricing for attendees (air travel/hotels) and the discount is not unlike any that you could achieve with some extra work surfing the web for the best travel deal. They also provide lunch or dinner in recognition of the time/expense involved by those in attendance.

In May, I attended the Annual General Meeting for Cymbria Corp shareholders (Toronto) as well as a Due Diligence afternoon with Edgepoint Mutual Funds (Toronto). Many of our clients own one or both of these investments. Both information sessions were very informative and reinforced my desire to continue investing alongside management. In the past few months, we have collectively attended numerous breakfast, lunch and dinner presentations by various firms, investment managers, economists, strategists etc. In addition, we host branch meetings when a company's management is in town.

Timbercreek Asset Management recently met with us at our branch to provide an update on the Timbercreek Mortgage Investment Corporation and other related stocks, including Timbercreek Global Trust. Also recently, Barry Gordon, the CEO/President of First Asset met with our team and answered questions regarding Smart Beta ETF's and the opportunities for investments given this current economic outlook. Many of our clients hold both the First Asset ETF solutions and Timbercreek stock related solutions.

I and licensed staff/associates attend numerous presentations during the year whereby a fund company will bring in select managers or economists to address those in attendance. Whether it be Greek debt defaults, interest rate increases, money management strategies, or a host of other topics, these presentations assist us in assisting you and provide additional education and information. We try to ensure that the important ones are attended in person by one of our team members.

Lastly, I am proud to announce that in early June I was chosen as **"Top Advisor – Alternative Investments"** at Toronto's National Wealth Professional Gala Awards Night. My colleague **Duane Francis** was nominated as a finalist for "**First Class Customer Service"**, while my associate **Adam Schacter** was nominated as a finalist for the **"Young Gun Advisor of the Year"** award. Last, but not least, our Chairman, **Michael Lee-Chin** was awarded the **"Award Lifetime Achievement in the Financial Planning Industry".**

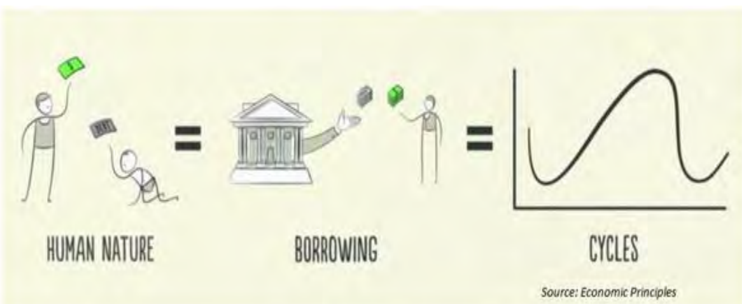
A successful night for us all, to say the least.

Ray Dalio Explains the Debt Cycle

"Debt hangs over you; it's a nasty, omnipresent cloud which never makes you feel better and often makes you feel worse." – Felix Salmon

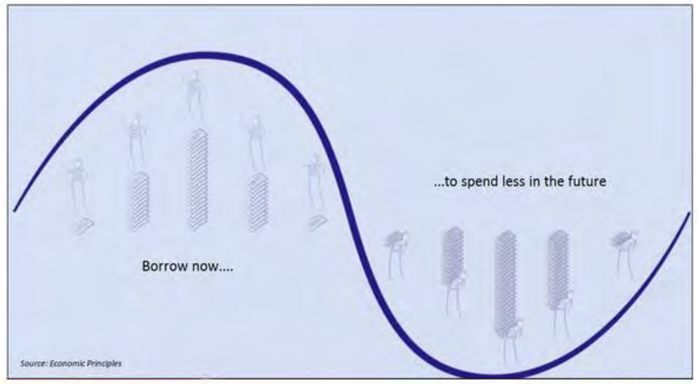
Ray Dalio of Bridgewater Associates is one of the richest, most well-respected hedge fund managers in the world. Like all of the very best investment minds he has the ability to take complex ideas and explain them in a simple terms that anyone can understand.

One of the most useful of Dalio's teaching topics is the explanation of the borrowing cycle for individuals. Here is his take on why we get into trouble with borrowing:



Dalio explains that all credit cycles are created by human nature. There is no law or regulation that says that individuals (or corporations or governments) are forced to borrow more than we should. It's simply how we're wired. If lenders are offering cheap money to allow us live beyond our means, we'll take it, consequences be damned.
But in order to buy things you can't afford today, you need to pull your spending forward from the future. You're basically borrowing from your future self.

Borrowing money now means that you have created a time in the future that you need to spend less than you make in order to pay it back. This is what makes the economy fluctuate and move in cycles. More money is spent on debt repayment, spending on consumption decreases and the economy slows down. The opposite happens after debt gets paid down and things get better. Wash, rinse, repeat.



These cycles get especially amplified when you borrow to make unproductive purchases. This is what happens when people go overboard with credit card purchases with no cash or savings to pay off the balance. The same thing happens in real estate when people buy too much house without enough funds to pay the increased borrowing costs.

Delayed gratification is no fun, but spending now is. However, every purchase you make on credit now means less and less money to spend in the future. This requires a delicate balance between enjoying yourself in the present and being mindful of your future self. Future you is the one who has to pay for all of the bills that you rack up now.

I'm not saying don't borrow money for any reason. There are plenty of ways to get ahead through good uses of debt. It's just that it's very easy to let human nature get in the way of your long-term financial goals. Avoiding "bad debt" will help keep you out of your own personal credit cycle.

Just because the economy is set up to crash every decade or so because of human nature doesn't mean that you must have a personal financial crisis cycle as well. Keeping your debt under control and saving for the future can help.

http://awealthofcommonsense.com/ray-dalio-explains-credit-cycle/

Seven Things you May Not know about TFSA's

As most of us are well aware of, the most recent Federal Budget, the federal government almost doubled the amount that Canadians can contribute to tax-free savings accounts, a widely hinted bit of populism that was at once less than expected but also the main vote-grabbing goodie on offer for Canadians soon to head to the polls.

This raised the amount Canadians can contribute to tax-free savings accounts each year to $10,000, which is up from the most recent limit of $5,500. Unlike other savings vehicles such as RRSPs, contributions to a TFSA account is made on an after-tax basis, but can grow — tax free — indefinitely. Nearly doubling the limit is great news for investors.
Keep in mind, there's a difference between what you should put in your Tax Free Savings Account (TFSA) versus what you can legally hold in this relatively new savings vehicle.

The TFSA is not merely a savings account, as its name seems to suggest, but rather can be used as vehicle to hold all kinds of qualified investments, similar to an RRSP or RRIF.

The options for TFSA investment are virtually endless: from cash and GICs, to stocks and bonds, along with mutual funds and ETFs.

But the rules concerning qualified investments can be complex and detailed, especially when your investment is something other than a plain vanilla, blue chip Canadian stock.

Here are 7 Things you May not Know about TFSA's

Tax-free Savings Accounts are relatively simple to understand and use, but they do have some quirks that can be confusing. Pay special attention to these rules when you make your TFSA contribution and you'll be cruising toward higher investment gains in no time.

1. Whatever amount you withdraw from a TFSA is added to your contribution room in the following calendar year. It doesn't matter whether the withdrawn amount is just your original contribution or the interest, dividends or capital gains your investments earned. And just as capital gains are not taxable in a TFSA, capital losses are not deductible.

2. Interest, dividends and capital gains in your TFSA are not considered income, even when you withdraw the money. That means federal income-tested benefits and credits such as Old Age Security, the Guaranteed Income Supplement and the Canada Child Tax Benefit will not be reduced as a result of investment growth inside your TFSA.

3. Interest on money borrowed to invest inside a TFSA is not tax-deductible.

4. Accidental overcontributions to a TFSA are subject to a penalty of 1% for each month the overcontribution remains in the account. Deliberate overcontributions are subject to a penalty tax of 100% of income or gains from the overcontribution.

5. You can't claim the tax credit on Canadian dividends if the stock producing those dividends is held within a TFSA. If you have run out of contribution room in your RRSP and TFSA, it may be best to hold your Canadian dividend stocks in a regular, non-registered account.

   With foreign stocks, there is no dividend tax credit, but you have foreign withholding taxes to consider. In a non-registered account, you can recover at least part of the withholding tax by way of the foreign tax credit. Also keep in mind that while the U.S. does not withhold tax on dividends paid into an RRSP or RRIF, this favorable treatment doesn't apply to dividends paid into a TFSA.

6. The management fees paid by a TFSA account holder will not be counted as part of your contribution, but they will also not be tax deductible for income tax purposes.

7. You can open a TFSA for a child when he or she turns 18. But beware: if you gift money to your child for a TFSA contribution, that money becomes the child's.

http://www.moneysense.ca/save/tfsa/7-things-you-didnt-know-about-tfsas/

Universal Life Insurance Explained

Protecting Your Heirs and Your Retirement with Universal Life Insurance
When people think of life insurance, they generally think only of death benefit. But there are some types of life insurance coverage that can actually offer benefits to the insured while they're still living. One of these is Universal Life Insurance.

What is Universal Life Insurance?
By definition, a Universal Life policy is a form of permanent insurance that offers extreme flexibility in premiums. While it's similar to a whole life policy, it's better described as a flexible premium adjustable life policy.

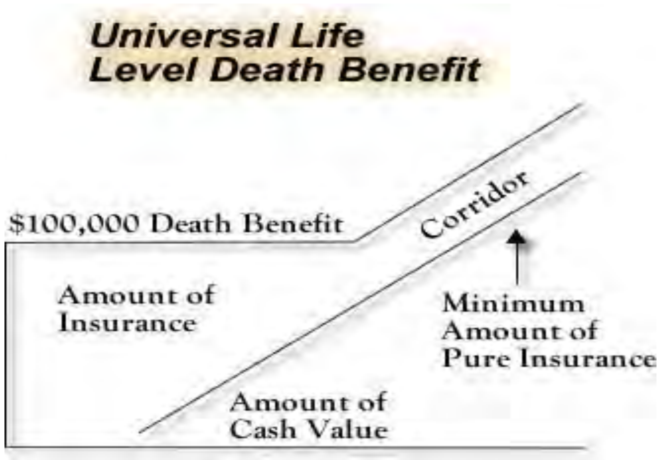
With a Universal Life Insurance, policyholders have a choice between paying just a minimum premium to cover the cost of insurance or paying extra premium toward cash value accumulation, which creates a fund that can later be used to pay premiums.

Understanding the Value of Cash Value
Cash values in a Universal Life Insurance policy are extremely valuable. First, they earn interest or, when you purchase an Indexed Universal Life Insurance or a Variable Universal Life Insurance, they can grow based on the performance of underlying subaccounts tied to the stock market or a particular index.

The second thing that makes cash values so important is that they can be accessed for tax-free loans, so if you need extra income during retirement, you can take it from your cash value without it increasing your taxable income. Just remember that doing so can decrease the death benefit if the loan isn't paid back before the insured passes away.

To “**overfund**” an Indexed Universal Life Insurance policy means to maximize the policy’s cash value growth potential and minimize its net insurance costs over time. When the maximum premium is paid into the policy, cash values grow faster which leverages the net amount of life insurance at risk. The net amount of life insurance at risk is the difference between the actual face-amount of the policy less the current cash value, see diagram below. With all universal life policies, insurance costs are calculated based on the amount of life insurance at risk at any given point in time.

As the net amount of insurance at risk decreases, the costs of insurance decrease and a higher portion of the premium payment can be directed to the indexed account. By overfunding the policy, cash values can leverage the cost of insurance therefore maximizing the cash value growth potential.



Whole Life vs Universal Life Premiums
One of the most confusing aspects of a Universal Life Insurance policy is the way the premiums are determined. While whole life policies have a fixed premium, Universal Life Insurance policies have what's called a minimum premium and a modal premium. The minimum premium is the minimum you can pay to fund the death benefit only. This amount offers no cash value accumulation and will increase over time since the cost of insurance increases as you age.

The modal premium is the maximum you can pay to support the death benefit, build cash values and avoid a taxable event. Paying the modal premium can be a good strategy for some if you want to accumulate funds for tax-free loans later.

Pros and Cons of Universal Life Insurance
Ironically, the one major pro of a Universal Life Insurance policy is also a con. The cash value growth is a major draw, in part because of the opportunity for tax-free loans but also because it can be used to help supplement higher premiums as you age. But people who paid higher premiums early on hoping to later rely on cash values to supplement increased minimum premiums may find that with low interest rates in place since 2008, their cash values haven't grown enough to indefinitely support the higher payments and their policies could eventually be facing a possible lapse.

http://www.accuterm.com/universal-life.htm

Health and Wellness: The Importance of Core Exercises

Core exercises are a crucial part of any exercise regimen. These exercises strengthen the body, particularly the pelvis, hip, and lower back areas. Some examples of this type of exercise include crunches, reverse crunches, ball crunches, oblique crossing over crunches, air bicycling, plank, butt lifts, back extensions with ball, and many more. Below, you will find the top benefits of including these in your workout.

Flatten and Strengthen Your Abs

These exercises work on the deep abdominal muscles, which are scientifically known as transverses abdominis. Doing these will not only strengthen your abs, but also flatten them to make your body look better. Core training is the fastest way to flatten your abs among other types of abdominal workouts.

Stabilize the Lower Back

Core exercises also make the lower back stronger and healthier. With a stronger back, you will be less prone to lower back pain that is usually a result of carrying too much weight, or pressure on the lower back. By enhancing the body's weight-bearing capabilities, back muscles and ligaments will not easily be damaged by heavy weight. Moreover, a stronger core will allow for normal spinal functions.

Improve Balance and Coordination

As the back and abdominal area becomes stronger, the body also experiences an improvement in balance and coordination. Doing core exercises stimulates a particular area in the brain called the cerebellum that links to body parts for coordination, spatial awareness, and balance. These exercises are not simply a workout for the body, but also for the brain.

Enhance Flexibility

While most people find it hard to believe that working out abdominal muscles can improve flexibility, core exercises can certainly do wonders for ligaments and muscles by stabilizing the lower back. When the back is stabilized, stress and tension are removed, thus allowing for greater range of motion, which in turn results in enhanced flexibility.

Promote Better Breathing

Another benefit of core exercises is improved lung capacity. Core muscles are connected to the diaphragm so working out these muscle groups will enhance one's ability to inhale and exhale fully. If the body is able to take in more oxygen, the heart is able to pump more blood, so there will be a significant improvement in the overall performance of the body.

Strengthen the Body

It is not only the abdominals and the lower back that core exercises can strengthen. They can also make the entire body stronger. Evidence to this is when you engage in physical activities or sports. After doing several core exercise workouts, you will find that your sports-playing capabilities will be much better. Whether it is surfing, running, skiing, or cycling, you will see tremendous improvement in how you play these sports.

Core exercises should definitely be a part of your exercise routine. Aside from being a good workout for your abdominal muscles, they also benefit your physical health in more ways than you can imagine. They improve flexibility, strengthen abs and the entire body, reduce lower back problems, and promote breathing and lung capacity.

http://www.fitday.com/fitness-articles/fitness/exercises/the-importance-of-core-exercises.html

Summer Activities

RBC Ottawa Bluesfest
July 3rd – 13th
http://www.ottawabluesfest.ca/

Mosaika Sound and Light Show
July 8th – September 6th
http://www.pch.gc.ca/mosaika-sl?lang=en

Lumiere Festival
August 2nd – 23rd
http://www.lumiereottawa.com/

Capital Pride
August 15th – 24th
http://www.capitalpride.ca/

Ottawa Folk Festival
September 10th – 14th
http://www.ottawafolk.org/

News

Our Family Movie Day was yet another Success!

The Annual Family Movie Day, held at the Coliseum Cinemas on June 20th, was a ton of fun for all. This movie may not only be up for an Academy Award for Best Animated Film, it may be up for Best Picture!

The popcorn was flowing and the atmosphere was fantastic.

Many thanks to all who attended

Next up: Client Seminar – September TBD

Please let us know if you have any suggestions for future seminar topics

Mooney's Bay

Located on the east shore of the Rideau River and just south of Carleton University, this is a popular place for students and families. Most people know this place because of Hope Volleyball, but this place is much more than just a giant volleyball court! One of Ottawa's only beaches, it's a great place to grab your towel, bathing suit and a picnic basket and spend the day on the sand.

Mooney's Bay is a beautiful spot to spend the day, and the fact that you can cool off in the water is wonderful. It's also a good place to take kids. There's also the Terry Fox Athletic Facility next door, with a track for competition, and there are athletic clubs that operate out of there (even a ski club in the winter!).

This is also the location for Hope, and the Dragonboat Festival. There are play structures for the kids, tennis courts and fire pits in addition to what this beach is known for - their volleyball courts! You do have to pay for parking from 7 a.m. to 6 p.m., but if you're an avid beach goer you might want to look into buying a seasonal pass.