MUTUAL GAINS

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Without money, possibilities are limited...... without personal relationships, life is barren.... without balance, happiness and fulfillment are but a dream.

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The 4 Financial Pillars Are Now 1

It used to be that if you wanted to have a personal financial matter dealt with you went to one of 4 places. Your bank would handle your cash management accounts (i.e. chequing. Savings term deposits, GICs) and also lend you money. A "teller" was your advisor for all of these needs. Trust companies accepted deposits and offered "trust services". Brokerage firms promoted and sold you investments through the stockbrokers they hired, and insurance companies would sell you insurance through their captive sales force for the risks you needed to cover.

We are now in the 21st century where banks now own all major trust companies and most investment dealers (where stock brokers hang their hats) as well as insurance companies. Insurance companies are buying banks and other financial businesses so they can compete with the banks.

Overall this competitive environment is perfect for you because now, more than ever you have these big financial institutions competing for your business. They also recognize that people like you want independent financial advice and holistic financial planning so they offer their "financial products" through financial planners just like me.

Working with an independent financial planner like yours truly gives you access to the best: high interest savings accounts, GIC's, mutual funds, securities brokerage services, insurance policies and insurance related investments, as well as a referral network of lawyers, accountants and other professionals such as realtors and mortgage brokers.

Here are just some examples of the institutions that my clients and I together use for your specific needs (I'm only scratching the surface here):

ING Bank – You can't seem to beat them for short term savings.

B2B Trust – Self Directed RRSPs (and some of the highest deposit rates for GICs / term deposits)

Manulife Bank – Some great GIC / deposit rates (and some totally unique residential mortgages)

National Bank Financial – Full service investment brokerage with a personal touch.

Qtrade – Discount brokerage services (all the credit unions in Canada refer their members to Qtrade)

Maritime Life – They are great for disability insurance particularly with their "return of premium" feature.

Transamerica Life – The most cost efficient life insurance money can buy

Standard Life – High yielding annuities

Olympia Trust – Private Health Services Plan setup and administration

A wide array of mutual funds (I use one or two from each of too wide a selection of companies to list) plus......

A rainbow of other investments and tax saving stategies that I can refer to you.

With an independent financial planner you can choose from virtually all of the financial products and services that Canada has to offer. Together we can choose the best for you from this wide array. Plus, <u>I sit on the same</u>

side of the table as you do. If we don't like the way ING, B2B Trust, National Bank, Qtrade etc is treating you we can "fire" them and choose an alternative. With an independent financial planner like myself the world is your oyster and together we will pick the financial pearls and throw away the ones that tarnish.

Blame the Boomers

According to David Foot (Financial Post, September 6th 2003) many of the defining economic events of the last 30 years can be traced to the influence of Baby Boomers.

Remember the inflation of the '70s? Too many Boomers chasing a limited supply of product. How about the real estate boom of the '80s? Too many Boomers and not enough houses. Now in 2003 we have Boomers accumulating cash. This aging population bubble has paid their debts and are in their saving years and they want to lend that money out (buy bonds, bank deposits etc.). This puts downward pressure on interest rates a trend Alan Greenspan, chairman of the U.S. Federal Reserve, believes will continue for sometime.

Compounding the lower interest on investment for retirees are increases in expenses, such as the cost of long-term care, which is climbing rapidly in many provinces. This is only going to accelerate which will mean more user fees for government services.

Like the housing market in the '80s, there is going to be demand and upward pressure on for equity investments as the Boomers continue to save for their retirement. The first Boomers hit 65 in 2012.

Busters, GenX etc - For This You Can Thank The Boomers

In the past, there were always many more of those aged 20 to 24 joining the job market than persons reaching retirement age. That is supposed to start changing in less than 10 years, this according an actuarial report released by the Office of the Superintendent of Financial Institutions. They tell us that "The massive amount of retirements from the Baby Boom generation, combined with fewer replacement entrants in the labour force, will create a pressure on the labour market that has never been seen before."

The good news for students is that this will mean increased job opportunities, and wages. Unfortunately, this will also make it more attractive to leave school sooner as tuition rates are expected to increase at 3% above the inflation rate.

As a result, the report projects tuition fees will continue rising over the long term at an annual average rate that's three percentage points above the rate of inflation (it is expected that tuition will rise to $17,000 on average in 2026-27 from the $4,300 average in 2001-02.

Grab That $7,200 Grant (Gift)

A recent survey indicates that 40% of parents have not even heard of the government grant program for Registered Education Savings Plans (RESPs). This grant matches your RESP contributions by 20% to a maximum of $400 per year, with a lifetime limit of $7,200 per child. Are you among that 40%? Or maybe you know about the grant but haven't put in the full $2,000 per year (per child) to get the entire gift. No need to panic. You can still play catch-up.

Similar to the way unused RRSP contributions accumulate and can be made at a later date, you can catch up your RESP deposits, and the government will add the corresponding grant amount, back to when the grant program started in 1998. Example: if you opened an RESP in 2000 for your child born in 1997, you can contribute for every year from the child's birth (or 1998 whichever is later) and qualify for the 20% grant on the first $2,000 of each year's catch-up contribution.

If your child decides not to go to school, the grant is repaid to the government but any returns realized on the investment stay in your hands. The RESP can also be transferred to another child, or rolled over into your RRSP, providing you have enough unused contribution space.

It isn't too often you get money handed to you on a silver platter. If you don't put money into an RESP you are turning away $400 per year of free money.

2003 Personal Tax Rates for B.C. (Combined Federal and Provincial)

Taxable Inc*	Tax	Taxable Inc*	Tax
30,000	4,871	66,000	16,037
32,000	5,323	68,000	16,791
34,000	5,935	70,000	17,545
36,000	6,558	72,000	18,299
38,000	7,181	74,000	19,079
40,000	7,804	76,000	19,873
42,000	8,427	78,000	20,667
44,000	9,050	80,000	21,461
46,000	9,673	82,000	22,255
48,000	10,296	84,000	23,049
50,000	10,919	86,000	23,843
52,000	11,542	88,000	24,637
54,000	12,165	90,000	25,449
56,000	12,788	92,000	26,263
58,000	13,411	94,000	27,077
60,000	14,034	96,000	27,891
62,000	14,657	98,000	28,705
64,000	15,298	100,000	29,519
66,000	16,037	102,000	30,333

$105,000+: $31,411 plus 43.7% on taxable income $104,648+

Note: Shortly after you make a contribution to an RESP for a child the government adds their 20% gift directly to the RESP.

Manoeuvre Money From Your House to an Investment

There is a strategy some are using where with every mortgage payment that is made, the amount of the principal paid down is re-loaned and the proceeds used to invest for the long term. This keeps your overall debt (leverage) the same over time but as you pay down your mortgage on your house every month that amount of principal pa down is going into an investment.

One of the ways to amplify wealth creation over time is to leverage your money. Example: Make a $100,000 investment with $5,000 down. The investment increases by 5% and you have made $5,000, or doubled your original investment (for simplicity we haven't included the carrying cost of the interest cost on the loan). As you pay down your mortgage in the traditional way you lessen your loan, and leverage, over time. If you pay down your mortgage quicker you effectively lessen your leverage, and leverage as I have illustrated increases your return.

Caveat: As leverage increases returns it increases your risk. Call or e-mail and I will send out a risk disclosure which outlines this in more detail.

> "If it's in the papers it's in the price"
> Bill Miller, Legg Mason Value Trust

This manoeuvre is an agreement with a bank to loan a dollar to you for every dollar you pay down in principal. Essentially this converts your home equity, over time and in small increments, into an investment. The end goal over time is to have the same debt in 20, 30, or 40 years as you do now but also be controlling several hundred thousand of investment assets. The difference is ALL OF THE INTEREST IS NOW FULLY TAX DEDUCTIBLE.

With interest rates at such low rates this idea is much more attractive now than it has ever been. It isn't for everyone however. There is nothing wrong with going the more traditional route of paying down the mortgage, contributing to your RRSP and investing your extra cash when your mortgage is finally gone. However, if you want to enhance your wealth creation potential with the ongoing conservative use of leveraging your money this manoeuvre can make sense (but sit down with a Financial Planner first to determine if it makes sense FOR YOU).

Investments That Protect Your Principal

With interest rates so low and your uneasiness about committing money to equities, "financial product manufacturers" have come out with a wide range of options to fill your concerns. These "notes" give you principal protection, in some cases a guaranteed nominal yield at maturity, plus full participation in the returns of a fully diversified investment.

Partnering with AAA-rated lenders (i.e. CIBC, Business Development Bank etc) these "Notes" give you the assurance that your money is secure. They are usually linked to 3 or more mutual funds. Your return is based on how these mutual funds perform however, however if they perform negatively over a 6 – 8 year period your principal is protected.

If you are looking for a longer term investment, one that has historically done well but want to protect yourself "just in case" a principal protected note may be the best thing out there for you.

Human Capital + Financial Capital = Total Capital

We all have earning power. That earning power multiplied by our earning years is our human capital. Our invested capital is the amount of financial wealth we have already created. As we get older our human capital decreases and our financial capital increase (or at least it's supposed to). Prudently diversifying out how these assets are allocated is vital.

Often our total capital is concentrated in the industry we work. You might have your pension funds or group RRSP invested in the shares of the company you work for. In other words, you have both your human capital and your financial capital attached directly to the health of your industry. When layoffs in your industry and your company occur, your human capital falls as does the value of the investment assets tied to the company and the industry.

Diversifying your assets is Financial Planning 101. Your total capital equals all your assets.

Insuring Your Human Capital

Early in life your biggest asset is your earning power. A 30 year old earning $60,000 a year will earn well over $2 million dollars. The biggest risk you take today isn't not buying fire insurance on your home or forgoing collision insurance on your car. The biggest risk you face is you not insuring your biggest asset, your earning power.

I'm continually amazed at the small things we insure. My philosophy is that insurance is meant to lessen the pain of catastrophe and catastrophes only should they occur. If you could absorb the cost of replacing a car, you can safely forgo your collision insurance. If you could easily pay to rebuild your house should it burn to the ground then why buy fire insurance. Even if you couldn't pay to rebuild it, if you income is very healthy you could eventually replace it. Can you live without the income you earn? If your answer is yes then you don't need to insure your human capital however if you desperately need your income (or that of your spouse) for the next 10, 20, 30 years then insurance on your human capital is vital not optional.

Note: There are insurances available where you can pay extra in premiums and get a large part of your total premiums refunded in 8 – 10 years if you don't collect on your insurance. This is a perfect way to protect yourself yet not feel that your are throwing money away. I know, "it will never happen to me". Most everyone I talk to says that yet I know that a handful of those I talk to may be wrong in making that assumption. It could be you.

HHHMMMMMMMmmmmmmm……

"While equity mutual funds have been down, what we're finding is the more sophisticated institutional investors (i.e. pension plans) are rebalancing – which means they're buying equities as opposed to buying fixed income."
Harold Marmer, Senior VP Institution Services Franklin Templeton International

It costs you $22.06 a day in ownership (i.e. depreciation, lease / interest costs etc) and operating costs (insurance, gas etc.) to commute 10 km's back and forth to work. Look at another way, you'll pay about $9,525 a year to own and operate a Chevrolet Cavalier Z24 (one of the cheapest cars to buy) including insurance, depreciation, financing, fuel and maintenance. (Source: Cdn Urban Transit Assoc.). That buys a lot transit passes and cab fare.

This year the U.S. is raising the eligibility for Social Security (equivalent to Canada's CPP / OAS) to age 67 from age 65. Only those born after 1960 will not get their full Social Security unit after they turn 67. Canada has instead opted to increase the amount you and your employer have to pay into the plan (currently 9.9% of covered earnings).

If you are 69 years old (and a male), you have a life expectancy of 85. Life expectancy is the actuarial assumption when stated in such a way means that if you are 69 you have a 50% chance of living to 85. The funny thing is that most of the people I talk to don't believe they will live that long.

The population of Canada is increasing at less than 1% per year. This means very limited increases in housing prices over the long term.

In "Legal Humor" a Toronto lawyer tells of a person on welfare from Quebec who is suing Loto Quebec because he didn't collect any winnings after buying $840 worth of lottery tickets. He based his claim on the grounds that the government agency deliberately sold him losing tickets. The lawyer believes that the government will quietly settle the case by paying back the $840 he spent. He also believes that the plaintiff will spend the $840 on more lottery tickets.

Carey

CFP, Chartered Financial Planner

PS. If you have any questions on any topic in this issue or you would like to review your personal situation……. Call me. Also, the last time to reduce your tax for 2003 is NOW (other than an RRSP contribution of course).