

# 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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## Substantial Tax Reduction then.....

Other than an RRSP contribution there are very few ways to really save tax. For years Production Services Limited Partnerships were the elephant gun for significant tax reduction. These tax shelters were often used by 6 figure income earners where \$10,000 out of pocket would save \$12,000 - \$13,000 in tax (yes, more money was saved in tax than cash out of pocket).

## And Now

Over the past 3 years the most popular way to substantially reduce tax has been by using some form of Donation Transaction Structure. The most common has been by way of donating a particular item or bundle of goods where you purchase something at a discount and donate it for "fair market value". The serious flaw with this kind of transaction is that "fair market value" can be very subjective. This proved to be the case with Software Tax Shelters in the mid '90's. CCRA can (and has on many occasions) disallowed or reduced the donation because they have determined a substantially different "fair market value" than what was claimed.

There are donation structures however which do not donate goods and thus don't have a subjective "fair market value" that can be challenged by CCRA.

## Reassessment Angst

A month or two (or three) after you file your tax return you get your "Notice of Assessment" (NOA) from CCRA. Your NOA is a summary of your tax situation for the previous tax year. You may have received yours from CCRA with some modifications they made to your return or it may verify that your income tax return is correct as filed. If your tax refund or amount owing to CCRA is exactly as you expected then the latter is the case.

This isn't the end of CCRA and your tax return however. The government generally has 3 years from the date of this NOA to reassess you. Example: You filed your return on April 30<sup>th</sup> 2003. You received your NOA dated June 18<sup>th</sup> 2003. Officially, CCRA can come back and reassess your situation anytime up until June 18<sup>th</sup> 2006.

## Habits Which Create Portfolio Mediocrity

These points are from an article I pulled out of a Seattle Times newspaper (written by Chuck Jaffe of CBS Marketwatch on October 19<sup>th</sup> 2003) while waiting for a flight out of the Seattle Airport:

"You have a collection, not a portfolio" – Buying a new investment every time you have more money to invest. You like having something "new" in your portfolio. Unless a fund replaces a current holding or puts you into a

completely new asset class or investment style, adding it to your portfolio will probably make it worse, no matter how good the fund looks on paper.

"A portfolio full of yesterday's flavour of the day" - There is no one right way to invest. If you keep switching from one flavour to the next, you almost certainly have come up with the wrong way to invest. Don't keep switching to what has worked lately.

"Worrying about daily performance" - If you can't count the days until you expect to need the money, worrying about daily or weekly price fluctuations will lead you astray.

"Invest by inertia" - Investors who get paralyzed by fear or who can't find an approach (balance) that gives them the emotional discipline to stick with it wind up making investments by chance.

"Not being able to explain why you bought a particular investment" - Often because it was recommended by someone on TV, in a magazine or by a casual friend. It wasn't because "this fund added the diversification I needed as I didn't have any exposure to international small companies and now is a good time to add to that sector as it is down by 30%".

The entire dollar value all the companies that make up the TSX index is slightly smaller than General Electric, Microsoft and Pfizer combined. These three U.S. powerhouse companies however, make up just 9% of the market value of the companies that comprise the S&P 500 index.

It's not necessarily hard to be a good investor, but it's very easy to be a bad one.

## The "RRSP House" That Can Hold Almost Any Investment, From Anywhere

If you have a habit of going to a different financial institution almost every year for your RRSP contribution in the effort of trying to get the best interest rate or best mutual fund out there you will be faced with a fee to transfer that RRSP should that another investment look better 1, 2 or 5 years from now. If you want to transfer out of GICs maturing at different times to different banks, then you will pay a fee for each transfer.

The reason I bring this up is that the Royal Bank has just doubled that fee to \$50 (+GST of course). During the 16 years I've been a financial planner the standard transfer out fee for a simple RRSP has been the same so I suspect other banks will follow. There is however a solution.

One simple way around this problem is to combine all your scattered RRSPs into a single "self-directed" plan with a brokerage firm or through a financial planner. Brokerage firms offer them through their parent bank and financial planners tend to shop the market for the institution that offers the best package.

Self Directed RRSP plans are not free. The commonly cost \$125 per year however The offsetting advantage of these administration fees is that you can buy in and out of pretty much anything in this kind of RRSP without worrying about transfer fees. Also, as an example, on a \$100,000 RRSP that fee amounts to 0.125% per year, a percentage that can be recovered quite easily on the higher efficiency of being able to go make any investment you want, quickly, all within the same RRSP House, and that is just good "House" keeping.

## That "Locked In" RRSP of Yours

If you have ever left a job with a pension plan you had the opportunity to transfer the pension benefit you accumulated to a "locked in" RRSP. My question to you is, "Where is that money now?" "How is it doing?"

A locked in RRSP is set up to provide an income for life. The limits to how much you can take out of them and when is subject to federal and provincial pension legislation which is dependent on the how the original pension plan was set up.

The reason I ask those 2 questions and give you that bit of background is because I continually come across people who have Locked In RRSPs but leave them where they are. It's either believed that the Locked In RRSP can't be moved or it's not worth the bother.

A Locked In RRSP is no different than your regular RRSP. It is a "Personal Pension Plan", one whose goal is to provide a monthly income for your retirement life. The amount of that retirement income is wholly dependent on how much your Locked In RRSP grows, and if it's sitting in cash, bonds or bank deposits it won't grow much.

Note: A "Locked In" RRSP can be transferred to a "Locked In Self Directed" RRSP.

## A Secure Investment Which Has Produced a 7.5 – 8.5% / year Return\*

Another series of FULPAY Deposit Notes are available until December 12th. It is a debt instrument, like a bond, with 100% principal protection at maturity and the potential to deliver equity like returns through a link to the performance of three mutual funds.

A FULPAY Note is a suitable investment alternative for conservative investors who want to participate in the higher long-term returns offered by the equity market but do not wish to put their principal at risk.

If you have cash sitting on the sidelines you expect will be invested for a longer period of time (6 years+) you are guaranteed to lose money in a short term savings vehicle the cancerous way (inflation). A FULPAY Note could very well be your protection against loss.

<b>BUY YOURSELF A GUARANTEED INCOME.... FOR LIFE.</b>		
Example of 65 year old investing \$100,000, with guarantees (40% tax rate)		
	<u>5 year GIC @ 4.4%</u>	<u>Insured Annuity</u>
Income	\$4,400	\$6,642
Tax	<1,760>	<1,110>
Net Income	\$2,640	\$5,532
To Heirs	\$100,000**	\$100,000

Note: an insured annuity gives you tax effective income guaranteed for life plus \$100,000 paid tax free to your heirs.  
 \*\*GIC investment subject to probate fees

A FULPAY Note is the most effective way to get the returns you need in safety and comfort.

Past return tendencies of Note: Since November 1992, all of the six-year return periods for the basket of three linked funds showed a range of returns (presented as compound annual rates) between 4.61% to 10.94%, with the most common average annual returns in the 7.5-8.5% range.

### **What You Can Do With An RESP If Your Child Isn't U Bound**

This is probably the biggest administrative risk with an RESP, the loss of money due to a child not pursuing some form of post secondary education. Here is what will happen.

The total amount of money you have in the RESP is in 3 parts, although you don't see those 3 separate parts on your RESP statement. The first part is what you put into the plan, the original capital. You as a contributor to the RESP can get back the money you put into the plan without any tax implications.

Second is the money your capital made, the "returns". These can be interest, capital gains or dividends, depending on how you invested the money. These "returns" can be transferred to the contributor's (you!). You do need RRSP room for that. Alternatively, you can take the returns out. You will be taxed on it like your employment income PLUS you will pay an additional 20% surtax. Not a good choice but it is a choice.

Third is the Grant money the government has kicked into the plan. That automatically gets paid back to the government.

An RESP overall is a great deal. I do however suggest saving the \$2,000 per year per child maximum in the RESP. Should you want to save more than \$2,000 per year for your kid's (or grandkid's) education open an informal "in trust" account.

RESP Fee Note: Many institutions (namely banks) charge a fee to set up an RESP and / or an annual fee. However there are several RESP administrators that don't. If you want suggestions / recommendations feel free to call or e-mail me directly.

Note to catching up on your RESP contributions (Mutual Gains Issue #97, Sept. / Oct. 2003 "Grab That \$7,200 Grant"): You can catch up on RESP contributions you missed however in anyone given year the maximum grant you will get per child is \$800. In other words, you can't catch up more than \$4,000 per year.

### **It May Not Kill You But....**

Strokes and heart attacks are on the increase however death by these events is declining. Due to advances in medical care 85% of heart attack victims and 75% of stroke patients survive. For the survivor a change in lifestyle and greatly reduced income are the new reality.

Those who are in this new reality and insured by a Critical Illness policy will receive a predetermined lump sum payment (i.e. \$100,000) that can be used for any purpose (depending of course on the terms within the policy).

Premiums for Critical Illness insurance can vary widely, depending on your age, gender, lifestyle and medical history (both personal and family). You may not have to undergo a medical exam to secure Critical Illness insurance but you will definitely have to answer a detailed questionnaire.

What if you have Critical Illness insurance but never get sick? Just like disability insurance you can add a feature called "Return of Premium". If you have ROP on your policy you will get a large portion of your premiums refunded to you provided you didn't collect on the insurance. This way you can have peace of mind and not feel like you are throwing money away.

## HHMMMMMMmmmmmm.....

Air Canada has, in it's effort to "reduce costs without impacting our customers", saved \$100,000 by eliminating lemon and lime slices available for drinks. Are there any "lemons and limes" that could be cut from your expenses to enhance your family's profitability?

The Canadian economy grew at an annualized 1.1%, half of what was expected and only one third of what it is capable of. Because of this, an interest rate cut by the Bank of Canada could come as early as January. So if you are expecting higher interest rates don't hold your breath..... the trend in Canada is still down.

28.3% of U.S. homeowners aged 65 or older owe money on their homes. That's up from 20.7% in 1990 and 18.9% in 1980 (USA Today). This is partly the result of boomers having to pay the education of more college grads than any other generation before it.

House price increases across Canada are expected to return to more normal levels of appreciation in 2004 (RE/MAX).

Average real estate prices in Greater Vancouver are finally expected to surpass their record highs..... last set in 1992. In other words, house price appreciation has been 0% per year for 10 years.

There was 18,028 registered pension plans in 1990. In 2001 there were 13,861.

The fastest growing age group is those 80 and over. In 10 years their numbers have increased by 41%.

If you are now 69 years old, you have a 50% chance of living past age 85.

Residential Care Rooms for seniors costs the province of B.C. \$4,500 per month (\$54,000 / month), only part of which is paid by the resident. As of October 1<sup>st</sup> a resident whose income is between \$36,000 - \$41,000 will pay \$17,411 per year. If your income is over \$56,000 you will pay \$23,725 per year.

A viatical settlement allows a terminally ill person to sell their life insurance policy (i.e. \$500,000) to an investor who provides a discounted cash payment (i.e. \$300,000) in return for being named as the beneficiary on the policy.

A lack of water or dehydration can cause serious Dementia like symptoms in older people.

## An Authentic Holiday

For thousands of years December has had, and continues to have, a varied and eclectic mix of celebrations worldwide. In earlier times the Norse believed that each spark from the fire represented a new pig or calf that would be born during the coming year. In Germany, people honored the pagan god Oden who they believed made nocturnal flights to observe his people, and then decide who would prosper or perish. In Rome, there were various celebrations tied to specific gods.

Christmas (God coming to the world in human form) wasn't celebrated by Christians until Pope Julius chose December 25<sup>th</sup> in the beginning of the fourth century when it was called the Feast of the Nativity.

The North American festival of Christmas is us mimicking a guy in a red suit by giving gifts.

Traditions, festivals and the time they are observed were created by human creativity and imagination. History however wasn't. History is authentic, and it is still, very tangible.

I wish you the peace that only an authentic, historic Christmas can offer.



CFP, Chartered Financial Planner

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