Fall 2013

Financial focus

Why your portfolio needs to embrace innovation

In 1888, George Eastman invented a push-button camera and the film to go with it. Eastman Kodak took off, and for the next 100 years or so, the company dominated its field.

In 1930, Kodak was added to the Dow Jones Industrial Average as one of the 30 core stocks reflecting the fortunes of the broader U.S. economy.

A COSTLY OVERSIGHT

You may be surprised to learn that Kodak actually invented the digital camera in 1976 — but didn't pursue it. The company simply couldn't envision a world without film. That lack of vision was to cost the company dearly.

Doing a slow pan across the last 20 years or so, Kodak was delisted from the Dow and saw its share price drop from more than $90 (February 1997) to just 30¢ on January 19, 2012, when the New York Stock Exchange suspended trading after the company filed for bankruptcy protection.[1]

LEARNING FROM THE PAST

The moral for investors is that technology has become a fundamental building block of the economy — and that the tech sector can play a key role in almost any long-term portfolio, furnishing diversification and robust growth potential.

NEXT STEP: Technology companies today are a far cry from the flash-in-the-pan dot-coms of the early 2000s and include some large, well-established organizations with proven earnings as well as risky start-ups. If you'd like to learn more about opportunities in this exciting sector, please give us a call.

1 Kodak.com

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For many people, autumn is the time for fresh starts and new projects. Are you thinking of taking on a new financial goal? Perhaps making your RRSP contribution now instead of waiting until next February? Or review your insurance portfolio and your financial planning?

Once again, we're always pleased to be a sounding board to your questions and ideas, while watching over your investments and financial plan!

François Chartier
Hélène Grandmaison

The maturing IT sector and what it means for your portfolio

The information technology sector has matured greatly since the dot-com bubble burst in 2000. Fifteen years ago, many tech companies had little in the way of earnings. Today's technology leaders, by way of contrast, have evolved into mature and established companies with diversified revenue streams. What's more, many of the leading companies in the sector pay dividends, adding some income opportunities to what has traditionally been a growth story.

For Canadian investors faced with few domestic technology companies, the U.S. tech sector provides diversification opportunities and the ability to take part in the U.S. economic rebound. As always, what's right for your portfolio will depend on your tolerance for risk and your investment objectives.

AN EXPANDED ROLE IN ECONOMY

Just how important is technology to the U.S. economy? Consider some of the numbers. Today, the IT sector represents almost 20% of the S&P 500 index, and four of the top 10 companies on the benchmark U.S. index are tech giants — makers of well-known products that many of us use every day. What's more, eight of the 10 biggest tech companies today pay dividends.

PERSONAL COMPUTING SLOWING

After being one of the bright spots coming out of the 2008 recession, the tech sector has experienced weakness over the past year. Much of the slowdown in growth is due to earnings disappointments among some of the large makers of consumer electronics, personal computers, and operating software. U.S. government spending on technology has also been weak.

Despite the recent earnings weakness however, prospects for the IT sector appear to be promising. According to a recent forecast by technology research firm Gartner[1], worldwide IT spending is projected to reach $3.8 trillion in 2013. And although more mature segments of the tech landscape, such as personal computing, are experiencing slowing growth, trends such as mobile Internet, social media, and cloud computing continue to drive growth and innovation.

MINDFUL OF THE RISKS

The wide range of investment opportunities available in technology makes it worthy of consideration for different investors — from those looking for stable, long-term growth to those who want to get in on the ground floor of exciting new developments. However, the pace of change in the IT world, along with the "disruptive" nature of many developments, means that it's important to understand the risks.

NEXT STEP: We can help you identify the kinds of technology exposure that are right for your portfolio. Please give us a call today to review your investment strategy.

1 Gartner Worldwide IT Spending Forecast, 2013.

Is the government your beneficiary?

Meet Gerald and Mavis, an average middle-age couple who have a combined total of $750,000 in their Registered Retirement Savings Plans (RRSPs). What they don't have is a will or a beneficiary strategy. In an admittedly worst-case scenario, upon their deaths, taxes could claim more than 40% of their RRSPs.

In fact, without a beneficiary strategy, a significant amount of their estate might not go to Gerald and Mavis's family, alma mater, or favourite charities. Here's how you can prevent this from happening to you.

MULTI-FACETED PLAN

The elements in your estate plan are akin to the spokes in a wheel. If one or two are missing or inferior, all of the rest of them are compromised.

Up-to-date wills. Your will spells out who gets what when (and under what conditions), and who is in charge of executing your estate.

Insurance. Life insurance guarantees that your family and your creditors get paid. It's a flexible, tax-effective way to cover debts and preserve precious heirlooms and assets for your beneficiaries.

Trusts. Trusts are a powerful estate planning tool. They can be used to ensure the succession of the family business, establish a schedule for money to be paid out to your heirs, protect family assets from divorce, and leave behind a generous legacy to a favourite charity, to name just a few of their many uses.

Regular maintenance. Laws change, tax regulations change, family dynamics change, and people's wishes change. If your plan and its components are not up-to-date, they're unlikely to perform the way you had intended.

NEXT STEP: Talk to us about your estate planning goals. We can help you take stock of your belongings and consider the most effective way to help ensure that your assets can be distributed according to your wishes.

Capital gains exemption on small business shares rises in 2014

If you own shares of a small business, farm, or fishing property, the new year holds some good news for you. Effective January 1, 2014, the lifetime capital gains exemption for these assets will increase to $800,000 from $750,000 under changes contained in the 2013 federal budget.

Even if you have exhausted the existing limit, you will still be eligible for the additional $50,000 starting in 2014. This sets up a strategic planning opportunity that could save you more than $12,000 in taxes.

NEXT STEP: As you might expect, the rules are complex and require some advance planning. Consultation with a tax professional is advised.

Debt Management

Think twice before co-signing loans for your children

It's fall, and time for the annual migration of kids flocking back to school. Not coincidentally, it's also the season for young adults to apply for loans and credit cards. If you are thinking about co-signing a loan or credit card application for your child, it's important to be aware of the implications.

When you co-sign a loan, you are effectively becoming a joint borrower. That makes you equally responsible for repaying the debt. Even if you are comfortable with this, you may want to keep such loans small and adhere to a short repayment schedule in order to protect yourself.

Credit cards are a little different. Some issuers require no co-signer. Others won't let you co-sign but will let you add your child as a secondary card holder on your own account, in which case you are equally responsible for their debts. And still others don't issue traditional credit cards to students at all.

If you share your account, you'll be able to monitor your student's spending on your own monthly statements. If you co-sign, you have the option of receiving a copy of your student's monthly statements. It's probably a good idea to opt in for this, as it will help you to keep track of the balances and make sure your own credit rating is not being compromised.

NEXT STEP: If you're co-signing a loan or credit card for your child, be sure to let us know so we can update your financial records accordingly.

Your RRSP

Hands off the RRSP

According to a recent poll, 36% of Canadians took money out of their Registered Retirement Savings Plans (RRSPs) in 2012 — up significantly from 23% in 2005. The average withdrawal was almost $25,000.[1] And 20% of those withdrawals were to cover day-to-day expenses or pay for a vacation.

Your RRSP might look like a source of easy money, but withdrawals from it come with a very steep price tag, for three reasons:

- **Withholding tax.** You'll face an immediate tax hit in the form of withholding tax: 30% on withdrawals exceeding $15,000 in most provinces. In Quebec, it's 15% plus a provincial withholding amount.
- **Income tax.** Withdrawals are added to your taxable income for the year. When you file your return, you may get an unpleasant surprise.
- **Loss of future growth.** Perhaps the greatest expense is the loss of tax-deferred compound growth. For example, suppose that you're 40 and plan to retire at age 70. You withdraw $25,000 from your RRSP to do some renovations on your house and take the kids to Disneyland. Assuming an average annual compound rate of return of 5%, you'll have $108,000 less in your RRSP at retirement as a result.

NEXT STEP: If you're facing a cash crunch, talk to us. There are several alternatives we can explore to find the cash flow you need without tapping into your RRSP.

1 Harris/Decima, The Scotiabank Mega Poll, 2012.

Investing Strategy

Portfolio yoga

Yoga is all about balance, strength, and flexibility. Devotees believe that yoga doesn't just strengthen your body, it soothes your mind and can lead to a sense of calm and serenity.

In many ways, investing is similar. Through diversification, rebalancing, and tax planning, your investments can work together to achieve balance, strength, and flexibility.

MASTER YOUR CHAKRAS FOR BALANCE

Chakras are energy points on your body. In your portfolio, they're akin to your various accounts and holdings. Achieving and maintaining appropriate diversification among them is what gives your portfolio balance.

We work continuously to help ensure that your investment holdings, including your registered and non-registered portfolios and your spouse's assets, have the desired balance of equities, fixed income, and security. We want to avoid overlap and duplication within and between your portfolios.

Duplication can hamper your long-term growth and leave you, as a household, vulnerable to turbulent stocks or sectors. Just because you and your spouse don't hold the same funds doesn't mean you're not well diversified. For example, you might be holding the X&Y Canadian Equity Fund and your spouse might have the A&B Canadian Growth Fund. But it's possible that those funds hold very similar securities.

Reviewing your portfolios and investment approach as a whole helps us eliminate duplication, ensure proper diversification, and give your financial plan strength and balance.

CHANGING POSES

Just as yoga involves a series of postures to target different areas of the body, your portfolio can change to accommodate different objectives. Here are two situations that could mean it's time to rebalance.

Your target asset mix is out of line. Over time, as each asset class performs differently, your original mix may shift. To re-establish your preferred mix, together, we will review and potentially sell some of the higher-performing investments and buy more of the other asset classes.

Your time horizon is changing. As you get closer to retirement, you may want to increase the percentage of income-producing investments in your portfolio.

OHM, OHM, OHM

A yogic mantra is thought to be the sound of the universe and invokes harmony between the mind, body, and spirit. You may find it helpful anytime you're dealing with the issue of tax-efficiency.

Outside of your registered plans, bonds and interest-bearing investments are taxed at your highest marginal rate. In many cases, it's preferable to hold the bulk of these investments inside your Registered Retirement Savings Plan (RRSP), where the tax can be deferred, or in a Tax-Free Savings Account (TFSA), where investments grow without incurring tax. This is also true of foreign stocks and bonds which don't enjoy the tax-preferred treatment of their Canadian counterparts.

Your non-registered portfolio, on the other hand, may be better for holding equities, which typically pay out tax-friendly dividends and capital gains.

NEXT STEP: Get in touch with us if you'd like to review your portfolio and that of your spouse for balance, strength, and flexibility. Namaste!

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