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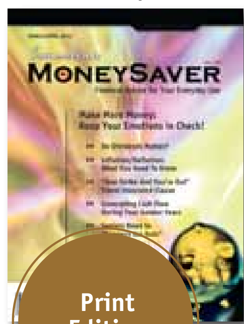

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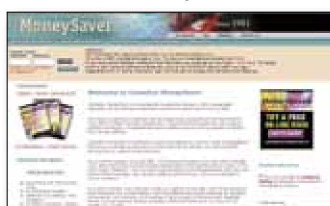

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I just wanted to compliment you on the excellent job you have done in compiling the archives of your previous MoneySaver articles. I find the abstracts to be particularly useful in trolling for good investing insights. The archives also let me get a sense of history (given that they are dated) and help me see what principles truly survive over time." **Jim Cummings, West Vancouver, BC**

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Canada

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You may join any of the listed ShareClubs by contacting your local volunteer. Like-minded members get together to share financial information. No cost. No obligation. Just an inquiring mind.

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Sharing With You

We have never—in our entire career—seen a study that shows it is better to start investing later in life.

Everyone knows, or at least should know, that the earlier you start investing, the better. As the saying goes: "Time in the market is so much better than timing the market". Compound investing really works if you give it enough time.

The richest investors—such as Warren Buffett—are those that have been investing for 30, 40 or 50 years.

That being said, in your *MoneySaver* this month we have a number of articles designed for younger readers. Lend your *MoneySaver* out to your children or grand-children to get them learning about investing as early as possible. Knowledge is empowering. Sure the markets have been weak—but if you are actively investing for the long term then you should actually prefer weak markets. That's a tough concept to grasp, but can't be disputed.

Make sure your kids and grandkids have an RESP. It is a great vehicle for saving for education, and it is the closest thing to getting 'free money' from the government as you can get.

Staying with our theme, *MoneySaver* now has a

Facebook page. It can be found at http://www.facebook.com/pages/Canadian-Money-Saver/239193689507527

We will post money links and article briefs there, and hope to grow its Membership over time.

Betty and Dale have also informed us that our Piggy Bank logo has never had a name. See page 5 as we think our logo—which we love—should be named. We are giving out a free two-year *MoneySaver* print and online membership as well as a Membership to 5i Research to one Member who helps us select a name. The winner will be chosen at random from those that select the winning name.

Peter

Peter Hodson

BREAKINGNEWS

In this column we list recent news, events, dividend income news and any other relevant information for *MoneySavers*. News items are those received after our last publication date.

- **Watch Out! Higher Interest Rates Are On Their Way Soon.** Money Tip article on page 7 in this issue of your *MoneySaver* is a must-read.
- **Pembina Pipeline** (PPL) increased its dividend to $0.135 from $0.13. This was announced earlier but is now official.
- **Carfinco** (CFN), a company followed by 5i Research, raised its dividend by 17%. 5i selected this name in the National Post stock market challenge.
- **Dollarama** (DOL) boosts dividend 22%; the stock is up 64% in the past year. The yield is a slim 0.85% though.
- **Primary Corp** (PYC) suspends dividends; reviews corporate structure. Doing a Dutch Auction buyback instead.
- **Colabor Group (GCL)** cuts dividend from $0.27 to $0.18. Yield still 10% but caution is advised.
- **CWC Well Services** (**CWC Venture**) declares first-ever dividend. Yield 17% but it is a cyclical industry. More caution.
- **Canelson (CDI)** declares $0.05 quarterly dividend, its first ever. 4.4% yield.
- **Molycorp** to buy **Neo Materials** (NEM). Announced premium 40% cash and shares.
- **Canadian Natural Resources** (CNQ) boosts dividend 16%
- **Enghouse** (ESL) raises dividend 30%; Yield now 1.9%
- **First Uranium** (FIU). Stopped paying interest on debentures. Stock now 15 cents. It IPO in 2006 at $7 was led by RBC DS
- Making a statement! **Canyon Services Group** (FRC) increased their quarterly dividend by 140%. That is not a typo. Yield is 5.4%, but remember it is a highly-cyclical industry in which it operates.
- **Wajax** (WJX) boosts dividend to 27 cents a quarter, a 35% increase. The stock yields 6.8% now.
- **Scotiabank** (BNS) boosted its dividend by 3 cents, (6%). This is the second bump in less than a year. BNS stock is up 110% from the depths of financial crisis in March, 2009.
- **Aecon** (ARE) increased its dividend 40%.
- **Major Drilling** (MDI) boosts dividend by 12.5%
- **Royal Bank** (RY) boosts dividend 5.6%. Looks like the financial crisis may be over.
- **TD Bank** (TD) boosts dividend 5.8%
- **Cargojet** (CJT) raises dividend 5%, yield now 6.9%

The *"Name That Piggy Bank"* Contest!

MoneySaver has used our piggy bank logo on and off for years. We even trademarked the logo years ago. But alas, it has never had an official name! We want to change that soon, so we are running a naming contest. Since we've got plenty of focus on young investors in this issue, maybe you can get your young children and grandchildren involved. What a great way to introduce them to investing!

So, we are asking your help to help us name the *Canadian MoneySaver* piggy bank! If we pick your name for our logo, you will be entered into a draw to receive a **FREE 2-year print and online membership** to ***Canadian MoneySaver*** as well as a **FREE 1-year online membership to 5i Research Inc**, www.5iresearch.ca. — a $182.78 value!

Email your suggestions to **moneyinfo@canadianmoneysaver.ca**

Contest ends August 1, 2012.

Two Widows, Two Portfolios And 50 Years Of Inflation

Alan MacDonald

I've been in this business for nearly 27 years. During the course of my career, I've had the pleasure of meeting thousands of investors, each of whom had a unique story to tell.

I'd like to take a few moments to tell about just two of the more fascinating people I've met over the years. Both have now passed away. But their lives can offer us all a profound lesson about investing, the power of inflation, and the true cost of fear.

As chance would have it, both of these two unrelated people were widows. In each case, their husbands were men of means who had left them relatively early in their lives, but with significant sums of money.

By another odd coincidence, the amount they inherited was almost exactly the same: about $300,000. Now, $300,000 may not sound like a vast sum today. But 50 years ago, it was a fortune, worth more than $2-million in today's dollars.

I met both of these women fairly late in their lives. As I soon discovered, despite the similarities between them, they had made very different decisions about what to do with their money. As a result, they were now leading very different lives.

The first woman had invested her savings in a combination of savings bonds and GICs. This was a careful, reasoned decision she had made with her husband, who told her that if he were to pass away, she should avoid taking any foolish risks with her money. Instead, she should invest it all in only the safest of guaranteed investments. That way, he promised her, the money would last, and she would be well taken care of her entire life.

Unfortunately, this lovely lady followed her husband's well-meaning advice to the letter. As a result, by the time I met her many years later, her fortune had dwindled to almost nothing, and she was living on only the 3% interest from her Canada Savings Bonds and a tiny old age pension.

Her words to me were: "I have no idea what happened. I once had a lot of money, and now my money doesn't seem to be worth anything."

The thieves that robbed her of her life savings were time and inflation. By letting her money sit in "guaranteed" investments that paid only a few per cent in interest each year, she had allowed inflation to eat away more than 80% of its value.

She learned too late a lesson that all investors should be aware of: inflation is the enemy of all those who allow their fear of risk to push them into taking too "safe" an approach. And as this woman found out the hard way, it's an enemy that always wins.

Compared to the wild ups and downs of the stock market, inflation is more like a war of attrition. We may not feel the cuts and bruises as they happen. In fact, it's much more comfortable to see your capital stay safely intact rather than fluctuate up and down on a yearly, monthly or even weekly basis.

But given enough time, inflation can wear down even the largest fortune. And by the time we realize what's happening, the damage may already be too great.

The second lady I want to tell you about had a very different experience. When her husband passed away, she bought an assortment of blue chip stocks. Then, she simply sat on them, somehow finding the strength to resist every new trend or frenzied media prediction about the next sure-fire money-maker or world-ending disaster.

Imagine how difficult it must have been at times, to hold onto her portfolio straight through the Cuban Mis-

sile Crisis, the Vietnam War, Watergate, hyper inflation, countless recessions, the default of South American governments on their debts, and on and on. But hold on is exactly what she did, and for 50 years, she stayed invested in that same, balanced portfolio of stocks.

When I met this woman, she had most of the same stocks she had started out with half a century earlier. Only now, her portfolio was worth about $2.5 million, and paid dividends of $75,000 a year. She didn't think there was anything particularly extraordinary about either her results or what she'd done. She assumed it was just common sense, and figured that everyone else must be doing the same thing she did.

These two investors started in the same place. What's most remarkable about their stories is that neither was conscious of the monumental difference that their initial choices would make over the course of their lives.

One investor lost everything she had, slowly over time, to inflation. In the end, her house was gone, she could no longer afford to keep her car, and her once gracious lifestyle was transformed into a daily struggle to survive.

The other investor hadn't really noticed much of a change in things. Everything cost more, but her income and capital had grown in a similar proportion. Her lifestyle had hardly changed at all, or if anything, it had slightly improved.

As I reflect on these two lives, I realize that it was never about which course kept one investor or the other out of the fight. It will always be a struggle to get through your investing life and stay true to what you know is the right decision. Whichever path you take will result in challenges of one kind or another. The question is which fight actually gives you a real chance of winning.

My wish to investors is that they choose to face the slings and arrows of the market, and hold fast against all the too-familiar forecasts of doom and gloom. Then, 30 or 40 years from now, maybe they, too, will be fortunate enough to notice that their lifestyle hasn't changed much, either.

Alan MacDonald is an Investment Advisor with Richardson GMP Limited. For more information visit www.alanmacdonald.ca

MoneyTip

Watch Out!
Higher Interest Rates Are On Their Way Soon

Following clear signals from the Bank of Canada that it may not leave its overnight rate at 1.0 per cent for very much longer, BMO Economics has brought forward its prediction for the first rate hike to January 2013 instead of the third quarter of next year.

"The Bank of Canada's Statement this morning (April 17, 2012) is every bit as hawkish as many expected, and then some," said Doug Porter, Deputy Chief Economist, BMO Capital Markets. "The Bank is clearly uncomfortable with keeping interest rates below inflation when household debt continues to grind higher, and with the economy poised to reach capacity by early next year. At a minimum, the Bank will be raising rates before the economy reaches full potential, sometime in the first half of next year."

Mr. Porter concluded that if the global backdrop cooperates, the Bank will be moving even sooner than 2013, given their revised outlook for inflation and the output gap.

Furthermore, while BMO Economics has supported choosing variable rates over the past few years, their view has changed based on current offers on long-term mortgage rates and interest rate increases coming earlier than previously expected.

"Our interest rate outlook now projects that fixed mortgage rates will trump variable. While the decision ultimately depends on the individual, the low rate combined with a shorter 25-year amortization will significantly strengthen household financial stability," according to a report penned by Mr. Porter and Benjamin Reitzes, Senior Economist, BMO Capital Markets. "For those who are without financial flexibility and would run into difficulty from a pronounced upswing in interest rates, the potential extra cost for the protection of household finances now appears to be a price well worth paying."

Take Stock Of Your Bond Portfolio:

'Deconstructing A Bond Portfolio To Provide Equity Exposure'

Bruce Campbell

After the market crash in 2008, a large number of investors moved to the sidelines, either sitting in cash or buying fixed income products. Four years later and ever so slowly, we are starting to see a resolution to the sovereign debt crisis in Europe, evidence of a soft (rather than hard) landing in China and an increasing stream of positive economic news from the US. Those same investors are now asking how to best 'deconstruct' their bond portfolio to provide equity exposure.

By way of an example, we will use a 70 year-old investor who owns 100% Canadian treasury bonds. Today, the 2-year, 5-year and 10-year Canadian treasury bonds yield 1.02%, 1.34% and 1.97% respectively. The consensus estimate of inflation is 2.0% which means that our investor is receiving a negative return on his portfolio. What are the best steps to increase the yield, introduce a growth component but keep the risk profile and hence volatility low? Our investor needs to take three steps: 1) modify his asset mix, 2) add some quality equity exposure, and 3) tweak his fixed income mix.

STEP 1: Asset Mix

We discussed appropriate asset mixes in a previous article so it should suffice to quickly summarize. The 'Old' rule of thumb states your fixed income weight should equal your age and the 'New' rule of thumb states you should multiple your age by itself. In this case, our investor currently has 100% fixed income but the 'Old' rule indicates he should hold 70% and the new rule indicates he should have 50% (70 x 0.70). One needs to look at your investment objectives and risk tolerances in conjunction with these rules to determine what is appropriate for you. As this individual elected for 100% fixed income over the recent market period, it implies his risk tolerance is low so 70% is probably more appropriate than 50%.

STEP 2: Equity Exposure

The best way for our investor to obtain exposure to equities is to target boring highly regulated industries. Four very good examples of these industries are: Financials (Banks), Financials (Real Estate), Telecommunication Services and Oil & Gas Storage & Transportation. Within each of these sectors, a safe strategy is to target the respective industry leaders that have solid managements, good growth prospects and pay a healthy dividend. In this case, we would specifically recommend buying Banks (Royal Bank, Bank of Nova Scotia), REITs (RioCan), Telecom (BCE , Telus) and Pipelines (Enbridge, TransCanada). Do not purchase stocks from only one industry but diversify by buying one or two from each group.

In our example, let's assume that our investor elects to buy one position in each of the four regulated industries identified above: Bank of Nova Scotia, RioCan, BCE and Enbridge. In this case, he elected to buy Bank of Nova Scotia rather than Royal Bank due to their better international growth prospects but he still has an opportunity to invest in Royal. This is a natural segue to our third and last step: tweaking his fixed income mix.

STEP 3: Fixed Income Mix

One way our investor can increase the yield on his Canadian treasury bond portfolio is to increase the duration as the 10-year bonds have higher yields than the 2-year bonds. However, you are increasing the interest rate risk – bonds go down when interest rates go up – and the yield is still less than inflation. A second option is to replace the treasuries with provincial bonds which will give you a 30 to 50 basis point lift on yield ... still anemic. A better option yet is to add investment grade corporate bonds.

Let's go back to our Royal Bank example. As our investor elected to buy TD Bank stock, he currently does not have

exposure to Royal so he could look at purchasing one of their bonds. Royal has a DBRS rating of 'A' (highest) and is therefore investment grade. A 5-year Royal Bank bond yields approximately 2.4% today which is 1.0%+ greater than an equivalent duration treasury bond and 50 to 70 bps greater than an equivalent duration provincial bond.

It is important to note that all of the companies listed in this article either have bond issues, preferred share offerings or both. In addition to the Royal Bank bond, Royal has seventeen different preferred share offerings. The Royal Bank equity has a 4.0% yield while the preferred shares have yields ranging from 4.3% to 5.8% depending upon the type and duration of the preferred share. Preferred shares tend to have a higher yield than the common equity because they are non-voting and have no upside. By switching a few of the treasury bonds for corporate bonds and preferred shares, our investor can dramatically improve the yield on the fixed income component of his portfolio.

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MoneyTip

New OAS age rules makes proper retirement planning even more important

Many Canadians now aged 45 to 54, the first age group to be affected by the increase in the eligible age to receive the old age supplement to 67 from 65, were already planning on working past age 65, according to CIBC polls conducted by Harris/Decima last year.

The findings suggest the proposed changes won't cause most Canadians to rewrite their retirement strategies, but that they may need to revisit their savings and debt management, with some already expecting to carry debt into retirement.

Consumer polling conducted in late 2011 provided a number of insights about Canadians in the 45-54 age group, including the fact that the average target retirement age for these Canadians is 63, with more than two-thirds planning to stay engaged in the workforce after they retire by taking on part time work (43%) or by doing occasional consulting (22%) to supplement income.

Looking ahead to their sources of income in retirement, 30% already planned to rely primarily on their own savings, while 25% believed government payments would be a key source of income. An additional 25% named private pensions as their primary source of income.

A quarter (26%) of this group expected to carry debt into retirement, with 17% of Canadians between 45 and 54 saying they would still have a mortgage payment to consider.

"Most Canadians aged 45 to 54 are not likely to require major alterations to their retirement plan based on the recently announced changes to OAS," said Jamie Golombek, managing director of tax and estate planning, CIBC. "However, for those who expect to carry debt into retirement, it is another reason to revisit their savings and debt management plans in these critical years before retirement."

He adds, "Good debt management is particularly important, as repaying debt in retirement creates a drag on your discretionary income."

School's Out For The Summer;

Budget Classes Should Begin

Jeffrey Schwartz

Students must find well-paying summer positions and learn budgeting techniques to be able to afford their 2012/13 tuition.

School will be winding down soon for the summer and for many students it means working frantically full-time to earn enough for next-year's tuition.

According to Statistics Canada, full-time students in undergraduate programs paid on average $5,138 in tuition fees in 2010/2011 (4% more) compared with $4,942 a year earlier. Ontario had the highest increase for the 2010/2011 school year at 5.4 per cent for a full-year tuition of $6,307. These figures do not take into account the cost of books, living expenses, transportation or food.

Students need well-paying summer positions to be able to afford a post-secondary education in Canada today. Equally as important, they need to understand how to budget their earnings and enjoy their summer while still saving enough to last for the school year. As parents, we don't want our children to mortgage their education by taking out loans or using lines of credit. Starting a working career with a large debt load is never an attractive proposition, especially if interest rates are set to rise.

Budgeting Works

First-year university students generally live on campus and participate in a meal plan. However that doesn't preclude them from eating out, frequenting the fast food restaurants or local coffee shops. These are the places where students are likely to spend the most cash, without thinking about their budget.

Students need to learn how to track expenses to see exactly where they are spending their money. Looking at it in black and white can be a real eye opener. It's the best way to determine if they are over-spending in one area and not saving enough for tuition.

Dividing spending into these three categories will help with the process:

- **Fixed – tuition, school fees, rent**
- **Flexible – cell phone, books, food or meal plan, utilities**
- **Fun – free time activities**

It is important to take a hard look at the flexible and fun areas for opportunities to reduce or eliminate expenses. Students can rent rather than buy textbooks from www.BookMob.ca and opt for a minimum meal plan where the money won't go to waste if they want to eat out occasionally.

Helpful Tools

There are a also number of free online tools available to today to help students on a budget manage their money.

- **Consolidated Credit booklet 'Budgeting 101: Your Money Guide for Getting Through School'**
- **Search the Internet for apps to download to track expenses**

Students are encouraged to research every possible avenue to acquire additional funding for their university education. Visit www.Studentawards.com. It's a free scholarship-matching service devoted to helping Canadian high school, college and university students by providing information about scholarships, bursaries, grants, fellowships and other forms of financial assistance.

Links mentioned in this article:
www.bookmob.ca
www.ConsolidatedCredit.ca
www.StudentAwards.com

Jeffrey Schwartz, Executive Director, Consolidated Credit Counseling Services of Canada, Inc, 1-800-656-4079, edu@consolidatedcredit.ca, www.consolidatedcredit.ca

Private Equity: The Big Deal

Ken Finkelstein

What is Private Equity? Simply put, private equity refers to money invested in a business not traded on a public stock exchange. In other words, the investor purchases ownership in a private business.

Accessing Private Equity

Unlike public markets that allow anyone with an investment advisor or an online account to play the game, private equity is a contact sport restricted to accredited investors such as pension funds, endowments, sovereign wealth funds, venture capital firms and angel investors. By contact sport, I mean that windows of opportunity open depending not only on how much you have but also whom you know.

Owing to capital requirements, traditional private equity investing happens in one of three ways:

• Direct Investment

For those with deep enough pockets, investments are made directly into a private enterprise. For example, in 1994, Ontario Teachers Pension Plan (OTPP) purchased a percentage ownership in Maple Leaf Sports and Entertainment (MLSE). Recently, OTPP executed an agreement to sell its current stake in MLSE to Bell Canada and Rogers Communications for $1.32 billion.

• Private Equity Fund Participation

A private equity fund is structured so that each investor becomes a Limited Partner (LP) in the fund rather than a direct investor in a private enterprise. The General Partner (GP) of the fund (commonly the fund manager, such as a venture capital firm) is responsible for managing capital and purchasing equity ownership in private enterprises. As well, the GP will often invest their own capital in the fund. Typically, the GP is compensated through management fees and a percentage share of profits. As for LPs, they earn a return on investment when the GP exits (i.e., cashes out) an investment. Common exit strategies include an initial public offering of the private enterprise, repurchase of invested equity by the private enterprise, merger or acquisition.

• Fund of Fund Participation

The investor purchases shares in a fund of funds. This means a private equity fund that invests in several other private equity funds. Commonly, investments are industry and geographically diversified. Not unlike mutual funds that invest in other mutual funds, the fund of funds strategy similarly subscribes to the theory that broad diversification limits downside risk.

Making the Case

Advocates point out that private equity investments are in it for the long term, staying with a company for anywhere between three and seven years, or longer. Contrasted with public companies beholden to quarterly reports and impatient shareholders, patient capital sets private companies apart, giving the advantage of a stable capital base more likely to generate growth.

Additional claims in favour of private equity rest on

(a) added value obtained by investors partnering with management to focus on key profit drivers (unlike a stock market investor, a deep pocketed direct investor or a GP of an equity fund is involved in company operations through ownership stakes, board representation and management appointments);

(b) maximum value derived from guidance and expertise provided to the private company by a direct investor or GP; and (c) the fact that private equity investment is a mainstay of public pension funds and endowments.

Specific to private equity funds and fund of funds, detractors, as expected, take issue. They claim that (a) Limited Partner investments are akin to borrowed money thus making the GP a highly leveraged investor; (b) excessive fees are charged by GPs; (c) the best performing funds and private equity firms are closed to most investors; and (d) private equity funds rely on past performance to attract new money despite past performance having little or no bearing on future performance.

Interestingly, the investment industry truism that today's top performing investment manager often falls to the bottom tomorrow appears not to hold weight for private equity managers: a 17 year study undertaken at the University of Chicago and published in the Journal of Finance concluded that outperforming GPs are more likely to outperform in successive funds while underperforming GPs are more likely to continue underperforming.

Alright then, on which side of the bench does the gavel strike? Most likely, somewhere down the middle. Both sides make valid claims but not all of these claims apply to all private equity investments. It goes without saying (but I'll say it anyway) that whatever kind of investment you make, whether in the private or public realm, you've got to do your homework before handing over your money.

What About Performance?

How does private equity investment stack up against its' public counterpart? According to the NASDAQ Composite Equity Index, from 1986 through 2006, private equity provided returns that were 3.7% (annualized) higher than public equity. From 2001-2011, the best performing University Endowment, Yale, saw returns of 10.2% on private equity and 7.6% on domestic (i.e., American) equities. Tellingly, in fiscal 2012, Yale will devote 34% of its almost $20 billion portfolio to private equity investments.

Crossing the border north, since 1991, OTPP boasts an average annual return of 18.5% (not a misprint) on its private equity investments. Another enormous pension plan, Canada Pension Plan Investment Board (CPPIB), the folks charged with making sure there's enough in the kitty to deliver CPP cheques today and for several decades to come, committed almost $36 billion, or more than 16% of its total portfolio to private equity investments at the end of 2011.

And OMERS Private Equity (i.e., managing the private equity investments of OMERS - Ontario Municipal Employees Retirement System) valued its' private equity portfolio at $6.3 billion or 11.4% of their total portfolio as of December 31, 2010. In 2011, returns of OMERS public market portfolio limped in at negative 0.22% while its' private market portfolio rang in returns of 8.20%. OMERS long-term goal? Achieve a mix of approximately 53% public and 47% private market investments.

Doors Closed to 99%?

What if you're part of the other 99%, your liquid asset balance isn't measured in seven digits or more, and your Facebook connections are only good for bulking up your friend collection rather than introducing you to investment opportunity?

Well, there are back and side entrances to private equity. The least expensive option is to invest in publicly listed private equity firms such as Onex Corp. (OCX:TSE) or The Blackstone Group (BX:NYSE) (full disclosure: I do not own shares in either of these companies). As a shareholder, you own part of the company and, potentially, you'll benefit through share appreciation if the private equity funds do well. You would not, however, directly participate in private equity fund successes as would an LP or GP.

Another option is purchasing private company shares through an intermediary facilitating auction of private buyer/seller transactions. Three such players in the United States include SharesPost, EB Financial and Felix Investments. Adopting the mantra, 'build it and they will come', these organizations claim to be doing a brisk business lately. Employees of Facebook, Twitter and other soon to be public companies are fueling the surge, cashing out at a guaranteed price while transferring stock market risk to buyers dreaming of an IPO smash.

But you may want to tamp down any excitement before jumping into the hoopla. In addition to all three companies recently settling charges brought by the SEC concerning improper business activity, they extract hefty commissions from both buyer and seller, and neither buyer nor seller disclose their identities until an agreement is signed. This makes undertaking comprehensive due diligence more than a bit tricky, especially since the

intermediary company expressly denies any liability concerning transactions.

Third, depending on the fund or fund of fund, you need not lay down seven, eight or nine figures; a high five or low six figure investment may grant you access. That said, many funds don't offer seats at the table unless you pony up $500,000 or more. The amount required depends on the particular fund.

So, lets say you have the money and you want to diversify your portfolio, devoting a portion to private equity. Well, the next step is connecting with suitable private equity funds and that could be a process in itself. Regarding Facebook, for example, even if you had heard of the social media juggernaut when it was little more than a university dorm project, odds are you weren't pals with Mark Zuckerberg and you probably didn't know anyone at Accel Partners, the first venture capital firm to take a flyer on Facebook, handing over $12.7 million in exchange for an equity stake now valued at approximately $9 billion. Granted, this example isn't representative of all private equity deals (stars seem to align only once every decade or so for monster opportunities). Still, this third option is viable. It's beyond the scope of this article to discuss in depth but, for starters, consider joining angel investor networks and begin expanding your connections in the investment universe.

Diversifying Beyond Public Markets

Of course, losing investments shy from publicity and the above examples may be the cream of the private equity crop. As well, like the whispering fine print in mutual fund advertisements say, past performance is no guarantee of future performance.

The reality is that, like any investment category, you'll find returns vary based on many variables including asset class, geography, industry and, importantly, investment manager. Still, based on the heady numbers quoted above, success of publicly traded private equity firms, the human drive and knack for continuing innovation, and for innovators to seek funding from people with money, private equity investments may be worth a look.

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MoneyTip

Careful With Your Resource Investments

The combination of U.S. and Chinese growth scares along with renewed sovereign debt risk in Europe has dented equity markets lately. Nobody should be surprised by this correction, writesCanaccord Wealth Management in its Morning Coffee newsletter.

However, the liquidation in the resource sector (i.e., energy and materials) is troubling and reminds Canaccord Genuity Portfolio Strategist Martin Roberge of the bifurcated nature of the S&P/TSX. If he breaks down the index between resource (energy and materials) and non-resource sectors, the former group is down 5.9% this year compared to +5.1% for the latter.

Unfortunately for Canadian investors, he believes a bifurcated market is likely to prevail for a while. Roberge sees the most likely environment as one where:

1) non-resource equities (55% of the index) stay in a bull market and these stocks represent core/strategic holdings in portfolios;

2) resource equities (45% of the index) stay in a bear market until China implements an aggressive policy easing which translates into a pick-up in production of capital-intensive commodities such as copper/iron ore.

Until then, shares in the energy and material sectors are tactical holdings which should be favoured when they are oversold and undervalued.

Group Education Savings Plan (a.k.a. Scholarship Plans)

Ken Kivenko

The Government of Canada encourages parents, friends, and family to save for a child's education after high school through Registered Education Savings Plans (RESPs) and the Canada Education Savings Program (CESP) — your savings grow tax-free until the child named in the plan enrols in their studies. The CESP includes the Canada Education Savings Grant (CESG); up to a lifetime limit of $7,200 can be directly deposited by the Federal Government into an RESP. The basic Canada Education Savings Grant (CESG) will top up your annual contribution by 20%, up to a maximum of $500 each year for each beneficiary. Additional CESG grants may be available, depending on your income. http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/resp-reee/cesp-pcee/csg-eng.html

Unlike Registered Retirement Savings Plans (RRSPs), you can't deduct RESP contributions from your taxes. In addition, you cannot deduct the interest you paid on money if you borrowed to contribute to an RESP.

There are two kinds of Registered Education Savings Plan (RESP) providers: financial institutions such as banks, credit unions and investment firms, and Group Scholarship Dealers (http://www.respdac.com/industry-info/ ; currently 4 members). You'll need a social insurance number (SIN) for yourself and each beneficiary to open a plan.

A registered education savings plan is a contract between an individual (the subscriber) and a person or organization (the promoter). Under the contract, the subscriber names one or more beneficiaries and agrees to make contributions for them, and the promoter agrees to pay educational assistance payments (EAPs) to the beneficiaries. The student includes the EAPs as income on his or her tax return for the year the student receives them.

Types of RESP's

There are three basic types of RESPs: Individual plans, family plans and Group plans, the focus of this article. Anyone can open an individual RESP and anyone can contribute to it. This includes parents, grandparents, aunts, uncles and friends. You can even contribute to an individual plan for yourself. A family RESP can have one or more beneficiaries, but each beneficiary must be related to the contributor and have a SIN. You can contribute to an RESP for up to 31 years, and the plan can remain open for a maximum of 35 years.

A Group Scholarship Plan (GSP) pools the contributions of many investors. Contributions are made according to a schedule and are used to buy plan units. The date the plan matures is set at the time of enrolment and is based on the child's birth date. A GSP may be appropriate for those who can commit to a regular savings program, stay with that savings program until their child is ready for post-secondary education and have a low tolerance for investment risk.

When the plan matures, the beneficiary usually shares in the pooled earnings of investors with children the same age. If your child does not begin post -secondary studies at the same time as the rest of the group, the earnings you receive from the plan may be affected. If you drop out of the plan before it matures, you forfeit some or all of your earnings to the group. If you miss a contribution to a Group plan, your account may go into default and your plan may be terminated. If you are allowed to stay in the plan, you may have to pay extra fees and interest on the missed payment.

The Group RESP industry in Canada represents over $8.5 billion in assets under management, roughly one-third of all the funds invested in RESP's. RESPDAC

states that nearly 90,000 new plans were established in the 12 month period ending Oct. 31, 2011, bringing the total number of group plans currently managed by these companies to just over 1.4 million.

Misunderstanding and unsuitable investments are the two main causes of investor complaints. The unsuitable sales could be a result of a conflict-of-interest from lucrative sales commission incentives. These commissions might motivate some salespersons to promote a GSP even to those unlikely to maintain contributions over the contracted time horizon. According to a HRSDC report July 24, 2008 Human Resources and Skills Development Canada (HRSDC) Report on RESP's http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/2008/industry_practices/page08.shtml, 3.2% of group RESP plans were canceled or terminated in 2006.Quoting from the HRSDC Report -: "When the group scholarship provider closes a group plan, the subscriber can reclaim the contributions, and these are then returned net of fees and without the investment income. Closing also means the grant and bond are repaid to the government, and these cannot be earned back later if new contributions are made for the same beneficiary." OSC's Brochure Saving for Your Child's Education http://www.osc.gov.on.ca/documents/en/Investors/res_resp_en.pdf provides an excellent overview of various types of RESP's. Check out http://www.canlearn.ca/eng/saving/resp/provider.shtml for tips that will help you choose a RESPs Provider.

What fees are involved with a GSP?

Fees include

(a) enrolment fees (upfront sales charge)

(b) administration fees

(c) investment management fees

(d) depository fees

(e) trustee fees

(f) custodian fees and applicable taxes

These fees alone (excluding the enrolment fee) add up to more than 0.60% of total assets. Some fees are deducted from your early contributions, which decreases the earning power of your initial investment. According to media reports, Scholarship plans are heavily promoted and aggressively sold. Dealers may also employ agents to sell their products. Someone, namely you, has to pay for this distribution network.

In a typical plan, you'll pay an enrolment fee of $200 per unit. If you enrol your child in a group plan, you are agreeing to invest something like $100 for each unit every year. In some provinces, HST applies. The enrolment fee may be refunded to you, in portion or in full, when your child becomes a student in a qualified course of study at a qualified institution. Note that you won't receive any earnings on your enrolment fee and its inflation-adjusted value after 15 or 20 years is severely degraded.

How are Group Education Savings Plans regulated?

The Canadian Securities Administrators (the CSA) regulate scholarship plans directly -there is no Self-Regulating Organization equivalent of the MFDA or IIROC. Scholarship plans are investment funds under securities law. In terms of the regulatory regime applicable to scholarship plans, broadly speaking, the CSA uses a number of regulatory tools to regulate these products, including prospectus reviews, National Policy Statement 15 Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses, continuous disclosure reviews, on-site compliance reviews of scholarship plan dealers (see http://www.osc.gov.on.ca/documents/en/Securities-Category3/cmr_20040714_33-725_spd-ind-rpt.pdf) etc. For an offering to the public, scholarship plans currently file a prospectus using Form 41-101F2 of NI 41-101 General Prospectus Requirements. Regulators proposed amendments to NI 41-101 published in November 2011 aiming to create a new prospectus form tailored to reflect the unique features of scholarship plans (in particular, Group scholarship plans). As investment funds, scholarship plans are required to follow National Instrument NI 81-106 Investment Fund Continuous Disclosure for continuous disclosure purposes. As well, they are subject to NI 81-107 Independent Review Committee for Investment Funds to deal with conflicts-of-interest. Additionally, as a scholarship plan is an investment fund, the manager of a scholarship plan is required to be registered in the "investment fund manager" category under National Instrument NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Industry lobbyist, the RESP Dealers Association of Canada (RESPDAC) has developed a Sales Representative Proficiency course as the initial training and proficiency requirement for new sales representatives. This course has been accepted by the CSA members as the educational prerequisite to licensing as a sales representative for a scholarship plan dealer. The CSA regulates salespersons who sell GSPs. A scholarship plan dealer and its

salespersons must be registered in the scholarship plan dealer category and the dealing representative - scholarship plan dealer category, respectively, in order to sell scholarship plans (see NI 31-103 for the registration requirements).

A Know-Your-Client-suitability regime per NI31-103 also applies to the sale of GSP's.

How do GSP plans work?

As previously noted, in a Group Scholarship Plan, everyone's contributions are invested together and invested in fixed income instruments aiming to provide a stable return. When the plan matures, each child in the group shares in the earnings on that money. Your share of those earnings plus your grant money is paid to your child as educational assistance payments (EAPs).

There are two main exceptions. Your child will not receive EAPs, and you will lose your earnings and government grant incentives if you do not exercise your option to move to the Individual or Family Savings Plan and if

- **Your child does not enrol in a school or program that qualifies under the plan, or**
- **You cancel your plan before it matures**

The amount of EAPs from a group plan will depend upon how much the plan earned and the number of beneficiaries within the group who qualify for payments. For a detailed explanation of how a GSP works, you need to refer to the plan's prospectus (In my opinion, the rules, jargon and contractual language are really beyond an average person's understanding - people misunderstand what it is they're signing up for).

What qualifies?

Per RESP legislation, a qualifying educational program is an educational program at post-secondary school level, that lasts at least three consecutive weeks, and that requires a student to spend no less than 10 hours per week on courses or work in the program. However, apprenticeships, part-time studies and co-operative studies may not qualify under more some restrictive GSP plan rules. You must meet the plan's requirements to collect EAPs

What are the benefits of a Group RESP?

First off, monthly contributions provide a low entry barrier. You also benefit from active- management of the pooled funds just like a mutual fund. The earnings on the investment accumulate tax-deferred; they are shared by students who become eligible to receive payments. If the earnings boost from forfeited income were much larger than the total fees, you would benefit from a Group RESP due to the misfortune of those who were unable to continue the plan. Some investors may appreciate the forced savings schedule and discipline these plans demand. NOTE: You have up to 60 days after signing your contract to withdraw from the plan. You will get back all of your money without deduction of any fees. Any government incentives paid into your plan will be repaid to the government as required by law.

What are the risks of scholarship plans?

As with all such schemes, fees are an issue. For fixed income investments, portfolio management fees are of particular importance since long-term returns are lower than for equities. Limitations on flexibility also need to be understood. If cash is tight (unemployment or unexpected expense), your flexibility is limited if you originally signed up for a regular contribution schedule. Besides the possibility of investment losses, there are five things that could result in a loss:

1 You cancel the plan before the maturity year. If you cancel your plan more than 60 days after signing your contract, you'll lose part of your contributions to sales charges and fees. If you leave the plan before it matures, you will get back your contributions less fees and the earnings on your government incentives. You will not get back the earnings on your contributions. Your CESG incentives/grants will be returned to the government. Note: beneficiaries will not receive the maximum EAP payout if they enrol in a program that is not of sufficient duration -you'll likely derive full benefit from the plan only if your child attends a four-year degree program.

2 You miss scheduled contributions. If you want to stay in the plan, you'll have to make up the contributions. You'll also have to make up what the contributions would have earned if you had made them on time. If you have difficulty making contributions, you may have options. You can reduce or suspend your contributions, transfer to another RESP or close your plan. Certain conditions and fees apply. Some options will result in a loss of earnings and incentives/grants. Generally, if you miss a contribution and don't take any action within 24 months, the dealer may cancel your plan.

3 You or your child misses a deadline. This can limit your options later on. You could also lose the earnings on your investment. The two key deadlines for this plan are:

a. Maturity year for making changes: You have until the maturity year to make changes to your plan. This includes switching a child, transferring to another RESP. Restrictions and fees apply and changing the maturity year if your child wants to start their program sooner or later than expected.

b. August 1 for EAPs (typically): If your child qualifies for an EAP, they must apply by August 1 before their second, third and fourth years of eligible studies to receive a payment for that year. Otherwise, your child may lose this money in some plans.

4 Your child doesn't go to a qualifying school or program. There are a number of options if the beneficiary does not proceed to post-secondary studies:

(a) You can cancel the plan, and the money you've contributed will be returned to you, less any fees that were payable;

(b) You can transfer the plan to another beneficiary or

(c) Depending on the type of plan you have, you may be able to take the interest earned on your plan as taxable income, or transfer it to a Registered Retirement Savings Plan (RRSP). Again, restrictions and fees apply so read the prospectus carefully.

5 Your child doesn't complete the program. Your child may lose some (if you cancel your plan within a short time of setting it up, you could lose it all) of their EAPs if they become ill, don't complete all required courses in a year or change programs. Your child may be able to defer an EAP -. Deferrals are usually at the dealer's sole discretion.

Are there any guarantees?

Investments in Group Scholarship Plans are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer. Unlike stock and mutual fund dealers, Scholarship Plan dealers are not insured against insolvency by any Government or industry investor protection fund like IIROC's CIPF (www.cipf.ca).

Dispute resolution

Your options if you have lost money in a scholarship plan because of an error, disagreement or possible misconduct are described at. http://jointforum.ca/en/compensation/page7.html Participation in the Ombudsman for Banking Services and Investments (OBSI www.obsi.ca) is not mandatory for Plan dealers as it is for brokers and mutual fund dealers. RESPDAC member dealers have however voluntarily agreed to be participants in OBSI. A dealer could leave at will with minimum notice. In fact, OBSI confirms that a GSP dealer resigned when they resigned from RESPDAC.

Bottom line

While generally similar, GSP's from different providers have different features, restrictions, costs and benefits. Like mutual funds, GSP prospectuses are not an easy read. Flexibility constraints and fees should be well understood before investing. If you do decide to sign a long-term contract, shop around and ask these questions:

What fees am I expected to pay?

When do I have to pay them? What if I become unemployed, ill or pass away?

What kinds of institutions and post-secondary programs qualify? What doesn't qualify?

How will I know how my investments are performing?

What is the range of returns I can expect?

When and how will payments be made from the plan?

What happens if my child / beneficiary does not go on to post-secondary education?

Can I transfer the GSP to another plan or to other beneficiaries? Or to another dealer? Associated fees?

What happens if I want to cancel the plan? How easy is it to get my money out? Will I forfeit my earnings?

What happens if you go bankrupt?

How are complaints handled?

Before you sign any contract, read 10 Things you need to know http://www.fcac-acfc.gc.ca/eng/resources/publications/rightrespons/PDFs/TSContracts-eng.pdf

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Creative Destruction:

Why "Holding Forever" Needs To Be An Act Of Commission Not Omission

David Ensor

One of Warren Buffett's legendary responses to the question about what he considered an appropriate holding period for a high quality stock was: "forever", the antithesis of the rampant churning that goes on in so many investors' portfolios, usually to their detriment in terms of costs, tax consequences and net returns. *[Disclosure, I own some Berkshire Hathaway Class B stock—and have done so for many years.]*

However, the recent bankruptcy filing of the formerly iconic Eastman Kodak (founded in 1880, but a mere stripling besides the Bay, or paper-maker Stora Enso, which dates back to 1288) demonstrates that Schumpeter's "creative destruction" is a continuing force in any society which is based on at least a modicum of capitalism, whether in a truly "free" market or a managed economy.

Now, a *MoneySaver* reader might reasonably state: "But Kodak survived for well over a century". Indeed it did, but it was a dying company for several decades, living on the "cash cow" of its film business, while rivals adapted to the modern, digital world (with Kodak, ironically, having built the first digital camera in 1975!) Contrast its management's seemingly complacent and then panicked attitude with that of Intel ("only the paranoid survive"), which recognizes that only constant improvement and adaptation can create value in most businesses.

Balance "Churn" With Common Sense

The basic point which I am trying make here is that there is always going to be a balance for those who manage their portfolios actively between avoiding unnecessary "churn" and becoming too wedded to continuing to hold a particular stock.

In reality, owing to Humanity's endless ability to invent, develop and improve, the concept of any business or company having a permanent advantage in terms of demand for its products, whether tangible or intangible, is generally an illusion. Of course, businesses can and do survive for generations (a speciality in Japan, where there is a debate as to whether the oldest surviving business dates back to AD 705 or 587!); but, over time, they have a tendency to underperform against their competitors. Reversion to the mean is an axiom not just of stock markets, but of many if not most areas of life.

So, how do we deal with deciding whether to continue to hold a stock (or a bond for that matter), or sell it?

I think there are some basic steps that make sense:

i) Having a portfolio which is manageable in terms of the number of holdings to be monitored. That is a matter of individual choice, dedication and capacity (leaving aside issues such as how many holdings are properly needed to diversify risk);

ii) Deciding how frequently and in how much depth you are comfortable reviewing your holdings;

iii) Monitoring the relative and absolute price performance of each component, looking at the trend and whether or not the stock may have been re-rated by the market, for better or worse;

iv) Determining whether or not you wish to rebalance your portfolio periodically, so that certain holdings do not become disproportionate in terms of their size and potential impact. This is a difficult discipline to adhere to and needs to be set against the consideration of "letting your winners run, and cutting your losses";

v) Deciding whether there are better alternatives to any stock that is a candidate for a sale; and;

vi) Consciously deciding to sell and replace a holding- commission, not omission.

So, you may reasonably ask: "But how do I know which signals matter in making such a decision?"

If we all knew how to time such decisions to perfection, we'd all be "above average", which is a logical nonsense; and why many of us are better off sticking with a portfolio of low-cost, index funds which have a history of adhering closely to the relevant index!

For those who wish to take a more active approach to portfolio management, here are some suggestions, which are really common sense when all is said and done:

i) Do the reasons why you bought the stock still have validity?

ii) Does the underlying business still have a competitive advantage, or at least retain a defensible position?

iii) What is the quality of management? What is its attitude to corporate governance and shareholder value?

iv) Are the business' financial characteristics substantially unchanged, or have the changed materially? This can be difficult to monitor because of the games company CFOs play to mask reality in financial reporting;

v) Has the business mix changed? If so, why and how. What reasons did management give? Do they make sense, or could they be examples of management hubris and self-delusion?

vi) Has the business become unduly vulnerable to any particular risk- e.g., a patent expiry; the loss of a key client or supplier; a change in regulation? Consider the debate going on in many industries about the impact of the Internet;

vii) What is the outlook for demand for its product(s)? Can the company set its prices, or does it have to accept what the market will offer?

viii) Is it vulnerable to a disruptive technology- see VI) above?

ix) Have there been significant changes in the ranks of senior executives or Board members? How much do they themselves have at risk in the success of the business? And;

x) If the business is in a regulated industry, are there changes that have had or could have a negative impact, or even a positive one? How vulnerable is it to political whim or crowd delusion- consider the varying views of genetically modified (GMO) seeds, crops and products. Is it an essential service?

I could continue to expand the list, but the key point is really the first- namely, to judge whether or not the reasons why you bought the stock originally still pertain. If they do, all well and good; if not, then consider selling and re-investing in the next candidate on your list of potential purchases. Do not "fall in love" with the stock!

"Forever" is a long time; and business life cycles, especially in manufacturing and technology-based industries are likely to continue to shorten. Consider whether Groupon truly has a defensible business, or how long Facebook, Apple or Google will continue to dominate their key business segments. That is not a reason to avoid buying those stocks, if you are comfortable that you understand the businesses and are comfortable with the risks, but they are hardly likely to be stocks that can be held "forever" without a constant re-assessment of whether you are justified in continuing to hold them.

To sum up, an active approach to investment has to be based fundamentally on a conscious, iterative, disciplined approach. Acts of commission, not omission!

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Be a True Money Saver!
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Avoiding Behavioural Biases In Personal Investments

Mario Mainelli

Modern capital markets have become both increasingly complex and competitive. They seem to thrive on the ignorance and impatience of investors. We, as investors, have a constant array of data available at the click of a mouse. If I am researching Colgate-Palmolive for example, I can have Colgate's financial statements, analyst ratings, and financial ratios pulled up within a few minutes. Ah, the Internet is a beautiful thing, isn't it? It certainly is; however, this barrage of information comes at a cost. Investors, when faced with a vast array of information, tend to exhibit behavioural biases, which lead to less-than-rational decisions.

Continuing the example above, assume I have gathered a significant amount of research information on Colgate and I am ready to begin processing this information. Traditional finance theory states that I will have gathered all of the relevant information, processed in the most efficient manner possible, and come up with a rational valuation of the company. This information will be used to make a utility (or profit) maximizing decision. Behavioural finance, on the other hand, recognizes that investors may not have all relevant information, may not properly process the information that they do have, and may exhibit psychological biases when making an investment decision. The result is a less-than-optimal investment decision.

In this article, we'll go over what I feel are the most frequently occurring and damaging behavioural biases displayed by investors. I would also like to discuss some ways you can remove or lessen their effects to improve your own investment returns.

Confirmation Bias

Investors displaying confirmation bias will look only at information that confirms their belief and ignore information that contradicts it. This can lead to investor overconfidence, and in some situations, an under-diversified portfolio. Let's say I have my heart set on purchasing shares of UBS and decide to take a look at their fourth quarter statement. Displaying a confirmation bias, I would focus on the only the positives. In this case, UBS increased their book value per share and decreased their operating expenses from the previous quarter. I would be quick to dismiss the fact that their operating income and return on equity has decreased, not to mention their faulty internal controls as evidenced by the recent $2 billion rogue trading scandal. This could result in an unjustified purchase decision.

This may seem like an easy thing to overcome, but can be especially difficult if it is concerning a stock already owned. You may be more likely to ignore negative information on a stock you own because you don't want to go through the motions of selling the stock and paying the transaction fees or because you simply refuse to believe you may have made a bad purchase. A simple way to remedy this bias is to always gather as much information as possible and make a special effort to note contradictory arguments. Taking more than one approach to your analysis is also worth consideration. Lastly, you should periodically review stocks that you currently own and ensure they are still appropriate, given your investment goals.

Familiarity Bias

Suppose I conducted a poll and asked 100 Toronto Maple Leaf fans if the Leafs would make the playoffs in the 2012/2013 season. Keep in mind that the last time the Leafs made the playoffs was eight long seasons ago. I can hear the Canucks and Habs fans snickering as I write this, but hey, I don't see any recent Stanley Cup wins for you guys either! Anyways, before I digress too far, my point is that there is no correlation that connects the distance of the fan to the arena to the chance of winning. The same can be said of a stock exchange. Despite the

flawed logic, investors still tend to overweight portfolios with domestic stocks and bonds. This is wrong because a portfolio should be diversified internationally to reduce risk. They should also be diversified across asset classes because alternative assets (ie. managed futures, real estate, and venture capital), while potentially risky on their own, can actually reduce portfolio risk due to low correlation to traditional assets.

I do believe that it is healthy to have a higher proportion of domestic stocks and bonds in your portfolio. After all, you should never purchase securities that you are not comfortable with, and most will naturally be more comfortable with standard domestic securities. But it should not be over-weighted to the extent that it is under-diversified. A solution is to do more research on international investments and alternative asset classes. Once you become familiar with their risks and expected returns, they can be considered for your portfolio. The following is a sample asset allocation for a properly diversified portfolio for a risk-tolerant investor. Keep in mind, these are broad categories and there may be many sub-categories within each category.

Domestic Blue Chip Equities	30.00%
Domestic Small Cap Equities	10.00%
Domestic Fixed Income	15.00%
International Fixed Income	8.00%
Managed Future ETF	7.50%
Emerging Market Equities	5.00%
International Large Cap Equities	15.00%
Real Estate Investment Trusts	4.00%
Venture Capital	3.50%
Cash	2.00%

Availability Bias

Availability bias refers to human tendency to estimate the probabilities of future events based on how easily a past event can be recalled. Many large companies with expendable cash will extensively advertise to create such an availability bias on consumers. Coca Cola has poured an excessive amount of money over the years into brilliant advertising campaigns so consumers will purchase their product over a cheaper, otherwise identical, cola product. This can have the same effect on investors that it has had on consumers. Investors that suffer from the availability bias will be more likely to pursue an investment that has been heavily advertised and more popular in the news simply because they can recall them more easily.

Plan Ahead to Avoid Later Biases

What makes this worse is the fact that individual memories are often biased or incomplete, which can result in the investors recalling an investment opportunity for the wrong reason. The availability bias can lead to sub-optimal investment choices, as well as under-diversified portfolios that are concentrated only in certain industries.

A simple way to mitigate this bias is thorough planning. Construct a long-term plan for your portfolio, detailing how and why the assets will be allocated and diversified. It is also good practice to keep detailed records of why specific purchases are made, including both the pros and cons of each investment choice. Such an approach should eliminate the temptation to investment in a product merely because it can be easily recalled.

Loss Aversion Bias

Loss aversion bias occurs when investors focus on gains and losses of investments, rather than their risk/return combinations. This may sound like a subtle difference, but it can have major ramifications.

The investor psychologically cannot accept the loss they have incurred and make sub-optimal decisions to avoid realizing the loss. Investors who bought into Enron at its peak would have witnessed a sharp decline in their share value, along with red flags that screamed "Sell!" An investor exhibiting loss aversion bias would see the red flags, yet avoid selling because they are convinced that the stock will rebound. This is similar to the way confirmation bias causes investors to ignore negative information. The distraught investor may also take on another risky position to make up for their original loss in value from the Enron stock.

The main effect that this bias has is an unnecessarily risky portfolio. In the example above, the investor unnecessarily holds two risky positions that probably do not fit their investment needs. Investors become risk seekers to try to avenge their previous losses. The old adage "don't cry over spilt milk" applies here. You've already incurred the loss whether it is realized or not and that cannot be changed. At this point, the smartest thing to do is to re-evaluate your position and your asset allocation. Try to figure out whether this has been a temporary decline (ie. a brief downturn in the market, investors overreacting to insignificant negative information, etc…) or whether this decline is just the tip of the iceberg (rapidly deteriorating company fundamentals).

To borrow a fitting quote from the article Maps

of Bounded Rationality: Psychology for Behavioural Economics, written by Nobel-winning author Daniel Kahneman: "More recent developments have restored a central role to emotion…which all indicates that the traditional separation between belief and preferences in analyses of decision making is psychologically unrealistic."[1]

It is proven that investors do not always make optimal decisions and occasionally even act irrationally. I've discussed a few of the biases that can cause such irrationalities. We all exhibit such biases and will continue to exhibit biases in some form or another. It is, however, important to be aware that such biases exist and try to limit them whenever possible. Doing so will allow us to be smarter, and hopefully more wealthy, investors.

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[1]Kahneman, Daniel. Maps of Bounded Rationality: Psychology for Behavioural Economics. The American Review, Vol. 93, No 5 (Dec 2003).

The Pathway to Prosperity

Pay Attention To Your Pension...

Your Financial Future May Depend On It

Ian Burns & Shelley Johnston

If you're part of the Boomer generation, you may have fallen prey to many of the people who want a piece of your life.... Being wooed by the wonders of the Leisure World, chased by experts touting the Techno Trends and seduced by the lure of hyper-investment returns. Many Boomers have been hypnotized to plunge to their financial doom, like lemmings throwing themselves off a cliff. They rush headlong and headstrong into retirement - a time when many of those Boomers have no private pensions, and those with pension plans find that they are severely underfunded, or have been changed, or the benefits have been drastically reduced.

What really hurts is that Boomers face challenges that no other generations have encountered:

- Uncertainty about the long term sustainability of government support programs
- Employers who are terminating or freezing current pension plans
- Boomers aren't saving as much of their income as they used to, with the national average of personal savings rates below zero
- Their debt levels are at an all-time high
- They face future costs for health care that are appreciating rapidly with more people needing those services in the future.

To make matters worse, many have lost a major part of their life savings, victims of the biggest financial meltdown since the Great Depression. In some cases, this has become a double-edged sword with Boomers now shunning the opportunity to participate in the market recovery for fear of more investment losses.

Surely the time is right for weary Boomers to take stock of their lives, to review their situation and plan for their future. It's time for them to "Pay Attention to their Pension", both Government and Company Plans. It's time for them to take control and ensure they plan for a future that can be both enjoyable and rewarding; to become fiscally responsible for their own lives. For many, "Freedom 55" may be out of the question. However, with the Boomers living longer and in most cases healthier lives, perhaps working a little while longer or getting paid for doing something part-time may not be such a bad thing. For others, it will be a necessity.

In order to plan for retirement, you must understand your pension options and realize the impact that changes to those options will have on you and your loved ones.

It's no secret that many defined benefit pension plans in Canada are facing huge deficits, including Public sector pensions.

Yes, even the Federal Government's Plan, according to the C.D. Howe Institute, is in serious trouble. Traditionally, when those plans ran a deficit, the shortfalls would be paid from the tax-vaults of various governments (Federal, Provincial or Municipal). But, how can you ask the tax-payers to fund those civil- servant pensions when many of them are struggling with their own financial issues and don't even have pensions themselves? It's obvious that many things will change going forward.

In Ontario and New Brunswick, for example, the provincial budgets have proposed more cuts to the workforce, which in itself will put a strain on the viability of the pension plans. (Most pension plans need a constant injection of new monies to stay afloat). They are also planning to increase employee deposits into the pensions to try to reduce the deficits. And going forward, we will see major changes to the benefits.

We see this trend also in the proposed Federal Budget, increasing the contributions from members while slashing the government workforce. Municipalities across the country are implementing spending cuts, reducing the workforce with incentives and buy-outs, and putting massive strains on already underfunded plans.

If you are a member of a defined benefit plan, it is incumbent upon you to "Pay Attention to your Pension". Here are some subtle changes that have been nonchalantly introduced into pension funds, affecting either the retirement income or the commuted value of those benefits.

Cost of Living

Many plans have reduced or removed the Cost of Living (COLA) clause and, while some may continue to pay COLA benefits, it is at their discretion instead of a contractual benefit.

Commuted Values

Some plans have increased the penalties for early withdrawal, penalizing those who wish to take the cash from their pensions, in the event they terminate their employment early.

A major pension plan in Ontario will not provide a commuted value for the bridge benefit on people terminating from the plan. Where a pension plan is being wound up, those who request commute are receiving their monies in installments, while people going on pension receive full benefits.

Formulas

Pension formulas are being manipulated to reduce future pension payments. For example, one pension fund has based the earnings level calculations on 2007 salaries.

Survivor benefits

Again, pension members are facing changes on the calculations to provide survivor benefits, with the pensioner faced with the choice of reducing their family income or surviving spouse's pension, should he/she die prematurely. One pension fund has eliminated a surviving spouse benefit if the pensioner and spouse find themselves separated at the time of death.

This trend is not only affecting Canadians, but if you look in the Global Crystal Ball, fear of changes within the pension world abound.

World governments are addressing the pension and social security arena in various ways. Governments, ever mindful of the votes, are being careful not to upset too many seniors implementing their cost cutting strategies with the skill of a surgeon's scalpel, while tempering their actions with Father Time's scythe.

Britons who presently will see the State Pension age increased to age 67, effective April 2020, are facing the prospect of further waiting periods before receiving the benefits. It is now being proposed that benefits be tied in with actuarial tables, meaning as people continue to live longer, the longer they will have to wait to collect.

In the U.S., there have been stormy debates on raising the age for Social Security benefits to age 67, a move that will no doubt happen sometime in the not too distant future.

Here in Canada, our majority Federal Government has proposed an increase to the age one will receive their Old Age Security Benefits to age 67. Again, this will be phased in over time. For example, in the case of someone who was born in October 1960, their OAS will be delayed until the age of 66 and 4 months. To find out how this proposed change in OAS benefits affects you, check out the OAS website on the proposed budget changes: http://www.servicecanada.gc.ca/eng/isp/oas/changes/index.shtml (See Table 1 next page)

Cynics believe that the Government's next move will be to increase the age you will receive the Canada Pension Plan, to fall in line with Old Age Security.

How does one plan for the future when it's next to impossible to forecast what the future will look like? Here are some tips to help you transition into a successful retirement.

Table 1: OAS/GIS Age of Eligibility by Date of Birth					
	YEAR OF BIRTH				
	1958	1959	1960	1961	1962
Birth Month	OAS/GIS Eligibility Age				
Jan.	65	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo
Feb.-Mar.	65	65 + 6 mo	66	66 + 6 mo	67
Apr.-May	65 + 1 mo	65 + 7 mo	66 + 1 mo	66 + 7 mo	↓
June-July	65 + 2 mo	65 + 8 mo	66 + 2 mo	66 + 8 mo	↓
Aug.-Sept.	65 + 3 mo	65 + 9 mo	66 + 3 mo	66 + 9 mo	↓
Oct.-Nov.	65 + 4 mo	65 + 10 mo	66 + 4 mo	66 + 10 mo	↓
Dec.	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo	↓

Tips for Transitioning into Retirement

1. Reduce Debt.....Interest rates aren't going to stay this low.
2. Work on your budget and cash flow....Know what you make.....Know what you spend.
3. Pay Attention to Your Pension(s)....Understand Private and Government benefits, how much you will receive and when you will receive them
4. Choose your retirement dates carefully. Make sure you're ready physically, financially and emotionally.
5. Understand your investments. Have a strategy and make sure you commit to it.

If you work on it, we have no doubt that you will be able to face the future with confidence. Taking any action to better prepare for retirement is better than doing nothing. Pay attention to your pension …. Learn about your pension plan today!

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MoneyTip

Invest Early For Six Times As Much Money!

Since we have a focus on investing at an early stage of life in this month's *MoneySaver*, take a look at the following: We have adjusted it for Canadians.

This from a fantastic book called The Random Walk Guide to Investing by Burton Malkiel. Here's a great example of why you should invest early: William and James are twin brothers who are 65 years old. 45 years ago (at the end of the year when he reached 20), William started an RRSP and put $2,000 in the account at the end of each year. After 20 years of contributions, William stopped making new deposits but left the accumulated contributions in the RRSP account. The fund produced returns of 10% per year tax-free. Brother James started his own RRSP when he reached the age of 40 (just after William quit) and contributed $2,000 per year for 25 years, making his last contribution today. James invested 25% more money in total than William. James also earned 10% on his investments tax-free. What are the values of William's and James's RRSP funds today?

Shockingly, William has $1,365,227. James has $218,364. James invested 25% more than William, but through the magic of compounded returns, William's RRSP fund is worth more than six times as much as his brother's! By starting to invest early, your retirement might be six times as much fun! While it may be too late for some of us, it's not too late for your children or grandchildren--get them started now!

50 CANADIAN ETFs RANKED BY THREE-YEAR COMPOUND RETURN AS OF APRIL 12, 2012
THIS MONTH WE HAVE INCLUDED INDEX RETURNS FOR COMPARISON PURPOSES ONLY.

Canadian ETFs

Fund Name	Symbol	Fund Category	Incpt Date	1 Yr Ret	2 Yr Ret	3 Yr Ret	5 Yr Ret	Total Asset $Mill	12 Mth High	12 Mth Low	Div Yld	Mgmt Fees	Exp Ratio
Horizons BetaPro NYMEX Natural Gas Bear	HND	Leverage	31-01-2008	162.9	102.8	68.4		61.5	30.59	6.57		1.15	1.33
S&P/TSX Capped Diversified Mining TR		Index	31-12-1997	-18.7	7.9	63.3	13.5				1.35		
Horizons BetaPro NASDAQ 100 Bull	HQU	Leverage	30-06-2008	14.5	33.6	62.6		12.9	21.72	13.58		1.15	1.34
Horizons BetaPro S&P/TSX Cap Fincls Bull	HFU	Leverage	30-06-2007	-14.7	4.4	44.3		25.2	14.09	8.58		1.15	1.38
Horizons BetaPro MSCI Emerging Mkts Bull	HJU	Leverage	31-07-2008	-18	1.6	43		8.2	18.16	7.95		1.15	1.38
Horizons BetaPro S&P 500 Bull	HSU	Leverage	30-06-2008	-0.4	17.7	42.5		16.3	14.36	8.97		1.15	1.38
S&P/TSX Capped REITs TR		Index	31-12-1997	17.5	23.3	38.1	5.2						
S&P/TSX Income Trust TR		Index	31-12-1997	19.2	25.2	37.5	12.5						
iShares S&P/TSX Capped REIT Index	XRE	RealEstate	31-10-2002	16.7	22.4	36.9	4.6	1433.1	16.12	13.41	5.15	0.55	0.6
BMO Small Cap Blended (Unweighted) CAD		Index	31-12-1969	-10.1	11.9	36.3	3.9				5.59		
Horizons BetaPro COMEX Gold Bullion Bull	HBU	Leverage	31-01-2008	34.4	41.1	35.5		61.8	29.5	16.39		1.15	1.38
S&P/TSX Capped Real Estate TR		Index	31-12-1997	10.2	19.7	35.4	1.2				4.11		
BMO Small Cap Blended (Weighted) CAD		Index	31-12-1986	-7.6	13.6	34.3	3.9				4.61		
S&P/TSX Capped Health Care TR		Index	31-12-1997	18.4	38.8	34	8.8				10.37		
Morningstar CAN Real Estate Equity M		Index	30-06-1995	13.4	18	30.8	-2.5	1075.5			5.74	1.25	1.52
Morningstar CAN Real Estate Equity		Index	30-06-1995	13.3	17.9	30.7	-2.4	1074			5.72	1.31	1.57
S&P/TSX Small Cap TR		Index	31-05-1999	-9.7	11.4	30	1.5				4.99		
iShares S&P/TSX SmallCap Index	XCS	CdnSMCapEq	31-05-2007	-9.9	10.9	29.3		161	19.96	13.72	5	0.55	0.6
Morningstar CAN Cdn Foc Sm/Mid Cap Eq S		Index	29-02-1996	-8.2	8.1	28.7	1.2	16.8			2.7	1.09	1
Horizons BetaPro S&P/TSX 60 Bull	HXU	Leverage	31-01-2007	-23	5.2	27.8	-6.2	89.1	24.99	15.25		1.15	1.37
S&P/TSX Completion TR		Index	31-01-2000	-5.2	11.9	27.6	3.3				4.2		
Average Precious Metals Equity-MF		Stats		-13.4	16.2	27.4	6.6	390.5	34.88	23.97	0.77	1.88	2.27
Median Cdn Small/Mid Cap Eq-MF		Stats		-6.9	10.9	27.2	2.7	81.1	18.28	12.97	3.11	2	2.66
Claymore S&P/TSX Canadian Div ETF Comm	CDZ	CdnDvIncEq	30-09-2006	7.4	13.3	27.2	5.2	711.5	22.15	19.41	3.8	0.6	0.67
iShares Russell 2000 Index C$-Hedged	XSU	USSMEq	31-05-2007	-1.4	13.5	27		87	18.77	13.22	2.98	0.35	0.36
Claymore US Fundamental ETF-C$Hdgd Comm	CLU	USEq	30-09-2006	0.5	10.8	26.9	-2.3	147.6	18.71	14.57	2.69	0.65	0.72
Average Precious Metals Equity		Stats		-13.6	15.8	26.9	6	383.4	33.84	23.28	0.77	1.93	2.33
Claymore Glbl Monthly Adv Div ETF Comm	CYH	GlobalEq	31-01-2008	0.1	9	26.9		146.9	17.22	13.12	5.44	0.65	0.35
Med Cdn Small/Mid Cap Eq-Value		Stats		-0.4	9.8	26.8	2.4	22.7	14.59	11.62	3.36	2.35	2.92
iShares S&P/TSX Completion Index	XIC	CdnSMCapEq	31-03-2001	-5.7	11.2	26.7	2.8	220.3	24.53	19	4.31	0.55	0.6
Med Cdn Small/Mid Cap Eq-Blend		Stats		-7.9	10.9	26.7	2.8	93.5	19.96	14.37	3.36	2.05	2.67
Morningstar CAN Cdn Small/Mid Cap Eq M		Index	31-12-1977	-7.9	9.8	26.5	2.2	406.8			3.42	1.94	2.43
Avg Cdn Small/Mid Cap Eq-Value		Stats		-3.5	11.2	26.4	2.2	144.3	19.46	14.9	3.19	2.28	2.85
Median Cdn Small/Mid Cap Eq		Stats		-8.7	9.7	26.3	2	55.7	18.71	13.72	3.11	2.11	2.76
Claymore S&P/TSX Canadian Div ETF Adv	CDZ.A	CdnDvIncEq	30-09-2006	6.5	12.4	26.2	4.4	711.5	22.08	19.36	3.8	1.35	1.5
Avg Cdn Small/Mid Cap Eq-Blend		Stats		-7.5	9.8	26.2	2.9	184.4	23.73	17.71	3.75	1.98	2.57
Morningstar CAN Real Estate Equity S		Index	31-01-2004	7.6	13.1	26.1	0.9	27.2			4.33	2.37	3.07
Average Cdn Small/Mid Cap Eq-MF		Stats		-7.4	10.2	26.1	2.1	179.2	23.2	17.28	3.32	1.98	2.58
Med Cdn Small/Mid Cap Eq-Growth		Stats		-10.9	8.3	26.1	0.2	52.9	19.84	14.3	2.65	2.25	2.81
Claymore Glbl Monthly Adv Div ETF Adv	CYH	GlobalEq	31-01-2008	-0.7	8.2	26		146.9	17.21	13.11	5.44	1.4	1.18
Claymore US Fundamental ETF-C$Hdgd Adv	CLU.A	USEq	30-09-2006	-0.4	9.9	25.8	-3.1	147.6	18.62	14.5	2.69	1.4	1.56
iShares Diversified Monthly Income	XTR	CdnEqBal	31-12-2005	6.2	10.2	25.8	6.6	421.8	12.47	11.57	4.18	0.55	0.57
Morningstar CAN Cdn Small/Mid Cap Eq		Index	31-12-1977	-8.5	9.2	25.7	1.7	391.2			3.42	2.03	2.52
Median Precious Metals Equity-MF		Stats		-15.2	15.4	25.6	6.1	131.2	25.05	18.22	0.7	2	2.52
Average Cdn Small/Mid Cap Eq		Stats		-8.2	9.3	25.3	1.5	156.3	27.13	20.18	3.25	2.1	2.72
Median Precious Metals Equity		Stats		-15.2	15.3	25.3	5.2	131.2	25.05	16.38	0.71	2	2.55
S&P/TSX Capped Financials TR		Index	30-09-2000	-4.6	5.1	24.9	0.5				4.05		
Median Cdn Small/Mid Cap Eq-Seg		Stats		-10.4	8.7	24.7	1.3	30.1	16.83	13.62	2.91	2.55	3.11
S&P/TSX Venture Composite PR		Index	30-11-2001	-30.1	4.5	24.7	-12						
Morningstar CAN Cdn Foc Small/Mid Cap Eq		Index	30-04-1984	-6.1	7.9	24.5	-1.7	362.8			3.38	1.88	2.44

Source - PalTrak, Morningstar Canada, (800) 531-4725, http://www.morningstar.ca. Morningstar's "Quicktake Report" offers detailed information on individual ETFs. Morningstar also offers an ETF screener. Adv = Advisor. Management fees are paid to the investment company's advisor or manager for supervising its portfolio, expressed as a percentage of the total assets of the fund. Expense ratio is the manager's annual fee for managing and administering the fund, expressed as a percentage of total fund value.

Adding Electricity To The Portfolio

Benj Gallander

Regardless of whether a person believes that good times are coming or we are on the cusp of another recession or depression, one company that will be front and centre is General Electric (GE-NYSE). This Goliath is a bellwether of the economy with fingers in so many pies that it will almost surely do well during good times, and take it on the chin during bad. It was acquired for the President's Portfolio at Contra the Heard for $15.56 in December 2009.

As you likely remember, that was around the climax of the economic catastrophe. The world was moving towards hell in a hand basket and the main question was one of degree. At that point, The Contra Guys were busy beavers. Besides picking up GE, banks Fidelity Southern Corporation (LION-Nasdaq) and VIST (VIST-Nasdaq) were acquired, along with Iteris Corporation (ITI-AMEX), an outfit that specializes in traffic flow. Balancing this a bit, Franklin Covey (FC-NYSE) was ejected, after a spiffy 302 percent gain.

General Electric was certainly a different acquisition than the others; a bit of an exception to the Contra methodology. For the President's Portfolio (there are two, the other is the Vice-President's managed by Ben Stadelmann) it is extremely rare that a stock is acquired for over $10. Outside of Yahoo! (YHOO-Nasdaq), which was picked up at $11.11, it is difficult to remember a company that was purchased above $10. And no question, there was a point when GE could have been garnered for under $10. But I admit, when the world appeared to be collapsing, pulling the "buy trigger" for me was difficult, as it was for the vast majority of the populace.

Why was GE purchased above the normal price threshold? It was calculated that if the global economy completely collapsed in a depression, this enterprise would have been endangered. However, even then, there was a reasonable chance that it would survive. Whether that would have been via its own capabilities or because of government(s) largesse is difficult to know, but this firm certainly was not going to disappear without a fight. And if per chance it had been forced into Chapter 11, it would have meant that the economy was in such bad shape that one could not even run into the hills and hide. Quite simply, there would not have been any escape.

Looking at the financials for General Electric at the time, certainly the company had more debt than we generally like to see. But it was not a vastly bloated debt load. Overall the enterprise remained profitable and though revenues were falling, they remained robust. The company was trading at 30 percent over book, a reasonable price to pay. We also wrote at the time, "But if there is a company that is too big to fail, this is it." That seemed as reasonable then, as it does now.

In addition, there were some other reasons that GE was a timely portfolio addition. When the economy was going well, it was difficult to find outfits to buy that fit into our contrarian framework. We aspire to enterprises that have been around for at least 10 years, but recently beaten up. During good times, more often than not it is the smaller companies that fit into this category. The big boys generally do better. The carnage of the time made it possible to acquire a colossus, helping to balance the portfolio between big, medium and smaller companies. Plus, GE paid a dividend and businesses that do that warm the cockles of my heart.

An unusual situation also prevailed here. Due to the financial difficulties, GE had slashed its dividend. That meant that as times improved, it would likely have the capability to up its payout. Accompanying that would likely be capital appreciation. In fact, this has indeed

worked out. Since the purchase, the company has increased the dividend four times, and the stock has appreciated almost 30 percent.

This though is likely not the zenith. The backlog is a record $191 billion so if margins were correctly calculated, that should translate into a healthy bottom line. Operating earnings have featured double-digit growth for the last six quarters.

The Initial Sell Target on this outfit is $35.24. In the past it has traded over $40. So if it returns to form, the target price seems eminently achievable. In the meantime while waiting for that goal, the dividend will be clipped. And it would not surprise at all to see the payout increased, perhaps not to the $1.78 level of 2008, but a buck is certainly not out of the question.

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Intuitive Investing

Why Is It So Hard To Sell An Investment Dog?

Julia Lawr

An investment dog is an underperforming stock or fund. Typically, investment dogs have dropped in value substantially and then stagnated. Belief in the asset itself, that its value will rebound, and the desire to recoup the original investment, keeps investors hanging on. Making the decision to sell low is quite often painful and difficult; even seasoned investors find it challenging to remain cool and detached. Why does this occur even when levelheaded, rational analysis leads to a sell recommendation? It's because of cognitive dissonance.

Cognitive dissonance, Leon Festinger's 1957 social psychology theory, states that the tension (dissonance) resulting from two mutually exclusive thoughts or beliefs (cognitions) leads to an adjustment of those thoughts or beliefs in order to reduce the tension. Translation: when we have two thoughts or beliefs that work against each other (I am a good investor, yet I bought an investment dog), we adjust our thoughts so that they no longer compete and instead work together (I am a good investor and good investors make money; the stock I bought is just going through a slump, but I will sell it at a profit sooner or later).

Selective Thinking Leads To Losses

This dissonance or tension causes stress, but does it affect decision-making? Studies on the dissonance experienced after decisions are made show that people more easily recall the arguments that support their decision. We tend to emphasize the positives of the choice taken and the negatives of the forgone choices, while also minimizing the negatives of the selected option and the positives of the alternatives not selected. Thus we are inclined to feel increasingly strongly about the dog we chose and increasingly pessimistic about the options left behind.

You may have felt this way when making important life decisions: choosing which university to attend, which house to purchase or even when choosing where to go for vacation. Check yourself: after making a decision did you feel more strongly than before about your choice? Did

the pros (of the favoured choice) shine brighter and the cons appear duller?

Examples of cognitive dissonance are available everywhere, even in current business news. The following represent examples of cognitive dissonance by corporations:

- Google's revised privacy policy, which consolidates and simplifies 60 separate privacy policies (a different policy for each product) to one for all its products, is being presented by Google as beneficial to its consumers. Yet the policy is complicated, difficult to understand, lacking in transparency, shares personal information gained from the use of one Google product with all of its products and, apparently, is also against EU law (per the EU Justice Commissioner). While streamlining is beneficial for clients, it is the only aspect of the new policy that is.

- RIM's new management (CEO Thorsten Heins and Chair Barbara Stymiest), instituted after the sudden resignations of co-CEOs and co-chairs Jim Balsillie and Mike Lazaridis on January 22, 2012, immediately declared their commitment to continuing with the company's previously established products and strategy. Heins is quoted in the Globe and Mail (January 22, 2012) as saying: "There is no need for me to shake this company up or turn it upside down. We are not at a point were we try to define a strategy. That's done". Balsillie and Lazaridis will continue on as members of the board *(editor's note: there have been further board and management changes at RIM since this article was written)* and act as mentors to Heins despite being the cause of the changeover: they resigned under pressure for losing ground to competitors and RIM stock's remarkable drop in value (from $60.75 to $17.24 over the one year period ending January 20, 2012). A change in management style and strategy were clearly desired by the market and RIM investors, as evidenced by investor pressure for Balsillie and Lazaridis to step down, but none was forthcoming. RIM believed the change represented a fresh start. Investors saw it as more of the same (the stock is $13 now).

The Fox and the Grapes is a classic example from Aesop's Fables:

- **Grapes hanging just out of reach of a hungry fox tease the fox, who tries various tricks, in vain, to reach them. Eventually giving up, she decides that the grapes would not have been worth eating anyway - saying 'the grapes are sour, and not ripe as I thought'.**

How can you overcome these powerful impulses? First, acknowledge the existence of cognitive dissonance, and then practice developing an awareness of dissonance at work, possibly affecting everyday decision-making processes. When evaluating an asset that's dropped from its purchase price, ask yourself this: is my desire to make money on every investment choice colouring my decision-making? Second, offset the effects of cognitive dissonance with the following 'devil's advocate' mental exercise. Deliberately emphasize the negatives of the chosen option and the positives of the foregone options and then re-consider your conclusion. Is it different? For example, when evaluating 'investment dogs' consider not just how much you will make once the dog recovers (the positive), but also the money lost by continuing to hold (the negative) and the missed re-investment opportunities (positives of the path not chosen). Third, by changing our behaviour, we can change our thoughts and beliefs.

Behaviour Affects Attitude

Just as our attitudes can affect our behaviour, our behaviour can affect our attitudes. The relationship is reciprocal, each nourishing the other. Research supports this; for instance, studies show that when we agree to do a small favour for someone, we become more agreeable to then perform a larger favour for that same person later on. We justify our past behaviour and thereby model our future behaviour to be in line with it. Changing our behaviour is a recognized way of changing our attitudes, including dissonance.

Don't let your own dissonance influence your choices. Counter it with awareness, deliberate thought exercises and slight adjustments in behaviour.

Julia Lawr, feature writer and creator of 6th¢ Intuitive Living (a philosophical blog about living life on our own terms), 6thcents.wordpress.com, julialawar@bell.net

Transferring Losses To Your Spouse

Jean McDonell

Everyone investing in the market has great hopes of realizing gains. Although we may be fortunate enough to pick winning investments on occasion, it is inevitable that we'll incur a few losses along the way, especially considering the state of the market these past few years. Incurred capital losses can only be applied against the capital gains incurred. In a tax year where the losses exceed the gains, we can either carry those losses forward to a future tax year where we will hopefully have gains, or we can carry back the losses to the previous three tax years to the extent that taxable capital gains were incurred. Sounds simple enough…Right?

Here enters Sam and Sally; a married couple with very different investment styles. What if Sam invested in a few less-than-stellar performers in the market and had unrealized capital losses in a taxation year? And what if Sally had the good fortune of picking some top performing stocks and has realized capital gains? Not only might it cause tension in an otherwise perpetual state of matrimonial bliss, it is possible to transfer the losses between spouses provided care is taken in following the proper steps.

Tax Rules For Spousal Transfers

When capital is transferred to a spouse, attribution will be triggered. This results in the taxation of the associated income and capital gains in the transferor's hands. When losses are transferred between spouses, they are categorized as "superficial losses" under the Income Tax Act. A capital loss will be denied if it is deemed to be superficial. In this case, this pertains to a transfer between spouses occurring in a 61-day period that is comprised of the 30 days prior to a sale, the day of the sale and the 30 days thereafter. The same occurs when "identical properties" are purchased in that time frame by the taxpayer or by their spouse. A superficial loss is defined to be nil.

It is possible to avoid the attribution rule by electing to have the property transferred to the spouse at fair market value. Let's look back to Sam and Sally for an example.

Sam believes in investing with "his gut". Unfortunately, his gut has landed him with unrealized losses of $100,000 in marketable securities in his non-registered account. He purchased the marketable securities four years earlier for $150,000. Sam does not have any capital gains in the previous three taxation years and, if he continues with his current investment strategy, future capital gains seem unlikely.

Unlike Sam, Sally is a prudent investor who is diligent and thorough when researching in which stocks to invest. She looks at past performance, market predictions for future profits and carefully weighs her overall portfolio risk. This year alone, Sally's wise investment strategy has brought $100,000 of realized gains in her non-registered account.

Turning Losses Into An Advantage

Despite Sam's unfortunate investment strategies, Sally can use Sam's losses to her advantage in a number of ways.

Option 1

Sam can sell his securities in the open market for $50,000 and realize the $100,000 in capital losses. Within the next 30 days, Sally must purchase the same stocks in the same quantity that Sam previously held. As Sam and Sally are considered "affiliated persons" under the Income Tax Act, Sam's losses are considered superficial losses and are denied to him. However, the capital loss is added to the adjusted cost base (ACB) of Sally's newly acquired shares. As such, Sally's ACB of the shares consists of the $50,000 she paid for the shares plus the $100,000 in capital losses which were previously denied to Sam. Now, if Sally sells the newly acquired shares in the open

market after 30 days from the date that Sam sold the same stocks, assuming the stocks have not increased in value, the loss will be triggered by Sally and used against her other capital gains.

Option 2

Sam can transfer the loss shares to Sally creating a deemed disposition at a loss. However, because Sam and Sally are considered affiliated persons, the loss is considered to be superficial and is denied to Sam and added to Sally's ACB. In order to avoid the attribution rules which will attribute the loss back to Sam, the shares must be transferred at fair market value (FMV); in Sam's case, this is $50,000. There are a few steps to take before this is possible:

- An election must be filed to transfer the shares at FMV ($50,000) which is allowed under Subsection 73(1) of the Income Tax Act. If the shares were transferred without filing the election, the transfer would be done at the ACB ($150,000) which generally means that no gain or loss occurs on the transfer and that any resulting gains or losses are later attributed back to Sam.

- Sally must either buy the shares for cash or, to transfer ownership at FMV without cash payment, draw up a promissory note between her and Sam; Sam must charge the Canada Revenue Agency's prescribed rate of interest which is established each calendar quarter. Within 30 days of the tax year on the promissory note, Sally must pay the interest charged; this will also need to be reported by Sam. The prescribed rate in effect at the time of the loan is the rate that stays in effect regardless of any prescribed rate increases over the course of the loan. As prescribed interest rates are currently 1%, the cost of such an arrangement is minimal. In Sam and Sally's case, this would result in $500 worth of interest for the year.

- In order to recognize the $100,000 loss on the subsequent sale, Sally must hold the shares for at least 30 days before selling them on the open market. The losses can then be used to offset other gains incurred by Sally, either in that year or the immediately preceding three years.

Such a strategy works well when the spouse acquiring the loss is in a higher tax bracket than the transferring spouse, and has the required capital gains against which the loss can be used to reduce taxation.

A Word On Income Splitting

A prescribed rate loan is a simple, effective way of achieving income splitting between spouses. The spouse with the higher income can give the lower income spouse a loan to make investments. The loan must be at the prescribed rate in effect at the time the loan is granted. As the current prescribed rate is 1%, the couple comes out ahead provided the spouse who takes the loan to purchase investments earns a greater than 1% rate of return. For example, the higher income spouse loans $100,000 to the lower income spouse to invest in guaranteed investment certificates (GICs) that are paying 3% interest. As the rate on the loan is 1%, the lower income spouse will earn interest income of $3,000. After paying $1,000 in interest on the loan, they will net $2,000. The lender would have to claim the $1,000 in interest income earned on the loan. If the higher income spouse is in the top marginal tax bracket in Ontario and had earned the same 3% on the $100,000 of GICs, they would have had to pay tax at a rate of 46% on the $3,000 worth of interest income. Assuming the lower income spouse is in the lowest tax bracket in Ontario, the $3,000 of interest income would be taxed only at a rate of 21.05%. There could be substantial tax savings under this scenario.

The interest on the loan must be paid by Jan. 30 of the following year. If it is not paid by that time, the income earned on the investments will be included in the lender's income for that year and all years thereafter. As the lender is the higher income spouse, the objective of splitting the income has not been accomplished if the interest has not been paid on a timely basis. The attribution of the future income can only be corrected if the loan is fully repaid and a new loan at the prescribed rate is granted.

It is recommended that the prescribed rate loan be clearly documented through either a simple loan agreement or a promissory note. The borrower and the lender should have separate accounts so there is a clear paper trail of which account the funds were borrowed from, what account they were transferred to, where the funds for the investments came from and finally, where the interest on the loan is being paid from. It is important that the funds are not transferred between joint accounts so the trail is clear.

Learn from Sam and Sally's situation. Whether you invest with your gut or through meticulous market research, it is always recommended to seek advice from a tax professional.

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Covered Call Strategy… Do Not Be Afraid

Stephane Ruah

When the majority of people hear the word options, they attach it to risk. In reality, however, it can be the total opposite.

Options have been used for many years – mostly by institutions and hedge funds – as a tool to hedge or manage risk as volatility increases. Between the US credit crisis, uprising in the Middle East and the euro debt crisis, volatility is at an all time high and options can definitely help you deal with that with your portfolio.

With any stock, investors can usually choose from the following strategies:

1) **Hold the stock and collect the dividend, the risk is the stock can go down**
2) **Sell the stock and take profits, but lose the dividend income from the stock**
3) **Sell a call option on the stock.**

What are call options?

A call is a type of option contract that gives the purchaser the right to buy a stock from the seller at a set price (called the "strike price") for a specific period of time. In exchange, the buyer gives the seller money, known as a premium. No matter what ultimately happens, that premium is the seller's to keep.

The term covered means that the seller already owns the stock and is covered if the stock gets called away by the buyer.

What is a Covered VS Uncovered (also known as "naked") Call? Uncovered call means that the seller does not own the stock and would have to purchase it on the open market in order to deliver it to the call buyer.

Let's Look at an Example: Say you own 1000 shares of Royal Bank which is currently trading at $56.00. Each call contract by convention typically covers 100 shares of the underlying stock. So you could sell 10 July call contracts with a strike price of $58 for $1.25. This means you have given the purchaser of the call the right to buy your 1000 Royal Bank shares at $58 any time between now and the third Saturday of July (option contracts expire on the third Saturday of the month). In exchange for that right, the purchaser has paid you $1.25 per share which is yours to keep no matter what happens. Your return on your Royal Bank shares is then $1250 ($1.25 x 1000shares)/$57,000 which equals about 2.1%. In three months, that's 8.4% annualized, on top of that you might receive as a dividend if one was declared in between those periods.

What Can Happen

If the stock is trading above $58, it will likely get called away (meaning you have to sell your stock at $58). You will then have to decide whether or not you still like Royal Bank and want to buy it back, use the proceeds to purchase another stock, or sell puts against the proceeds (to be featured in my next article). If Royal Bank falls below $58 at the time of option expiration, you will keep the premium and the stock. Another covered call can be written for the month of October, for example, to bring in additional monthly premium and a potential income stream.

Covered calls won't prevent losses. However, if a stock declines and you have a covered call, you will lose less than if you owned the stock outright. If you set the strike price low enough, you can make money from the premium with covered calls even if the stock price declines.

What to remember

It takes experience to understand the concept behind the strategy, so do not expect to understand it overnight. Make sure you understand all the pros and cons of call options and most of all, deal with a professional who can guide you along the way.

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MoneyDigest

This column offers excerpts from published and online sources to provide other viewpoints.

Lots of Headlines, But Not Much Has Really Changed at SNC

SNC-LAVALIN GROUP INC. $39 (Toronto symbol SNC; Aggressive Growth Portfolio, Manufacturing & Industry sector; Shares outstanding: 150.9 million; Market cap: $5.9 billion; Price-to-sales ratio: 0.8; Dividend yield: 2.2%; TSINetwork Rating: Average; www.snclavalin.com) fell over 20% on February 28, 2012 after it announced that its 2011 earnings will be $80 million, or 18% below its earlier forecast. In 2010, SNC earned $437.0 million, or $2.87 a share.

The earnings drop is partly due to $35 million in unusual payments related to certain construction contracts. Because of the recent civil war, SNC will also write down the value of its Libyan operations, including a prison, an airport and a water treatment system, by $23 million. The company did not say if the unusual payments are connected to its Libyan projects.

SNC is working with its external auditors and lawyers to examine these payments and certain other contracts.

The earnings warning has also spurred a $250-million class-action lawsuit that accuses SNC of conducting “unlawful activities in Libya.” SNC has denied the charges.

Even with this uncertainty, SNC continues to win new contracts, including a $475-million deal to refurbish four reactors at Ontario’s Darlington nuclear-power complex. Brazilian mining company Vale SA has also hired SNC to modernize its nickel smelter in Sudbury, Ontario.

SNC-Lavalin is a hold.

Source: The Successful Investor

Great Little Company: 14 Dividend Increases Since 2002

Boston Pizza Royalties Income Fund (BPF.UN) is a Richmond, BC-based limited purpose open-ended trust established to acquire indirectly, through Boston Pizza Royalties Limited Partnership and Boston Pizza Holdings Trust, the Canadian trademarks owned by Boston Pizza International Inc. and used in connection with the operation of the Boston Pizza restaurants in Canada.

Boston Pizza International Inc. is a franchise-driven casual dining restaurant company, and operates 343 restaurants as corporate restaurants serving pizza and pasta.

The Fund’s subsidiaries include wholly owned Boston Pizza Holdings Trust, Boston Pizza Holdings GP Inc., Boston Pizza Holdings Limited Partnership and 80%-owned Boston Pizza GP Inc.

Boston Pizza International 2011 Gross Sales were C$905 million, Franchise Sales were C$699 million and Customer Visits were over 40 million.

REVENUE MIX

The Fund earns royalty revenue which is 4% of Franchise Sales of Restaurants. The Fund also earns interest income that is mainly derived from a loan from the Fund to Boston Pizza International, which bears interest at a rate of 7.5% per annum and is paid monthly by Boston Pizza International.

GROWTH PLANS

Boston Pizza’s strategy is to grow both by increasing the number or stores it has as well as renovating its existing stores to drive higher guest traffic and higher average customer sales. The company plans an increased marketing budget and a revised calendar of national and local store promotions as well as a combination of menu design and annual re-pricing. Boston

Pizza opened seven new Boston Pizza restaurants in 2011 and another two new Boston Pizza restaurants have opened so far in 2012.

VALUATION

On a yield basis, BPF yields 6.5%. Based on the stability of the company's business and the 14 distribution increases since 2002, we could easily argue Boston Pizza deserves a lower yield (and hence a higher share price). The dividend payout ratio is high, but below 100% and declining. Despite strong gains in the stock over the past year, no one else covers this company, and the share price could move higher when it is rediscovered by Bay Street.

2011 RESULTS

On February 9, 2012 the Fund released its Q4 and annual results for December 31, 2011. Franchise sales of restaurants in the royalty pool were a record $177.5 million in the fourth quarter and a record $699.3 million for the year, up from $166.2 million (4Q2010) and $663.8 million in 2010. Same-store sales grew 6.4% in the fourth quarter and 4.9% for the year. Better results were due to higher takeout and delivery sales, new chicken wing offerings and higher sales of Boston Pizza gift cards during the holiday season. Net income was $0.3 million for the fourth quarter and $15.6 million for the year, compared with a loss in both respective periods of 2010. Distributable cash was $1.10 per unit for 2011, compared with $1.41 per unit in 2010. This decline is due to the fact that the fund was taxable for the first time under new regulations in 2011. On a truly comparable basis, distributable cash did increase in 2011. The payout ratio was 95.7% for the year.

KEY RISKS

The performance of the Fund is directly dependent upon the Royalty and interest payments received from Boston Pizza International. The amount of the Royalty received from Boston Pizza International is dependent on various factors that may affect the casual dining sector of the restaurant industry, such as average cheque size and customer traffic changes. Boston Pizza is in a highly intensely competitive industry with respect to price, service, location and food quality and can additionally be affected by changes in demographic trends; changes in consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; and the results of operations and financial conditions of Boston Pizza International and the Fund. The main risks to the company would likely be: Higher food costs which couldn't be passed on to customers; higher wage costs and higher staff turnover; or specific quality issues that might impair the company's strong brand.

SUMMARY AND INVESTMENT RECOMMENDATION

Boston Pizza is one of those nice-little companies, doing well but getting little respect from Bay Street. Many of the analysts that used to cover the Trust sector have moved on. Right now, then, 5i Research is the only company covering Boston Pizza. The stock is up 27% so far this year, so is at least starting to get noticed by investors. The dividend is very decent, although the payout ratio is fairly high. We have no hestitation recommending this company for purchase, but primarily for income. It is, however unlikely to see gains as strong as what we've seen in the past year.

SOURCE: 5i Research Inc. www.5iresearch.ca

Reitmans Earned Less But Remains A Buy

Reitmans (Canada) one of our Key Stocks, earned significantly less in fiscal 2012. On the positive side, its cash flow exceeds its needs and its balance sheet is excellent.

The company remains a buy for long-term gains from a business recovery and share buybacks, as well as attractive dividends. In addition, its technical outlook has improved.

In the year to Jan. 28, 2012, Reitmans earned $57.9 million, or 79 cents a share--excluding one-time costs to close 13 Cassis stores and convert 12 Cassis stores to other banners.

This was down by 40% from $89 million, or $1.32 per share, a year earlier. The company's sales declined while its costs increased. Reitmans writes that "consumer spending on apparel was impacted by reduced discretionary consumer income".

In fiscal 2012, Reitmans' sales slipped by 3.7%, to $1.019 billion. During the year it opened 30 new stores but closed 56 existing stores. More important, same-store sales fell 4.3%.

Thanks to Reitmans' excess cash flow exceeding its needs, it can maintain an excellent balance sheet, and has about $250 million in excess cash.

Despite weaker sales, Reitmans remains a buy for long-term gains.

Source: The Investment Reporter

Why Invest In Rental Properties?

Margot Bai

My book, Spend Smarter, Save Bigger, helps people make smart decisions on life's biggest expenses to grow their wealth faster. By educating yourself on how complex financial products work, you can find the most affordable option that allows you to keep more money in your pocket. Following the principles in Spend Smarter will eventually lead to having excess savings that can be invested for the future. For most people, investing means the stock market, either through mutual funds or directly in individual stocks. But another way to build your retirement savings is through investing in rental real estate.

When it comes to residential rental real estate, people invariably and immediately dismiss the prospect, citing the PITA (pain in the a**s) factor. The cliché middle-of-the-night phone call about the clogged toilet is a favorite example of why becoming a landlord is a terrible idea. Finding good tenants is difficult, people say, and all it takes is one bad tenant and you are done. Thus, most people eliminate rental real estate as a possible path to financial freedom.

With seven years' experience as a landlord and a small but growing collection of rental units under me, I find the experience of a being an independent landlord exceptionally rewarding. Sure there have been maintenance responsibilities, emergencies like the furnace breaking down mid-winter, and tenant turnover. But being the CEO of my own company of residential real estate holdings has a far lower PITA factor than working for someone else. In fact, offering quality housing at a fair rental rate while striving to be a great landlord is by far the most enjoyable and lucrative income-producing activity I have ever pursued.

Good Business

Compared to other business opportunities, being an independent investor in rental real estate has many advantages. Owning rental real estate is good business! So many "businesses" are built on getting customers to pay huge mark-ups on products they don't need, charging excessive fees for questionable services, and even financial scams and outright fraud.

I'm on the path to financial freedom but it is crucial to me that path is marked by honesty, decency and a fair exchange that mutually benefits both parties. I'm not interested in making money if I have to cheat people along the way. If the product isn't something I would pay for myself, I don't want to be selling it. Housing is a legitimate need and there is something wonderful about providing someone with a safe and comfortable home that meets their needs, is appropriate to their situation and is priced fairly.

Complete Control: Now You are the Boss!

Owning rental real estate can be done completely independently giving you total freedom to pursue it as you see fit. With a typical franchise business opportunity, the business model is designed and dictated by the franchisor. They may provide the product, brand and guidance, but you pay heavily for that support. Plus there are strict rules about everything: product supply chains, marketing and pricing that have a huge influence on how much money you can ultimately make.

As a small, independent investor in rental real estate, you have complete control over how you set up and run your rental property business. You can choose to buy whatever type

of home in whatever location you feel is best. The market dictates what tenants are willing to pay and you can set the asking price for rents based on your own research. You control the quality of the product (the home) and level of service you provide. The best part is being your own boss: no one tells you what to do! You decide how and when to do what needs to be done. You are responsible for the decisions you make: if you manage your properties effectively, you will reap the rewards of happy tenants and stable income.

Get Your Money Working for You

Your rental properties, once properly set-up, will continue to produce a steady income stream with only occasional effort on your part. Most typical businesses providing products or services require ongoing management. As soon as you or your employees stop working at the business, the income stops flowing. Of course, the initial set-up of a new rental property is a lot of work. But once appropriate improvements are complete and quality tenants are placed, there is often little more to do for months at a time than deposit rent cheques and ensure bills are paid.

Setting up and managing a small number of rental properties is certainly doable in addition to working a full-time job. But the best part is once you've built up a large enough income-stream to cover your living expenses, you can choose to leave your day job if that is your goal. I won't call this retirement exactly, since you will still have responsibilities toward maintaining your properties. But getting out of the rat race means getting back the 40+ hours per week that your job previously consumed. Imagine what you could do during the week instead: turn a hobby into an income-producing venture, enjoy more travel, try new activities, eat healthier meals, get more exercise, lower your stress levels, invest more in your friendships and generally improve the quality of your life.

Fairness & Profitability

When my husband and I first set out to be landlords, we agreed that it was equally important to be decent and fair landlords as it was to make money. Our business model would be offering quality homes at competitive prices and taking good care of our tenants. Happily we have found that being fair and being profitable go hand-in-hand. This is what makes being a landlord so rewarding: providing a good home to a deserving family at a fair price AND growing our wealth in the process.

Three Skill Sets Needed

Over the years I've owned rental real estate, I've found there are three key skill sets needed to succeed. No one is born with these skills but they can be learned through reading, researching, taking some courses, asking various professionals for advice and ultimately just giving it a try. If you don't have all these skills right away, don't dismiss rental real estate as a possibility for you. Just recognize that you will need to develop these skills.

Financial Savvy

The first skill you need is financial savvy both to assess a prospective home as an investment and obtain appropriate financing. Probably the number one obstacle for most people to investing in rental properties is they don't know how to evaluate potential properties to determine if it will be profitable. You need to identify which market (town, neighbourhood) is a good investment location and what type of home you are looking for (detached versus semi, bungalow versus multi-storey, duplex, triplex, 4-plex, etc). Before you buy, you must accurately predict the up-front costs and regular monthly expenses plus predict realistic rental income for that specific property. You must also secure affordable mortgage financing and a source of funds for the down payment and up-front costs. Finally, you need to have a good record-keeping system for tracking expenses and making tax returns easy.

Tenant Management

Equally important are people skills, specifically for dealing with tenants. Being a landlord is a customer service position and your tenant is your customer. But before you hand over the keys, you must be sure that the prospective tenant is someone you want to do business with. Developing an effective system for screening prospective tenants is critical to your success. Establishing clear protocols for rent payment and reporting maintenance issues makes the process easier for everyone. Dealing with conflicts tactfully and treating tenants with respect is crucial to retaining long-term, happy tenants.

Maintenance DIY

Finally, you need to have some handy skills. Anyone can learn to do basic repairs around a home – it starts with having the right attitude and taking responsibility for learning how. Owning your own home first should

provide lots of opportunities to learn basic skills like drywall repair, painting & dapping (filling cracks), cleaning & sealing grout, exterior grading and downspout maintenance and more. You don't need to become a plumber or electrician – complex jobs can and should be hired out. But you can and should learn to replace the hardware inside a toilet tank or install a light fixture. You also need to understand and be proactive about basic preventive maintenance.

What About You?

Are you intrigued by the possibility that you too could be a successful investor in rental real estate? My upcoming series of articles will teach you everything I've learned about buying and managing rental properties in Ontario. Topics will include how to find a profitable property, arrange financing, securing quality tenants, negotiating lease agreements, dealing with maintenance and more. I don't pretend to be the definitive authority on rental real estate. But as an experienced landlord with a small portfolio of profitable units under me, I can help you understand what is involved and how to get started. Ultimately you must decide: can this work for you?

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Are You A Worried Boomer?

...And What Can You Do About It?

Derek Foster

The baby boom in Canada started in 1947. Simple math tells us that the first of the baby boomers are turning 65 in 2012. Many of them are reaching traditional retirement age without having an employer sponsored pension plan. Still more are heading into the final stretch of their working lives with little or no savings! In fact, for many it's even worse – they are carrying large amounts of debt into their retirement years. The reality is that the Canada Pension Plan will not be able to pay for their lifestyles because the benefit amounts are fairly small. There has been some tweaking to the way the payments are calculated to encourage older workers to work longer (and financially penalize those who decide to take CPP early). There have also been rumblings (which are getting louder) that the government is going to increase the age at which people are eligible to receive OAS from 65 to 67 *(editor's note: this is now happening)*. Although many people will complain about these changes, left unchecked, these payments would balloon over the coming decades.

The reality is that a large portion of the population is reaching an end to their working lives without adequate incomes. Many are now shelving their plans for "Freedom 55" and instead looking at perhaps "Freedom 85" plans.

I have stated many times that I am an "idiot" investor with no special skills – but I was able to quit the 9-5 grind at the tender age of 34. A few years later I became a millionaire through investing in simple, idiot-proof, dividend-paying stocks. But to be honest, the reason investing worked so well for me is because I started investing before I started shaving regularly. Young people who have time can begin a regular savings program and invest using DRIPs. I outlined this idea in detail in a previous book and this is one of the often-mentioned strategies in this magazine with many writers extolling

the virtues of gradual wealth accumulation. My own kids have been doing this for a few years now with stellar results! But what about older people? What if you are closing in on retirement with little savings and worse – huge debt? Corporate pension plans have become a thing of the past for many people, so what can you do?

This is the focus of my latest book, The Worried Boomer. You will have to tackle these issues on a number of fronts. The first course of action might involve contacting Service Canada and finding out exactly how much income you can expect in retirement. Surprisingly, many people getting close to retirement have no clue how much income they will be receiving from these sources. I took the initiative and contacted Service Canada to find out how much pension income I could expect to receive and the whole process took less than 10 minutes. Surprisingly, thousands of eligible people fail to apply for these benefits (Canada Pension Plan, Old Age Security, and Guaranteed Income Supplement) and never get the money they are entitled to! You should also get information about your employment pension (if you have one) to figure out how much income you can expect to receive from that income source. These steps are fairly basic, but thousands of Canadians fail to do this.

Once you know how much basic pension income you can expect to receive, you might want to consider freeing up capital (and/or paying of debt) by downsizing your house in this relatively strong housing market (the strong housing market will NOT last forever). Since a house is often people's largest asset, the money received can be used to buy a smaller, less expensive house with the excess rolled into TFSAs (which will provide you with tax-free income which will not affect government benefits through taxes and clawbacks) or depending on your situation, you could also roll a portion of it into an RRSP (if you expect your income to drop once you retire – and thus benefit from the tax savings).

This is the stage where some people feel intimidated. Seasoned investors will be comfortable stocking their tax-sheltered accounts with the appropriate stocks and bonds (personally, I've always had a strong biased towards "idiot-proof", dividend-paying stocks, but the choice of investments is up to you).

Is that it?

No.

There is one other investment option you might wish to consider. One final course of action you might choose is to join a pension plan (even if you don't have one available through your employer). Amid all the recent debates about "pooled pension plans" and other ideas such as beefing up the CPP through higher contributions and pension payments, the media has totally overlooked the fact that there is a pension plan **any Canadian resident can join**. This plan has existed for over 25 years with a solid 8% per year average gain over that time frame. Called the SPP (or Saskatchewan Pension Plan), this simple vehicle offers another possible piece of your pension puzzle. You can opt to contribute up to $2,500 per year into the plan and your contribution is tax-deductable (just like with RRSP contributions). There is also a "loophole" I wrote about in my book which enables you to circumvent this limit and contribute more to the plan (up to $10,000 per year more), but explaining this in detail would become too wordy for a simple investment article. Just be aware that any of these additional contributions would also be tax-deductible.

So what's the advantage of this plan? For starters, it's easy. You simply make the contribution and your investment is managed for you. This is a huge advantage for investors who don't manage their own investments (or for investors who only want to manage part of their investments). Since it is not a profit-based entity, they don't have huge marketing budgets and the associated costs, so the management fees are much lower than you'd expect from typical mutual funds.

The point is that if you are a baby boomer who is approaching retirement and you do not already have a solid pension plan and/or enough investments to sustain your lifestyle after you leave the workforce, you need to start planning. Get the money you are already entitled to, consider downsizing to pay off any debt you might have and fund some invest your TFSA or RRSP if possible, and consider joining a pension plan. Hopefully this will offer you some actionable ideas.

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TOP FUNDS

TOP FUNDS RANKED BY FIVE-YEAR RETURN AS OF APRIL 12, 2012

Fund Name	Min Invst ($)	Load	YTD Return	% Ret YrEnd Dec11	% Ret YrEnd Dec10	% Ret YrEnd Dec09	% Ret YrEnd Dec08	% Ret YrEnd Dec07	3 Yr Ret	5 Yr Ret	Since Incep Ret	5 Yr TxEff PreLiq	Dist Freq	Quart YrEnd Dec11	Quart YrEnd Dec10	Quart YrEnd Dec09	Quart YrEnd Dec08	Quart YrEnd Dec07	Total Asset $Mill	% Chng Asset	NAVPS Dec11	12 Mth High	12 Mth Low	Mgr Tenur	Exp Ratio
CANADIAN EQUITY																									
Mawer Canadian Equity	5000	None	4.2	1.9	13.7	29.5	-29.7	11.5	20.3	3.7	8.8	75.5	Annual	1	3	3	1	1	910.7	31	38.5	40.5	33.84	12.2	1.22
RBC O'Shaughnessy All Cdn Equity Advisor	500	None	5.4	-5.7	24	28	-31.6		21.9	3.5	3.8	76.9	Annual	1	1	3	2		231	-10	11.01	11.55	9.44	5.1	1.76
RBC O'Shaughnessy All Cdn Equity	500	None	5.4	-5.7	24	27.9	-31.7		21.8	3.4	3.8	79.8	Annual	1	1	3	2		231	-10	10.96	11.51	9.4	5.1	1.82
Beutel Goodman Canadian Equity Class D	5000	Front	6.1	-7	15.5	24.1	-22.9	5.3	18	2.5	8.3	33.7	Annual	1	2	4	1	3	2110.1	26	24.44	26.45	21.71	12.7	1.5
Fйrique Equity	500	None	6.1	-11.2	18.6	36.6	-32	10.9	18.6	2.5	10.7	40	Qrtly	3	1	2	2	1	505.7	-11	63.18	75.52	57.43	14.8	0.84
TD Canadian Index - e	100	None	6	-8.9	17.2	34.6	-32.9	9.6	18.8	2	6.1	38.8	Annual	2	1	2	2	2	946.2	-7	20.27	22.85	18.13	5.8	0.33
DFA Canadian Core Equity A	10000	None	7.2	-11.9	20.7	41.7	-34.9	6.1	20.9	1.9	7.2	71.1	Qrtly	3	1	1	3	3	585	-12	16.01	17.98	13.86	7.7	1.52
CI Select Canadian Equ Mngd Corp Cl W	25000	Defer	6.7	-5.5	15.2	32.1	-31.2	6.1	19.5	1.7	4	79.2	Annual	1	2	3	2	3			12.28	13.13	10.88	6.3	1.31
RBC Canadian Index	1000	None	6	-9.2	16.8	34.1	-33.1	9.3	18.4	1.7	8.1	59.2	Annual	2	2	2	2	2	627.1	-10	23.47	26.58	21.05	13.3	0.71
Desjardins Environment	1000	None	7	-14	10.9	38.4	-32.4	15.1	15.2	1.7	7.4	95.5	Annual	4	4	1	2	1	242.4	-6	26.88	32.13	23.95	21.4	2.32
Average Canadian Equity	**11736**		**5.8**	**-11**	**14.1**	**30.8**	**-33.7**	**7.3**	**15.6**	**-0.5**		**66.2**							**302.8**	**-8**	**23.99**	**27.21**	**21.37**		**2.42**
CANADIAN EQUITY BALANCED																									
Norrep Income Growth Class	5000	Front	9.4	2.2	32.6	42.3	-33.6	19.6	32.7	9.7	11	67.9	Mthly	1	1	1	4	1	79	5	12.75	13.06	10.12	6.2	2.67
Lakeview Disciplined Leadership High Inc	500	Front	2.2	6.8	19.2	27	-14.3	6.2	18.6	7.8	11.2	63.8	Mthly	1	1	2	1	1			13.16	13.55	12.15	7.6	2.39
imaxx Canadian Fixed Pay	1000	F or B	2.4	8.4	17.9	35.2	-25.9	10.5	23.3	6.7	9.3	34.2	Mthly	1	1	1	4	1	215.2	25	10	10.62	9.29	0.7	2.67
FMOQ Monthly Income	500	None	2.2	4.3	13.2	25.6	-19	7.2	16.1	5	5.4	52.9	Mthly	1	2	2	2	1	139.7	29	10.23	10.58	9.82	5.3	0.95
AGF Monthly High Income Series T	500		3.9	0.7	19.8	47.1	-33.4	10.1	26.5	4.9	6.6	52.4	Mthly	1	1	1	4	1	727.1	54	13.49	14.52	12.33	5.8	2.34
AGF Monthly High Income	500	FnDf	3.8	0.7	19.7	46.8	-33.4	10.1	26.4	4.9	7.8	44.9	Mthly	1	1	1	4	1	727.1	54	10.97	11.67	9.98	5.8	2.41
Dynamic Diversified Real Asset	500	FnDf	6.1	-8	28	38.8	-27.8	3.2	21.1	4.9	9.4	97.8	Annual	4	1	1	4	2	286.6	13	9.16	9.74	8.32	6.8	2.53
TD Monthly Income - H	5000	None	3.2	3.5	9.9	30.6	-23.4	3.1	17	3.7	4.9	36.5	Mthly	1	3	1	3	2	5866.2	12	12.87	13.43	12.12	13.7	1.47
TD Monthly Income - T	5000	FnDf	3.1	3.6	9.8	30.7	-23.4	3.1	17	3.7	4.9	36.4	Mthly	1	3	1	3	2	5866.2	12	12.85	13.41	12.11	13.7	1.46
TD Monthly Income - A	500	Fr&Bk	3.1	3.6	9.8	30.7	-23.4	3.1	17	3.7	8.9	53.1	Mthly	1	3	1	3	2	5866.2	12	15.99	16.18	14.84	13.7	1.46
Average Canadian Equity Balanced-MF	**20089**		**4.3**	**-2.9**	**11.6**	**24.7**	**-22.2**	**1.9**	**14.5**	**1.8**		**48.6**							**851.5**	**3**	**12.17**	**12.93**	**11.23**		**2.19**
CANADIAN DIVIDEND INCOME																									
RBC Canadian Equity Income Advisor	500		6.3	10.4	24.1	59.6	-18.8	9.5	34.1	15	13.5	78.9	Mthly	1	1	1	1	1	1430.8	224	24.18	24.51	20.47	5.5	2.05
RBC Canadian Equity Income	500	FnDf	6.3	10.3	24	59.5	-18.8	9.5	34.1	14.9	13.5	82.2	Mthly	1	1	1	1	1	1430.8	224	24.08	24.42	20.4	5.5	2.09
Investors Canadian Equity Income A	0	Defer	4.7	5.3	23.1	47.7	-25.4	8.1	29.7	9.6	11.7	70.2	Qrtly	1	1	1	2	1	780.1	48	13.43	14.47	12.06	7.2	2.75
Investors Canadian Equity Income B	0	None	4.6	5.1	22.9	47.5	-25.5	7.9	29.5	9.5	11.5	69.7	Qrtly	1	1	1	2	1	780.1	48	13.31	14.37	11.97	7.2	2.91
Investors Canadian Equity Income C	0	None	4.6	5	22.8	47.4	-25.5	8	29.5	9.4	9.4	69.5	Qrtly	1	1	1	2	1	780.1	48	11.24	12.13	10.11	7.2	2.97
Mac Saxon Dividend Inc Investor Series	5000	Front	5.4	3.5	22.9	44.9	-28.3	10.9	29.1	8	10.1	63.3	Mthly	1	1	1	3	1	464.8	91	13.35	13.62	11.48	10.5	1.59
Fidelity Dividend Plus Series B	500	Defer	1.5	3.1	19.8	45.9	-22.1	5.4	24.9	7.7	11.9	79.3	Mthly	1	1	1	1	2	1544.2	59	13.79	14.68	12.28	0.3	2.12
Fidelity Dividend Plus Series A	500	Defer	1.5	2.9	19.5	45.7	-22.2	5.2	24.6	7.5	11.6	79.7	Mthly	1	1	1	1	2	1544.2	59	13.79	14.68	12.27	0.3	2.34
Sentry Canadian Income	500	Front	4.3	6.1	18.6	33	-22.8	8.1	22.9	7.3	12.5	76.8	Mthly	1	1	1	2	1	1796.2	40	16.13	16.44	14.36	10	2.7
Dynamic Equity Income	500	F or B	3.4	9.6	22	30.5	-24.6	7.4	25	7.2	13	68.6	Mthly	1	1	2	2	1	1472.6	22	17.63	17.72	15.54	10.6	2.15
Average Canadian Dividend & Income Eq	**15788**		**4**	**-1.3**	**12**	**27.1**	**-26.4**	**2**	**17**	**1.9**		**63.4**							**556.5**	**35**	**16.06**	**16.93**	**14.44**		**2.37**
CANADIAN FOCUSED EQUITY																									
Fidelity Canadian Large Cap Sr B	500	Front	2.9	10.5	17.6	37.2	-29.7	14	25.9	8	9.1	84.7	Annual	1	1	1	2	1	1135.3	79	29.82	31.77	28.23	0.9	2.28
Fidelity Canadian Large Cap Sr A	500	Defer	2.8	10.3	17.3	36.9	-29.9	13.7	25.6	7.7	9	84.9	Annual	1	1	1	2	1	1135.3	79	29.75	31.65	28.13	0.9	2.49
RBC North American Value Advisor	500	F or B	6.1	-3.6	15.4	28.7	-22.6	4.7	17.6	4	5.4	73.2	Annual	1	1	2	1	2	486.4	31	16.66	17.68	14.7	6.8	2.07
RBC North American Value	500	None	6.1	-3.6	15.3	28.7	-22.7	4.6	17.5	3.9	6.5	71.2	Annual	1	1	2	1	2	486.4	31	16.39	17.39	14.46	6.8	2.09
Stone & Co Dividend Growth Cl Canada A	1000	Front	4.1	-3.6	10.8	25.6	-22.9	9.4	15.2	2.9	10	53.9	Mthly	1	3	3	1	1	512.5	-15	8.5	9	7.68	9.3	2.8
Stone & Co Dividend Growth Cl Canada B	1000	Defer	4	-4.2	10.2	25	-23.3	8.9	14.6	2.4	9.5	42	Mthly	1	3	3	1	1	512.5	-15	8.1	8.62	7.34	9.3	3.37
Stone & Co Dividend Growth Cl Canada C	1000	Defer	4	-4.2	10.2	25	-23.3	8.8	14.6	2.4	8.6	42	Mthly	1	3	3	1	1	512.5	-15	8.09	8.62	7.34	9.3	3.37
Mac Cundill Canadian Security Cl Sr	500	F or B	15.6	-9.9	17.2	25.8	-23.2	-4.8	20.9	2.3	4.8	100		2	1	3	1	4	96.1	-9	14.68	15.75	12.15	2.8	2.48
Mac Cundill Canadian Security Series A	500	F or B	16	-10	19.4	27.4	-25.6	-4.7	22.5	2.3	9	78	Annual	2	1	2	1	4	1397.9	-16	35.2	38.62	29.55	2.8	2.21
CI Harbour Corporate Class	500	F or B	7.4	-8	9.5	26.5	-24.5	7	14.6	2	6.8	91	Annual	2	4	3	1	1			25.14	26.98	21.77	14.7	2.42
Average Canadian Focused Equity-MF	**31750**		**6.8**	**-11**	**12**	**29.5**	**-31.6**	**3.2**	**15.1**	**-1.2**		**64.6**							**384.8**	**4**	**13.88**	**15.62**	**12.23**		**2.44**

TOP FUNDS RANKED BY FIVE-YEAR COMPOUND RETURN AS OF APRIL 12, 2012

Fund Name	Min Invst ($)	Load	YTD Return	% Ret YrEnd Dec11	% Ret YrEnd Dec10	% Ret YrEnd Dec09	% Ret YrEnd Dec08	% Ret YrEnd Dec07	3 Yr Ret	5 Yr Ret	Since Incep Ret	5 Yr TxEff PreLiq	Dist Freq	Quart YrEnd Dec11	Quart YrEnd Dec10	Quart YrEnd Dec09	Quart YrEnd Dec08	Quart YrEnd Dec07	Total Asset $Mill	% Chng Asset	NAVPS Dec11	12 Mth High	12 Mth Low	Mgr Tenur	Exp Ratio
FIXED INCOME																									
Beutel Goodman Income Class B	5000	None	0.3	6.7							3.6		Annual	3					1971.7	36	10.03	10.09	9.55	20.1	1.27
Canoe GOC Bond Advantage Class A	2500	Front									0.6		Annual						5		10.04	10.06	9.93	0.2	
CI Signature Canadian Bond Corp Cl E	100000	Front	0.3								1.7		Annual								10.11	10.13	9.8	7.8	
CIBC Canadian Bond Index Premium	50000	None	0.1								1.2		Annual						437.5	1	10.04	10.1	9.95	12.6	
CIBC Income-Focused Index Portfolio	500	None	0	5.1	3.5	3.4	4.7	3	4	3.8	4.2	100	Annual	4	4	4	2	1			17.93	17.98	17.04	14	
CIBC Income-Focused Portfolio	500	None	0.3	4.9	3.9	4.2	3.7	2.7	4.5	3.8	4.1	100	Annual	4	4	4	2	2			17.67	17.7	16.79	14.2	
Desjardins Capital Yield Bond	1000		0	6.4	5.6	5			6		4.2		Annual	3	3	3			190.2	17	10.36	10.45	9.82	3.9	1.74
Dynamic Advantage Bond Class	500	F or B	0.7	6.6	7	12.6			8.8		5.7		Annual	3	1	1			698.6	108	12.55	12.56	11.72	4	1.57
Dynamic Advantage Bond Class Series T	500	F or B	0.7	6.6	7	12.6			8.8		6.2		Annual	3	1	1			698.6	108	10.75	10.8	10.43	4	1.57
Dynamic Aurion Total Return Bond Cl	500	F or B	0.8	7.7							4.6		Annual	2					191.6	170	10.69	10.7	9.83	1.5	1.88
Average Canadian Fixed Income-MF	**39194**		**0.5**	**7.1**	**5.8**	**7**	**3**	**2.1**	**7**	**4.9**		**71.2**							**808.8**	**77**	**13.46**	**13.59**	**12.79**		**1.41**
CANADIAN SMALL MID CAP EQUITY																									
Galileo High Income Plus Class A	500	Front	5.6	8.5	34.2	57.8	-21.7	7.1	36.4	14	15.3	82.2	Mthly	1	1	2	1	3	81.1	37	17.55	18.04	14.2	5.3	2.56
Dynamic Small Business	500	F or B	6	1.5	27.3	38.8	-18	18.5	26.3	11.6	8.9	86.8	Mthly	1	3	4	1	1	596.2	89	10.79	10.85	9.3	9.5	2.77
Bissett Canadian High Dividend A	500	F or B	8.3	-1	30.5	36.3	-25.3	10.8	27.8	8.7	12.6	56.8	Mthly	1	2	4	1	2	645.8	3	15.57	16.36	12.68	15.6	2.48
Beutel Goodman Small Cap D	5000	Front	13.3	-12.4	32.3	62.3	-29	2	30.7	8.1	14.6	73.9	Annual	3	2	1	1	3	582	-4	20.37	24.61	17.4	17.1	1.52
Mawer New Canada	5000	None	9.5	1.1	23.9	51.2	-38.3	16.6	32.2	7.5	13.7	72	Annual	1	3	3	2	1	712	9	46.39	47.1	37.87	15.2	1.46
BMO Guardian Enterprise Classic	500	Front	9.5	-0.5	25.9	49.8	-38.8	15.5	31.9	7		87.1		1	3	3	2	1	229.3	-2	14.61	14.69	11.76	7.5	2.25
BMO Guardian Enterprise Mutual	500	F or B	9.4	-1	25.2	49	-39	14.8	31.2	6.4	9.6	85		1	3	3	2	1	229.3	-2	13.44	13.57	10.84	7.5	2.75
IG Beutel Goodman Canadian Small Cap C	0		13.1	-13.9	31.3	60.1	-30.7	0.4	29.1	6.4	11.4	70.3	Annual	3	2	2	1	4	266.8	-17	23.82	28.89	20.69	10.3	3.1
STYLUS Momentum	150000		13.2	-11.6	27.7	52.7	-37.4	18.8	29.4	6.3	16.7	83.9	Annual	2	3	3	2	1	76.4	-4	17.83	20.13	15.75	18.2	1.55
Renaissance Canadian Small Cap	500	F or B	10.9	-11.6	36.1	54	-36.9	5.1	29.5	5.8	9.4	84.8	Annual	2	1	2	2	3	334.7	-12	25.55	29.04	21.09	4.3	2.57
Average Cdn Small/Mid Cap Eq	**13593**		**9.6**	**-11.7**	**26.9**	**51.7**	**-41.7**	**6.9**	**25.3**	**1.5**		**80.3**							**156.3**	**-8**	**23.92**	**27.13**	**20.18**		**2.72**

CHART NOTES

For information on the category definitions, please visit http://www.cifsc.org/en/index.php. Additional categories are offered at http://www.canadianmoneysaver.ca/rc_charts.aspx for all members. Front load funds (Frnt) charge a fee to investors when units are purchased; deferred load funds (Def) charge a fee when units are redeemed. Front loads may be reduced (in per cent terms) as the size of the investment increases; deferred loads may decrease as the time elapsed between purchase and redemption lengthens. Some funds have either a front load or a deferred load (FnDf). Others have no load fee (None). Deferred sales charges also known as a back-end load, these deferred charges typically go down each year you hold the fund, until eventually they reach zero. Deferred sales charges give investors an incentive to buy and hold, as well as a way to avoid some sales charges. n Year Return - The average annual compound (annualized) rate of return the fund has performed over the last "n" years. It assumes reinvestment of any dividend or interest income. 1 Year Return (Yr ending DecYY) - An annual return is the fund or portfolio return, for any 12-month period, including reinvested distributions. Tax Efficiency - Calculated by dividing the fund's tax-adjusted return (pre-liquidation) by its pre-tax return, and can only be calculated when both pre-tax returns and tax-adjusted returns are positive. Distribution Frequency - The interval at which regular capital or income dividends are distributed to fund unitholders. YearEnd Quartiles - The quartiles (1 to 4) give the individual fund its position relative to all others in the fund type category. For example, if the fund's quartile value is "1" for the Dec 2008 yearend, this means the fund's rate of return for the 12 months ending Dec 31, 2008 is in the top 25% of all funds in its fund type category. Sales status is open, **reopened, ^part open, #capped, *restricted to qualifying individuals. Index funds have management fees listed in bold under the Expense Ratio. Source - Morningstar PalTrak, Morningstar Canada, (800) 531-4725, http://www.morningstar.ca.

You must accompany your inquiry with your MEMBERSHIP NUMBER (ID) and telephone number or e-mail address to have your question reviewed. (Inquiries are responded to directly and the Q&A may be published here later. Hundreds of other Q&As are found on CanadianMoneySaver.ca.)

Q *I've been in contact with a CFP who has investments that promise up to 10% annual returns. These investments are mainly MICs (mortgage investment certificates). What do you think of these?*
C.B., e-mail

As you may already be aware, a MIC is an investment that lets people invest in a pool of mortgaged-based investments. All of the MIC's net profit from the mortgages flows through to the MIC investors.

When considering a MIC investment, here are 10 points to consider (though not exhaustive):

1. Proven Track Record - How long has the investment been around? I suggest a minimum of 10 years.
2. Consistency of Dividends - Has it paid out year after year or has it been stop and go? Is the amount paid a consistant dollar amount?
3. Mortgage Portfolio Performance - How are the underlying mortgages managed? Are they being paid timely or are there delinquencies, or worst, potential defaults? Is there a reserve in place should there be a default?
4. Diversification - Is there too much concentration in terms of borrowers, type of mortgages (eg., construction loans, commercial or residential loans), geography (in many communities?)
5. Management Experience - Is everyone compliant with regards to licensing, registrations, and regulations? Are the funds managed by internal or external management? What kind of qualifications do these managers have?
6. Liquidity - Is there a "lock-up" period? What are the redemption provisions? Are there associated fees and/or penalties for early redemption?
7. Reporting - Are there statements provided? How frequently?
8. Plan Fees - How does management get paid? Are there annual administration fees? Are there trustee fees for registered accounts? Is there a set-up fee?
9. Lending Criteria - What kind of credit is being approved? Are they first or second mortgages? What is the maximum loan to value? Are any of the mortgages insured by Canada Mortgage and Housing Corporation (CMHC) or another mortgage insurance company? Is there title insurance?
10. Vested interest by principals - Are the insiders (eg., directors, officers, employees) invested in the fund?

As with any investment, one must always ask, What are the risks? If you are comfortable with your research and able to sleep at night after you've done your due diligence, then the risk may be acceptable.

Becky Wong, B. Comm, CFP, FMA, Independent Financial Planner, Vancouver, BC (778) 227-7087

Q *My mother has all joint accounts with me, her daughter. I have POA (Power or Attorney) and am executrix of her estate. Her estate is to be divided equally among my two brothers and me. Both brothers are aware that the accounts are held jointly and are in full agreement with this arrangement. When our mom passes away, are her holdings (cash, GICs and some Canadian stocks) liquidated to her estate? My bank rep says yes.*
P.R., e-mail

When assets are owned jointly, with the right of survivorship, the surviving joint owner becomes the sole owner on the death of the other joint owner. The asset does not pass into the deceased's estate so the assets will not be subject to probate. (This is now called Estate Administration Tax in Ontario.)

However, there can still be income tax to pay. You mentioned that your mother had some Canadian stocks. When she added you as a joint owner she may have triggered any accrued capital gains on the portion she "gave" to you—a 50% interest. A gift is treated the same as a "sale at market value" for income tax.

This would be the case if there was an accrued gain on the stocks and that in bringing you on as a joint owner she made you both a legal and beneficial owner of the joint interest. If she only permitted you a legal interest, and not a beneficial interest, then your mother would not have been considered to have to have "gifted" or "sold" you anything. However, in this case, you mother is still exposed to income tax on the accrued gain on the shares when she dies on the full portfolio of the Canadian stocks (and any other assets she owns that have an accrued gain on them at the time of her death).

Getting back to your question, I disagree what the bank rep told you. As you are a joint owner the assets will become yours. I see no requirement to sell them. You and your brothers have an agreement between all of you. I don't

see how this impacts the bank. Perhaps the bank meant you would need to sell them to come up with cash to pay a third to each brother and keep a third for yourself. Cash is easier to split three ways than is a GIC/stock portfolio.

The objectives of your estate plan, noted in your letter, have been met. I assume when you say "defer tax" you are referring to the estate administration tax as your plan would not defer income tax. The income tax liability may have been "speeded up" to the time when your mother allowed you to become a joint owner. Again, if your joint ownership was meant to provide you with both a legal and beneficial ownership then your mother was considered to have sold 50% of her portfolio to you, which would have triggered 50% of the accrued capital gains, and would have been subject to income tax in her hands at that time.

Brian Quinlan, Chartered Accountant, Campbell Lawless Professional Corporation, Toronto, ON, (416) 364-0702

Q *I purchased an older home in order to flip it. I am an employee and also a self-employed construction contractor. How do I claim this on my personal income tax? The house was sold for about $25,000 less than I paid for it.*
J.M., e-mail

Based on your e-mail, the tax treatment of your house flip appears to be a business loss. Income from property and income from business activities are treated differently for tax purposes. Since conducting business activities generally involves producing a product, re-selling a product, or rendering a service, your flip would fall under business income (loss).

The method we use in our offices for builders of new homes and renovators involves using the house as inventory. You essentially show the original purchase price as inventory and increase the inventory value to include renovation expenses as times goes on. When the house is finally sold you have either business income or a business loss. It appears in your situation you would have a business loss.

You may have to file a business statement for the years you held the property and the year of sale. This may involve just showing that you have inventory, and the value of that inventory would increase as you renovated and incurred other costs (mortgage interest). If you have a business loss it would be deducted against other business or employment income in the year the house is sold. You would have to maintain all your receipts and documentation as they could be requested by Canada Revenue Agency.

Peter Premachuk, H&R Block Canada, Olds, AB (403) 556-3479

Q *My daughter was born July 22, 2011, and I opened her RESP (Registered Education Savings Plan) account January 2012. I wanted to put in $5000 ($2500 for 2011 and $2500 for 2012 to receive a grant of $1,000). I was told that I could put in $5,000, but I would only receive a $500 CESG (Canadian Education Savings Grant). I was under the impression I would receive a $1,000 grant.*
J.D., e-mail

I called a mutual fund company to double-check. You are correct, according to them, that you would qualify for two years of grants. The year 2011 would be a "catch-up" year. Only one catch-up year is allowed at a time. That was my own understanding as well, as far as "self-directed" plans (not "pooled" plans) go. You should ask your provider once again about this issue.

Robert MacKenzie, Investment Advisor, Professional Investments, Ottawa, ON (613) 225-1500 or (888) 571-2444

Q *I purchased a cottage property in 1966 and I sold it in 2011. I received 20% of the agreed selling as cash payment on closing and hold the balance in the form of a first mortgage for 5 years. From 1971 to 1975 I consider declaring the property as my principal residence. I would like to ask advice re capital gains calculations and Revenue Canada payments. May I spread capital gains over 5 taxation years?*
J.S., e-mail

Upon my first read, this question reminded me of my long ago tax exams! You have a variety of variables that may impact how you wish to proceed. I'll touch on these variables so that you may complete some further research and can speak with a qualified tax advisor with a few questions prepared.

You should verify whether you made an election, common for 1994, where many taxpayers locked in up to $100,000 of cost base on cottages and other property. Many people have now long since forgotten these elections, which could potentially save quite a bit of tax.

Because you purchased the property before Canada taxed capital gains, you can shield the portion of the gain which arose prior to 1972 by using either the "valuation day" or "tax free zone" methodology (most likely the valuation day method). In using the "principal residence exemption", you can shield from tax the gain on the property for those years. Typically it is assumed that the gain on the property occurs evenly through the years, plus one extra year assuming that the property qualifies for the exemption for the particular year. But if you have evidence of the contrary, such as through appraisals when financing the property, this is not a requirement. Depending on what other property you have owned, it may or may not be worthwhile having additional years counted towards the exemption.

While conditions must be met, it is likely that you would qualify for a capital gains reserve related to the first mort-

gage over the five years. This may not defer as much income as you think, but is certainly worth looking into.

George Dube, CA, Dube & Cuttini Chartered Accountants LLP, Kitchener, ON 1-877-475-3823 or (519) 725-3566

Q *Years ago, I helped my daughter purchase her first home by contributing $100,000 towards a $250,000 house. The deed shows that I have a 40% interest in the property as a tenant-in-common. Since then, she has spent $50,000 in upgrades and the market value of the house is now $500,000. I wish to donate my portion of the house to her as she wishes to sell and move. What will be my tax liability?*
C.R., e-mail

It's too bad that you didn't seek advice initially before structuring your assistance to your daughter in this manner. Unfortunately now, you have tax consequences that you will not be able to avoid. You own 40 per cent of a property and your adjusted cost base of the property is $100,000. The entire property is now worth $500,000, which means your 40 per cent interest has a fair market value of $200,000. At the time you either gift your 40 per cent interest in the house to your daughter or whenever the property is actually sold, you must report a capital gain of $100,000 ($200,000 minus $100,000) on your personal tax return. As 50 per cent of the capital gain is taxable, your taxable income in the year of gift or sale will increase by $50,000. The tax payable will be at your marginal tax rate. If you are in the top tax bracket the taxes owing will be approximately $23,000.

Your daughter's adjusted cost base for the property is $200,000 (her initial investment of $150,000 plus the upgrades of $50,000). When she sells the property she realizes a gain of $100,000 but her gain is not taxable as it is her principal residence.

It is wonderful when parents assist their children in purchasing a home, but Dad would have been much better to simply loan the daughter $100,000 and register a mortgage (first or second) against the property. This way his investment is secured against the property, but come time when Dad wishes to forgive the loan or when the daughter actually sells the home, Dad would have no tax consequences.

Colleen Gibb, FCA, Gibb Widdis Chartered Accountants Professional Corp, Ancaster, ON (905) 648-4422

Q *My husband and I bought a condo that was to be our retirement condo. However, due to economic circumstances, we ended up having to turn the condo into an investment property. In doing so we had to pay a hefty HST on the condo. Now that the condo is an investment property, can the HST expense be written off income from the condo?*
D.R., e-mail

Even though the condo will be an investment property, you may not be able claim back the HST paid, unless it qualifies as a short-term rental. Most residential rentals are exempt from GST/HST, meaning HST is not charged on the rent the tenants pay. This means any HST paid by the landlord can't be claimed back as an input tax credit. The exception would be a short-term rentals—as long as you are charging more than $20/day and the rental periods are less than one month at a time. So, if you have a long-term tenant in, this wouldn't apply. If you are going to be renting out the property for periods of less than one month at a time, then you may be able to register for HST and look to claim back a portion of the HST you paid on purchase.

Ross McShane, CGA, CFP, RFP, McLarty & Co Professional Corporation, Ottawa, ON (613) 726-1010

Q *I would like to make a $25,000 charitable donation to my school district. I have $60,000 in RRSPs. Is there a tax saving procedure which would allow me to cash in $25,000 from my RRSPs without having to declare it as part of my income...and if so, would the donation be tax deductible?*
P.M., e-mail

With RRSP withdrawals over $15,000, 30% tax will normally be withheld up front (15% in Quebec). This means that $7,500 would be withheld on a $25,000 withdrawal. You may be able to obtain approval from CRA to reduce or eliminate the withholding tax on the RRSP withdrawal, by submitting a T1213, "Request to Reduce Tax Deductions at Source". This would allow you to donate the full amount to the charity.

The $25,000 withdrawal from the RRSP will be included in your income either way, but the tax owing on this income will be reduced by the charitable donation tax credit. The federal tax credit is 15% for donations up to $200, then 29% above that. Adding the provincial credits of 5.05%-11.6%, almost all of your donation would result in a credit of 40.6%. The RRSP withdrawal would be taxable at your marginal tax rate, which may be more or less than 40.6%.

The limit on charitable donations which can be claimed for a given tax year is 75% of your net income. The credits are also "non-refundable", meaning they can be used to reduce your tax to zero but not to provide a refund. Any remaining credit can be carried forward and used over the next five years.

Ian Burns, CLU, ChFC, EPC, The Pension Specialists, Whitby, ON, (888) 279-0622

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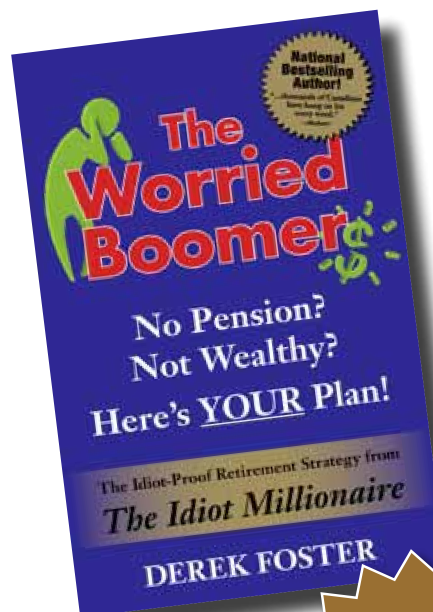

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