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SEPTEMBER 4 - 20, 2014

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The Sears National Kids Cancer Ride is one of the biggest and most ambitious charity cycling events on behalf of childhood cancer in the world. From September 4th to 20th, cyclists will ride a 17-day, 7,000 km trans-Canada odyssey from Vancouver to Halifax.

Our cyclists will raise money on behalf of charities that improve the quality of life for children, and their families, living with and beyond cancer. 100% of the dollars raised will go to fund research at the 17 pediatric facilities in each and evey province across Canada. Now in our 7th year, we have raised over $6 million and look to add over $1.5 million to that total in 2014!

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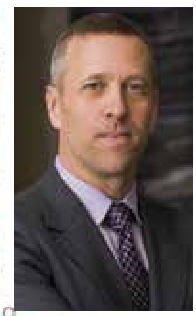

I will be cycling from Vancouver to Halifax in September 2014 in the seventh annual Sears National Kids Cancer Ride. I am honoured to share with you that I have been chosen as a National Rider!

Peter Hodson, Editor - Canadian MoneySaver

I will personally match your donation to a $15,000 limit

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Canada

ShareClubs

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.

The agenda for each group is shared by all group members, i.e. it is not just the responsibility of the contact person. ShareClubs are unlike investment clubs because they are meant to share investing information only.

Contact *MoneySaver* and volunteer to start a *Share*Club in your area. When ShareClubs are filled, they are delisted. Volunteers for any delisted but still active ShareClubs are asked to please contact Dave Stanley at 519-856-9820.

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Sharing With You

Recently, with markets at record highs, we have had many Members ask us a question, along the lines of 'when is there going to be a correction in the market?'

Well, for one, we have no idea. Like at any period in the market, we could give you 24 reasons to buy, and two-dozen reasons to sell. Two, these sorts of predictions should be reserved for The Amazing Kreskin or the multitude of experts paraded daily on business channels worldwide. Except that these fortune-tellers and experts will, most likely, be wrong.

No one can predict short-term stock market movements accurately and consistently. Sure, someone will get a lucky guess in now and again, and look like a genius. But for that person to nail down the next market event?—good luck with that.

These sorts of predictions are detrimental to your portfolio. If you think there is a correction about to happen, are you going to sell everything? Are you going to sell your bad stocks only? (Which of course raises the question as to why you own any bad stocks in the first place). Are you going to buy back into the market after a 5% decline? 10%? 15%? What happens if you are wrong and no correction occurs? Are you going to wait one year before buying? Two years? Ten years?

Are you going to pay taxes when you sell? Think about that. If you are in a high tax bracket you might pay 23% in net taxes on capital gains. Is the correction (which may or may not happen) going to be enough to offset your tax hit? If it is, are you going to be able to pull the trigger and actually buy stocks when everyone else is selling?

In our career in the investment industry, we have lived through dozens of large market corrections. Corrections, like gains, are just part of the market. Good companies will survive; but great companies will survive and still grow their earnings and dividends.

If you are comfortable with your portfolio, we think you should just ignore the noise about corrections. If you are not comfortable with your holdings, change them into something better, and then go enjoy your summer.

Peter

Peter Hodson

MoneySaver DIVIDEND & COMPANY NEWS

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.

- **Alaris Royalty (AD)** increases dividend by 4%.
- **Just Energy (JE)** cuts dividend by 40%.
- **Andrew Peller (ADW.A)** boosts dividend by 5%.
- **Laurentian Bank** boosts dividend by 2%.
- **CIBC (CM)** raises dividend by 2%.
- **BMO Financial (BMO)** raises dividend by 2.6%.
- **Sylogist (SYZ)** increases dividend by 10%.
- **Peyto (PEY)** boosts dividend by 25%.
- **Wi-Lan (WIN)** boosts dividend by 25%

Canadian MoneySaver MODEL ETF PORTFOLIO

ETF	SYMBOL	CATEGORY	PRICE	# OF UNITS	TOTAL	% OF PORTFOLIO
iShares 1-5 Year Laddered Corporate Bond	CBO	FIXED INCOME	$19.72	506	$9,978.32	9.2%
iShares DEX Universe Bond	XBB	FIXED INCOME	$30.74	166	$5,102.84	4.7%
iShares S&P/TSX Canadian Preferreds	CPD	FIXED INCOME	$16.34	310	$5,065.40	4.7%
iShares S&P/TSX 60 Index	XIU	CDN. EQUITY	$21.50	1058	$22,747.00	21.0%
iShares S&P/TSX Cdn. Div Aristocrats	CDZ	CDN. DIVIDEND	$26.43	633	$16,730.19	15.4%
iShares S&P/TSX Capped Energy	XEG	CDN. EQUITY	$20.45	587	$12,004.15	11.1%
iShares S&P/TSX Global Gold	XGD	CDN. EQUITY	$10.91	471	$5,138.61	4.7%
Vanguard FTSE Emerging Markets Index	VEE	EMERGING MARKET	$28.73	194	$5,573.62	5.0%
SPDR EURO STOXX 50	FEZ	GLOBAL EQUITY	$44.87	119	$5,339.53	4.9%
SPDR S&P 500	SPY	US EQUITY	$195.60	28	$5,476.80	5.0%
Vanguard Div. Appreciation Index	VIG	US DIVIDEND	$78.27	68	$5,322.36	4.9%
iShares Russell 2000 Growth	IWO	US GROWTH	$135.03	74	$9,992.22	9.2%
Exchange rate	1.087					
US Prices converted to C$				$110,744.43	Total Distribution	$1,701.15
Starting Value October 18, 2013	$100,000		Gain(Loss)	$12,445.58	Gain(Loss)%	12.45%

Prices are at market close on June 10, 2014

*Individual prices and distributions are not converted to CAD

**Total portfolio value, total distributions, '$ Gain' and '% Gain' reflect USD values converted to CAD

CURRENT NOTES: Many of the U.S. holdings saw declines in value over the last two months but the heavier weighted Canadian funds helped offset the losses while the steady distributions from the fixed income holdings helped to provide an extra boost to returns. The stability in price and reliable distributions seen in the fixed income holdings is a great example as to why fixed income still has a place in an investors portfolio, regardless of the interest rate outlook. We are happy with the holdings currently but expect to reinvest the distributions as of the next update.

NOTES:

Keep in mind all investors are different. This portfolio is designed as a guide in setting up your own personal portfolio. Unique considerations and adjustments need to be made to reflect your personal situation.

Returns are before transaction costs.

Please direct portfolio questions to **moneyinfo@canadianmoneysaver.ca**

BTSX Gains 10% But Loses To The Index

David Stanley

It was a reasonable year for our BTSX portfolio, gaining over 10%, but we lost to a surging index. Still, a double-digit gain is nothing to be sneered at in this 'New Normal' environment. Table 1 shows what caused our downfall over the previous year.

TABLE 1. Beating the TSX model portfolio–results from 5/24/13 to 5/23/14.

STOCK–SYM	INITIAL PRICE	FINAL PRICE	CHANGE (%)
Iamgold Corp.-IMG	$5.23	$3.57	-31.74
TransAlta-TA*	$15.29	$13.44	-12.10
Barrick Gold Corp.-ABX	$19.69	$17.96	-8.79
Shaw Comm.-SJR.B	$23.64	$27.14	14.81
Sun Life-SLF*	$30.24	$37.12	22.75
BCE Inc.-BCE*	$47.92	$50.10	4.55
Bank of Nova Scotia-BNS*	$59.34	$67.96	14.53
Bank of Montreal-BMO*	$63.21	$74.78	18.30
National Bank-NA*	$77.02	$93.00	18.30
CIBC-CM*	$80.12	$98.80	23.32
AVERAGE[1]		6.39	10.13
S&P/TSX 60 TRIV[2]	1705.29	2,037.81	19.50

*These stocks have both DRIP and SPP plans.
[1]Total return for the BTSX portfolio during this time period was 6.39% for capital gains and 3.74% for dividend yield, or 10.13%. Yield is prorated from the average annual expected dividend yield of 3.74%.
[2]Total Return Index Value for the S&P/TSX 60 Index. Data from TMX-Money.com.

That's right – after cutting their dividend either totally or partially, our top three selections proceeded to lose an average of 17.5%. That tends to make for a depressing investment year. Fortunately, our other companies picked up some of the slack. Still, we lost heavily to the resurgent index. We shouldn't be all that surprised, since gold stocks have a history of cutting, eliminating or increasing their dividends depending on the financial milieu in which they find themselves. This is very different from true blue-chip stocks. For example, during the recent 2008-9 downturn none of our portfolio stocks cut their dividends. I should point out that ignoring our top three selections would have resulted in a total return of 21.2%, slightly higher than the index.

TransAlta, in my opinion, is a different kettle of fish. They cut their dividend in February 2014 by 38% as opposed to eliminating it, and also sold some assets. Still, the price only dropped 12% during our investing year. The company mainly operates coal-fired power plants and these suffer from high maintenance costs, thus producing a significant drop in earnings that were partially offset by reducing the dividend. I think the dividend cut was warranted and a wise move from the company's point of view. While the firm is still wrangling with the Alberta Utilities Commission over allegedly abusing Alberta's deregulated electricity market, the CEO has reiterated that an attractive, sustainable dividend continues to be an important aspect of their overall global planning. They also have plans to build a new gas-fired power plant before the end of the decade. TransAlta is an old, estabished company that was founded in 1911. This low beta stock (-0.068) has a reasonable yield of 5.4%. Thus, I have purchased new shares for my own account in the past 18 months, adding to those I purchased in 1995. I do think that TransAlta is a more risky buy than I usually undertake, but I like my chances that it will succeed in turning itself around.

How did these dividend cuts effect our overall historical returns? Not very much actually. Table 2 shows that over our 28-year history we are still doing quite well on an annualized basis, beating the index by over 25%. I should add that although it is not reflected in the data, six of the remaining seven stocks in the portfolio actually increased their dividend by an average of 5.7%. As I have said before, selecting high dividend, blue-chip stocks pretty well insures that you are also going to get good dividend growth.

TABLE 2. Beating The TSX returns vs. the index (%), 1987-2013/14.

	Portfolio	Index
Avg. Yr. Total Return (%)	12.47	9.89
% Increase	26.06	

These data only reflect the yearly average total return. The strong point of the BTSX system is the influence of compounded reinvested dividends. Those results (Figure 1) are much more convincing.

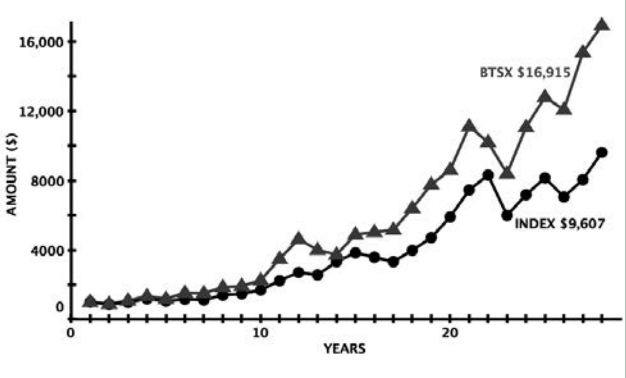

Figure 1. Value of a $1000 investment in the BTSX portfolio and the index over time with reinvestment of dividends.

What are the constituents of next year's BTSX portfolio? Table 3 shows that we are back to a more normal looking group in that no gold stocks made the grade this year. The average yield is 4.2%, which greatly exceeds the 2.3% yield on Government of Canada benchmark 10-year bonds. Seven of our 10 stocks have both DRIP and SPP plans. These help investors take advantage of the compounding effect of high dividends.

While we failed in our mission to beat the S&P/TSX 60 Index total return value this year, an increase of over 10% is certainly comforting in these uncertain times. One factor that contributed to the differential was, I think, a rotation into growth stocks by institutional investors. As I thought might happen, when market conditions are perceived to improve there is usually a tendency to swap boring income stocks for the greater allure of active management of growth and small-cap stocks with their promise of higher price appreciation. We all know that this effect is cyclical and it will only take a downdraft in the market (overdue in my opinion) for the pendulum to swing back to passive management of dividend stocks. Let's see what happens in the coming year.

TABLE 3. Identifying the lowest-price high yielders for the 2014-2015 portfolio[1].

STOCK	SYM	PRICE	IAD[2]	YIELD (%)
TransAlta	TA*	$13.44	$0.72	5.36
Shaw Comm.	SJR.B	$27.14	$1.10	4.07
Power Corp.	POW	$29.75	$1.16	3.90
Fortis	FTS*	$32.67	$1.28	3.92
Sun Life	SLF*	$37.12	$1.44	3.88
Rogers Comm.	RCI.B	$45.68	$1.83	4.01
National Bank	NA*	$46.50	$1.84	3.96
BCE Inc	BCE*	$50.10	$2.47	4.93
Bank of Montreal	BMO*	$76.27	$3.04	3.99
CIBC	CM*	$98.80	$3.92	3.97

*These stocks have both DRIP and SPP plans.
[1]Prices as of 5/23/14. Data from the Globe & Mail andTMX-Money.com.
[2]Indicated Annual Dividend.

As always, I hope this column will generate discussion and I will attempt to answer your questions within the guidelines set by the *Canadian MoneySaver.*

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Is It Time To Fire Yourself – Or Your Advisor?

Warren MacKenzie

Wise investing is more about following a disciplined investment process than trying to find the best investment products. The process involves getting into the right asset mix at the outset, having information which lets you monitor performance and compare to the proper benchmarks, following a disciplined rebalancing process, paying attention to fees and being tax efficient. Do-it-yourself investors should be able to answer "yes" to 60% of the first 20 questions. Investors who use a financial advisor should ignore the first five questions but be able to answer "yes" to 60% of remaining questions.

	YES	NO	DON'T KNOW
1. Do you measure your performance against a composite portfolio of ETFs? *Sometimes do-it-yourself investors should fire themselves – but if you are not measuring your performance against an ETF benchmark you have no way of knowing whether you are winning or losing.*	○	○	○
2. Do you use exchange traded funds rather than try to beat the market by picking individual stocks? *Investors who believe that they can do better than the best Canadian equity manager, the best Global equity manger, the best Bond manager, etc., really should compare their 5 year returns with a couch potato portfolio.*	○	○	○
3. Are you well diversified outside of Canada? *Canada is a relatively small market and its possible for one person to get a good handle on Canadian stocks – but it is unrealistic to think that one individual can consistently choose the best globally diversified portfolio.*	○	○	○
4. Do you have an Investment Policy Statement (IPS) that enables you to stick to a disciplined investment process and are changes to your portfolio in accordance with the IPS? *This IPS allows you to avoid emotional responses and to stick to your overall investment strategy.*	○	○	○
5. Are you managing your money yourself because you enjoy the task? *If you are managing it yourself because you've not found any firm without a conflict of interest – you should ask for help in finding that type of firm. You don't want to be managing your portfolio when you are 90.*	○	○	○
6. Is each security you own necessary to make your overall investment strategy complete? *In the same way that baking a cake requires certain ingredients (and no others) - when building your investment portfolio you need certain types of securities and no others.*	○	○	○

CONTINUED ON NEXT PAGE ▶

	YES	NO	DON'T KNOW
7. Are you following a 'goals based' approach whereby the overall asset mix is designed to achieve your specific goals by aligning your investment assets against your planned spending goals? *Sometimes the asset mix has evolved over time and is no longer the best choice to earn the required rate of return.*	○	○	○
8. Are you clear on your long term goals and are you confident you are on track and you have enough capital? *When you know you have more than enough you may be able to enjoy retirement more by helping family members or charity while you are living.*	○	○	○
9. Do you have a financial plan that shows the rate of return needed to achieve your goals and does the plan also show the size of the estate you will leave behind? *Without a financial plan that shows the required rate of return – then you don't know the asset mix that would be most appropriate for you.*	○	○	○
10. Do you follow a disciplined strategy to rebalance your portfolio, e.g., 'selling high' to lock in profits or 'buying low' when stocks are cheap? *A rebalancing strategy is expected to increase the average annual return while keeping risk within the predetermined limits and you will always know that you are in the right asset mix.*	○	○	○
11. Do you spend less than one hour per month thinking about your investments? *It's OK to spend hours on your portfolio if it's your hobby - otherwise it's a waste of time and it would be better to simply follow a disciplined investment strategy and rebalance as necessary.*	○	○	○
12. Do you know how much your portfolio is likely to fall in value in the next market crash – and how long it can be expected to take to recover your loss? *When you know what to expect in the next market crash then you can choose an asset mix where the risk exposure is within your comfort range.*	○	○	○
13. Does your performance report show all fees and costs associated with your portfolio? You need full disclosure of all the embedded fees and costs associated with your portfolio.	○	○	○
14. Is your investment portfolio designed for income tax efficiency? *Income tax may be your biggest expense and an investment portfolio that is designed for income tax efficiency can maximize your after tax return.*	○	○	○
15. Is your portfolio simple and easy to understand? *Complicated portfolios are evidence that no overall investment strategy is in place. A simple investment portfolio usually provides a better return and is easier to manage and monitor.*	○	○	○
16. Do you know the long term cost of underperforming the proper benchmark by 2% per annum? *If a retiree with $1,000,000 underperforms by 2% per annum it will mean spending $800,000 less in retirement or leaving less to your heirs. Many retirees underperform by 1% to 2% per annum.*	○	○	○
17. Would you say that you are following a well-considered comprehensive investment strategy? *A disciplined investment process is more important and adds more value than trying to find the best investment products or investment managers.*	○	○	○

CONTINUED ON NEXT PAGE ▶

	YES	NO	DON'T KNOW
18. Do you follow a 'stewardship' approach? *Investors using a 'stewardship' approach act like professional trustees and they coordinate the advice from all relevant disciplines (legal, investment, accounting, income tax, insurance, etc.).*	○	○	○
19. Is your spouse well prepared to take over and manage the portfolio wisely? *If the surviving spouse is not well prepared, or if the portfolio is too complicated, then it is often costly and stressful for the surviving spouse to take over.*	○	○	○
20. Are at least 50% of your equities invested outside Canada? *The Canadian stock market is not well diversified and over the longer term investors can expect to earn a higher 'risk adjusted' return with global diversification.*	○	○	○
21. Do you have an investment policy statement (IPS) that enables you to hold your investment advisor accountable? *Are changes to your portfolio in accordance with the IPS? The IPS puts objectives, goals, risk parameters and constraints in writing; which allows you to hold your advisor accountable for asset mix, for types of investments, for rebalancing, fees, etc.*	○	○	○
22. Do you receive a performance report (for the portfolio as a whole) that shows actual return compared to the proper benchmarks? *Performance should be compared to your target return and a market-based benchmark. Otherwise you will not know if you're on track to achieve your goals – or if your managers are adding value.*	○	○	○
23. Do you receive investment advice from a source that minimizes all the conflicts of interest? *Investment managers have a conflict when passing judgement on their own performance. If possible you should deal with independent consultants who have no in-house offering.*	○	○	○
24. Do you use 'best in class' managers for each asset class? *Are such selections guided by solid processes? On the surface many firms can appear to offer highly similar products, strategies & managers. But those guided by a disciplined process and a client-centric mindset have a higher likelihood of delivering superior results.*	○	○	○
25. Are you content with how your portfolio is being managed? *Most Investors are content when they have a simple portfolio, a disciplined investment process, and they receive clear performance reports that compare results to the proper benchmarks.*	○	○	○
TOTAL SCORE			

On this test 60% is a passing grade. What if you've failed the test? If you are a do-it-yourself investor you should consider firing yourself and using professionals who devote themselves full time to managing money. If you are already with a financial advisor you should tell your advisor you've failed the test and now, for financial peace of mind, you need more information (such as benchmark performance comparisons, an investment policy statement, a financial plan, explanation of the investment process being followed, and full disclosure of all fees and costs). If your present advisor cannot deliver essential performance information – you have to consider looking for a new advisor. In searching for a new advisor you should aim to deal with individuals who act as fiduciaries and avoid conflicts of interest.

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The Biggest Winners In The Stock Market Don't Exist Yet

Alan MacDonald

I got started in the financial services industry in 1984. Back then, I couldn't imagine being in this business for 30 years. But here I am, it's 2014, and the last three decades have been nothing short of remarkable.

On my first day at work, the S&P 500 stood at about 150 and the TSX composite was around 2000. As I write these words today, they're at 1850 and 14,250 respectively. That's over a seven-fold increase in the Canadian markets, and an increase of more than 12-fold in the U.S. And those numbers don't even include dividends, which have been dutifully multiplying like rabbits over the same 30-year span.

There's little doubt in my mind that the next 30 years are going to be just as incredible and just as surprising for investors who are in it for the long haul. But this article isn't about why you should ignore the short-term market perils so you can afford to eat in decent restaurants when you're 80. It's about the fact that the biggest winners your portfolio will ever see probably don't even exist yet.

Deep down, we all know that if you want to get five, six or 10 times your money over the next three decades, you don't need to worry about where the price of oil is going tomorrow, what the outlook is for China over the next few months, or what the GDP estimate is going to be in the next quarter. You just have to build a reliable and diversified investment portfolio and then hang onto it long enough to reap the rewards.

Sounds easy, right? In a way, it is. But like a lot of things–eating right, for example, or getting plenty of exercise–it can be a lot easier to say than to do, especially over the long run.

Let's start with the notion of reliability itself. What exactly is a reliable portfolio? Taking a lesson from my past 30 years, a lot of the companies I thought would be setting the world on fire for the rest of my days ended up getting incinerated instead. For those of us in Ottawa, Nortel Networks certainly tops the list. But there are many other examples of once-mighty companies that no longer exist.

What's more, many of the companies that are among the largest business enterprises in the world today either had no meaningful presence or didn't even exist when I was entering my first orders. Facebook, Microsoft, Apple–the list goes on and on. Come to think of it, the Internet itself hardly existed in 1984. Not much need for Internet moguls before there even was an Internet.

As for those who think they can spot the next Big Thing before it appears, all I can say is that in the late 1980s, the White House commissioned a think tank of the world's leading intellectuals and asked them to predict what the next great trends were going to be, trends that were going to rock the world. A lot of great ideas came out of that summit. Some of their predictions came true. Many others didn't. But not one of those brilliant visionaries so much as mentioned the Internet.

The bottom line is that neither you nor I nor anyone else know what the next "Internet" is going to be, let alone which companies are going to benefit from it and which are going to get run over. The good news is that you don't have to be a Kreskin-like stock picker to reap the rewards of the market. Broad-based instruments like low-fee index funds allow anyone to essentially buy all the market, from the smallest up-and-comers to the largest companies in the world. That way, you can avoid the risk of owning too much of a company that could be about to hit its past-due date, while also getting a piece of all those unknown small companies that are on their way to becoming tomorrow's behemoths.

So the next time you're watching the cable news and sweating over which stock is about to take off or what the market is going to do next week, remember: 30 years from now, it won't make much difference. What will matter is whether you are reliably invested for long-term growth. If you are, and if you have a reliable portfolio and a solid process to keep you on track, maybe we can meet for dinner in 30 years to celebrate your success? Might I suggest a nice Cabernet to go with your filet mignon?

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Investor Awareness

Three Themes For A Secular Bull Market

Keith Richards

It is my opinion that the major US markets have entered into a new mega-year bull market, having recently broken through a 14-year technical ceiling that began in 1999. The recent lost decade, which I accurately predicted way back in January 2001 in a *Canadian MoneySaver* article (visit the *MoneySaver* archives and read my piece entitled "Bull, Bear, or Neither") ended after the S&P 500 broke to new highs last August.

Some may argue that instead of a bull market, stocks should be getting ready for a bear market correction. This might make sense, given how far the market has moved lately. True enough, market valuations could be considered relatively high. Moreover, investors currently hold a rather irrational level of enthusiasm for stocks (often signs of a market top)–as evidenced by various investor sentiment surveys that I follow. So let me address the potential for a pending market correction in the near-term. Yes, we are due for a normal (i.e., not of the 2001 or 2008 magnitude) bear market correction sooner or later.

One bit of evidence to support a pullback later in 2014 is the potential for a normal cyclical correction. There has been a bull–bear market cycle on the S&P 500 during the past 15 years. I've measured the rhythm of this cycle from trough to trough since 1998, and it would appear that the current period between such market low-points is about 5-6 years. Past troughs include the 1998 Asian Contagion trough, the 2002/2003 Tech bubble double-bottom, and the 2009 Great Recession trough.

If you have heard me speak at a conference before, you will know that I do not get too tied up in picking the exact dates where a cycle is due to bottom. Instead, I note a rhythm to the markets, and the current rhythm appears to be a tendency for troughs to occur about every 5-6 years.

If we measure from the last trough in 2009, a 5-6 year period would suggest the next bear market bottom in 2014 or 2015. This suggests a market peak either very soon (the coming months) or at the latest, 2015. Other evidence pointing to the potential of a correction (again, not a crash) possibly as early as Q2 this year include the tendency for market bottoms to occur in the 2nd year of a presidential term. Sid Mokhtari of CIBC World Markets has noted in a research report that years following a 20% gain on the S&P 500 typically have bearish Q2-Q3 returns.

You can get more information on my long-term and near-termed technical outlook, including supporting charts, on my blog (www.smartbounce.ca). Look for the entry entitled "Cyclical correction possible in 2014." Given my outlook for a multi-year bull market ahead, any correction that we see in the coming months should probably be viewed as a buying opportunity, rather than a signal to run for the hills.

I am currently focusing on three main investment themes to take advantage of my big-picture bull market prognosis. Theme number one is to buy dividend growth stocks with solid technical uptrends. Stocks that fit this criteria include some (not all) of the pipelines, and the Infrastructure stocks. We own Keyera Pipelines (KEY-T), Pembina Pipelines (PPL-T) and Brookfield Infrastructure (BIP.UN-T) in this space. I also like Inter Pipeline (IPL-T), although we don't hold it at this time.

Theme number two is to look for rotation into new leadership. Texas Instruments (TXN-N) and American International Group (AIG-N) fit this bill. They've both broken out of multi-year consolidation patterns that suggest a movement of money into these companies. We own both of them in our equity platform. We also like the Canadian small cap universe. You can buy individual names within the group, or buy the index as a whole via the iShares S&P TSX Small cap index (XCS-T). This sector was the dog's breakfast since early 2011, but it broke its downtrend around August in 2013. Tearing the index apart, we have identified many constructive stock charts showing early leadership with superb valuations. Retail investors with less capital might be best to stick with the index trade through the iShares Small-capped ETF mentioned above, rather than buying the individual names.

My third theme is to avoid buying or holding stocks that are clearly "rolling over" as they make way for the new market leaders. While not necessarily a bearish call on these stocks, any stocks that are breaking their long-termed trend lines are likely going to take a backseat in performance as we move forward in this stage of the bull market. Here are a few that have broken longer term trend lines, and may be worth selling or avoiding in favor of stocks with better technical profiles. These include most of the big REITs, many Income Trusts, and some of the telecoms. Pipeline giant TransCanada Pipe (PCA-T) along with Enbridge (ENB-T) are two of the pipelines that I would avoid at this time, differing from the bullish pipelines noted above. True, the Keystone project, if approved, may change the fortunes of these stocks but it's too early to gamble on that potential at this time. I'll buy them when the potential for that project becomes clearer. On the US side, there are a few stocks displaying technical breakdowns. American stalwart IBM (IBM-N) is a good example of a former market leader that has decidedly broken its uptrend. Coca Cola (KO-N) is also starting to show a potential break in trend.

In summary, I believe that the longer term picture is bullish for the US markets (perhaps less so for Canada given the commodity exposure). However, we are due for a mid-term bear market correction beginning sometime this year. Those who take advantage of the current rotation on the markets, and interim corrections along the way, will win the investment game.

Keith Richards, Portfolio Manager, can be contacted at krichards@valuetrend.ca.

Principal Residence Elections

Kody Wilson

As we eagerly await our refunds from the Canada Revenue Agency (CRA) with another tax season behind us, I thought I would turn our attention to some tax planning opportunities to be considered for next year.

I often get asked by clients how the tax treatment differs for various properties they own, and what the tax ramifications are of designating certain properties for a certain use. It is very common these days for someone to rent out their principal residence while they leave the city for work, and then purchase another property in their new location. It is also common for that person to come back to the same property at some point to once again reside there as their principal residence.

You should always consult with your tax practitioner to ensure you are fully aware of the tax consequences that go along with these types of decisions.

Before we get started, let's first examine why this decision is so relevant. Typically, you will pay tax on the gain in an asset from the time you purchased it until the time you sold it. However, the sale of a principal residence is exempt from taxation in Canada, provided certain conditions are met. This provides you with a huge potential tax savings opportunity because a home is typically the most expensive asset you will ever purchase.

When there is a change in use of a property from income-producing to principal residence, or vice versa, there is a deemed disposition at fair market value. So, essentially CRA treats the change in use as a sale, despite the fact no sale has actually taken place, and you have not received any cash.

There is really no difference in CRA's mind between a deemed sale and an actual sale, which means taxes could be payable on the deemed sale on a change in use. You are then deemed to have reacquired the property immediately at the same fair market value.

What if you expect the rental property to appreciate significantly in the next few years? Is all this growth taxable to you, the property owner, since you no longer reside in the property? The answer would be yes, if it were not for a special election you may file when you decide to rent out the property. This election allows you to treat the property, which is now an income-producing rental, as a principal residence despite the fact you no longer live there.

The election remains in effect up to four years from the date the election is made. This allows up to four years of growth in the property value that may be sheltered from capital gains tax while the property is being rented. It is important to note, however, that only one property may be designated as a taxpayer's principal residence in a given year, so a choice would have to be made if more than one property is owned at a time.

This election affords you a greater amount of flexibility. You will have the option of designating the property as your principal residence on an eventual sale if the rental property's value appreciates significantly. However, you do not have to designate it as your principal residence during the rental period should the property not appreciate in value.

If nothing else, this election provides you with a measure of security and peace of mind.

There are some restrictions around this election, and some conditions that must be met in order for the election to remain in effect. Notably, capital cost allowance (CCA) cannot be claimed on the property while the election is in effect. This would nullify the election in the year the claim is made.

Let's quickly examine the reverse situation.

You own an income-producing property that you have been renting out, and now wish to live in the home as your principal residence. I often see this situation when someone returns from an assignment abroad, or a temporary assignment in another city. This is becoming more common.

The tax ramifications in this scenario are similar to the aforementioned situation in that there is a change in use of the property from an income-producing property to a principal residence, and a deemed sale has taken place.

The property is not eligible for the principal residence exemption in this scenario, assuming the election described above was not filed, and the gain would be fully taxable. This can put a financial strain on you because you may owe money to CRA despite the fact you did not receive any cash from a sale.

CRA recognizes this burden and allows taxpayers to make an election which would limit the amount payable. If this election is made, there will be no deemed sale in the year, and thus the accrued gain would not be taxable.

But wait, it gets even better. This election also allows you to deem this property as your principal residence for up to four years prior to actually moving in, when the property was rented out and you were not living there. While the previous election allows for some forward planning, this election allows for some retroactive planning if a rental property increases substantially in value.

This election also has certain conditions which must be met. CCA cannot be claimed on the property during the period in which it was rented out. It is also important to keep in mind that you must be considered a resident of Canada in order to be able to take advantage of the principal residence exemption in a given year.

As can be seen from the discussion in this article, many tax planning opportunities exist in relation to property ownership. A professional should always be consulted during this process to ensure any tax planning opportunities are fully utilized and you are fully informed before making any decisions.

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MoneyTip

The Second Leg

After a strong push year-to-date, Canadian E&Ps have been consolidating their gains lately. Canaccord Genuity Portfolio Strategist Martin Roberge says correcting overbought conditions is a necessary step for a complete energy cycle to play out. The second leg is coming and should be driven by global oil fundamentals where strengthening consumption test refining capacity limits. Roberge believes another U.S. refinery production cycle is underway as strong demand for U.S. refinery products has depleted motor gasoline stocks this winter. Crude inventories should come under pressure again because refiners need to build their stocks ahead of the summer driving season. The net result should be persistent upward pressure on crude. While the recent strength in the Loonie is a negative for Canadian E&Ps, Roberge still believes the currency is confined into a range for the balance of the year. He stresses buying the dips as the E&Ps' valuation still has room to expand. The Canaccord Genuity Energy Team likes Canadian Natural Resources (CNQ), MEG Energy (MEG) and BlackPearl Resources (PXX) as heavy oil plays, Canadian Oil Sands (COS), Crescent Point Energy (CPG), Raging River Exploration (RRX), Suncor Energy (SU), TORC Oil & Gas (TOG) and Whitecap Resources (WCP) as light oil plays.

Source: Canaccord Genuity

Canadians With US Rental Property - What Are The Cross-Border Tax Implications?

Claudia Ku

The 2008 global financial crisis had caused housing prices across the United States to plummet by nearly a third, on average, since the market peak in 2006. Since then, the mortgage interest rate in both the US and Canada has been at their historical low. The US housing market has been gradually growing stronger. The ratio of house prices to yearly rent has nearly been restored to its pre-bubble average. These factors, combined with a stronger Canadian dollar, have sparked many Canadians to invest in US real property in the past few years, either for personal use or as an investment. The recent significant drop in the value of the Canadian dollar may dim some of the sparks of Canadians investing in the US housing market. Yet, it may remain a good investment opportunity for investors betting on a medium or longer term weakening in the value of the Canadian dollar.

Canadians earning rental income from US property can be fraught with unexpected tax problems, which could severely hurt their after-tax return on investment. It is important to consult a cross-border tax professional before the purchase to understand all of the US and Canadian tax implications of owning US rental property, and to make the best decision for their situation on the right structure to own and finance the purchase of the US property.

This is the first in a series of articles on the cross-border tax considerations of investing in US real property. If you are planning to purchase US rental property, you need to have some basic understanding of the following US and Canadian tax law before you can make a sound decision on how you should own and finance the purchase of the property.

How Will Canada And The US Tax Your Rental Income From The US Property?

For US tax purposes, Canadian residents (who are not US citizens) earning rental income from US real property are subject to a non-resident withholding tax of 30% on their gross rental income. The Canadian residents will have no further US tax liability and do not have to file a US tax return to report the rental income. The property manager or tenant of the US property (i.e., withholding agent) is required to withhold the taxes from the rent payments and remit to the US tax authority, IRS. The withholding agent must also file Form 1042 "Annual Withholding Tax Return for US Source Income of Foreign Persons" with the IRS and provide the Canadian residents with Form 1042-S "Foreign Persons US Source Income Subject to Withholding" detailing the amount of gross rental income and the amount of non-resident tax withheld. Under this withholding tax regime, Canadian residents are not permitted to deduct any expenses incurred to earn the rental income. The 30% withholding tax on the gross rental income could be more than the net rental income from the property!

Instead of being subject to the 30% non-resident withholding tax, Canadian residents earning US source rental income may elect to file a US tax return and pay tax on the net rental income at the graduated rates, if the Canadian residents are individuals, or at a flat rate of 35% if the Canadian residents are corporations, which is usually more beneficial. The net rental income is to be determined based on the US tax law. To make the election, Canadian residents need to apply for a tax identification number and provide the withholding agent (not the IRS) with a completed Form W-8ECI "Certificate of Foreign

Person's Claim for Exemption from Withholding on Income Effectively Connected with the Conduct of a Trade or Business in the United States". If Canadian residents make the election not to be subject to the withholding tax regime, but fail to file the tax return within the specified time period, the IRS will disallow all deductible expenses as well as any related loss carryovers. In addition, the IRS will assess penalties for late filing and underpayment of tax. Tax returns may also need to be filed for the state and city in which the property is located.

For Canadian tax purposes, Canadian residents need to include the US source net rental income in computing their taxable income and pay tax at the graduated rates if the residents are individuals or at a flat rate if the residents are corporations. The net rental income is to be determined based on the Canadian tax law. To reduce or avoid double taxation, Canada will allow a foreign tax credit for US income tax paid on the US source rental income. However, it is possible that not all of the US tax paid could be recouped as foreign tax credits in reducing the Canadian tax payable. Any unused foreign tax credits in a year cannot be carried over to future years. On the other hand, it is also possible that taxes are payable for Canada but not for the US in some situations. Double taxation may arise in those situations.

How Will Canada And The US Tax Your Estate?

Canadian residents (who are not US citizens) may be subject to US estate tax if they die owning certain US assets, such as shares of US corporations, US real estate and US business assets. The US estate tax on the taxable estate up to US$1 million is based on progressive rates ranging from 18% to 39%. The total estate tax payable on the first US$1 million of taxable estate is US$345,800. The top marginal rate for taxable estate in excess of US$1 million is 40%. A unified credit is then deducted from the gross estate tax to arrive at the estate tax payable. The unified credit for US citizens or residents for 2014 is US$2,081,800[1], which is equal to the tax on a US$5.34 million estate (i.e., the "unified credit exemption"). This exemption amount is indexed for inflation annually. Under the Canada-US Treaty, the unified credit available to Canadian residents who are non-US citizens is prorated based on the ratio of US-situs assets to the total worldwide estate. Accordingly,

- deceased Canadian residents with worldwide taxable estate not exceeding US$5.34 million should have no US estate tax payable for 2014. Nevertheless, the estates may have a requirement to file a US tax return if the deceased Canadian residents were non-US citizens with US-situs assets exceeding US$60,000;
- for deceased Canadian residents who are US citizens with worldwide taxable estate exceeding US$5.34 million, the US estate tax payable is 40% of the portion of the taxable estate in excess of US$5.34 million; and
- for deceased Canadian residents who are non-US citizens with worldwide taxable estate exceeding US$5.34 million, the US estate tax payable is computed as illustrated in the example below.

Example

- US$1.5 million of US situs assets —-> Gross estate tax = US$545,800[2]
- Total worldwide estate valued at US$10 million
- Unified credit for 2014 = US$2,081,800 x 1,500,000 / 10,000,000 = US$312,270
- Estate tax payable for 2014 = US$545,800 – US$312,270 = US$233,530

On death, a Canadian resident individual will pay Canadian tax on any accrued gain on the US real property. If the deceased's worldwide assets are valued at more than US$5.34 million, the deceased may also need to pay US estate tax. Canada will allow a foreign tax credit for US estate tax paid on the US real property. However, Canadian capital gains rates are significantly lower than the top US estate tax rate; the deceased likely will pay tax at the US estate tax rate. In addition, the provinces and territories generally do not allow a foreign tax credit for US estate tax paid. As a result, the deceased may be subject to some double taxation.

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[1] US$2,081,800 = US$345,800 (U.S. estate tax on the first US$1 million) + (US$5,340,000 – US$1,000,000) * 40%

[2] US$545,800 = US$345,800 (U.S. estate tax on the first US$1 million) + (US$1,500,000 – US$1,000,000) * 40%

Bargain REITs

Richard Morrison

If you own a house or a condominium, you already have a big stake in your local residential real estate market.

You probably don't own a collection of shopping plazas, malls, office buildings or factories, however, and the fortunes of these parts of the real estate segment often move in a different direction than local house prices. That's why income-seeking investors should always have some real estate investment trusts (REITs) as part of a well-diversified portfolio.

REITs can also provide capital gains. "In addition to providing a stable yield, a good REIT creates value," said Michael Emory, president and CEO of Allied Properties REIT (AP.UN/TSX) in the company's 2013 letter to shareholders. "Indeed, a good REIT is a growth engine."

Not that REITs don't fall in value. Like the prices of bonds and utility shares, the unit prices of REITs drop at the slightest hint of rising interest rates. For example, all Canadian REITs fell last summer after the U.S. Federal Reserve Board said it would begin tapering back on its "quantitative easing" policy. The only large Canadian REIT to have recovered from last year's sell-off is Allied, and even then it is only a couple of percentage points ahead.

At the other end of the spectrum, Dream Office REIT, which changed its name from Dundee REIT (D.UN/TSX) on May 12, is down more than 20% over the past year, while Cominar REIT (CUF.UN) is down about 18%. The rest are off by a few percentage points.

We looked at some of the most well-known Canadian REIT names and found that based on price to funds from operations (FFO) Dream Office and Cominar look to have fallen into bargain territory. In the REIT sector, FFO is a better measure of performance than earnings, since the latter includes non-cash items like depreciation.

Allied Properties Real Estate Investment Trust (AP.UN) is best known for its Class I heritage office properties that cater to tenants who favour brick, wood and wrought iron over concrete, steel and plastic. Allied owns and manages properties in downtown Quebec, Montreal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton, Vancouver and Victoria.

Last year, Allied's FFO grew by 8%, which meant its distributions represented just 70% of FFO, while its adjusted FFO climbed 16%, putting distributions at 82% of AFFO. That allowed the company to raise its annual distribution by 4%. Allied made $182-million in acquisitions and took other steps to prepare its FFO for growth, its annual report says. At a recent close of $25.27, Allied trades at a lofty 18.18 times FFO per unit. Allied's distribution of $1.41 per unit works out to a yield of 5.6%.

Artis Real Estate Investment Trust (AX.UN) has about half of its properties in the office sector, with the remaining 50% split roughly evenly between industrial and retail. Artis has about 23.4 million square feet of leasable area in 220 properties. (Leasable area by asset class is approximately 18.3% retail, 32.1% office and 49.6% industrial.)The portfolio is located 7.9% in British Columbia, 25.7% in Alberta, 5.1% in Saskatchewan, 15.4% in Manitoba, 16.0% in Ontario and 29.9% in the United States. Artis improved its balance sheet last year, and qualified for an investment grade rating from DBRS (only BBB low, admittedly). The company's FFO climbed by 12.3% to $1.46 per unit, while adjusted FFO rose 9.6% to $1.26 per unit. At $16.25, Artis' unit price is a reasonable 11.13 times FFO, while the distribution yields a generous 6.8%.

Calloway Real Estate Investment Trust (CWT.UN) focuses almost entirely on the retail segment, particularly on Wal-Mart stores. Wal-Mart anchors 96 of Calloway's

123 shopping centres and its presence helps consumer traffic, which in turns attracts more tenants—to the point where Calloway's shopping centres boast a 99% occupancy rate. Calloway has a partnership with SmartCentres, identified by the penguin family signs and statues you may have seen in mall parking lots. Last year, Calloway increased its FFO to $1.82 per unit. At a unit price of $26.89, that works out to 14.77 times FFO, a little on the expensive side. The presence of Wal-Mart as a major tenant, however, reduces risk. The annual distribution of $1.55 yields 5.76%.

Canadian Real Estate Investment Trust (REF.UN) is well suited to those seeking geographic and sector diversification as it has about 24 million square feet of retail, industrial and office properties spread out across Canada and in Chicago, Ill. Most of its properties are in Alberta and Ontario. The company's retail outlets were 97.1% occupied last year; industrial space was 95.1% occupied and office space was 92.0% occupied, for an average occupancy rate of 95.5%. Canadian REIT generated $2.84 in FFO per share or $2.44 in adjusted FFO in 2013. At a recent close of $45.87, that works out to a price to FFO multiple of 16.15 times. The $1.59 annual distribution yields 3.84%.

Cominar Real Estate Investment Trust (CUF.UN) has about 384 office, retail, industrial and mixed-use properties, most in Quebec, with 17 in Ontario, 57 in the Atlantic provinces and 12 in western Canada. The portfolio consists of approximately 10.2 million square feet of office space, 7.8 million square feet of retail space, 12.7 million square feet of industrial and mixed-use space and 485 units located in multi-residential buildings for a total leasable area of about 30.7 million square feet. Last year, Cominar reported $1.77 in FFO per share and $1.54 in adjusted FFO per unit. The unit price has fallen over the past year and now trades at just $19.37, which works out to 10.94 times FFO per share. The relatively low unit price means the annual distribution of $1.44 yields a generous 7.5%, second only to Dundee.

Crombie Real Estate Investment Trust (CRR.UN) has about 170 office and retail properties throughout Atlantic Canada, Quebec, Ontario, Saskatchewan and Alberta, most anchored by grocery and drug stores. Last year, Crombie acquired several retail properties, many anchored by Shoppers Drug Mart. The acquisition of 70 Safeway properties in Alberta, B.C., Manitoba and Saskatchewan added 3.1 million square feet of leasable area.

Crombie's funds from operations worked out to $1.10 per share, while adjusted FFO came in at $0.94 per share. At a recent close of $14.44, that works out to 12.34 times FFO per unit. The annual dividend of $0.89 per share yields 6.6%.

Dream Office Real Estate Investment Trust (formerly Dundee) (D.UN) has about 185 properties totaling approximately 28.0 million square feet, of which its interest is approximately 24.5 million square feet. Its office buildings are located in Toronto, Calgary, Edmonton, Montreal, Kitchener-Waterloo, Ottawa, Vancouver, Regina, Saskatoon, Quebec City, Yellowknife and Halifax. Major tenants are the governments of Canada, Ontario, Quebec and Saskatchewan, the Bank of Nova Scotia, Bell Canada, Enbridge and Telus. Last year, Dundee increased its funds from operations and reduced its debt, but its occupancy rate slipped to 94.3% from just over 95%. Dream Office/Dundee's units have fallen more than 20% over the past year, more than any other Canadian REIT. As a result, Dream Office/Dundee's depressed unit price of $29.22 works out to just 10.15 times FFO per unit. The REIT also comes in as least expensive based on earnings, book value and sales per share, with a P/E ratio of just 7.17, a price of just 80% of book value and price/sales per share of just 4.36 times. The low price also means the annual distribution of $2.23 produces a high yield of 7.76%.

H&R REIT (HR.UN) has a mix of office, retail and industrial properties with a fair market value of about $13-billion. At the end of last year, H&R had 42 office buildings, 112 industrial facilities and 167 retail properties. Of its 204 Canadian properties, 110 are in Ontario, 44 in Alberta, 19 in Quebec and 31 in other provinces.

H&R also owns about a third of ECHO Realty LP which owns 173 properties totalling 7.3 million square feet. Last year H&R bought Primaris, which owns 26 properties valued at $3.2-billion.

H&R's three largest tenants are EnCana Corp. (10.6% of rentals), Bell Canada (7.5%) and Hess Corp. (3.7%). Other major customers include TransCanada Pipelines, Telus Corp., Canadian Tire Corp., Rona Inc., the Bank of Nova Scotia and the Royal Bank. In 2013, H&R's funds from operations rose to $472.8 million from $329.0 million the year before. H&R increased its distribution by 14% last year to an annual rate of $1.35 per unit, which works out to a yield of 5.8%.

RioCan REIT (REI.UN) is the largest Canadian REIT with a market capitalization of $7.9 billion. RioCan owns and manages 340 retail properties across Canada, the northeast United States and Texas, with rental revenue collected from a broad selection of major retailers (no one customer accounts for more than 3.7% of revenue). About 72% of RioCan's annualized rental revenue comes from properties in six markets: Toronto, Montreal, Ottawa, Calgary, Edmonton and Vancouver. RioCan's operating FFO increased to $492 million for the year ended Dec. 31, 2013, up 12% from the $440 million it logged in 2012. Operating FFO per unit climbed to $1.63, up 7% from the $1.52 per share reported in 2012. Over the past year, the Canadian real estate sector is up by about 3% while RioCan's units are down by about 4%. RioCan itself recognized the dip as a buying opportunity, and bought back 917,700 of its units last year at an average price of about $24. RioCan's annual payout of $1.41 yields 5.18%.

For those who don't want to buy individual REITs, three exchange-traded funds give investors instant exposure to a portfolio of REITs. BMO Equal Weight REITS Index ETF (ZRE/TSX) yields 4.51% but has a management expense ratio (MER) of 0.62%; the iShares S&P/TSX Capped REIT Index (XRE/TSX) yields 4.36% with an MER of 0.55%; and the Vanguard Canadian Capped REIT index (VRE/TSX) yields just 2.14% with an MER of 0.4%.

If you were to buy equal weights of each of the nine REITs mentioned here, however, you would have an average yield of 5.87%, less your one-time commission charges.

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MoneyTip

Is The Market Confident Or Too Complacent?

Some see the fall in the VIX as a comforting trend that enables greater risk taking. This group believes that it's a good unbiased indicator of what lies ahead: The lower it goes, the stronger the case for taking on more investment exposure, even at elevated prices. If nothing else, lower volatility tends to attract additional dollars into the market, thus pushing prices even higher.

Others aren't so sure. They believe the VIX is a better reflection of the past than the future. As such, its investment implications are limited. They worry that the low volatility readings — which tend to occur near market peaks — could be lulling investors into a sense of complacency, luring them to take risks that will set them up for a fall.

Source: Bloomberg View

Ask Stephane

Stephane Ruah

Q: I've recently heard about an investment product from CI Investment called the G5/20 series. It guarantees a 5% return for 20 years starting after five years. I am already retired and am considering putting a portion of my RRSP into a plan like this. Has anyone reviewed this product and what are your thoughts on it?

A: Here are the basic principles of the product.

1. 5% cash flow is guaranteed for 20 years
2. Distributions are Return of Capital
3. Portfolios are hedged for market volatility (to protect against market corrections)
4. Portfolio is based on the Portfolio Select Series: 70% equity 30% income
5. Resets on ½ gain every 3 years is automatic

CI's G5/20 Series is the first mutual fund of its kind in Canada. It is designed specifically to meet the needs of Canadians who require a stable, guaranteed retirement cash flow from their investments. In the event of positive market performance, there is potential for the Guaranteed Asset Value and the Guaranteed Distributions to be increased. Each fund will be managed to provide growth potential while minimizing volatility, drawing on the skill of CI's portfolio managers and employing advanced risk management strategies.

Historically these types of products are attached to higher fees. We tend to think that a well-managed, balanced portfolio will outperform this type of offering over the long term.

Q: I have a question about how the taxation of stock options is handled. This past year I exercised some stock options that were offered to me a few years back by the company I work for. I sold these options in the same year.

How will the taxation of the sale proceeds on these options be reported on my tax return? Are there any other tax implications I should be aware of with the exercising of these options?

A: Generally an employee who exercises their stock options is subject to tax as follows:

- A taxable employment benefit is realized equal to the difference between the fair market value (FMV) and the exercise price of the shares at the time the options are exercised;
- A deduction of 50% for federal purposes (25% for Quebec purposes) of the employment benefit is available where:
  - Options are for normal common shares (not preferred shares)
  - The exercise price is greater than or equal to the fair market value of the shares at the time the option is granted
  - The employee must deal with the corporation at arm's length (which basically means that neither you nor members of your family control the corporation issuing the options);
- A capital gain is reported on the eventual disposition of the company shares equal to the difference between the sale proceeds and the sum of the cost paid for the shares plus the employment benefit reported.

Q: With respect to capital gains taxes, can the taxpayer seek relief for the portion of the gain that is equivalent to inflation? For example, if an investor buys some shares and finally sells them after a long period of time (30 or 40 years), a substantial portion of the "gain" may be attributable to inflation. Is there any way to avoid paying capital gain taxes on this portion?

A: No.

Q: I'd like some info on Trans Alta. For the past couple of years TA share price has been dropping. Recently TA cut their dividend too. Is TA a Buy/Sell/Hold or is it slowly vanishing from the TSX? Any suggestions?

A: TransAlta Corporation (TransAlta) is engaged in the production and sale of electric energy. TransAlta is organized into three business segments: Generation, Energy Trading and Corporate. The Generation group segment is engaged in constructing, operating and maintaining its electricity generation facilities.

The company has had a hard time generating a profit and the reduced dividend is still at risk. Most analysts still see some downside on the stock. Our firm does not cover TransAlta; however, we usually would be very cautious when a company does not generate sufficient cash flows to cover dividend payments. Also the company's debt was recently downgraded as well.

Stephane Ruah is Director, Wealth Management and Investment Advisor at Richardson GMP Limited. You can reach him directly: 514.288.4018 or Stephane.Ruah@RichardsonGMP.com.

MoneyTip

Tax Freedom Day Comes A Day Later This Year As Canadians' Tax Burden Rises

Thanks to our rising tax burden, Tax Freedom Day is one day later than last year, the Fraser Institute said last month.

The think-tank's annual calculation measures the total tax burden imposed on Canadian families by all levels of government. "If you had to pay all your taxes up front, you'd give government each and every dollar you earned before Tax Freedom Day.

The later the Tax Freedom Day, the heavier the tax burden," the institute said in a statement.

This year, the average Canadian family will pay $43,435 in total taxes, or 43.5% of their annual income.

Source: Financial Post

A Little History Lesson On Technical Analysis

Bill Carrigan

Is technical analysis voodoo science, or is the methodology being accepted in today's world of investing or portfolio management?

Thanks to the "new economy"—Internet, business television and social media—technical analysis has been embraced by many bright investors and savvy financial institutions. I recently did a Google search on "online stock charts" and got pages of names in seconds.

Aside from most of the online discount brokers—including the big banks—there were BigCharts.com, FreeStockCharts.com, StockCharts.com, Yahoo Finance and Google Finance. Most offered historical price data and plenty of technical studies such as moving averages, price oscillators, along with the popular RSI and the MACD indicators.

It was only 30 years ago that such a search was impossible—because there was no Internet, no search engines and, basically, no computers.

Yes, I know that Jobs and Wozniak had built the Apple II by then but aside from games, it had no business software, except VisiCalc. The more business-friendly IBM PC was introduced in August 1981, but for the most part the tools of technical traders still consisted of chart paper, a calculator and a newspaper.

One of those early technicians was Donald R. Stark. I had the good fortune to work with Don when we were rookie stock broker/advisors at Richardson Securities just a few years before the great 1973-1974 bear market.

Don was one of those goofy guys who drew charts all day and basically ignored the fundamental-based research cranked out by Richardson's Winnipeg head office. When the great 1973-1974 bear hit, we all scattered with Don settling in with Draper Dobie Ltd where he met the soon-to-be cycle legend Ian S. Notley. When Dominion Securities acquired Draper Dobie in 1977, they also had the good fortune to acquire the genius of Stark and Notley who then set out to create the original RBC Capital Markets' respected Trend & Cycle Department (RBC).

They initially used a Digital Equipment Corporation (DEC) microcomputer, which used telephone lines to communicate with remote terminals. In-house, these were known as "Computer-produced charts from AUTOGRAPHIX terminal, DOMINION SECURITIES GRAPHICS LIMITED."

Notley's work on cycles was legendary as he expanded on sources such as the 1978 Dick A. Stoken publication entitled *Cycles, What They Are, What They Mean, How To Profit By Them*. That was the same year Robert Prechter collaborated with A.J. Frost in publishing the *Elliott Wave Principle*. Their source material went back to R. N. Elliott's 1946 publication, *Nature's Law – The Secret of the Universe*.

Don Stark was Ian Notley's right hand. I still have a number of their brilliant 1980 through 1984 *Trend & Cycle* publications which I still review to-day. Their great top-down calls, ranging from calling the bond market "the buy of a generation" to predicting the re-structuring of the huge American multinationals and the early transition from the "old" economy to the "new" economy are the stuff from which legends are created.

In 1987 the Stark and Notley team left Dominion Securities Pitfield to part as friends, with Ian moving to New England and Don joining me and Karl Wagner at Market Fax Info Services. Don spent another five years there crafting his quantitative and inter-market skills before moving on as a sub-advisor to several respected fund managers.

Unfortunately, we have lost Don, Ian and Karl but some of their contributions to technical analysis can be found on the Canadian Society of Technical Analysts web site (CSTA.org / organizational / in memorium).

Today in spite of the "new economy" the *Trend & Cycle* platform at RBC remains basically unchanged from the original Notley and Stark methodology.

An example is a chart from an RBC publication dated May 26, 2014, displaying an opinion of TSX-listed CNR that I have "cloned" (Chart #1) using SuperCharts software.

The top histogram (OS 5/15/3) is a 5-period simple moving average, less a 15-period simple moving average with the difference smoothed by three. This study can be used on daily, weekly or monthly data. The squiggly cycle line overlay is the Coppock Curve which is most effective on monthly charts.

The lower line—below the CNR plot—is a simple spread (relative analysis) of CNR against the broader S&P/TSX Composite index.

Not a bad approach–using price momentum, cycles and relative analysis all on one chart—which is suggesting CNR has positive price momentum, an up (quadrant 2) cycle and flat to rising relative strength (established outperform) condition.

Today for my own work I have modified the original Stark & Notely work which is displayed in a second example (Chart #2) where I have placed two money flow studies over the OS 5/15/3 histogram and re-located the

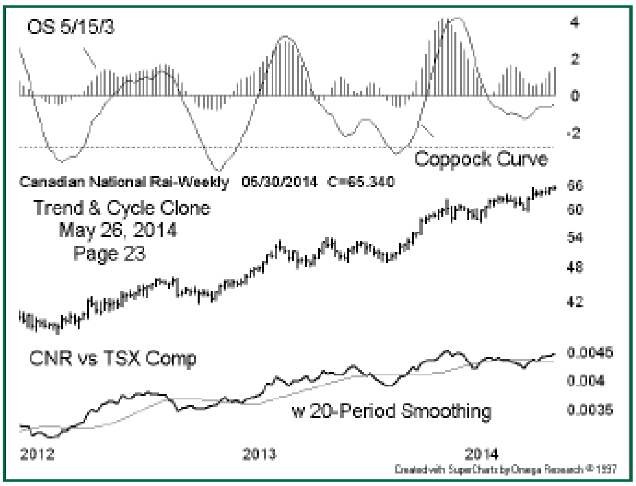

Chart 1

Coppock Curve. I then replaced the single spread line with three relative average lines—using the shorter thin line as a trigger for a relative rank change—say from early out performance to established out performance.

Of course all this technical work is just noise unless it is proven to work in the real world of investing or portfolio management.

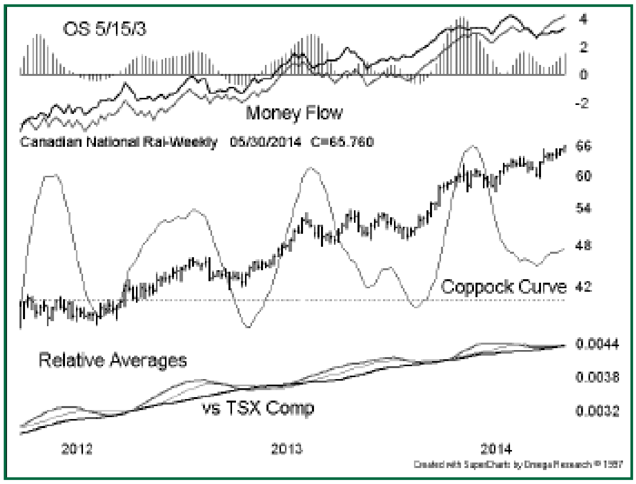

Chart 2

A good "real money" example was the Union Securities Hybrid Investment Program, a discretionary program managed by a portfolio manager (PM) using both "fundamental" and "technical" analytical tools to select securities. The PM and my firm—Getting Technical Info Services (GT)—would split the Hybrid Portfolio with about one half of the portfolio being fundamental (PM) selections and the other half being technical (GT) selections.

The Union Securities Hybrid Investment Program was closed in mid-2012 when in October 2012 all of Union's client accounts and assets were transferred to another IIROC Dealer Member.

I did however track an original "Mandate #4" Hybrid portfolio beginning with all the equity components at November 9, 2011 and held hypothetically through to November 12, 2013. The Union Hybrid Mandate #4 program was in the aggressive growth category that allowed up to an 80% exposure to equities and 20% to fixed income.

The chosen benchmark was the S&P/TSX Composite Index. At inception November 9, 2011, there were 12 fundamental components (mostly exchange traded funds) and there were 15 technical components which were a mix of Canadian and U.S. listed equities.

During the study period of November 9, 2011 through to November 12, 2013, our benchmark, the TSX Composite, had a capital return of +9%.

Over the same period, the 12 fundamental selections had a 2-year capital return of -8 %,

Over the same period, the 15 technical selections had a 2-year capital return of + 32%.

Observations:

The fundamental (PM) would have done okay except for two problems that seem to be common in many fundamental methodologies. Our PM was drawn into a value trap (RIM or BlackBerry) and our PM was caught in the need-to-own-gold as a hedge trap.

All of the technical (GT) selections were based on technical studies found in the original Trend & Cycle platform, such as price momentum, cycles, relative analysis along with my newer money flow numbers.

Over the same 24-month period the Hybrid Program also enjoyed five technical selections that were the subject of takeover bids, namely Gerdau Ameristeel, El Paso Corp, Biovail Corp. Viterra Inc. and ShawCor Ltd.

Now I know the technical studies I used are over 30 years old—ancient in today's modern economy—but much like the Coca Cola formula, if it works, why mess with it?

Bill Carrigan, CIM is an independent stock-market analyst. He can be reached at: info@gettingtechnical.com

MoneyTip

Avoid The Snow Bird Tax Trap

Although you may consider yourself a resident of Canada, and you've duly filed your Canadian tax each spring, be aware that if you spend a substantial portion of the year in another country, you may be found to be resident in that country for tax purposes.

This can, in turn, lead you to more tax headaches than you imagined. For example, if you are found to be resident in the U.S. for tax purposes, you will be taxed in the U.S. on your worldwide income in much the same manner as a U.S. citizen. That means you will be required to file a U.S. tax return and pay U.S. tax on your income from all sources.

Specifcally, you will be resident in the U.S. if you meet the lawful permanent resident (or green card) test, or the "substantial presence" test. Under the first test, if you have a green card, you will be treated as a U.S. resident, regardless of whether you are physically present in the U.S. The second test, however, requires a little more analysis.

"Substantial Presence"

Under the "substantial presence" test, you will be considered a U.S. resident if you spend a substantial portion of the year in the U.S. This test is calculated (generally) as follows:

- You have been in the U.S. for more than 30 days in the current year; and
- If the total number of days you spent in the U.S. during the current year, plus one-third of the days you spent there last year, plus one-sixth of the days you spent in the year before that, equals or exceeds 183 days.

You can, therefore, spend up to 120 days each year in the U.S. without crossing this threshold test. When calculating the number of days, you should know that a partial day in the U.S. counts as a full day, although you can exclude days that you were in transit in the U.S. (for less than 24 hours) on your way to another foreign country.

As well, you may be able to exclude days spent as a teacher, trainee, student, or professional athlete competing in certain charitable sporting events.

If you meet the above "substantial presence" test, you will be subject to U.S. tax and filing requirements, even though you may also be a Canadian resident and pay Canadian taxes.

In case you are considered a U.S. resident, you can try to extricate yourself from the U.S. by

Continued on page 29 ▶

Dear TaxDetective®

Eileen Reppenhagen

My dad passed away a few months ago. Dad's house sold for less than it was appraised for at the date of his death. Dad's RRIF also declined in value after date of death. I didn't realize the full amount declared on Dad's final tax return. The estate paid probate fees based on the appraised value of the house, and the fair market value of the RRIF. What should I do?

Signed: ***C. MoneySaver***

Dear *C. MoneySaver*; I'm not able to comment on how probate fees are calculated, or what happens when values decline after date of death. Please ask a lawyer as that's a provincial matter and the answer may vary depending on the province/territory.

But there is some relief on the tax front if you act quickly! It may be possible to claim the capital loss on a principal residence sale within one year against other income on the final return. Any gain would be included in and taxed in the estate, but losses may carry back against the final return. See ITA S.164(6) *(http://laws-lois.justice.gc.ca/eng/acts/I-3.3/section-164.html)* and follow the instructions to make an election within the time allowed, as explained in Regulation 1000 *(http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._945/page-44.html#h-102)*.

The appraiser, the realtor and your accountant may not be aware of this rule. It is necessary to calculate a split for land and building values at date of death and on proceeds at date of sale after death. There is a special rule found in ITA S. 13(21.1) *(http://laws-lois.justice.gc.ca/eng/acts/I-3.3/section-13.html)* that re-allocates proceeds between land and building to ensure that no loss is reported on the building unless there is no gain on the land. This rule about split proceeds can have unintended consequences. See pg 92/93 of KPMG Canadian Real Estate Tax Handbook *(http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Documents/RealEstateHandbook.pdf)* published in 2012 for an example. See also CRA technical bulletins IT220R2 *(http://www.cra-arc.gc.ca/E/pub/tp/it220r2/README.html)* and IT220R2SR *(http://www.cra-arc.gc.ca/E/pub/tp/it220r2sr/README.html)*.

There is a similar rule for carrying back a loss for an RRIF to the final return for any loss occurring between date of death and distribution to the beneficiary. For examples, go to *http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/rrsp-reer/dth/xmpl-eng.html*. With RRIFs, gains go to the beneficiary after date of death, but losses go back to the final return of the deceased! The tax refund will make the remainder beneficiaries happy.

Clearance Certificate Form TX19 *(http://www.cra-arc.gc.ca/tx/ndvdls/lf-vnts/dth/clrnc-eng.html)* requires a full accounting for all assets owned at date of death, even those that flow directly to beneficiaries outside of the estate. As the legal representative, you'll want to account not only to CRA to ensure you aren't liable for more taxes, but you'll want to inform the beneficiaries how the estate was administered and distributed. Who knew accounting could be such a fabulous way to minimize family feuding over the estate? Let the numbers speak.

Signed: ***Eileen Reppenhagen, CGA,*** *Certified QuickBooks Pro Advisor writes about and presents webinars/workshops on keeping records for tax purposes. Find more information at www.taxdetective.ca. Email your tough personal tax question via eileen@taxdetective.ca*

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Just Wondering About How Compliance People Interpret New Forms

John De Goey

So the next phase of the Client Relationship Model (CRM) has moved forward and most IIROC firms have new forms for when clients open (or update) their accounts. The idea behind the forms and the information they capture was that there would be greater clarity regarding the primary purpose of the account(s) as well as better depictions of investment objectives and tolerance for risk. Although I don't know for sure, I think this might end up being a case of regulators needing to be careful what they wish for.

The first time this concern came to me was when my firm's senior compliance officer pointed out that, in his opinion, having bonds (or bond funds, ETFs) with a maturity profile that extends beyond the investor's time horizon creating a mismatch, might be a form of risk. Specifically, the investor might need to sell prior to maturity and, owing to a possible rise in interest rates, might not get her principal back in the process. Accordingly, long bonds with a short to medium time horizon ought to be coded as medium (not low) risk investments. Fair enough. For the record, I agree. But let's take the logic a bit further, shall we?

What if an investor buys a mutual fund with an associated deferred sales charge (DSC)? Since DSCs generally take about seven years to wind down to $0, it seems to me that if the time horizon for the purchase was less than seven years (buying a house in 2017, for instance), then the risk would also be modified. Is it?

Here's where I think the rubber really hits the road: mutual fund turnover. Many actively managed funds have a turnover of over 100%. That means that if you held the underlying stocks in the fund, you would have sold every security in the fund and used the proceeds to buy a new security within one calendar year. As an example, if you have $1,000,000 in a fund and wanted to replicate the positions individually, you might end up with (say) 40 stocks with about $25,000 invested in each stock. Let's compare the two options, shall we?

The mutual fund investor is a 'buy and hold' investor. She simply buys her fund, checks on the performance from time to time, and takes a generally passive approach to owning it. As far as she is concerned, she has no intention of engaging in active trading strategies and would never do such a thing if she was 'running her own money'. Unfortunately for her, the manager of the fund she purchased takes a rather different view and trades like a madman over the course of that year. Note that the risk here (in terms of taxable capital gains) is particularly acute if the investor buys the fund in a taxable (i.e. non-registered) account.

The mutual fund investor's twin sister is an active, do-it-yourself (DIY) trader. She buys the exact same 40 securities in the exact same proportion and, as fate would have it, makes sells and buys throughout the year that just happen to correspond with the sells and buys made by the manager that her sister has hired to manage the fund for her.

From a time horizon perspective, the difference is huge. The first sister is (allegedly) taking a long-term, patient approach to how the portfolio is to be handled. Her DIY sister, in contrast (note the irony), has made a series (40 to be exact) of decisions where the holding period for any given security in the portfolio was less than 365 days.

My question is simple: do compliance departments look at the portfolio turnover of mutual funds when assessing an investor's time horizon? Consistency and logic suggest (and it seems to me that) they ought to. After all, if they're prepared to consider duration risk for bond positions, then a similar degree of logic ought to apply for turnover regarding equity positions.

John De Goey, CFP, Fellow of FPSC is a Vice President and Associate Portfolio Manager at Burgeonvest Bick Securities Limited (BBSL). The views expressed are not necessarily shared by BBSL. John.degoey@bbsl.ca

Like Banks, Insurance Companies Can Also Fail

David Ensor

While doing some research recently on the history of insurance company failures in the US, it suddenly struck me that you, Dear Reader, might be interested in the "Canadian Experience"—hence this article.

First some comments on the differences between banks and both Property & Casualty (P&C) and Life insurance companies in terms of what may trigger a failure (which includes seizure by a regulator).

Banks are, by definition, highly leveraged institutions and vulnerable to "runs" should confidence in them fail (see my previous article: "Don't Frighten The Children", *Canadian MoneySaver*, June 2013) as depositors seek to withdraw their money (of which banks keep proportionately little in their tills). This is one reason why governments in most developed countries have created state-backed deposit insurers—in Canada, the CDIC.

In contrast, licensed and regulated P&C and Life carriers are not financially leveraged and not easily subject to "runs." In the case of a P&C company, the worst a policyholder can really do is cancel a policy, at which point the carrier (at least for personal lines business) is no longer at risk of a claim; while in the case of a Life carrier, the same result would apply to a policy of term life (no cash value) insurance—no premium, no policy, no further risk for the carrier. With policies that have some form of cash value, a Life carrier is potentially vulnerable to the consequences of a policy cancellation in that it may have to realize investments and pay out cash. However most, if not all, protect themselves by policy terms that include all "haircuts" (you get back less than you thought!) or payment periods (you get it back later than expected!)

Of course, all legitimate Canadian P&C and Life carriers are regulated at the federal or provincial level; and subject to oversight and reporting requirements intended to enable the regulator(s) to foresee any stresses or issues that may presage a potential failure. And by and large, OSFI and its peers have done a good job of protecting Canadians against the likelihood of failure.

That said, even if it happens rarely, Canadian P&C and Life carriers do fail—so the questions are: why, and what can you do to minimize the risk of being caught up in such an event?

Dealing firstly with P&C carriers, their failure is usually the result of inadequate pricing (trying to "buy" business), reserves for losses that are inadequate (not enough set aside to pay claims) and defective risk management (for example, taking on exposures that, while rare can be catastrophic if they occur and which the carrier misunderstood or had more exposure too than it realized). In addition, their investment portfolios may be too aggressive and inappropriate for the type of risks they write.

So far as Life Carriers are concerned, their failure usually stems from a combination of promising too much (giving guarantees which they become unable to honour), investment mistakes (too illiquid, too volatile, too complex) and actuarial mis-steps (getting longevity wrong, for example).

How can you minimize or monitor the potential risks? Firstly, size is an advantage: the larger a carrier is, the more likely it is to receive greater scrutiny not only from regulators, but also from investors and other entities with which it deals. This is not to say that "small is inherently bad," just that one needs to be careful. Secondly, having a publicly-quoted parent company helps, because it forces more disclosure. Thirdly, (in spite of the rating agencies' faults!) dealing with a carrier that is publicly-rated, particularly for "Insurer Financial Strength" or "Claims Paying" does add a layer of additional oversight. And, finally, any insurance agent worth his or her remuneration should also monitor those entities on whose behalf they sell policies—if they give you a blank look or downplay your concerns when you ask their opinion of the carriers which they represent, find another agent!

In spite of all this, Canadian insurance companies do fail. Looking at Life carriers, there was a "spate" of three failures in 1992-4, with Confederation Life's failure in 1994 being probably the most well-known and then a gap of some 18 years until the failure of Union of Canada Life in early 2012. (Full disclosure: the author worked briefly for CL until a year before it failed, and, no, he was not responsible for it!)

In terms of P&C Carriers, there have been 34 failures since 1979. However, the last failure was that of Home Insurance Company in 2003; and none of the carriers which did fail would be considered as "major," unlike CL in the Life insurance context.

Let us say that you do, unfortunately, find yourself caught holding a policy of insurance issued by failed Canadian carrier: what protection do you have against a loss?

Interestingly, in Canada, the protections afforded to insurance policy holders are not formally back-stopped by the federal or provincial governments, but rather are funded and supported by the respective P&C and Life carrier groups themselves. This is not to malign them, but it does show how governments fear the consequences of a bank failure somewhat more than that or a bank.

For a P&C carrier, your first port of call (after you have berated your insurance agent!) should be the website of the Property and Casualty Insurance Compensation Corporation (PACICC); while for a Life Carrier it should be that of Assuris. There you will find a lot of helpful information about what is covered and how a carrier failure or insolvency will be dealt with.

You should also take some comfort from the fact that:

a) Absent massive, hidden fraud, the disorderly failure of a Canadian carrier is quite low;

b) In an insolvency, books of business are very often transferred from the insolvent carrier to a major, solvent one;

c) Regulators may be human, but they are not stupid; and the risk management and monitoring tools they have available to them improve all the time; and,

d) The likelihood that you will suffer a material, realized loss, or find yourself without adequate cover in the event of an actual P&C or Life carrier failure is actually very low to vanishingly small.

So, should you ignore the risks posed by owning a P&C or Life policy (which may sound somewhat ironic, but nothing is "risk free" in this world)? No. Should you be prudent and informed? Of course. But should you lose sleep over the issue, or become paranoid? Absolutely not!

And one final point, if something seems too good to be true, it usually is. Caveat Emptor: Buyer Beware!

David Ensor, Risk Management Consultant; david.ensor@btinternet.com

MoneyTip

...Avoid The Snow Bird Tax Trap (continued from page 25)

either claiming the "closer connection exception" allowed under the U.S. Internal Revenue Code, or claiming a treaty exemption under the Canada-U.S. Tax Treaty.

To claim the "closer connection exception" under the Code, you have to establish that you:

- Maintain a permanent home in Canada (no need to own; you only need continuous access), as well as personal belongings
- Have family in Canada
- Are employed or carry on business in Canada
- Do banking and hold investments in Canada
- Vote in Canada
- Participate in social or religious organizations in Canada

You cannot, however, claim this exception if you spend more than 183 days in the U.S. in the current year or if you have applied for a green card.

Source: Daily Buy/Sell Advisor

Another Look At Financial Planning For Retirement

Hedley Dimock

A couple of months ago I nearly jumped out of my shoes after reading an article in one of Canada's most respected newspapers, telling readers they could be saving too much money for retirement. Upon further reading, I found that the article suggested that 70% of your pre-retirement income would be fine but much less would be needed to get by, perhaps even half of that 70%. Wow! I leaped to my computer to propose this article to the *Canadian MoneySaver*, disputing the opinion in the newspaper article. My pre-retirement taxable income was $50,000 and I'd love to see the two authors trying to get by on half of 70% –$17,500 a year at this time.

It was my belief that everyone was on the same page about the difficulties most Canadians are experiencing trying to save what they wanted or even what they need for their retirement. My retirement plan at age thirty was not to count on an organization's pension or the government, and to start saving about ten percent of my income. That worked well and with the pension I did earn and the lakefront and farm properties we bought, I could retire at fifty years of age with part-time work. But that was a different era. An income of $17,500 now would have my income below the poverty line and probably living with one of my daughters. So much for B. S. (beguiling statements) about how in retirement your house is paid for, your kids are through university and your living costs are reduced.

The Real Retirement Picture

Let's look at the credible, uncontestable facts of the situation and a bit of my possibly opinionated views after 35 years of semi- and full retirement. In a March 2013 *Canadian MoneySaver* article, Bob Barney, an insurance expert, summed up the retirement situation perfectly. While I'll contribute some new views I suggest you check out his article and use his free software to see what dollar figure you need for the lifestyle you choose for retirement. When I tried it, it was right on with what I have found I needed during my several decades of retirement.

Demographics and Economy

The average life expectancy when I started my retirement plan was 67 years for men and 69 for women. Today it is 87-89 for men and over 90 for women. Returns on investments were expected to average about 10% a year, inflation about 3%, and I established one million dollars as the goal for our retirement plan. The reality was a higher return on my investments, a higher inflation rate and my goal accomplished in twenty years, earlier than expected. This was more than needed for our desired upper middle class retirement and could be adequate today with OAS and CPP.

"Freedom 55" was a very attractive advertisement when I started and reasonably attainable then in 25 years but not today for a family with two children. The new slogan this year is "Money for Life. It is Never too Late to Start." It is obvious they didn't use Bob's calculator that I suggested, for it is B. S. (beguiling statements) as to need a $75,000 income to start saving at 45 or 50 years of age, retire at 65 and need that income for over 20 years. Most people would need to start saving an awful lot earlier when considering inflation and the economy.

The economy is an important new variable as the previous generation could easily average 10% earning a year while now 6.5% would be a reasonably safe guess. Retirement money doubles in seven years at 10% and 11 years at 6.5%. The new card in the deck of the economy is the pressure on the U. S. and Canada [representing over 50% of the world's stock markets] with extreme debt and deficit load. Experts suggest there are only three ways to deal with such an extreme burden: grow the economy and tax collected; inflate it (make a dollar worth only sixty cents); or declare bankruptcy. Thus a jump in inflation is greater than the usual possibility. The rate of inflation for the thirty years I estimated it could take me to reach my retirement goal was about 3.5% but for the present unpredictable future I don't even have a guess. But as a place to start, at 3.5% a dollar would need two dollars to buy the same things 20 years later.

Pension Plans

About 24% of employees in the public sector in 2011 were covered in an employee pension plan. Many of these plans are now being converted from Defined Benefits that guarantee you a certain amount on retirement, say 60% of the average of your last five years of salary. They are being replaced with Defined Contribution plans that pay whatever amount they generate from the payments of you and your employer. While the former is usually preferred by employees, they are both subject to the financial viability of the employing company. In the slow and variable economy at present more companies are at risk of bankruptcy—think Blackberry and Nortel, General Motors and Ford. This risk is especially important for the Defined Benefits where the company based its benefits on earning 7-9% on its money and present or future markets pay less. There are likely a lot of underfunded pension plans out there in both the private and public sector where the pension plan money has been borrowed to pay unexpected deficits—think city of Detroit. And perhaps more problems to come if present workers continue on the job past 65 instead of being replaced with young people who draw a lower salary and fewer benefits.

Other Changes To Consider

Shifting Government benefits have also started to intervene with OAS starting two years later, the tinkering with the CPP, and the increases in income tax—think REITs, gross ups on Canadian dividends, and the 93% tax increase on dividends on incomes over $ 50K in four years. The pressure on the government to get more money has grown considerably since these increases were made.

The abolition of the rule requiring retirement at age 65 has opened the door for staying on the job much longer, especially to save needed funds for retirement and decrease the years for which the funds are required. However, it also increases the likelihood of medical costs and institutional care that one of two partners will need to over 50%. Mary, my wife, required about $50K a year for her several years at a retirement home with usual activities, medical and nursing care.

Utilization Of This New Look Report

Application of these new dynamics are likely pretty self-evident by now but here is a brief summary for those who just want to 'cut to the chase.'

The demographic and economy changes means twenty more years of retirement and a great deal more money needs to be saved to manage it comfortably. The impact of inflation could reduce a dollar's value to less than fifty cents even before you start to use your pension and perhaps that much again during your retirement. The changes also suggest that the old guides for investment allocations of 60% fixed income and 40% stocks or 100% minus your age for stocks the rest for fixed income may no longer be appropriate. A sample of a very successful eighty-year old pension fund's allocation at present is: 48% equities; 25% fixed income; 7% hedge funds; 5.5% real estate; 7.5% private equity; 4% Commodities.*

Other applications include: consider starting retirement savings at 30-35 with a small regular savings to benefit from compounding interest; checking the security and funding of any retirement plan at work and whether it is DB or DC; decide if you need your own additional plan; and, consider the pros and cons of RRSP, TFSA, and personal portfolio for use in your plan. At a more personal level my experience suggests thinking about a hobby or part-time activity that could produce income in retirement; paying regular attention to your personally owned assets, such as reviewing their achievements and especially their impact on your income tax. Change begets change and now it may require you changing your present lifestyle and aspirations in order to accommodate what you want for retirement. Even a minor adjustment such as preparing a back-up plan to deal with temporary unemployment, a recession with run-a-way inflation, or expensive medical care for you or your family will have you sleeping better and enjoying life now to a fuller extent.

* *Pension Plan of the North American YMCA of which I am a recipient, that has for 80 years paid bonuses on top of its Defined Benefits.*

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Retired At 34… 10 Years Later!!!

Derek Foster

During the summer of 2004, I waved goodbye to the rat race for good and left the work world behind. I was 34 at that time. So this year, as I come up to my 10-year anniversary of retirement, I thought it might be interesting to take a look back and see if everything has gone according expectations…

What's Retiring At Such A Young Age Like?

I will get to the financial factors in a moment, but first of all I want to offer a quick snapshot of how this has all played out in my personal life. For starters, my wife and I had two children when I left the work force, but with both of us not working and with some time on our hands, we now find ourselves with six kids! We have had the time to spend with them and have travelled to Florida a few times and also spent a whole year travelling around North America last year. Since my wife is Korean, we have also been to Korea with the kids. Finally, when we were travelling around North America for the year, we decided to homeschool our kids, but now we have continued with the homeschooling since we've returned to Canada, and so far so good.

I've also noticed that as you move from your 30s to your 40s, you have to work a bit harder to stay in shape. When I was younger I could eat anything, do very little, and never gain weight, but it's become harder now—I have to work at it. Every day I am thankful that I have the time to work out and keep somewhat fit…something that would be much more challenging if I had a fulltime job to attend to. I can now understand why some people put on weight in middle age, especially if they have kids and both parents work; there are simply too many demands and not enough time—and exercise moves down the priority list. Also, with the kids at home with us, we have time to swim and skate together as a family.

But now let's move on to finances, starting with stock market volatility.

What About The Stock Market Crash Of 2008/09?

What about finances? This is an area that I always had confidence in, but looking back, I now realize that I probably had overconfidence…the stock market has a way of humbling every investor! When I first retired, I was thrilled that we had just experienced a huge stock market crash in 2001-2002 (led by the dot-com crash), so I did not expect the carnage that was to come in 2008-2009. To say I was surprised by it would be an understatement!

This carnage, combined with the fact that the income trust rules were changed in 2006, provided some challenges. My portfolio was beaten up quite a bit during this time but overall dividends held up pretty well. My strategy of focusing on dividends was solid, but my overconfidence led me to make a few dumb moves.

Overall, though, stock market crashes are the friend of the long-term investor and this crash was no exception as it created a HUGE opportunity to buy some quality stocks at rock-bottom prices. This is one area where I've found many investors have a one-dimensional view of the world. Many investors insist that March 6, 2009 was the absolute BEST time to buy stocks, but this is only partly true. For Canadian investors, a year or so later was actually a better time to buy many US multinational stocks because the Loonie fell to below 80 cents during the crash but recovered to parity by 2010 while US stocks did not recover quite so strongly in some cases. I look back at this time period as a generational opportunity to load up on great, multinational stocks and I highlighted all my picks in my online video series (you can see the free sample clips at http://stopworking.ca/about-the-video-series/) and overall this portfolio has done incredibly well!

In a nutshell, retiring on dividend income has worked out very well. The funny thing is that I STILL get emails or comments telling me that retiring on dividend income is not really possible–even though that is what I have done–and it's been 10 years now!

Let's look at the main doubts some people have expressed…

Relying On Stocks For Your Retirement Is Risky

Many people view this approach as risky, but it really isn't. Think it through …most people rely on working for a single paycheque and are dependent on only one source of income: their employer. The reality is that employers lay off workers at times so this is a risky income stream. Contrast that with earning income from 20-25 different companies that have each been in business for decades and have increased their dividends regularly. If you stick to the "Idiot-proof" type of stocks I highlighted in my fifth book, The Idiot Millionaire, it's not risky at all. The key, of course, is to find recession-proof companies that keep earning money in good times and bad–you are NOT investing in volatile high-tech companies or gold miners. Simple, boring companies that keep paying out dividends can create a wonderful pension income.

Things Can Change And Derail Your Plans

This comment I somewhat agree with: the only certainty in life is change (along with death and taxes, I suppose). My portfolio was originally heavily tilted towards high-yielding income trusts which were dirt-cheap during the dot-com boom in the late 1990s, but a one-two punch of the tax rule changes and the fact that interest rates have plummeted and other investors have stampeded into the remaining high-yielding corporations has made them not even close to being as lucrative as they were when I first left the work world. But just as when you see a red light up ahead you take your foot off the gas and press the brakes to avoid smashing into the cars ahead of you, I too adapted my portfolio.

I now have a lot of quality stocks which offer lower dividend yields than income trusts offered, but they also have MUCH higher dividend growth rates. These multinational companies, like Colgate, Coca-Cola, etc. have increased their dividends for decades and they keep earning money in good times and bad. Last year every single one of these dividend-paying stocks in my portfolio increased their dividends with the exception of one, which held its dividend steady. My "pension income" just keeps rising–at triple or more the rate of inflation, so purchasing power keeps going up!

But With Investing Income, Won't You Run Out Of Money?

This is where my dividend-income approach differs from the one promoted by many in the financial community. In some cases, people calculate the "safe withdrawal rate" of their portfolio and they try not to be too aggressive to make sure they won't run out of money. I don't do that. I spend dividends. This approach creates the mirror opposite of running out of money…you sort of get to have your cake and eat it too!

Stop Working, Stop Saving, And *STILL Keep Getting Richer!*

The final beauty of having retired with dividends is that over time you keep getting a higher income AND you keep getting wealthier. Think about it…

My approach is to invest in "idiot-proof", blue-chip stocks that offer simple things that don't change and that people buy regularly. Basically I'm looking for things you use every day, like coffee or toothpaste. The beauty of these stocks is that the businesses tend to be very low risk and these companies have consistently raised their dividends for decades–which ensures your income keeps growing…BUT it gets better than that!

Here's why… when mature companies earn income, a good portion of it is not needed for reinvestment, so dividends are paid. But there are still some reinvestment opportunities whether this involves new factories in developing markets like India or China or add-on acquisitions (like when Pepsico bought Quaker Oats a decade or so ago and took control of the Gatorade brand). In addition, many companies are constantly buying back their own shares–reducing the share count, which has the habit of driving up the earnings per share (and also the dividends).

So if these companies are paying out 50% of their earnings in dividends, it means the other 50% is being reinvested on your behalf, which grows the intrinsic value of your stocks over time and keeps making you richer! The added beauty is that this is all tax-free wealth accumulation!

Here's why… when you are slowly saving and investing to create wealth, you have to first earn the money and then pay taxes on those earnings–which means you only have the after-tax amount to pay living expenses and then invest whatever is left over after expenses to grow your wealth. BUT once you reach the point where you are living on dividend income, you can spend every last cent that you earn in dividends (and these earnings are often tax-advantaged, but it's beyond the scope of this article to get into all the reasons). The money that is retained by the companies is used to expand their earnings per share, which also grows YOUR wealth over time–only you don't have to pay ANY tax on this growth until you (eventually) sell your shares! This is a reason that buy and hold–and collect and spend—dividends works so well.

So ten years on in retirement, the dividends keep rolling in and the portfolio keeps on growing…

One final question I get from those who have seen the video series is why I own some very low-yielding stocks–why not stick to higher dividend-payers only? VISA is an example of this. When I bought it a few years ago, it was yielding less than 1%. Weren't there better dividends out there?

The first factor is that with the low dividend, VISA had a payout ratio of close to 10%--in other words 90% of the earnings were being reinvested! This has been reflected in the stock price which is trading at 300% of what I bought it at only a few years ago. In addition, the dividend has more than tripled! Within a few years, the dividend is going to look quite generous based on my purchase price. Any investor who bought VISA shares around the same time I did has got to be VERY happy with their results.

These types of stocks have helped bring my average portfolio payout to around 35-40%, which means that 60-65% of the earnings my stocks are generating is being reinvested to grow wealth over time—totally tax-free! When I finally do sell, I will only face capital gains taxes which are half the regular tax rates at the various tax brackets. Finally, if there is another economic downturn, there is a huge cushion between earnings and dividends, which reduces the chance of dividend cuts. So my question is, "How is this strategy risky?"

In a nutshell, this is why the rich get richer….without lifting a finger!

Derek Foster (The Idiot Millionaire) – Six-Time National Bestselling Author www.stopworking.ca, stopworking34@yahoo.ca

Future Planning

Benefits Of Incorporating

Aaron Migie

In the last several years, the Canada Revenue Agency (CRA) changed its rules concerning who can and cannot incorporate. Professionals such as doctors, dentists, lawyers, and accountants are now permitted to incorporate their professional practices. The rules pertaining to each profession vary regarding how to incorporate and who is able to own shares in the professional corporation. In addition to the complex formalities associated with incorporation, small business tax rates and regulations differ from one province to the next.

Due to the various considerations involved in determining whether or not to incorporate, it is advisable to consult with a tax specialist to help guide with the process and make the appropriate recommendations.

The first consideration regarding whether or not to incorporate your professional practice is always going to be cost. Some costs associated with incorporating a professional practice include setup fees, ongoing compliance, and tax reporting. You want to be sure that the benefits of incorporating are going to outweigh the costs.

Different accounting firms offer a range of services, and costs can fluctuate dramatically. In order to get an estimate of the costs that will be incurred as a result of incorporating, it is advisable to contact your advisor and/or fellow professionals to get your questions answered.

The next consideration that needs to be taken into account is the question of who is permitted to own shares in your corporation? Do you have direct family members you can income-split with and multiply your capital gains exemption? What are the rules and regulations in your province?

Other important considerations include tax deferral opportunities using the small business deduction, and income-splitting possibilities where share ownership by family members is allowed.

In addition it is important to consider other planning and tax opportunities that become available with a corporation such as the ability to increase retirement savings using an

Individual Pension Plan (IPP), the opportunity to take advantage of the capital gains exemption upon sale of a practice, as well as the possibility of multiplying the $800,000 capital gains exemption when there are multiple shareholders.

The potential benefits of deferring income with an operating or holding company and paying the small business rate, as opposed to being taxed at the personal level can be substantial.

Before setting up a corporation it is best to determine whether the income that is generated by your practice is sufficient enough to support the after-tax lifestyle expenses of you and your family. Furthermore, you want to determine how much money will be retained in the corporation and whether that amount is enough to make the costs of incorporating worthwhile.

Now let's discuss Client X. Client X is a successful surgeon. He earns an annual income of $475,000. Client X is currently taking all of his annual income and maximizing his Registered Retirement Savings Plan (RRSP) contribution each year. Client X is 36 years old and has been primarily focused on paying down his large student loans since after being a student for 10 years, Client X accumulated a significant amount of student debt. While increasing his wealth was important to Client X, paying off his student debt was paramount. After paying off all of his debt, Client X now wants to accumulate wealth in preparation for retirement. While Client X is earning a significant income, he is paying approximately $195,000 (46%) annually in taxes, which is the highest tax rate in his province of Manitoba. The solution for Client X is to incorporate his practice. Instead of personally earning $475,000, Client X could defer income into the corporation and therefore would only have to pay an 11% corporate tax up to the small business limit of $425,000 per year. Any funds deferred would be taxed at 11% as opposed to 46%, which is the highest marginal tax rate, and therefore there would be a deferral of 35%. With this larger pool of wealth, Client X can consider potentially investing in a holding company for example, and accumulate more wealth for his future. The longer the corporation retains its after-tax income without paying a dividend to the individual, the greater the deferral will be.

Client X would like to maintain an annual income of $100,000. With an $18,000 annual RRSP contribution, Client X would personally be paying $22,854 in taxes. At the corporate level, $375,000 taxed at 11% would equate to a $41,250 tax bill. As a result, we have effectively decreased Client X's annual tax bill from $195,000 per year to $64,104. This leaves an additional $130,896 each year. As opposed to paying tax to the government, the corporation or a separate holding company could invest this excess money for Client X's future. When the funds are actually needed, Client X can pay the deferred income to himself as a dividend. With the power of compounding interest, the additional $130,896 can have a significant impact on Client X's retirement.

For further information regarding the benefits of incorporating, consult a tax professional to address your individual needs.

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Ask the Experts

Q My question is for Angelo Vicere who in the past wrote some articles about a strategy of taking RRSP withdrawals and offsetting the tax on income by purchasing Flow Through Shares, which eventually (and hopefully) end up generating capital gains tax. I am asking what is his view now on the future of this strategy based on an article by Brian Quinlan in the Nov/Dec 2013 edition titled 'What's New in Tax?' That article, under a section titled Investment Strategies, notes that changes are being implemented (presumably by CRA) to restrict or eliminate benefits associated with character conversion transactions (i.e. interest converted to capital gains). Does this mean that the strategy about which Mr. Vicere wrote is likely to be no longer allowed? — **CMS Reader**

A The character conversion transactions that the government is seeking to close in relation to specific derivative transactions that many mutual funds are engaged in, using forward contracts to covert what would normally be interest income and thus, taxed as ordinary income, into capital gains source income would result in being taxed more gently.

According to the people at NCE, the flow-through mechanism is unaffected. The Income Tax Act specifically allows flow-through share investments to be 100% deducted against income – that was not changed. It's also an established part of tax act that when you write an investment off, you have to carry it for tax purposes with a starting ACB of zero – that has not changed. When the investor eventually sells it, or the partnership sells an investment within the partnership, a reportable capital gain is likely to occur so it was not, therefore, caught up in the character conversion legislation.

Angelo Vicere, CFA Senior Financial Advisor Branch Manager Assante Capital Management Ltd. 1289 Upper James St. Hamilton, On L9C 3B3 Tel: 905-574-9900 ext :222 Fax: 905-574-9955 Toll Free: 1-866-418-9900

Q Tax matter about declaring foreign assets above 100K$ to Revenue Canada: do you have to include foreign assets (for non-registered accounts): 1) in Canadian mutual funds such as a Trimark fund which is invested abroad, but run by a Canadian company AIM, bought in Canadian dollars; it already delivers a T3 for its foreign income 2) foreign ETF in US dollars even if they are held in a Canadian broker which provides T5 or T3 for revenue tax. 3) Canadian mutual funds that invest large part in Canadian assets but a little part in US equities, generating small foreign income in Canadian dollars and also generate T3s or T5s. Since the rules seem to change in 2014, could you comment both cases (before and after change)? Also, in which categories of form T1135 should the assets above be placed? — **D.F.**

A Filing the new T 1135 is a confusing proposition and the Canada Revenue Agency has been inundated with questions similar to yours. Fortunately they have responded with some modifications and clarifications to the new form to help you with the concerns you have brought up in your questions. I do recommend that you go on to the CRA website to review these new rules before filing your T 1135 or discuss them with your tax accountant.

In answer to your first question since the Trimark fund is a Canadian mutual fund you do not need to report Canadian mutual funds on the T 1135 even though the assets in those funds may be foreign. In fact for any assets in which you receive a T3 or a T5 from the Canadian financial institution you do not need to report the assets producing this income on the T 1135. For the purposes of determining whether you exceed the $100,000 total reporting requirement you need total all foreign assets including those that you received a T3 or a T5 slip for other than Canadian registered mutual funds. An example would be the foreign ETFs you own through a Canadian broker. If the broker issued you a T5 slip for a dividend you would not need to report the ETF on the T 1135 but you would have to include the value of that

ETF in the $100,000 total of foreign assets to determine if you have total foreign assets exceeding the $100,000 T1135 reporting threshold. All of these new changes are in effect after June 30, 2013 so it would apply for your 2013 T 1135 filings.

Robert F. Keats CFP® (US and Canada), MSFP, RFP® (Canada) President, Keats Connelly, 3336 N. 32nd Street, Suite 100, Phoenix, AZ. T: (602) 955-5007

Q *I am a Canadian MoneySaver subscriber, and I enjoyed your recent article on Canadian banks and risk of "going bust".*

But there is an even scarier situation than having one's bank account savings evaporate (which, after all, is insured up to $100,000)-- but even if the CDIC couldn't cover the losses, most people nowadays don't keep so much money in the bank. Rather, they own shares in companies!
I was speaking to a retired Canadian securities lawyer, who told me that if a big Canadian bank went bust, all the shares owned within their thousands of discount brokerage accounts would be in limbo, and the account holders would simply go in line as "unsecured creditors to the bank". Potentially, they might never see their money again (or, perhaps, just pennies on the dollar).

As a risk management consultant, what do you think of that (very, very scary) scenario? Most of the shares I own are in street name (at TD Waterhouse), with relatively few held as certificates (e.g., for DRIP plans).

What exactly would happen to investors' "street name"-held shares if the respective Canadian bank went bust? Presumably, some individuals hold millions of dollars worth of shares in street name with the big Canadian banks.

If you told me that this is more than just a theoretical risk, I'd be tempted to convert all my shares to certificate form! (Although more and more companies are making this difficult to do). **— T.W.**

A Thank you for your kind words.

Re the issue of what happens to securities it holds on behalf of clients in a broker-dealer subsidiary if a large financial institution goes "bust", I think your contact is correct to voice concern, because initially at least, there would be panic and confusion (cf. Lehmans, or MF Global). However, my own view is that the situation would be somewhat more nuanced and fact-specific than the apocalyptic situation that he or she portrays.

For example, the reference was specifically to "discount" rather than full service accounts; and I am assuming that we are only referring to Canada-domiciled and regulated subsidiaries of a Canadian chartered and headquartered banks. The outcome would also depend on federal and provincial regulation. You see how detailed the assumptions have to be!

There are some initial resources available here:

http://www.osc.gov.on.ca/en/Marketplaces_investor-protection-funds_index.htm

However, your question is a very good one. The problem with shares in "street name" is the extent to which the broker dealer is permitted to on-lend them and on what basis. This is further compounded by the fact that the actual failure of one of the big Canadian banks would be most likely in a systemic scenario, where there would potentially be a "cascade" of consequences across the Canadian and global financial systems.

And if you decide to convert all your holdings to certificate form and keep them yourself, you then have to think of how to protect the now-physical form of your holdings- and most people would do that by using a safety-deposit box in a Canadian bank!

I dare say I have not properly answered your excellent question, because it is a very far-reaching one. However, I may perhaps have pointed out that the real risks are somewhat subtler and complex than the apocalyptic vision of the lawyer, which is not to say that the concerns are in any way trivial or unjustified.

What I say is merely an opinion. My suggestion would be that you pose a very specific set of facts to your broker and see what response you get. If he or she tries to belittle your questions, then you would have every right to be aggrieved and insulted. That said, you have given me the idea for a further article for *Canadian MoneySaver*.

And for the record, I keep my own Canadian brokerage accounts at TD Waterhouse.

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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

TOP FUNDS RANKED BY FIVE-YEAR RETURN AS OF MAY 31, 2014

Fund Name	1 Mth Ret	3 Mth Ret	6 Mth Ret	YTD Ret	1 Yr Ret	Quart 1 Yr Ret	2 Yr Ret	Quart 2 Yr Ret	3 Yr Ret	Quart 3 Yr Ret	5 Yr Ret	Quart 5 Yr Ret	10 Yr Ret	Quart 10 Yr Ret	Since Incep Ret	3 Yr Std Dev	Exp Ratio	Load	Total Asset $Mill
CANADIAN FOCUSED EQUITY																			
Brandes Canadian Equity	0.2	4.9	10.1	6.8	27.6	1	33.6	1	17.3	1	22.1	1	3.2	4	5.3	12.4	2.72	FnDf	47.9
United Canadian Equity Growth Corp Cl W	-1.1	2.5	9.1	7.0	29.0	1	34.6	1	22.7	1	20.7	1			9.7	9.3	0.22		
Fidelity Canadian Large Cap Sr B	-1.6	2.2	5.3	4.3	20.3	2	22.6	1	16.2	1	18.3	1	12.8	1	9.9	7.4	2.31	Front	3797.4
Mackenzie Cundill Cdn Security A	0.8	3.2	5.3	3.2	16.8	4	22.7	1	9.3	1	15.6	1	7.2	2	9.4	13.2	2.18	F or B	1491.6
RBC O'Shaughnessy Canadian Equity Sr D	0.0	2.4	5.8	3.9	23.2	1	23.9	1	10.9	1	15.2	1			3.2	11.2	1.21	None	975.7
Fidelity Dividend Plus Series B	0.7	3.0	6.4	4.9	7.7	4	9.9	4	5.2	3	15.0	1			11.3	7.3	2.13	Defer	3306.1
CI Cambridge Canadian Eq Corp Cl T5	-1.0	2.5	8.9	7.9	17.4	4	23.8	1	14.4	1	14.9	1			8.9	8.5	2.47	FnDf	
RBC O'Shaughnessy Canadian Equity Sr A	0.0	2.3	5.7	3.8	22.8	1	23.5	1	10.5	1	14.8	1	7.7	2	8.6	11.2	1.55	None	975.7
Fidelity Dividend Plus Series A	0.6	2.9	6.3	4.8	7.5	4	9.6	4	4.9	3	14.7	1			11.1	7.3	2.35	Defer	3306.1
RBC North American Value Sr D	1.1	2.9	9.0	6.3	18.8	3	21.3	2	11.0	1	14.5	1			7.6	8.9	1.21	None	1985
NEI Northwest Canadian Equity A	0.4	3.0	8.3	5.7	20.5	2	20.0	2	8.5	2	13.8	1	7.3	2	8.3	9.5	2.70	F or B	250.7
Steadyhand Equity	-0.1	3.8	12.5	9.5	23.3	1	23.4	1	13.3	1	13.6	1			5.7	8.3	1.42	None	59.8
National Bank Canadian All Cap Equity	-1.5	2.7	7.9	6.4	22.2	1	25.9	1	15.7	1	13.5	1	10.3	1	9.7	8.5	2.51	None	619.5
Trimark Canadian SC	-1.0	4.2	11.5	8.5	20.4	2	24.9	1	8.9	2	13.0	1	6.3	3	10.0	12.2	1.78	Front	690.9
Beutel Goodman Canadian Intrinsic Cl D	0.3	3.7	10.7	7.5	21.8	1	22.4	1	12.8	1	12.8	1	7.2	2	7.0	9.4	1.51	None	7.7
Dynamic Canadian Value Class Series I	0.6	3.0	10.2	8.0	22.9	1	26.9	1	8.9	2	12.5	1			10.3	14.0	0.09	None	562.6
Sentry Diversified Equity	1.4	3.8	10.4	6.6	22.5	1	21.5	2	9.1	1	12.3	1			7.8	7.6	2.79	Front	176.2
Trimark Canadian Series A	-1.1	3.9	11.0	8.1	19.3	3	23.8	1	7.9	2	12.0	1	5.4	3	5.7	12.2	2.71	Defer	690.9
IG Beutel Goodman Canadian Equity A	0.5	3.6	7.9	6.2	19.8	2	21.5	2	10.6	1	11.7	2	6.8	2	7.7	9.2	2.58	Defer	312.7
Manulife Canadian Focused Class	0.0	-2.2	4.5	2.3	11.6	4	18.7	2	10.0	1	11.5	2	7.3	2	6.9	11.7	2.46	F or B	36.2

Fund Name	1 Mth Ret	3 Mth Ret	6 Mth Ret	YTD Ret	1 Yr Ret	Quart 1 Yr Ret	2 Yr Ret	Quart 2 Yr Ret	3 Yr Ret	Quart 3 Yr Ret	5 Yr Ret	Quart 5 Yr Ret	10 Yr Ret	Quart 10 Yr Ret	Since Incep Ret	3 Yr Std Dev	Exp Ratio	Load	Total Asset $Mill
FOREIGN EQUITY																			
Mawer Global Small Cap A	0.50	-0.70	10.90	7.10	40.50	1	36.40	1	23.20	1	24.00	1			13.00	9.30	1.82	None	938.7
Dynamic Power American Growth Ser I	5.80	-16.70	-1.40	-4.00	28.90	1	15.80	4	12.20	4	24.00	1	11.00	1	11.20	18.80	0.09		798
Fidelity Small Cap America Sr B	-2.60	-4.70	0.90	-2.20	23.70	1	28.00	1	22.20	1	23.10	1	7.40	1	10.10	10.00	2.35	Front	900.3
Brandes US Small Cap Equity	1.80	-0.40	4.90	2.80	19.00	3	26.90	1	17.60	1	22.90	1	-0.40	4	1.70	12.60	2.74	F or B	11.4
Trimark Global Small Companies Class A	0.50	0.60	12.20	9.70	29.30	1	33.00	1	20.60	1	22.90	1			6.70	12.10	2.67	FnDf	201.7
Dynamic Power American Currency Netrl I	7.00	-14.50	-2.60	-5.00	26.50	1	15.10	4	9.50	4	22.90	1			9.50	20.90	0.18	None	61.3
Trimark US Small Companies Class	-0.50	-2.60	7.80	5.20	18.00	3	22.60	3	15.10	2	22.90	1	7.60	1	8.80	10.00	2.87	FnDf	167
RBC O'Shaughnessy US Value Sr D	2.40	3.30	8.80	5.00	29.10	1	30.30	1	19.00	1	22.40	1			4.40	12.50	1.23	None	1763.2
TD Entertainment & Comm - I	4.70	-5.00	5.60	1.70	29.60	1	26.10	1	18.00	1	22.00	1	10.80	1	10.90	10.20	2.82	None	295
Manulife Global Small Cap	0.50	-0.60	9.40	6.10	34.20	1	31.20	1	19.80	1	21.90	1			15.70	8.90	2.56		481.2
DynamicEdge Equity Port Series IT	1.60	-2.40	6.40	3.30	26.00	1	27.50	1	15.90	1	21.70	1			14.60	10.10	0.15	None	197.5
Brandes Global Small Cap Equity	1.00	3.20	11.60	9.10	28.40	1	34.50	1	18.60	1	21.00	1	3.30	4	5.80	11.30	2.71	FnDf	96.9
TD NASDAQ Index - e	4.40	1.40	7.80	4.50	26.70	1	23.00	3	17.10	1	20.90	1	9.00	1	0.50	13.80	0.51	None	143.7
TD US Small-Cap Equity - I	-0.70	-6.20	2.10	0.00	21.00	2	24.20	2	15.90	1	20.80	1	6.70	2	6.30	12.50	2.55	None	125.3
Dynamic Power American Currency Neutral	6.70	-15.30	-4.30	-6.40	20.40	4	11.00	4	5.80	4	20.60	1			6.10	20.40	2.68	FnDf	61.3
Counsel Global Small Cap Series I	0.80	0.20	9.30	6.20	26.00	2	28.10	2	12.80	2	20.50	1			8.70	12.90		Front	255.2
CIBC Nasdaq Index	3.30	-1.00	9.40	6.00	31.20	1	24.70	2	20.70	1	20.50	1	6.70	1	-2.30	10.30	1.26	None	90.9
Scotia Nasdaq Index	3.60	-0.70	9.30	6.10	30.40	1	24.00	3	20.20	1	20.30	1	6.60	1	-0.30	10.30	1.14	None	36
GBC American Growth	-0.40	-4.70	4.10	-0.80	23.30	1	22.60	3	15.50	1	19.70	1	7.60	1	12.40	11.60	1.90	None	
Trimark Global Endeavour	1.90	0.70	6.40	5.10	23.90	1	23.00	2	13.40	1	18.80	1	7.10	1	7.40	8.30	2.67	F or B	926.5

TOP FUNDS RANKED BY FIVE-YEAR RETURN AS OF MAY 31, 2014

Fund Name	1 Mth Ret	3 Mth Ret	6 Mth Ret	YTD Ret	1 Yr Ret	Quart 1 Yr Ret	2 Yr Ret	Quart 2 Yr Ret	3 Yr Ret	Quart 3 Yr Ret	5 Yr Ret	Quart 5 Yr Ret	10 Yr Ret	Quart 10 Yr Ret	Since Incep Ret	3 Yr Std Dev	Exp Ratio	Load	Total Asset $Mill
FOREIGN INCOME																			
Canso Corporate Value Class C	0.8	0.3	6.0	4.7	9.8	1	12.1	1	9.7	1	12.2	1	9.1	1		3.9		None	744.8
Brandes Corporate Focus Bond Cl A Hedged	0.9	1.6	3.2	3.5	2.9	3	5.2	2	4.7	2	8.7	1			2.7	3.5	1.58		76.5
CIBC Global Bond	0.7	1.6	6.9	6.6	6.7	1	6.2	1	7.2	1	7.4	1	2.5	2	3.8	5.7	2.10	None	177.7
RBC Global Corporate Bond Sr D	1.3	2.4	4.9	5.1	4.7	2	5.4	2	6.2	1	7.4	1			6.9	3.5	1.06	None	1501.1
Renaissance Global Bond	0.7	1.5	6.8	6.5	6.7	1	6.2	1	7.1	1	6.7	1	1.9	3	4.0	5.7	2.06	F or B	260
Templeton Global Bond A	0.3	0.4	4.7	4.1	4.8	2	6.8	1	4.4	3	5.7	2	4.7	1	5.7	4.4	2.19	F or B	2188.9
Manulife Canadian Bond Plus	1.2	1.0	3.4	4.0	1.1	4	1.2	4	2.9	4	4.9	2			3.9	3.5	1.96	FnDf	169.2
Fidelity Global Bond Curr Neutral Sr B	0.9	1.8	3.2	3.6	2.4	4	1.8	4	3.0	4	4.7	2			3.3	2.6	1.60	Front	85.4
DFA Investment Grade Fixed Income Cl A	1.4	2.0	4.1	4.9	2.1	4	1.3	4	3.6	3	4.4	2			3.9	3.5	1.55	None	183.4
Standard Life International Bond L	-0.1	-0.2	5.2	6.0	5.9	2	1.6	4	5.6	1	4.4	2	2.7	2	2.9	7.1	1.27	None	129
BMO World Bond	-0.6	-0.8	5.0	5.5	7.6	1	3.1	3	4.5	3	4.1	3	3.2	2	3.3	6.3	2.23	None	291.2
United Global Fixed Income Corp Cl W	-0.3	-0.2	4.4	5.5	5.4	2	3.9	2	4.9	2	3.9	3			6.6	4.4	0.20		
Mackenzie Glbl Bond A	0.9	1.3	4.6	4.1	5.4	2	5.2	2	5.2	2	3.8	3	1.8	3	6.8	4.1	2.17	F or B	58.9
CI Signature Global Bond Class A	-0.4	-0.7	3.6	4.6	3.4	3	2.4	3	3.4	4	3.1	3	2.0	3	3.9	4.5	2.14	F or B	
TD Global Bond - I	-0.3	-1.1	4.8	6.1	6.1	2	0.9	4	3.9	3	3.0	4	1.4	4	3.6	7.4	2.12	None	208.9
DFA Five-Year Global Fixed Income A	0.7	0.6	0.8	1.8	1.0	4	1.3	4	2.2	4	3.0	3	2.8	2	2.8	2.3	1.50	None	728
United Global Fixed Income Pool Class E	-0.5	-0.7	3.4	4.7	3.4	3	2.0	4	2.9	4	2.4	4			3.7	4.4	2.16		
National Bank Global Bond	-0.6	-1.2	3.6	4.9	6.0	2	0.4	4	3.4	4	1.6	4	0.8	4	2.2	7.7	1.95	None	199.7
Scotia Global Bond	-0.5	-0.9	5.2	6.4	4.7	2	-2.4	4	2.5	4	1.6	4	0.4	4	2.9	9.1	2.12	None	12.9
AGF Global Aggregate Bond MF Series	0.5	1.0	5.8	6.0	7.0	1	3.8	3	5.1	2					5.1	4.0	2.00	Front	281.7

CHART NOTES

For information on the category definitions, please visit http://www.cifsc.org/en/index.php. 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. Year end 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 2010 yearend, this means the fund’s rate of return for the 12 months ending Dec 31, 2010 is in the top 25% of all funds in its fund type category.

Source - Morningstar PalTrak, Morningstar Canada, (800) 531-4725, http://www.morningstar.ca.

MoneyDigest...

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

THE OIL PATCH'S BLACK SHEEP

The hits just keep on coming for beleaguered global energy explorer and producer **Talisman Energy** (TSX: TLM) (NYSE: TLM). This is despite hopes that the company would be the next big turnaround story after being targeted by renowned corporate raider Carl Icahn, who now holds just over 7% of Talisman's float.

What Are The Key Issues Facing Talisman?

Cost blow-outs and an inability to exit from uneconomic projects in the North Sea are hampering the effective turnaround of the company. For the first quarter of 2014, Talisman saw its revenue from the North Sea drop a massive 65% despite its ongoing investment in the region.

One of the biggest burdens Talisman has to carry is its 2012 commitment to invest $2.5 billion in its U.K. North Sea operations with partner China Petrochemical. This spending commitment is costing Talisman dearly and is preventing the company from allocating that capital to more productive operations elsewhere, including the much-needed production boost of crude liquids.

Such a reallocation of capital is particularly important for Talisman as the majority of its production mix is made up of lower-margin natural gas. This is hurting the company because natural gas prices continue to remain soft. Their outlook is also particularly volatile as new sources of supply come online.

With more than 60% of Talisman's petroleum production mix made up of natural gas, the impact this is having on its profitability becomes apparent when looking at the company's operating netback. This is a key measure of the profitability of an oil company's production, and for the first quarter of 2014 Talisman reported an operating netback of $28.80 per barrel, well below the industry average of $46 per barrel. It's clear that Talisman's production is still blighted by a range of marginal operations that are not delivering solid profit margins.

Even troubled oil and natural gas producer **EnCana** (TSX:ECA)(NYSE:ECA), with around 87% of its total production mix composed of natural gas, is delivering a significantly superior netback of $31.64 per barrel.

Another concern is Talisman's high ratio of net debt to cash flow of almost three times. This is despite the company embarking on an aggressive asset divestment program that has seen over $3 billion in asset sales to date, the proceeds of which have been used to repay debt.

Valuation Indicators Are Mixed

Even after its share price plunged 12% over the last year, Talisman still does not appear to be particularly cheap on the basis of its enterprise value of eight times EBITDA. In contrast, EnCana, which is performing far more strongly and gaining greater traction with the implementation of its turnaround strategy, has an EV of seven times EBITDA. However, Talisman does appear cheap when its EV times its oil reserves and price-per-flowing-barrel of $52,000 are considered.

It is also continuing to pay a quarterly dividend, which at $0.27 annually gives it a modest yield of 2.4%. This, while not spectacular, does see existing investors rewarded for their patience as Talisman attempts to unlock value.

I certainly do not share the optimism of some industry analysts and pundits who claim Talisman now offers value. Clearly, on the basis of its vast, globally diversified oil reserves, the company offers incredible value. But until it is able to extricate itself from a range of uneconomic projects, notably its assets in the North Sea, and significantly boost crude liquids production, the company will fail to unlock value for shareholders.

Source: Motley Fool Canada

CANADIAN DRIPs With SPPs

CANADIAN DIVIDEND REINVESTMENT PLANS (DRIPs) WITH SHARE PURCHASE PLANS (SPPs)

TSX Companies - Symbol	52-Week		Closing Price	Div	Yield	EPS	P/E	Payout Ratio %	5-Yr Dividend Growth
	High	Low							
Aberdeen Asia Pacific - FAP	7.38	5.26	6.28	0.60	9.6	0.69	9.1	87.0	0%
Agnico Eagle Mines* - AEM	39.30	24.66	36.25	0.32	1.0	1.17	28.5	27.4	27.5%
BCE Inc - BCE	51.09	40.58	49.45	2.47	5.0	3.16	15.7	78.2	25.8%
Bk of Montreal - BMO	77.64	58.68	76.73	3.12	4.1	6.52	11.8	47.8	1.3%
Bk of Nova Scotia - BNS	71.05	55.10	70.52	2.56	3.6	5.46	12.7	46.7	4.8%
Cdn Gen Investments - CGI	19.40	14.26	19.40	0.48	2.4	2.16	8.6	22.2	7.6%
Cdn Imperial Bk (CIBC) - CM	99.72	73.89	97.10	4.00	4.1	8.81	11.0	49.3	2.1%
Emera - EMA	35.72	28.77	33.76	1.45	4.3	2.06	16.1	70.4	7.8%
Enbridge - ENB	53.73	41.74	51.06	1.40	2.7	1.94	26.1	72.2	13.8%
Fortis - FTS	33.32	29.51	31.75	1.28	4.0	1.58	19.3	81.0	4.4%
Imperial Oil - IMO	55.81	39.09	55.76	0.52	1.0	4.57	12.6	12.6	5.1%
Manulife - MFC	22.22	15.91	20.49	0.52	2.5	1.62	12.5	32.1	-12.6 %
National Bank ^ - NA	47.22	36.07	46.12	1.92	4.2	4.36	10.6	44.0	7.6%
Sun Life Financial - SLF	40.15	29.65	38.47	1.44	3.7	2.92	13.2	49.3	0.0%
Suncor Energy - SU	46.44	29.85	46.35	0.92	2.0	3.98	11.4	23.1	32.9%
Telus - T	42.40	29.52	41.38	1.52	3.7	2.35	17.7	61.3	8.6%
TransAlta Corporation - TA	15.17	12.43	12.93	0.72	5.5	0.44	30.3	>100	-0.9%
TransCanada Corp - TRP	51.89	43.94	50.89	1.92	3.8	2.48	20.9	74.2	5.0%

CHART NOTE - Prices as of close June 13th, 2014. Source: TD Waterhouse/Bloomberg LP. Stock prices change daily. Check for current prices. These Canadian companies listed on the TSX are the long-standing companies with both a DRIP and SPP. With the DRIP, you can reinvest all your dividends to purchase additional shares at no cost. Some DRIPS offer a discount so that additional shares are bought at a discount to the average market price. The SPP allows shareholders (shares registered in your own name, not a brokerage's name) to buy additional shares periodically at no cost. For SPP, it is best to refer to the individual companies' websites, as sometimes amounts change. *Dividends paid in U.S. dollars and receive dividend tax credit. Non-Canadian company dividends are taxable like interest income.

^ For National Bank you need to own 100 shares for the DRIP and 1 share for the SPP.

Share purchase plans (SPPs) are also referred to as optional cash plans (OCPs). M is monthly, Q is quarterly, A is annually. Transfer agents: CIBC Mellon Trust @ 800-387-0825, Compushare @ 800-564-6253.

Div. 5yr gr: We have added the five-year dividend growth rate to our chart, information obtained from Bloomberg LP.

Earnings are forward earnings estimates.

Since the last issue BMO, National Bank and CIBC raised their dividends.

Yield = Dividend divided by current price. Payout ratio = dividend divided by earnings per share (EPS). The dividend payout ratio is simply calculated by dividing the company's dividend by its forward (estimated) earnings. If a company with a low payment ratio experiences an earnings decline, it may continue to pay the same dividend. Or, at least, it may weather the downturn without cutting the dividend. A high dividend payout ratio of 100% indicates that the dividend payout is equal to the stock's earnings. Therefore, one should be very vigilant and place the stock on your "watch" list.

Calculation for interest equivalent of dividend yield for eligible shares: (100 - marginal rate for dividends) divided by (100 - marginal tax rate on regular income). For example, in 2011 an Ontario taxpayer with ordinary income of $65,514 uses: (100 – 11.72) divided by (100 – 31.15) is approximately 1.2822. Therefore, a stock with a Canadian dividend yield of 5.0% has an equivalent interest return of 5.0 x 1.2822, which is approximately 6.41%.

TOP EXCHANGE TRADED FUNDS RANKED BY FIVE-YEAR RETURNS AS OF MAY 31, 2014

Specialty ETFs

Fund Name	Symbol	1 Mth Ret	3 Mth Ret	6 Mth Ret	YTD Ret	1 Yr Ret	2 Yr Ret	3 Yr Ret	5 Yr Ret	10 Yr Ret	Since Incep Ret	Exp Ratio	Total Asset
iShares S&P/TSX Capped REIT	XRE	1.1	4.5	10.6	8.6	1.7	4.3	7.7	18.8	10.9	11.2	0.60	1311.3
iShares US Fundamental Comm	CRQ	0.5	2.5	9.9	7.0	25.5	28.9	19.1	18.7		19.8	0.71	430
iShares US Fundamental (CAD-Hedged) Comm	n/a	1.7	4.7	7.5	5.0	20.0	26.6	14.6	18.5		5.3	0.72	430
iShares US Small Cap C$-Hedged	CLU	0.8	-3.5	0.2	-1.7	17.0	24.0	11.3	18.4		4.2	0.36	186.6
iShares US Fundamental Adv	CLU.A	0.5	2.3	9.4	6.6	24.5	27.9	18.1	17.8		18.9	1.53	430
iShares US Fundamental (CAD-Hedged) Adv	n/a	1.6	4.5	7.1	4.6	19.0	25.6	13.7	17.6		4.5	1.55	430
iShares S&P 500 C$-Hedged	XSP	2.3	4.0	7.5	4.9	20.3	23.8	14.6	17.4	4.7	1.9	0.23	2094.6
BMO S&P 500 Hedged to CAD Index ETF	ZSP	2.3	4.0	7.5	4.8	20.2	23.7	14.9	16.8		16.8	0.17	327.4
BMO Dow Jones Ind Avg Hdgd CAD Index ETF	ZDJ	1.2	3.0	4.9	1.7	12.9	18.8	12.2	16.4		16.3	0.26	144
iShares Global Real Estate Comm	CGR	2.2	4.8	12.7	12.4	12.3	18.1	11.5	15.8		5.6	0.72	74.2
iShares S&P/TSX Cdn Div Aristocrats Comm	CDZ.A	0.8	3.8	9.6	7.3	17.2	13.7	9.7	15.0		7.6	0.66	1137.9
iShares Global Real Estate Adv	CGR.A	2.2	4.7	12.2	12.0	11.3	17.1	10.6	14.8		4.8	1.57	74.2
iShares S&P/TSX Completion	XMD	-0.7	3.1	12.2	9.5	19.0	14.7	4.1	14.7	8.1	7.6	0.60	245.8
iShares S&P/TSX Cdn Div Aristocrats Adv	CDZ	0.8	3.6	9.1	6.9	16.2	12.8	8.8	14.1		6.8	1.49	1137.9
iShares Canadian Select Dividend	XDV	0.6	4.3	6.2	4.7	17.1	16.6	8.6	13.9		6.8	0.55	1466.8
iShares S&P/TSX Capped Financials	XFN	0.9	4.5	6.1	4.9	24.5	22.3	10.9	13.8	8.9	9.9	0.60	877.7
iShares Equal Weight Banc & Lifeco Comm	CEW	-0.9	1.1	1.6	1.4	21.7	25.0	9.8	13.5		7.3	0.60	161.3
iShares Global Infrastructure Comm	CIF	-0.9	3.9	12.2	9.5	21.3	20.8	11.7	12.7		5.7	0.72	38.7
iShares Equal Weight Banc & Lifeco Adv	CEW.A	-0.9	1.0	1.2	1.2	20.8	23.9	8.9	12.6		6.4	1.43	161.3
iShares Canadian Value	XCV	0.1	4.4	8.3	6.7	19.5	16.7	6.2	12.3		6.1	0.55	60.4
iShares S&P/TSX SmallCap	XCS	-1.8	2.3	13.0	10.0	21.0	10.6	-1.9	11.8		0.2	0.60	178.4
iShares Global Agriculture Comm	COW	1.3	6.1	10.1	7.4	15.3	20.9	10.6	11.8		6.9	0.71	229.5
iShares Global Infrastructure Adv	CIF.A	-0.9	3.7	11.8	9.2	20.3	19.8	10.8	11.8		4.9	1.55	38.7
iShares Global Monthly Div(CAD-Hdg)Comm	CYH	1.2	5.2	6.9	6.0	13.6	16.5	5.2	11.6		3.0	0.66	145.3
iShares Canadian Fundamental Comm	CRQ	-0.5	3.5	8.3	7.0	17.2	17.1	6.1	11.1		6.6	0.71	285.1
iShares Global Agriculture Adv	COW.A	1.2	5.9	9.6	7.0	14.3	19.8	9.6	10.9		6.0	1.55	229.5
iShares Global Monthly Div(CAD-Hdg)Adv	CYH.A	1.2	5.0	6.5	5.7	12.7	15.6	4.4	10.7		1.6	1.49	145.3
iShares Canadian Fundamental Adv	CRQ.A	-0.6	3.3	7.8	6.6	16.2	16.1	5.2	10.2		6.1	1.55	285.1
iShares S&P/TSX Capped Composite	XIC	-0.2	3.5	10.5	8.4	18.7	15.8	4.7	9.9	8.6	6.8	0.27	1589.7
iShares International Fundamental Comm	CIE	0.4	0.8	8.7	6.9	26.9	29.7	9.8	9.9		0.5	0.72	256.5
iShares Jantzi Social	XEN	0.5	4.3	9.4	7.8	19.5	18.2	6.5	9.9		3.2	0.55	23.6
iShares MSCI EAFE C$-Hedged	XIN	2.4	3.2	4.5	2.6	13.6	23.6	9.1	9.8	2.8	2.9	0.51	1135.6
iShares International Fundamental Adv	CIE.A	0.3	0.6	8.2	6.5	25.8	28.6	8.9	9.0		-0.1	1.55	256.5
iShares S&P/TSX 60	XIU	0.0	3.6	9.8	7.9	18.5	16.2	4.9	8.6	8.6	7.2	0.17	12585
BMO S&P/TSX Capped Composite Index ETF	ZCN	-0.2	3.5	10.5	8.4	18.8	15.8	4.7	8.4		8.4	0.17	1023.1
iShares Emerging Mkts Fundamental Comm	CWO	2.1	7.3	2.7	4.4	6.9	8.2	-3.3	5.8		10.8	0.70	68.6
iShares Canadian Growth	XCG	-0.4	1.8	11.5	9.5	14.4	12.5	0.9	5.2		4.1	0.55	30.5
iShares S&P/TSX Capped Energy	XEG	-0.9	11.6	18.2	15.7	27.0	18.2	0.1	5.0	8.9	10.4	0.60	636.5
iShares Emerging Mkts Fundamental Adv	CWO.A	2.0	7.1	2.3	4.0	6.1	7.3	-4.1	4.9		9.9	1.52	68.6
iShares BRIC Comm	CBQ	1.8	4.7	-2.3	-0.7	5.6	4.9	-7.2	1.9		4.7	0.66	140.4

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.

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