Insurance & Financial Group Inc.

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Inside Info

Winter 2009

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Fast Facts.....

- 52% of Canadians polled plan to open a TFSA (40% with new money)
- Baby Boomers are a third of the population and begin to retire in 2011
- 25% of RRSP holders either maximize their contribution limits or face Registered Pension adjustments

Market Call: Is it a good time to invest?

Market uncertainty has every investor anxious about what they're losing, about the timeline to gain back those losses, and how their portfolio will be affected. Overall, investors need to understand that what goes up must come down. And vice versa. The markets were performing well above average for a couple of years, and with the credit crunch affecting the USA as greatly and as quickly as it did there is the global ripple felt by all. Many analyses have been provided since September 2008 on how the "economic crisis" happened, how we're all affected, the rates of job loss and plummeting stock and commodity prices but this is all on a global generalized scale. How does this affect you? What are YOUR advisors telling you?

Well, this advisor is calling for a 5-year window until the stock markets are back where they were mid 2008. With that timeline in effect, the market should become more stable in 2 years and begin the climb back to the 15,000 point mark (TSX/S&P). The TSX is currently trading under 9,000 points.
Is it a good time to invest? Definitely – as long as it fits within your *personalized financial plan, your risk profile, and your have extra dollars to "invest and forget about". The emotional investor should not be investing more than they're comfortable losing, and should not be watching the daily performance of their investments. It's going to be a rocky road and a slow comeback.**
What about the funds you've already lost? Stay invested – those losses are unrealized until you sell your funds and cash out of the market. Those who should be concerned are retirees taking investment-based income from a registered source (i.e. RRIF, LRIF). Those percentages are based on the fund value at January 1 which will affect the designated minimums available. This is why a diversified portfolio of registered and non-registered investment assets is crucial as those non-registered investments can provide a carry-over where income is lost at a time like this. Discussing your annual income needs with your advisor on a regular basis is important.

Don't have a financial advisor looking out for your best interests? Now is the time to consult a professional independent financial advisor and develop a plan that meets your needs! It's never too late or too early, and you deserve someone who knows the financial vehicles that will provide you guaranteed components to your investment portfolio!

Contributed by Jennifer Wallace

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EVEN IN A RECESSION, FINANCIAL ADVISORS STILL IN HIGH DEMAND

The economic downturn is the perfect time to employ the services of a financial advisor, according to Allan Small. The Toronto-based financial advisor and Metro columnist said services like his don't cost a lot and can earn you a lot of money.

"I believe everyone needs a financial advisor today because of the market volatility," he said. "It is difficult enough for us to try and figure out what's happening and where things are going, let alone somebody who goes to their nine-to-five job and at night goes on the Internet and tries to figure it out themselves."

An advisor will look at your financial situation, compare it to where you want to be (say retired in 15 years) and show you how to get there. Small said if you can invest for three or more years, the stock market is still the way to go.

The TSX has dropped 50 per cent form its peak: consider that a half-price sale. "If you walk into a Hugo Boss store and see a good-quality sweater on sale for 50 per cent off…. You're going to buy it," Small said. "So if you see shares in (your bank) for half off, snap them up." With all the layoffs lately, it's perhaps time to switch careers and become a financial advisor.

Greg Pollock, president of Advocis, the Financial Advisors Association of Canada, said working as a financial advisor is 10 per cent technical skills and 90 per cent relationship skills.

"It's a people business. If you can't have empathy with a client's financial challenges… you're not going to make a very good financial advisor."

Buying a home, getting life insurance, educating children and helping aging parents are as much about human relationships as they are about financial transactions.

Some advisors specialize in mutal funds and will need extra qualifications from an institute like the Mutual Fund Dealers Association of Canada, which operates nationwide except in Quebec, P.E.I. and Newfoundland and Labrador. If the advisor wants to sell stocks and bonds, she'll look at IIROC (the Investment Industry Regulatory Organization of Canada).

Insurance experts will need to be licensed through the province in which they work. Community Colleges often offer the courses one needs to become a financial advisor. "It's about putting the client's interest ahead of all other interests," Pollock said.

Jon Tattrie, Metro News Canada, Article 160185, December 29, 2008

Been told your mortgage interest can be deductible? Client Beware!

A recent ruling was upheld by the Supreme Court of Canada in the case of Earl and Jordanna Lipson. What was the case all about? In 1994, the Lipson's agreed to buy a home in Toronto for $750,000. Mrs. Lipson went to the Bank of Montreal and gave the lender a promissory note in exchange for a $562,500 loan, which instead of using to finance the purchase of the family's new home was given to her husband in exchange for shares in Lipson Family Investments Limited. The next day, the couple returned to the lender and obtained yet another $562,500, this time as a mortgage on their new house. These funds were then used to pay off Mrs. Lipson's initial loan. What was the whole routine intended to accomplish? It was to give the impression that funds were borrowed in order to pay off a loan for the purchase of shares, not the purchase of a home. Any loan used to purchase an investment has deductible interest. Their attempt was to make the interest deductible on their mortgage by completing the complicated series of transactions. It's a failed attempt at a financial arrangement called "The Smith Maneouvre". Canada Revenue Agency went after the deducted amounts of interest in this case citing that the arrangement went against general anti-avoidance rules designed to prevent abuse of tax laws. Two lower courts agreed with the agency, prompting the appeal to the Supreme Court of Canada. The high-court ruling was based on attribution rules, where income or losses are attributed to a taxpayer other than the individual who actually earned them. In the case of the Lipsons, losses were attributed to Mr. Lipson, lowering his taxes, when the losses should have been attributed to Mrs. Lipson. What does this tell us? Don't shy away from tax-saving strategies, but definitely discuss thoroughly the options with all of your financial professionals.

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New Options for your Locked – In Accounts

Kate McCaffery, Advisor.ca, May 09, 2008

Clients have new, legitimate options at their disposal for unlocking locked-in retirement accounts, after the federal government released amendments to the **Pension Benefits Standards Regulations**, making good on promises made in 2008's federal budget.

The amendments announced are designed to give consumers the ability to reposition their retirement assets and withdraw from these funds in special circumstances.

Please note: these changes apply to locked-in assets from federally regulated pension plans. According to the Office of the Superintendent of Financial Institutions Canada, federally-regulated plans include pension plans for some federal Crown corporations, banks, companies involved in interprovincial and/or international transporation and communications companies, among others.

Three new options for federally-regulated locked-in plans:

▪ **One-time, 50% unlocking**

Once you turn 55, you may transfer your locked-in assets to a new Restricted Life Income Fund (RLIF) account and then transfer up to 50% of the balance to any registered account within 60 days of the RLIF creation.

• **Small balance unlocking**

If you're 55 years or older and your locked-in assets are less than 50% of yearly maximum pensionable earnings (YMPE) -- $22,450 in 2008 – you may wind up your Life Income Funds (LIFs), RLIFs or the new Restricted Locked-in Savings Plans (RLSPs), and withdraw the cash, or convert them to an unlocked tax-deferred savings vehicle.

▪ **Financial hardship unlocking**

Under the new rules, anyone regardless of age, may withdraw cash up to 50% of YMPE, from any combination of locked-in accounts (all withdrawals need to be made within 30 days), if they meet one or both of the following conditions:

- Medical or disability; those who expect to spend more than 20% of their income in any given calendar year for medical treatment, assistive technology or other expenses related to disability can make use of the provision if a licensed Canadian physician certifies that treatment or technology is needed.
- Low income; i.e. anyone who expects to earn less than 75% of YMPE -- $33,675 in 2008 – will be allowed to withdraw an annual amount based on their expected income, to a maximum of 50% of YMPE. Total permitted withdrawals, regardless of reason, may not exceed this 50% limit. Under the older set of rules, these accounts can also be unlocked if your life expectancy is reduced or if you plan to leave Canada permanently.

There are also consequences to consider if you are thinking about unlocking your pension assets – any assets withdrawn from tax-deferred saving accounts may be taxable, and funds unlocked in this manner lose their creditor-protected status.

ALL YOU NEED TO KNOW ABOUT….

Tax Free Savings Accounts (TFSA)

As many are aware through the vast advertising campaigns put forth by financial institutions this year, the Tax Free Savings Account (TFSA) is now available! So what is it? The TFSA is a registered savings account that allows an individual (other than a Trust) who is resident in Canada and is 18 years of age or older, to earn income tax-free inside the account. Contributions to the account are not deductible for tax purposes, but on the other hand withdrawals of contributions and earnings are not taxable. An individual could open a TFSA starting in January. S/he would be allowed to contribute each year, up to $5,000.00 (this annual amount will be indexed to inflations and rounded to the nearest $500.00 on a yearly basis). Any withdrawals made in the previous year would be added to the contribution room for the year, and any unused contribution room from the previous year would be added to the contribution room for the year.

Also, there would be no limit on the number of years unused contribution room could be carried forward, and you could withdrawal any amount in the account for any reason. But on the other hand, excess contributions would be subject to a tax of 1% per month, for each month that the excess remains in the plan. Among other things, withdrawals from the TFSA does not increase your taxable income and therefore would not affect benefits such as Old Age Security, the Guaranteed Income Supplement, or Employment Insurance benefits.

Contact us today to see how the Tax Free Savings Account would fit into your financial plan!

Taken in part:
The Empire Life Insurance Company "Tax Free Saving Accounts (TFSA), Initiative, Vol. 08, N°. 03
and Jennifer Wallace

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For Your Interest...

"T BILLS VERSUS TINTORETTOS"

by Jianping Mei & Michael Moses
Forbes Magazine, December 22, 2008

As a long term investment, which artist has brought the best return?

ALONG WITH STOCKS AND BOND AND COMMODITIES, art retreated in November. Sales at Sotheby's and Christie's sank, in the case of contemporary art, to 2006 levels or below. A few works brought record highs, but these were far outnumbered by others that sold for less than their low estimate or didn't sell at all. Christie's offered "Study for Self Portrait" by Francis Bacon with a 440 million low estimate. No one brought it home.

After five years of above-average growth the market has turned down. But over the long term art has performed quite well. We know this from data we collected on prices for artwork that have appeared more than once at auction.

Unlike stocks and bonds, homes and artwork are unique, they trade infrequently. Thus, an index based on average prices over time may say more about the mix of objects that come to market than changes in values. To address this problem, we created the Mei Moses Art Indexes, bases on repeat auction sales of the same works. Our database contains approximately 13, 200 repeat sale pairs. (The well-known Case-Shiller index for residential real works in a similar fashion.) Five subindexes cover the following catergories of artwork (mainly paintings): American before 1950, impressionist and modern, old master and 19th century, postwar and contemporary, and Latin American.
Stocks have beaten art for the past quarter-century but done worse than art for the past half century. Also worth noting, if you think of art as pure investment rather than enjoyment, is that insurance, capital gains tax and transaction costs are much higher on art.
Two other facts of interest to investment bean counters: A diversified art portfolio would be less volatile than a stock index fund if you look at year-to-year returns but riskier if your holding period is decades. Also, the correlation between annual returns on art and those on stocks (or bonds) is close to zero. So art may play a positive role in wealth diversification.

How much were unrealistic expectations to blame for November's poor results? Our data allow us to extrapolate the current value of a piece that hasn't sold in years. Take Mark Rothko's "No. 43 Mauve," which Christie's put up for sale in November with an estimate of $20 million to $30 million. The same work sold in 1988 for $1.5 million. If marked to market by our Postwar Index, its value would have been $7.6 million. No surprise it failed to sell.

Which artists have performed best? To answer this question we do the same thing that FORBES does in evaluating new-issues underwriters. We look at all the price pairs we have for an artist, calculating for each pair an annualized performance and seeing how that stacks up against the All Art Index over the same time period.

Of the 25 most liquid artists – a group that includes Renoir, Picasso, Monet, Sargent and Hassam – Warhol wins, palette down. He averages 10.3 percentage points a year better than the index. Of course, at any auction a lack of buyers or an inflated expectation by the owner may leave a work unsold. The Warhol portrait of Mao, for example, failed to sell in a November auction. It was suppose to haul in at least $45 million.