TEN STAR Financial Inc.

Planning Ahead

THE NEWSLETTER OF MONEY MANAGEMENT AND FINANCIAL PLANNING IDEAS

Candace Kwinter, CFP, CLU, CHFC, RHU
Financial Planner

317, 1080 Mainland Street
Vancouver, BC V6B 2T4
Telephone: (604) 682-7827
Toll-Free: (888) 882-2822
Fax: (604) 682-7877
Email: ckwinter@tenstar.cc
Website:
www.tenstar.vancouverbranch.com

As the RRSP deadline approaches, it's always a busy time, but in the rush to contribute we mustn't forget the reason for all our efforts to save: our long-term financial security.

Your financial future is about so much more than your RRSP. Have you taken the time lately to think about the larger financial picture, which could include your non-registered portfolio, your insurance plan, and perhaps education savings goals for your children?

Give me a call today — when we meet to discuss your RRSP contribution, we can also take stock of these other important aspects of your financial life.

FOCUS ON INVESTING

Are you reaching for your RRSP maximum?

Have you contributed the maximum to your Registered Retirement Savings Plan (RRSP)? Chances are you haven't. In fact, most Canadians do not contribute the maximum to their RRSP, though it remains one of the best vehicles available for saving for retirement and ensuring your quality of life.

Here are some tips on maximizing your contribution:

Meet the deadline. For the 2009 tax year, contributions must be made by March 1, 2010. Your contribution limit is 18% of your 2008 earned income to a maximum of $21,000 (plus any carryforward, minus pension adjustments). For 2010, the maximum rises to $22,000.

Business owners who want to generate maximum contribution room for 2011 contributions could consider paying themselves a salary of $124,722 in 2010.

Pay yourself first. Contributing a smaller amount every month through planned regular contributions is easier than trying to come up with a single large sum on March 1.

Get a low-interest RRSP loan. Loans specifically for RRSP contributions are available from most financial institutions at favourable rates. You can reduce interest costs by setting a payment schedule and by using any tax refund you receive to pay down the loan.

Liquidity a problem? Consider contributing qualifying non-registered assets "in kind" to maximize this year's contribution.

I can help. Let's discuss these and other ways to maximize your RRSP contribution. Remember, an RRSP is still the single most important tax shelter available to Canadians and one of the best ways to save for your retirement. ■

Consider small-cap funds as we swing into recovery

Small-cap companies are typically among the first to benefit when economic recovery takes hold. Given our current location in the economic cycle, now may be a good time for investors to consider making an allocation to small-cap funds. Here's why.

Historically, small-cap stock performance has beaten large-cap performance during economic recoveries and the two or three years that followed — a pattern that held up in 2009.

Small-, mid- and large-cap labels refer to a stock's "capitalization"— the total market value of the company's outstanding shares. Because Canada's market is small, the mutual fund industry combines small- and mid-cap companies into one category. There are more than 60 small/mid-cap offerings for Canadian mutual and segregated fund investors. These include Canadian, U.S., and global funds.

Why small caps outperform

There are several reasons why small caps tend to thrive during upturns:

- Earnings are usually more volatile than those of large companies. They fall more and then recover faster.
- Small-cap company growth relies more on outside financing, which typically dries up when the economy slows and starts flowing again once the recession bottoms. As with earnings, that means small caps suffer more in the down leg of a recession and gain more during the up leg.
- Smaller companies are more nimble. As the economy improves, it's easier for them to add workers and increase production.
- Energy and materials producers — among the very first to benefit from recovery — comprise about half of Canada's small/mid-cap market, based on the BMO Nesbitt Burns Small Cap Index. Another big beneficiary — the consumer discretionary sector — represents almost 10%.
- Corporate takeovers virtually halt during a recession and then pick up quickly during recovery. Small-cap companies are prime candidates.

The diversification that mutual funds provide can help mitigate their downside risk.

Maintain perspective

Small caps may shine during recoveries, but typically suffer more during downturns. And, being less liquid, they tend to be more volatile throughout the whole economic cycle. So it's important to base small-cap portfolio exposure on both your risk tolerance and the economic outlook.

Consider too that while recovery is likely under way, many analysts fear another downturn is possible.

Benefit from active management

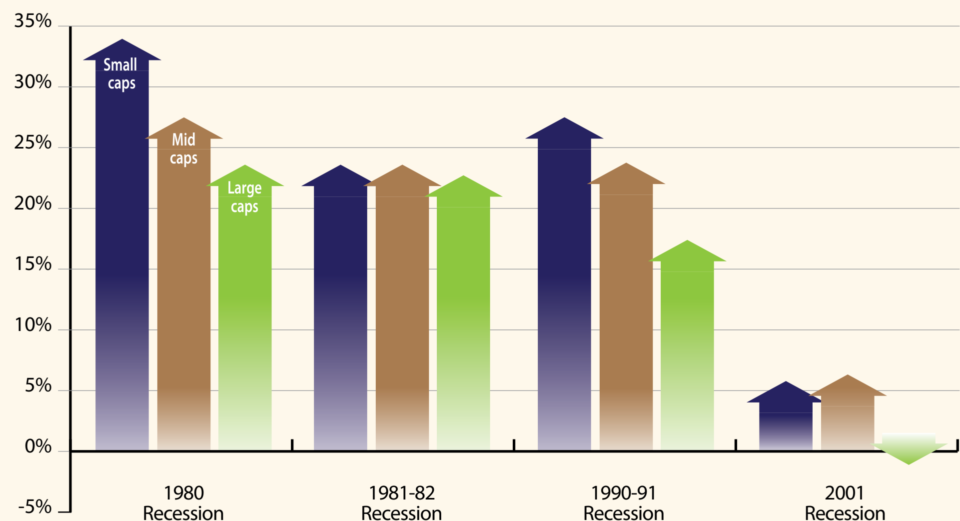
Information is critical for successful small-cap investing. These companies get significantly less coverage from stock analysts and the media. Professional small-cap fund managers have the specialized knowledge and the access to company executives that's needed to identify good prospects.

Disciplined analysis is also important, since heavily concentrated product lines make these companies more vulnerable to social and economic changes. Small-cap stocks are less liquid, so skilled trading pays off. And funds reduce risk by holding a diversified mix of companies in different sectors.

Professional advice can help determine whether small-cap mutual funds would be an appropriate addition to your portfolio. ■

Leading the recovery, again and again

Small caps and mid caps outperformed large caps after all four of the past recessions.



Source: Morningstar, Inc. Returns shown are compound annual growth rates for the small-cap Russell 2000 Index, the Russell Mid Cap Index, and the large-cap Russell 1000 Index, three years after each recession's mid point.

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

FINANCIAL PLANNING

Reminder: more TFSA room

The new year brings another $5,000 in contribution room for your tax-free savings account (TFSA). Suppose you put in only $3,000 last year. The unused $2,000 is added to this year's $5,000 for total room of $7,000. If you withdrew money last year, you can now replace it without affecting this limit. Talk to me about your TFSA goals, and I can help you with strategies for reaching them. ■

TAX PLANNING

Home reno tax credit: Your time is almost up

You have until February 1 to take advantage of the temporary Home Renovation Tax Credit announced in last year's federal budget. The measure was aimed at combating the recession and covers home improvement spending from January 28, 2009, through January 31 this year. Providing the purchase of goods and services totals more than $1,000, there's a 15% federal income tax credit. Spend $10,000 in all and you qualify for the maximum $1,350 credit. Note that routine maintenance and repairs don't qualify. ■

TAX PLANNING

RRSP beneficiaries now have loss provision

The federal government has made a long-overdue fairness change in the rules for taxing an RRSP or RRIF after the planholder's death. The change concerns what happens if the plan loses money while waiting to be distributed. Previously, losses were ignored, even though gains were taxed. Now, losses can be carried back to reduce the plan's taxable value at the date of death, saving the estate money. This applies to RRSP/RRIF distributions starting in 2009. ■

FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Net worth

Your net worth can be a useful tool for tracking the progress in your financial life from year to year, and getting an evolving picture of your true wealth.

What it is

Net worth measures your true wealth at a specific point in time; it's most useful when you compare it to your net worth from another year.

How it works

January is an ideal time to take stock of your net worth as you'll have year-end financial statements on hand. You and I can arrive at the figure together by calculating the difference between the total assets you own and the total debts you owe.

Why it matters

This document is a powerful way to track progress toward your financial goals. Comparing one year to the next relates your actual growth in wealth to what your financial plan assumed. By looking at your net worth, you not only gain an important indicator of your financial progress, you also have a useful tool for identifying areas where you could potentially save: for example, reducing administrative fees and interest costs by consolidating accounts or loans. We can also identify sectors where you may be too concentrated, and we can see if you can afford to reduce — or raise — your portfolio's risk level.

Michael Jackson's estate plan provides valuable lessons

Last June's unexpected death of music icon Michael Jackson offers good lessons on estate planning.

What he did right

• Jackson was practical enough to have a will. Many people, even those with considerable estates, do not. In Canada, if there's no will, the provincial law is applied for distributing wealth, and it's up to the courts to select a guardian for minor children.

• Jackson's will was revised in 2002 after the birth of his youngest child. A will should be reviewed after every major life change and whenever significant property is acquired or sold.

• Jackson named seemingly competent executors: his accountant and two recording industry executives.

• He named a guardian for his minor children and an alternate to replace that guardian, if required. Technically, it's up to the courts to name the guardian, but judges normally respect the deceased's wishes.

• The will established a trust for Jackson's three children. Testamentary trusts enable parents to set standards for care and ensure their children are looked after. Trusts can save tax for the beneficiaries too. Also, trusts make it harder to challenge the estate plan because they are private documents, while wills are public.

• Jackson's will made clear that his ex-wife was not entitled to any part of his estate. The greater the clarity, the less risk there is of a lawsuit. One reason to have a will drafted by a professional is to ensure it's clear and complies with family and succession laws. If a family member is disinherited, consider providing the executor(s) with a written explanation of why.

Room for improvement

• It took several days to locate Jackson's will. Make sure your executor(s) know where it is and can easily access it. Consider leaving the original with your lawyer and giving your executor(s) and family a copy with the lawyer's name and phone number. Destroy old wills; there was confusion as to whether Jackson's 2002 will was the most recent.

• Jackson apparently did not discuss his choice of executors with his family. His mother subsequently launched a court challenge, a costly exercise for the estate. Discuss with your family the rationale for each major decision in your will. Ideally, leave a written (or video) explanation as well.

• Jackson named his 79-year-old mother as guardian for his young children, aged seven to 12. The alternate guardian — singer Diana Ross — is 65 and was reportedly unaware that she was designated. Make sure your desired guardians are able and willing to act as parents.

Put these lessons to use

If your will hasn't been reviewed for years, make that a New Year's project. I can help you with your estate-planning strategies and priorities so you can feel confident that your estate will be distributed according to your wishes. ■

Consider in-kind contributions for your RRSP

IF YOU HAVE a problem finding the cash to make this year's RRSP contribution and are reluctant to borrow the funds, consider making a contribution in kind. Transfer — into your RRSP — investments that are RRSP-eligible, but are currently held outside of your plan. Result: You get a tax receipt for the investments' value at the time of transfer.

You can transfer Guaranteed Investment Certificates, government bonds, or shares in Canadian companies. The only requirement is that you set up a self-directed plan (except for Canada Savings Bonds, which you may contribute without setting up a self-directed plan).

Be careful what you transfer, though: capital assets, such as stocks or mutual funds, contributed to your self-directed plan will be treated as if you have sold them at current values. In other words, any appreciation in the investment can potentially be taxed as a capital gain. And any capital loss cannot be claimed if the asset is transferred to your RRSP.

Furthermore, if you transfer dividend-paying securities, you lose the benefit of the Dividend Tax Credit.

Your best bet? Stick to cash equivalents like money market investments or fixed-income vehicles, such as GICs or CSBs, that won't generate a capital gain or loss when transferred.

Call me if you'd like to discuss making an in-kind contribution to your RRSP. ■

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