

PORTFOLIO ADVISOR

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Team**

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Welcome & thank you

A warm welcome to all the new clients who have joined us since our last newsletter – and “thank you” to everyone who introduced us.
We appreciate your referrals.

GLOBAL INSIGHT

POSITIONING YOUR PORTFOLIO FOR TODAY'S MARKETS

In the latest edition of *Global Insight*, the Global Portfolio Advisory Committee at RBC Wealth Management outlines its current stance on financial markets and asset allocation:

We have frequently referred to the equity market as having “two-way” risks – meaning, considerable downside if Europe were to unravel, but meaningful upside if bold policy moves were to improve the situation. In September, policymakers may have taken the negative side of the “two-way” risks off the table. The European Central Board (ECB)’s commitment to backstop Spanish and Italian bonds and the region’s banking union progress likely removed many of the extreme downside risks to equity prices. These actions, combined with the Fed’s open-ended bond-buying plan, should continue to support stocks for a time.

■ We recently upgraded Continental Europe to “neutral” and Asia (excluding Japan) to “overweight.” Nevertheless, we maintain our “neutral” stance on

global equities due to the U.S. election and fiscal uncertainties. Resolving the fiscal cliff and debt ceiling challenges could be a messy process. We continue to recommend no more than benchmark exposure to equities.

■ In Canada, we have been more positive on the equity market since mid-summer; however, we remain “neutral” and would await more definitive signs of a bottoming in the Chinese economy before becoming more constructive on the resource-rich Canadian market. Further, we continue to recommend that domestic Canadian investors consider taking advantage of a richly valued Canadian dollar to diversify exposure to other markets that are less commodity-exposed and offer broader sector opportunities.

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RBC Wealth Management
Dominion Securities

■ For fixed income, we maintain an “underweight” rating. The search for yield by investors around the globe has pushed yields lower and spreads tighter. Concerns related to the risk-return trade-off for many fixed-income securities continue to underpin our “underweight” recommendation for the asset class. We note that relative value still exists, with select opportunities in the corporate sector remaining the most attractive. While the diversification benefits of bonds continue to offer value, investors should be cautious about the level of risk added to portfolios when reaching for higher levels of income.

For more information about our investment outlook, as well as detailed insights into global financial markets, please ask us for the current issue of Global Insight.



FOUR STRATEGIES TO CONSIDER BEFORE YEAR-END TO REDUCE YOUR TAXES

As the old saying goes, “It’s not what you make – it’s what you keep.” And you may be able to keep more – by considering the following tax strategies before the end of 2012.

1. HARVEST YOUR TAX LOSSES

One of the most effective year-end tax strategies is “tax-loss harvesting” or “tax-loss selling.” With this strategy, you deliberately sell an investment at a loss in order to apply the loss against capital gains on other investments. This reduces taxes on the gains.

You first have to apply a capital loss realized in 2012 against gains also realized in 2012. If you still have a leftover loss, then you can apply it against any gains realized in the 2009, 2010 or 2011 tax years. This may result in a tax refund. If you still have a capital loss after applying it first to the current year, then the three previous years, then you can carry it forward indefinitely to apply against gains realized in future years.

Before you decide to sell an investment to harvest a tax loss, you should first make sure that it no longer meets your investment objectives, which is the primary consideration. Also, if you decide to sell, make sure that you adhere to the “superficial loss” rules, in order to prevent your capital loss being denied by the Canada Revenue Agency (CRA). These rules are quite detailed, but are generally intended to prevent you (or anyone connected with you, such as

your spouse, common-law partner or corporation) from simply selling an investment to lock in a loss for tax purposes, and then reacquiring the same investment shortly afterwards (or acquiring it shortly before). Please ask us for more information about these rules.

IMPORTANT 2012 TAX-LOSS HARVESTING DEADLINES

To claim a loss for the 2012 tax year, you need to sell the investment before the end of the year. For tax purposes, any sales occur on the “settlement date,” which is normally several days after you actually place a sell order. Factoring in year-end holidays, we recommend that you initiate sales no later than 1:00 p.m. (EST) on December 24, 2012 for Canadian and U.S. stocks.

Please contact us before December 24 to determine if you can benefit from tax-loss harvesting in 2012.

2. DEFER CAPITAL GAINS

As we approach year-end, you may also be thinking about selling certain investments at a profit, instead of a loss. But, sometimes, there can be compelling tax reasons to wait until the new year to “realize” capital gains:

- You expect your marginal tax rate to be lower in 2013 than in 2012.



Loaning money to a lower-income spouse can be a highly effective way to reduce your combined taxes on investment income.

- You would like to delay paying any tax due on the gain to April 30, 2014, rather than April 30, 2013, which would normally be the case if you sold before year-end.
- You are realizing capital losses in 2012 that you would like to use to offset capital gains realized in 2009, 2010 or 2011. Any capital gains realized in 2012 would reduce the net 2012 capital loss you can carry back to those years.

3. LOCK IN A SPOUSAL LOAN AT THE 1% PRESCRIBED RATE

Loaning money to a lower-income spouse can be a highly effective way to reduce your combined taxes on investment income. And with the CRA's prescribed rate on spousal loans confirmed at an historic low of 1% until December 31, 2012, now is an excellent time to consider a spousal loan strategy.

It works like this:

- First, you make an official, properly documented loan to your lower-income spouse.
- Your spouse then uses the loan to generate investment income (interest, dividends and capital gains) and pays tax on the investment income at their lower tax rate.
- Your spouse pays you annual interest at the CRA's prescribed rate, which is currently just 1%. You pay tax on the annual interest, but the tax savings achieved in the previous step should more than compensate for this, especially since the interest rate is so low.

The CRA has confirmed that the prescribed rate will remain at an historic low of 1% until December 31, 2012 – making now an ideal time to consider a locking in a new or existing spousal loan.

4. REMEMBER THE “FORGOTTEN” RRSP CONTRIBUTIONS

If you are turning 71 in 2012, you have to convert your RRSP into an income source, such as a Registered Retirement Income Fund (RRIF), before December 31. But if you have RRSP contribution room, you can make two last tax-deductible RRSP contributions before closing it.

The first one is your 2012 RRSP contribution. Because you're closing your RRSP before year-end, you won't have the extra 60 days after year-end like you did in the past to make your RRSP contribution. So do it before, if you can.

The second one is your 2013 RRSP contribution. If you have earned income in 2012, you will create RRSP contribution room effective January 1, 2013. But since you're closing your RRSP, you have to make your 2013 contribution early. You may have to pay a small over-contribution penalty (1%) for “jumping the gun,” but it can definitely be worth it.

For example, the over-contribution penalty on a \$23,820 RRSP contribution for 2013 made in December 2012 would be a maximum of \$238 (1% of \$23,820). But the tax savings on the \$23,820 RRSP deduction in 2013 could be as high as \$11,910.

Please contact us for assistance converting your RRSP, and making your final RRSP contributions.

Ask us for our full report on year-end tax planning. And, remember, before you put any tax strategy in place, you should always consult with a qualified tax professional first.

A NEW YEAR ... A NEW OPPORTUNITY FOR TAX-FREE GROWTH

From its humble beginnings, the Tax-Free Savings Account (TFSA) has grown into a significant tax-savings opportunity.

Introduced by the federal government in 2009, the TFSA enables you to contribute \$5,000 annually, earn tax-free investment income, and make tax-free withdrawals.

HOW DOES A TFSA WORK?

A TFSA is a government-registered plan similar to a Registered Retirement Savings Plan (RRSP) in many important ways. You are able to make contributions, accumulate unused contribution room, invest your contributions in a wide range of choices and earn investment income free of annual taxation. However, unlike an RRSP, the investment income is not just free of annual taxation when you let the income accumulate within the plan, but also tax-free when you make withdrawals.

Another key difference is that you receive contribution room automatically starting from age 18, if you are a Canadian resident with a Social Insurance Number, whereas RRSP contribution room is based on your earned income. If you don't use part or any of your contribution room in a given year, it simply keeps on accumulating. Of course, an RRSP also has its advantages – such as tax deductions for your contributions and higher contribution limits.

Starting January 1, 2013, you will be able to contribute at least another \$5,000 (the contribution limit may increase to \$5,500). That means your total TFSA contribution room could be as high as \$25,500 – a fairly considerable sum to invest tax-free. So if you thought a TFSA wasn't worth bothering with before, maybe it's time to think again.

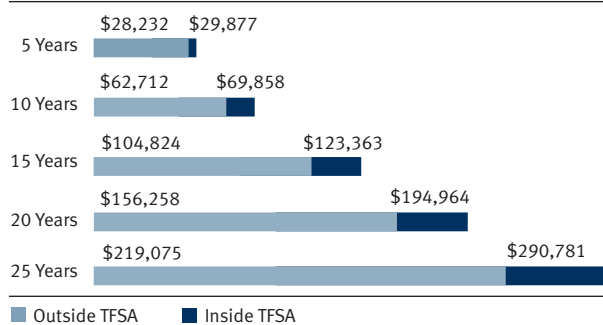
Please contact us for more information about TFSAs.



TIPS FOR MAXIMIZING YOUR TFSA

- Contribute as much as you can, as soon as you can, to maximize tax-free growth (see chart below).
- If you make a TFSA withdrawal, you are allowed to re-contribute the amount you've withdrawn. But make sure that you wait until the following calendar year to re-contribute what you've withdrawn to avoid a penalty.
- Give money to your adult family members to contribute to their own TFSAs. You can make a tax-free gift to your family members of money that may otherwise be exposed to taxation, and they can invest it tax-free within their own TFSAs.

Tax-free compound growth



This chart shows how \$5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to a taxable investment account.

Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

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