

# Your Wealth



Views and opinions  
for the clients and friends of

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Welcome to those clients  
who joined us this quarter  
and thank you to those who  
recommended our services.



## Great Expectations

Have you enjoyed a favourite television series with a continuing storyline, filled with twists and turns? Perhaps you looked forward to new episodes of *Lost*, *Dallas*, *All in the Family*, *Cheers*, *Friends*, *Gunsmoke*, *The Honeymooners* or *M.A.S.H.* The list goes on and on. If you're thinking of *Jersey Shore* you need the kind of professional help that we cannot provide.

One hundred and fifty years ago the folks in England obviously didn't have a television series to follow but there was something else capturing the interest of the reading public. On December 1, 1860 Charles Dickens published the first chapter of his weekly serial story called *Great Expectations*. It continued to August 1861 and was finally published as a novel a few months later. The weekly publication stirred significant interest and anticipation. The coming of age story focused on the life of young Pip.

Pip has dreams, hopes and plans. He fears being left behind in life. He is happiest when love and fortune seem to be reasonable

expectations. Needless to say he has many disappointments. At this point you are probably wondering what all this babble has to do with the investment world. Hang on. There is a point to all of this.

As we make our own way through life we set expectations for many aspects of our lives. This includes wealth creation and investment returns. I have been around long enough to have seen several cycles in investor psychology. Every once in a while surveys are done to see how bullish or bearish investors are and what percentage return they are anticipating for the years ahead. A bull market (remember those?) certainly increases expectations as investors believe the trend will continue at an ever increasing rate. Anticipated returns become totally irrational. A majority of investors, driven by hope, greed and recent gains often have great expectations of 15-20% future annual gains for many years to come. I could give you specific survey numbers but Debbie makes me throw out reports that are older than 20 years. I never could understand that. The dust isn't that bad. (CONTINUED ON PAGE 4)

## Tag Team

A short time ago a client referred to the three of us as a tag team. We answer each other's phones. We provide as much instant service as possible. We take messages. We take orders for each other. So yes, Debbie, Mark and I are a three person tag team. That's almost 80 years of experience. Next September will mark my 40th year in the investment business and I assure you there is no end in sight. I simply love what I'm doing.

Friendships with some clients are now decades old. I'm happy to report that all relationships are about to get stronger as we prepare for the next 40 years.

As you can imagine the administrative and compliance considerations for each client are huge and increasing every year. These ongoing requirements are very time consuming. For regulatory reasons all of our clients have one official advisor of record and that has been me. I hasten to add this has no bearing on the day to day relationship that you have with either Mark or myself. Our recommendations are always the result of collaborative efforts and that will never change. It is the behind the scenes administration that requires attention. We must slowly transition the regulatory aspect at a manageable pace. So Mark is becoming your advisor of record and I will become the associate advisor.

You won't notice any change in our relationship with you. In fact you are guaranteed continuity as well as an increased effort on our part to discuss wealth management with you. This involves taking our conversations beyond investment advice. Wealth management helps you protect your lifestyle, manage your nest egg, plan your retirement and create your legacy. We want to assist all of our clients as they plan for the future.

Contact us as you always have. We look forward to each and every communication.



## Year-end Tax Tips

With 2012 winding down it is time to start thinking about year end tax planning. While the RRSP contribution deadline is not until March 1, 2013 most tax strategies need to be implemented by December 31 in order to count for 2012 taxes. With that in mind, here are a few strategies to consider:

**Tax Loss Selling:** If you have recognized a capital gain in a non-registered account this year you may want make use of tax loss selling. By selling another non-registered investment at a loss you can reduce or eliminate any capital gains tax that you might owe. If you offset all of your 2012 capital gains you can apply any remaining losses to gains that you earned in the previous three tax years or you can carry the losses forward indefinitely to use in the future. Note that in order to qualify as a tax loss in 2012 a transaction needs to settle before the end of the year. Because of the Christmas and Boxing Day holidays that means the last day to sell an investment for 2012 tax purposes is December 24.

**Charitable Donations:** If you want to maximize the tax benefits that you receive for donations consider donating stock instead of cash. Recent changes to tax rules mean that no capital gains tax is payable when you donate stock to a registered charity. That means the full amount of the donation is available to

help offset other taxes. Note that the administration of an in-kind stock donation is time consuming. It is important to start any such donation well in advance of the year-end to ensure that it can be completed as a 2012 donation.

**Spousal Loans:** A spousal loan is one of the best income splitting tools available. It allows spouses to shift investment income (dividends, interest and capital gains) from the higher-income spouse to the lower-income spouse. In order to make a spousal loan acceptable to the Canada Revenue Agency interest must be charged on the loan at what is called the prescribed rate. The prescribed rate in effect when a spousal loan is created is valid for the lifetime of the loan; it will not change even if the CRA increases the prescribed rate in the future. Any spousal loan created before the end of 2012 will be able to lock in the current low rate of 1%.

## U.S. Dollar Electronic Transfers

We can now send U.S. funds electronically from your RBC Dominion Securities investment account to most U.S. dollar accounts at Canadian financial institutions. Please contact us if you would like to set this up for your accounts.



## CLIENT CORNER: RALPH MISCHLICH

### KAYAKING THROUGH THE GRAND CANYON

In the fall of 1996 Ralph embarked on a trip that would lead to an ongoing obsession. Ralph had been an avid kayaker for many years and had kayaked not only all over Canada but also all over the world from New Zealand to Ecuador and almost everywhere in between. But in October 1996 Ralph went on what he described as a "Trip of a Lifetime" – a two week kayak down the Colorado River in the Grand Canyon. Something about the majesty of the Canyon struck a cord in Ralph and his "Trip of a Lifetime" quickly became an almost annual pilgrimage. Since 1996 Ralph has kayaked through the Grand Canyon 10 times. He recently tallied the trips up and concluded that he has spent 180 days of his life in the Canyon.

For Ralph there is something very special about the Grand Canyon and the Colorado River. The unique landscape of the Canyon makes for stunning scenes as rocky cliffs meet the rushing river. Quiet pools and caves offer paddlers peaceful places for reflection. Sharp eyed travellers can also watch big horned sheep walk along the steep cliff walls while California condors soar high above the canyon floor. And after a busy day visitors can fall asleep under the stars while listening to the sounds of the river.

While Ralph did his first few trips down the Colorado on commercially arranged tours he quickly switched to private, self-guided tours. "The big advantage of a commercial tour is that on relatively short notice anyone can book a trip through one of the many operators in the area," says Ralph. For Ralph the big disadvantages of the commercial tours are the high costs and the fixed itineraries. "A commercial tour costs significantly more than organizing a private trip on a river permit," Ralph continues, "and the tour operators decide what you get to see. For a once-in-a-lifetime trip that's ok but after you have been through the canyon a few times what you want to see is probably different from what they want to show you."

Planning for a private trip through the Grand Canyon begins with the all important river permit. Each and every tour that travels the Colorado River through the Grand Canyon requires a permit. The system is designed to limit traffic on the river as each permit is only good for a specific launch date and launches are usually limited to one or two groups per day. Up to 16 people can travel on one permit. "The advantage of the permit system," says Ralph, "is that once you are on the river you can go days without seeing another person. It can really feel like your group is alone in the world." The downside of the permitting system is that the demand far outstrips the available supply. Until 2006 permits were awarded by a waitlist but due to the tremendous demand the waiting time for a permit was nearly 25 years. A revamp of the system led to the creation of a weighted lottery. "For the most popular launch dates there can be hundreds of people vying for a single permit," notes Ralph, "but some of the less popular dates can have no applicants at all."

Once a river permit is secured trip planning can begin. "The permits allow you to be on the river for 21 or 25 days, depending on the time of year," says Ralph, "That gives you a lot of time to see and do many different things." In addition to the 225 mile river run countless side canyons offer picturesque hiking opportunities. "I have been through the Canyon 10 times and every time I see something new. It is truly a fantastic place," comments Ralph.

One aspect of the trip that people often ask about is the food. "All the food needed to feed 16 people for 3 plus weeks has to come down the river with you," says Ralph, "You usually end up with a couple of rafts



just for food." As the rafts can hold a lot of cargo the meals are surprisingly diverse. "People are surprised to hear how long properly stored food will stay fresh," notes Ralph, "It is not unusual for us to still be having fresh salad at the end of the third week." One of the biggest problems with food is actually the local ravens. The big birds are constantly trying to steal food and have become quite adept with their pilfering. Using their beaks the ravens have taught themselves to open zippers so even food stored in tents is not necessarily safe. "The craziest story I ever heard," relates Ralph, "came from a park ranger who watched a raven steal a 3 pound block of cheese and fly away."

According to Ralph rafting through Grand Canyon is something that everybody should do at least once in their lives. "It's a great trip and you don't need to be a rafting expert. Anyone with camping experience who loves the outdoors would have a great time," he says.



# Great Expectations

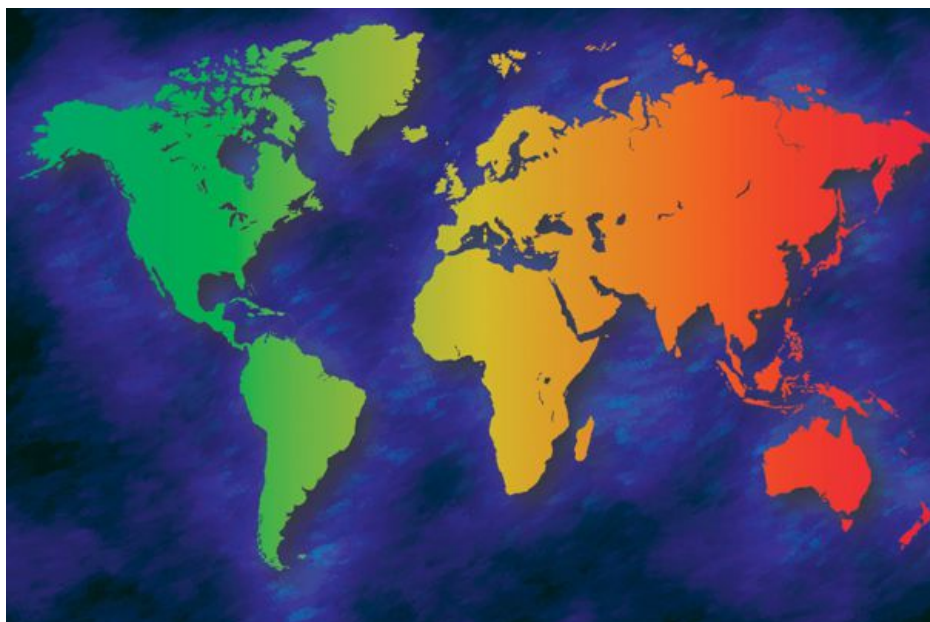
(CONTINUED FROM PAGE 1) Someday envy and greed will return. But right now anticipated returns are minimal. That has been the trend. So what indeed should our expectations be? Equally important, what should investors be doing? These are some of the thoughts we are using to position portfolios:

1. We are not going to fall off the fiscal cliff. A compromise will prevail. Negotiations will lead to short-term volatility but not a significant long-term problem. Don't sell your equities because of this particular concern.

2. If interest rates do rise in 2015 expect stock and bond markets to behave accordingly a year in advance. Generally speaking we are shortening lending ladders as investments mature.

3. Countries whose companies capture global market share will grow. We are looking outside of Canada for some portion of equity portfolios.

4. When we consider buying stocks for dividends we are focusing on companies that can safely increase their dividends. Many Canadian dividend stocks are expensive when you consider their earnings. We expect to advise reducing holdings of high price/earnings stocks over the next eighteen months.



5. Don't hold investment grade Canadian government bond funds. Look outside Canada.

6. Today's worldwide economic woes are the result of fifteen years of leveraged consumption, government spending and speculation. You can certainly add professional deceit and greed to that list. Be prepared to see very slow economic growth, deleveraging and austerity measures that lead to riots in the street.

7. House prices will increase in the U.S. and decline in Canada. Be careful.

8. Demographic issues such as immigra-

tion and the intergenerational transfer of wealth will be priorities. Poor pension fund returns will be a significant concern for two more years.

9. Investing will be less worrisome, perhaps even enjoyable, in two years time. Until then the investment world will be volatile and often disappointing. Nevertheless the extremely low expectations held by investors will some day rise. The infusion of new money into equities will eventually come and with it rising prices. That will be great.

10. Be patient and age well.



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