

# YourWealth



Views and opinions  
for the clients and friends of

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



## The End of the Beginning

Aren't you glad we didn't say "The Beginning of the End"? That would conjure up images of the Titanic, earthquakes, floods, pestilence and thoughts of another season of Jersey Shore. So if everything has a beginning and an end then what are we talking about? Very simply the world has finally been forced to deal with the mountain of debt that we built while maintaining an irresponsible attitude of "What could possibly go wrong?" We have gone from denial to acceptance of the fact that consumers, corporations and governments must stop the borrowing binge. This decision has actually been forced upon the borrowers as the lenders of the world re-examine the creditworthiness of each borrower.

The words "sovereign" and "Triple A" used to imply prudent and responsible management. That confidence bubble has burst. Three years ago the financial crisis was the natural consequence of indiscriminate lending and the unethical creation of

toxic "asset-backed" fixed income securities. Ultimately no one knew which financial institutions were holding bad debt. As a result we had a liquidity crisis. No one wanted to lend money to anyone else fearing that the other party would be the next to go bankrupt.

We are currently experiencing déjà vu to a certain extent but it now goes beyond that. When the fear is that certain countries may default on their debt payments we might as well call that a solvency crisis.

In late 2008 the world went from confidence to crisis. The preceding enthusiasm for investments and real estate was contagious and badly misplaced. Examination of potential risks was not a priority. Undisciplined and unscrupulous lending and naïve and irresponsible borrowing faced no regulatory supervision. The motivation was greed. Very few cautionary voices were heard. Business and media cheerleaders told the world that nothing could go wrong. Yet leveraged economic  
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## Understanding RESP's

With another school year just started we thought it would be timely to review possibly the best way for a parent or grandparent to save for a child's post-secondary education: the Registered Education Savings Plan. While most people have heard of RESP's many do not understand the mechanics of the plan or its key benefits.

**What exactly is an RESP?** An RESP is a tax sheltered savings plan that allows someone (the subscriber) to save for the future education of any specific child (the beneficiary). Typically the subscriber would be the parent(s) or grandparent(s) of the beneficiary.

**Why is an RESP better than using regular non-registered savings?** There are three big benefits to using an RESP: government grants, tax-sheltered growth and tax-efficient withdrawals.

**How does the grant money work?** The government offers grant money for contributing to an RESP - think of it as free money for the beneficiary's education. Every year the government will provide a grant of up to \$500 to a beneficiary's RESP. The grant is equal to 20% of the first \$2,500 contributed to any RESP for the beneficiary.



**What do you mean by tax-sheltered growth?** Just like an RRSP as long as funds are invested inside an RESP there are no taxes to be paid on any of the growth (capital gains, interest, dividends, etc.) earned on those funds. The savings can grow tax-free until they need to be withdrawn to pay for post-secondary education.

**What about tax-efficient withdrawals?** When money is taken out of an RESP the withdrawal can either be a withdrawal of the growth or grant money (known as an Educational Assistance Payment) or a return of the invested capital (known as a Refund of Principal). The growth and grant money is withdrawn first and is treated as income to the beneficiary

for the year. As the beneficiary is a student and therefore likely has very little taxable income there is usually no or very little income tax owed on the withdrawal. After all the growth and grant money has been withdrawn the original capital can then be withdrawn tax free.

**Do I get a tax break for contributing to an RESP?** No there are no tax breaks for RESP contributions. Neither the contributions to an RESP nor the withdrawals of principal from an RESP have any tax implications.

**How much can I contribute to an RESP?** There is a lifetime maximum allowable contribution of \$50,000 per beneficiary. You can make contributions of any size and with any frequency that you want as long as you do not exceed the \$50,000 total. It is important to note that the government grant is only available on the first \$2,500 contributed per year: both a \$2,500 contribution and a \$50,000 contribution get a \$500 grant. If there is unused contribution room from previous years it is possible make additional contributions to earn up to \$500 in "catch-up" grants per year as well.

If you want to discuss RESP's in more detail please let us know.

## Online Communication

With the recent postal strike we felt that this was a good time to highlight some available online options:

**•Email Updates:** Once or twice a month Luukkonen Partners sends out an email highlighting things that we feel are important for our clients to know.

**•DS Online:** The DS Online web site provides real-time access to your RBC Dominion Securities account. You can use it to check account values and holdings, review recent transactions and monitor the status of active orders. If you use RBC Online Banking your RBC Dominion Securities accounts can be linked to your main online banking home page.

**•Sign up for e-Statements:** Switching from paper statements to e-statements allows you to view your regular monthly statements online. Up to seven years of monthly statements are archived online in PDF format. The e-statements are typically available a few business days after month-end and since they avoid the postal system you can potentially be viewing them up to a week earlier than paper statements.

**•Sign up for Electronic Funds Transfer (EFT):** We can electronically send funds directly from your investment accounts here at RBC Dominion Securities to virtually any pre-authorized bank account in Canada.

**•Decline to receive company mailings:** We can suppress most of the quarterly and annual report mailings for stocks that you own. If you want to read the reports but do not need a hard copy all the public documents for a company, including press releases, quarterly filings and annual reports are available online. You can find this information either through the Investor Relations section of a company's web site or for regulatory filings from two other web sites, SEDAR ([www.sedar.com](http://www.sedar.com) - for Canadian issuers) and EDGAR ([www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) - for US issuers).

Please let us know if you are interested in any of these options.

## Client Corner: Bob Gow and the Ontario Regiment Museum

Located on the south field of the Oshawa Airport the Ontario Regiment Museum chronicles the history of the Ontarios, one of Canada's oldest continuing regiments. The museum also restores and maintains the largest collection of operational military vehicles in Canada. The collection includes over 80 military vehicles including jeeps, trucks, carriers and tanks. In addition to the vehicles the museum also has displays of uniforms, medals and historical weapons.



Bob has been involved with the museum for over 21 years. As Bob says "I was invited out to paint a tank one day and I never left." Now serving as Treasurer for the museum as well as an expert tank painter Bob finds his volunteer work at the museum very rewarding: "The museum showcases a very major part of our history and the sacrifices that so many people made to make the world a better place."

Over 50 volunteers keep the museum going and they are always looking for more. "Anyone with an interest in military history is welcome," Bob says. "There's something for everyone to do, from sweeping floors to rebuilding tanks and everything in between."

One major project that the volunteers undertook was the restoration of a

Sherman tank. With guidance provided by the original Sherman tank manuals the volunteers were able to restore the World War II vehicle to working order. The required parts for the tank came from all over. As Bob says, "For something like the Sherman you have to get parts from other non-functional Sherman tanks. No one makes spare parts and you can't just pop into Canadian Tire for some spare tank treads."

The museum frequently gets vehicles for restoration. The Canadian Forces recently donated five vehicles that the volunteers have been restoring. If the engine of a vehicle can be started when it arrives the first thing the volunteers do is to check the brakes. As Bob says, "If the brakes work things are good. But if they don't

you want to know that before you take a tank out for a spin."

The restored vehicles are in high demand for film productions. Due to the size and quality of its extensive collection the museum is often asked to provide vehicles and drivers for movie shoots all over southern Ontario.

The museum is open every year from the beginning of May until November 11 from Friday to Sunday, noon to 4:00 pm. You can visit the web site at [www.ontrmuseum.ca](http://www.ontrmuseum.ca) or call (905) 728-6199 for more information. The first Saturday of every month from May to October is "Tank Saturday" and features a live demonstration of an operational historic tank or armoured fighting vehicle.

### Did You Know?

- Appointing a U.S. resident as your sole executor exposes your estate to U.S. tax law.
- Certain mutual funds allow income and growth to escape taxation until disposition is made.
- As a business owner you can have your business pay you a tax advantaged retiring allowance.
- Spousal loans can be a great income splitting tool. The spousal loan rate is currently 1%.

### Community Corner: RMG Exposed

The second annual RMG Exposed event will be held at the Robert McLaughlin Gallery on Saturday, November 12. RMG Exposed is a juried photo competition and photography auction to promote and raise awareness about the Gallery, contemporary photography as well as showcase the talent of regional and national photographers.

The Robert McLaughlin Gallery is the largest public art gallery in Durham Region. The Gallery's collection consists of over 6,800 works of art with

a strong emphasis on contemporary and modern artists.

For more information about RMG Exposed please visit the Robert McLaughlin Gallery or see the event web site: [www.rmgexposed.com](http://www.rmgexposed.com). Our office is pleased to again be the event sponsor for the evening. As the event sponsor our clients are eligible to purchase discounted tickets. VIP Preview tickets are available for \$50 each (regularly \$60) while Main Event tickets are \$34 each (regularly \$40). Please contact our office for more details.



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expansion and investment activity driven by borrowed funds inevitably led to the bubble that burst. In our newsletter of February 2008 we wrote the following:

*It is no doubt an understatement to say that uncertainty and concern have returned. You will recall our long held apprehension regarding both the rising level of debt throughout the world as well as the creation of investment vehicles that yield-hungry investors gobbled up without really understanding the risks.*

*Bill Gross is one of the world's most respected credit market authorities and he refers to the credit world promoting "a chain letter, pyramid scheme of leverage, based in many cases on no reserve cushion whatsoever." If the pyramid collapses the losses will be felt by the borrowers who can't pay, the lenders who don't get their money back but also by the investors who have equity in the lending institutions.*

*The addiction to debt by consumers and investors has turned the world upside down but the resulting hangover will result in a slow return to normalcy. Debt will once again be thought of as a problem instead of a solution. Risk will play its proper role in the investment world. The hangover will be long however.*



So we now have a hangover. It has been made worse by ineffective bailouts and stimulus packages, coupled with the lack of government leadership. Elected officials play politics, austerity measures are inadequate and necessary, tax increases are ignored. Eventually the world, country by country, consumer by consumer, will face the facts. We will all face higher taxes, reduced services and reduced benefits. We will reduce our debts and increase our savings rate. Deficits and debts will no longer be acceptable drivers of economic expansion. Asset values will become vulnerable to price declines if many owners have financing problems. Many pension plans will have to face payment

reductions.

As clients of Luukkonen Partners we want you to understand that we are not cheerleaders. We are not eternal optimists. We are realists. Worldwide economies will continue to have slow growth and individuals must be prudent in their consumer choices and realistic with their personal balance sheets. Above all we must all be prepared for austerity. We must be patient.

Several years ago we raised warning flags. We are not now about to wave the white flag of surrender. Five years from now today's equity prices, we hope, will be considered bargains. Hope is not a strategy but generating income while you wait certainly is! Eventually conservative confidence will result in an infusion of investment dollars into equities as the safety of bonds becomes less of a priority.

The road ahead is long and filled with many potholes but the journey will be profitable and you will reach your financial destination. The world's journey forward begins with the acceptance of austerity and a realization that debt can be the most painful bubble of them all.

So here we go. We've looked both ways. The car is in gear. The end of the beginning.



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