

YourWealth



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.



Where's the Firewood?

We imagine this question was heard many times throughout provincial parks this past summer. Campers always enjoy the romance of the campfire but the cool nights meant only one thing: "Start the campfire! I need some heat!" While campers and homeowners alike were disappointed by the cool days there was one area of activity that enjoyed near record heat... worldwide stock markets.

July and August saw continued strength in global equities with many markets rebounding 40% from their March lows. The economic discussion centered on "green shoots" – signs of growth that would herald the arrival of an economic "spring". While some people argued that the "less bad" numbers represented the modest beginnings of renewed growth others declared the green stems to be nothing but weeds in a toxic field of debt and consumer contraction. Some would add that without government and central bank stimulus packages there would in fact be nothing green whatsoever.

What a wild year it has been for people everywhere. Certainly the emotional impact has been the greatest of the last seventy years. Plunging asset prices and record increases in mortgage defaults, unemployment, credit card problems and individual and corporate bankruptcies brought to many minds memories of the 1930's. No wonder then that some writers in March of this year described 2009 as the beginning of the Great Recession. With the stock market upturn of the last six months and "less bad" economic numbers are we on the verge of the Great Recovery? We think not.

During the past year millions of us have determined that it was necessary to make more judicious use of our own financial firewood. We would sustain our own investment fire. Central banks around the world however decided that no campfire should go out lest the campground go dark and cold. Some campers had used up all their firewood foolishly to enjoy the hottest of fires but thanks to (CONTINUED ON PAGE 2)



Where's the Firewood?

(CONTINUED FROM PAGE 1) Campground Leader Ben Bernanke there was now firewood for even the most irresponsible. Unfortunately forests intended to provide future firewood have been cut down to provide the fuel for today's fire.

Before this analogy goes over the top we'll put our thoughts into an investment context. Too much debt got us into this mess and cutting down trees (oops, sorry) printing money is not an instant cure. We have mentioned at our seminars that the worldwide debt problems are manageable but that the prescription's main ingredient is time. Unfortunately the side effects of the stimulus pill are many:

1. Overconfidence: Government stimulus and incentives have propped up consumer spending. Commentators are over-estimating consumer confidence.
2. Bank profits: Increasing loan losses are offset by operating profits driven by historically low borrowing costs. Rising rates will change all that.
3. Taxes: Make no mistake, taxes are going to increase.

4. Interest rates: Increases look very probable in the future.

5. Inflation: Consumer price inflation will likely stay low. Asset inflation is a possibility if major investors wish to reduce exposure to the U.S. dollar.

6. Stock markets: Performance pressure on fund managers and the renewed use of low cost leverage have brought stock markets to levels that appear unsustainable relative to corporate earnings.

7. Commodities: A puzzle. Have they become a currency because of distrust of the U.S. dollar?

8. China: Another puzzle. If they don't buy a large portion of the U.S. bonds to be issued, who will?

9. Investment speculation: Very large investors move markets and then the rest of the world "explains" the movement in economic terms.

10. Appetite for risk: While the stimulus taps are turned on, investors will chase "easy" returns.

So, what should investors do? Volatile

Our Fall Seminar Series: An Invitation

This fall we will be hosting a series of educational presentations for clients and friends. Following the same format as our previous series our goal is to provide insight into important wealth management topics. The evening sessions will be held at our downtown Oshawa office located at 17 King Street East.

Each of our hour-long sessions will take place on a Wednesday evening, beginning at 7:00 pm. We ask that you please RSVP to Debbie (by phone at 905-434-6527 or email at deborah.c.mcdonald@rbc.com) for any sessions that you would like to attend. As always, you are encouraged to extend an invitation to friends or family members that you feel would benefit from any of the topics.

October 14 – Retirement Planning

October 21 – Estate Planning

October 28 – Cottage Succession Planning

November 4 – Developing Your Investment Goals & Asset Allocation

November 11 – Health Planning

November 18 – Generating Income From Your Equities Through Options

markets will provide multiple opportunities for above average gains for the astute investor. Situations will not be as good or as bad as they seem. Conditions can reverse in a very short time. Our focus on income generation has been the right one. Recent equity gains are susceptible to erosion for a number of reasons. Please contact us to review your tolerance for volatility.

While too many people try to pick the trees that grow the fastest we prefer to look at the forest. There may just be another fire.

Cottage succession planning

Whether you call it a cottage, chalet, camp or cabin, it's your family's special place to relax and enjoy the great outdoors. And for many families, it's a place filled with happy memories that's been in the family for generations, and will be for generations to come.

But keeping the cottage in the family from one generation to the next isn't always as easy as it might seem. There are many issues to consider, including how the taxes will be paid.

Consider ways to reduce taxes

When you pass along your cottage, you are also passing along a potentially large tax bill, which your beneficiaries may or may not be able to afford. Depending on their financial situation, your beneficiaries may be forced to sell the family cottage simply to cover the taxes. There are two main types of tax to consider – capital gains taxes and probate taxes.

Capital gains taxes

If your cottage has been in the family for many years, its value has probably increased dramatically. The property your family bought for a few thousand dollars might be worth a few hundred thousand dollars today. Even property bought within your lifetime might have experienced this type of exponential growth.

This increase in value can result in a very large, taxable capital gain, which is triggered when you pass along the property to anyone other than your spouse, including your children. However, there are several ways you can address this tax bill, and even reduce or defer it.



one way to defer future capital gains taxes. If you expect your cottage to significantly increase in value, consider giving it to your beneficiaries sooner rather than later.

Assuming property values will always rise, this will trigger a taxable capital gain from the appreciation of the property to date. The tax is payable in the year the gift is made. However, it should be a much smaller capital gain than the one that would be triggered in the future, assuming the property increases significantly in value. Any future gains will be taxed in the names of your beneficiaries, when they sell it or give it away at a much later date, and

won't be included in your final tax return when your estate is settled.

Cover the tax bill with an insurance policy

The most common way for property to be passed on to the next generation is through a bequest made in your Will. When your property is bequeathed to anyone other than your spouse, it triggers a taxable capital gain, which your beneficiaries may not be able to afford. However, you can cover this tax bill through a life insurance policy, which provides a sum equal to the expected tax bill when your estate is settled.

Our upcoming presentation on October 24 will cover these strategies, plus a few others, in greater detail. If cottage succession planning is a concern we encourage you to attend the presentation. If you are unable to attend please contact us for additional information.

Calculating capital gains tax

When you pass along your cottage to anyone other than your spouse, the government views it as having been sold at current market value – a “deemed disposition.” The capital gain on this deemed disposition is taxable. The following example shows how there can be a \$68,512.50 tax bill in 2009 on a cottage purchased for only \$5,500 in 1977.

Deemed disposition in 2009: \$310,000

Minus purchase price in 1977: \$5,500

Total capital gain: \$304,500

Capital gains taxable (50% of total):
\$152,250

Taxes payable at 45% marginal rate:
\$68,512.50

Gift the property ahead of time

Simply giving your cottage to your intended beneficiaries ahead of time is

Updating Our Records

On an ongoing basis we update our client records both to make sure that we are up to date with the life situations of our clients and to ensure that our files are compliant for regulatory purposes. Over the last few years the compliance requirements have continued to tighten. These requirements are designed for investor protection and are there to help guard against some of the modern problems of identity theft and money laundering.

As we update our records we will be contacting clients both to review existing information as well as to gather newly required details. An example of a new requirement is the verification of photo identification. We now need to have a copy of photo id on file for all clients. One of the reasons for this is to ensure that if someone purporting to be a client



shows up at reception to pick up a cheque the branch staff is able to verify the visitor's identity. At your next visit to our office we may ask to

make a photocopy of a valid form of your photo id – a driver's license, passport or Old Age Security card.

One other new requirement to help combat identity theft is that we require all address changes to be submitted in writing and signed by the owner(s) of the account. Verbal changes can no longer be accepted and unfortunately email is not acceptable either due to the requirement for a signature. A blank address change letter template can be found in the Client Area of our web site, www.luukkonen.ca.

While these changes do make things slightly more complicated it is important to remember

that they are ultimately designed to make your money safer.



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