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YourWealth

Views and opinions
for the clients and friends of

Luke Luukkonen
Portfolio Manager
905-434-6166
luke.luukkonen@rbc.com

Mark Luukkonen
Associate Advisor
905-434-6140
mark.luukkonen@rbc.com

Debbie McDonald
Associate Advisor
905-434-6527
deborah.c.mcdonald@rbc.com

Please visit us on the web at
www.luukkonen.ca

Welcome to those clients
who joined us this quarter
and thank you to those
who sent us referrals.

Our Thanks

Our first edition of Your Wealth was undertaken with some trepidation as we were unsure of our readers' reaction. Thanks to your many kind and appreciative words we feel we are on the right track.

With tax time behind us we all want to take a break from T-slips and schedules. Every year however there are more and more complications to remember, from income splitting and RSP contributions to capital gains and dividend tax credits. As events happen throughout the year a bit of planning now could save you a great deal of hair pulling, not to mention time and money next April. We do recommend that everyone consider retaining the services of a good accountant. The services of a respected accountant go far beyond the preparation of the tax return. Fees are less than you may think and the tax savings resulting from a comprehensive review often exceed any fees. Certainly a terminal or estate return to be prepared in the event of death should be handled by a professional. Please let us know if you need a referral.

We have been talking more and more about the importance of looking at wealth management from a family perspective. There are many tools that a family can use to meet a wide variety of objectives, from tax minimization to estate planning. In this edition of the newsletter we will explore one of those options, the Family Trust.

Luke, Mark & Debbie

Investment Conditions

Now is the winter of our discontent
Made glorious summer by this son of York;
And all the clouds that low'r'd upon our house
In the deep bosom of the ocean buried.
Richard the Third, Act 1, Scene 1

You may very well wonder what the opening scene of Richard the Third has to do with current investment conditions. Is there a deep meaning or was the Bard simply foretelling the winter that was thrust upon Ontario in 2008?

For those with a sense of irony we thought these opening lines to represent very dramatic irony indeed. Has Chairman Bernanke of the US Federal Reserve, our son of York, come to the rescue? Have mortgage clouds low'r'd upon our house truly disappeared if not in the ocean perhaps in the air? Alas in reality there is no "glorious summer". The best we can hope for is a ray of sunshine behind the clouds which on many days appear thicker and darker.

Some people advocate continued declines in interest rates and greater access to credit. Such actions would provide relief to those in financial difficulty but we must remember that it was "easy money" that got us into this mess in the first place. In our opinion real estate prices continue to be at risk and mortgages, mortgage pools and synthetic investments in lending pools are less credit worthy than in previous years. Caution is advised.

The dynamics of managed money and the use of leverage represent a powerful combination. Equity and commodity markets are driven by the pursuit of short-term performance. Economic fundamentals are on the back burner. Momentum speculation drives prices higher while margin liquidation causes dramatic downturns. Perhaps we are over-simplifying a bit but we want to stress that the motivations of far too many fund managers are not necessarily what you believe them to be. Their time horizon is much shorter. We on the other hand must maintain a long term focus. Asset allocation, equity diversification and patience will get you where you want to go.

The Family Trust

Giving children every opportunity to achieve their full potential is something all of us want as parents or grandparents. Whether it's ensuring they receive a quality education, or encouraging their artistic or athletic interests, we all want the very best for our children. Many of these opportunities however can be expensive. An RBC Dominion Securities Family Trust can help you provide funds for your children's benefit while at the same time alleviating your family's overall tax burden.

A Family Trust enables you to minimize your family's overall taxes because, when properly structured, the capital gains earned within the trust are taxable to your children or grandchildren. Since every child or grandchild in Canada who has no other income can earn approximately $18,000 of capital gains tax free every year a Family Trust can create a significant tax-saving opportunity. If the trust earns capital gains in excess of $18,000 the tax on the excess will still be much less than if it were taxed in the hands of the parent or grandparent.

This investment income can then either remain in the trust to accumulate for your beneficiaries or it can be used to pay for expenses that directly benefit your child or grandchild, such as private school, post-secondary education, lessons and camps. In either case the Family Trust can be an effective tool to help your children or grandchildren while at the same time reducing the total tax bill faced by your family.

While trust structures have been available for families to use for many years their popularity has been limited by the fact that the parent or grandparent had to make an irrevocable gift of the capital contributed to the trust. Once the trust was established, the capital was no longer accessible by the parent. While the income splitting possibilities were attractive to many families there was a justifiable concern around gifting a large amount of money to a child who would then have full rights to it upon reaching the age of majority. Unlike a traditional trust an RBC Dominion Securities Family Trust is not created through the gifting of capital. The Family Trust is created by a loan of capital from the parent or grandparent to the trust. This means that the parent can call the loan back from the trust at any time and thus regain access to the capital (but not, it should be noted, any growth on that capital. The growth belongs to the trust).

The loan provides a great deal of flexibility for the family. If for example the primary purpose of the trust is to fund a child's education in a tax-efficient manner then when the educational expenses are complete, the loan can be called and the capital returned to the parent or grandparent. If on the other hand the purpose of the trust is to tax-efficiently build up a nest egg for a child then the loan acts as a "safety feature" in case the parent wants or needs to get the capital back.

A properly structured Family Trust can be a very effective tax management tool however it is not appropriate for all situations. If you are interested in learning more please call Mark or Luke for additional details.

Client Corner

Carolyn Sproatt: The R.S. McLaughlin Parkwood Estate

Colonel R.S. McLaughlin left an enduring legacy throughout Ontario but nowhere as much as in Oshawa, the home of his McLaughlin Motor Car Company, now known as General Motors of Canada. One of the landmark buildings in Oshawa and a National Historic Site is Colonel Sam's mansion, the Parkwood Estate. Donated to the City of Oshawa upon his death in 1972 Parkwood has been open to the public for tours for decades. The stately home and gardens are featured in many movie and television productions and the estate is a common destination for weddings.

Behind the scenes 12 full-time staff and approximately 40 volunteers work diligently to keep the estate going. One of those long-time volunteers is Carolyn Sproatt. Introduced to the estate by a friend in 1994, Carolyn has been an active volunteer ever since. Starting out as a tour guide, Carolyn spent seven years showing the mansion to people from all across Canada and indeed from all over the world. From 2001 she has been involved in what is referred to as collections care: the cataloging and organizing of the thousands of artifacts owned by the estate. Every item from tables and chairs down to the individual pieces of china and silverware must be itemized.

Collections care is very important for a site like Parkwood as McLaughlin's estate remains furnished as it was when the family lived in it. This is in contrast to many other historical buildings in the province, including such notable sites as Casa Loma, that have been struggling over the years to restore themselves to their original states.

Carolyn loves to share her knowledge of the estate with interested guests. While his company was busy manufacturing the technical marvel that was the horseless carriage McLaughlin also wanted technical marvels in his home. When he had Parkwood built in 1916 McLaughlin made sure it was notable for its gadgets: a basement control system to keep all the mansion's clocks synchronized, the first indoor heated pool in Canada, the first private bowling alley in the country and, for the benefit of the cleaning staff, one of the first in-home central vacuum systems.

Volunteering at Parkwood gives Carolyn a sense of connection with an important part of Oshawa's history. Colonel Sam helped to shape the development of much of the local area and through her work at the estate Carolyn hopes to preserve much of the history of that for future generations. The McLaughlin family may no longer live at the estate but because of the diversity of volunteer jobs, from tour guides to greenhouse workers to clock repairers, Parkwood still feels like a vibrant place. There are always openings for new volunteers, especially for people interested in becoming tour guides.

Anyone wanting to learn more about Parkwood or the McLaughlins is encouraged to stop by the estate for a tour or to visit the estate online at www.parkwoodestate.com. Those interested in volunteering are asked to contact the volunteer co-ordinator, Martha Slauko, at (905) 433-4311.

Community Calendar

The 2008 Peony Festival

The fourth annual Peony Festival takes place June 14 and 15. Located at the Oshawa Valley Botanical Gardens at 155 Arena Street in Oshawa the event will highlight more than 300 varieties of peonies. As well as peonies there will also be educational displays, a silent auction and artists painting the flowers. Visitors will also have an opportunity to see the Gilbert Peony Collection which is the largest contemporary collection of peonies in Canada. Budding gardeners should note that members of the Canadian Peony Society will be on hand to answer questions and provide gardening tips.

Gardeners are also welcome to enter their own peonies into the Peony Show, a juried competition with ribbons awarded to the top contenders. Anyone interested should submit their blooms on June 14th between 7:45 and 8:45 a.m.

The Peony Festival runs from 10 a.m. to 4 p.m. on Saturday June 14 and Sunday June 15. Admission to the festival is free and there is plenty of complimentary parking. More information is available on the web at www.ovbgoshawa.ca or by calling (904) 436-5636 ext. 2107.

Is Your Beneficiary Correct?

You have the option of naming a beneficiary for your registered accounts. The current beneficiary for the account can be found on the right hand side of the first page of your RBC Dominion Securities statement under the heading Account Details. If the beneficiary is not correct please let us know and we can get you to sign a new beneficiary form.

Advantages of Naming a Beneficiary for a Registered Plan

• Naming a beneficiary for a registered plan may help the assets to avoid passing through your estate and avoid probate taxes for the assets in the registered plan.

• If you have designated your spouse as beneficiary the assets in your registered plan may be able to pass directly to your spouse on a tax deferred basis.

• If you die intestate, that is, without a valid Will, your estate is disbursed according to provincial rules. If you have surviving relatives, no matter how distant, they may be eligible to receive a share of your estate, regardless of your intentions. A designated beneficiary can help prevent distribution of your registered plan assets to unwanted individuals and/or minimize the amount they receive.

Disadvantages of Naming a Beneficiary for a Registered Plan

• If in the past you have designated a beneficiary and have forgotten to update it you may leave registered plan assets to someone that you no longer wish to receive them.

• A non-spouse beneficiary would receive the full value of the registered plan even though a large amount of income tax would be owed on the registered assets. This tax liability would need to be paid by the estate itself. Unless taken into account this can result in an outcome that is less generous to the other beneficiaries than intended.

• The assets will not form part of the estate and therefore the Will cannot be used to direct the assets or place restrictions on when a beneficiary can access the assets. For example, an 18-year old beneficiary may receive the funds from a registered plan but the deceased would have preferred that the funds remained in a trust until the beneficiary turned 25.