RBC Dominion Securities Inc.

Westside Viewpoints

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ACCUMULATE PRESERVE TRANSFER

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Services We Provide:

- Fee-based portfolio management
- Estate planning, financial planning
- Tax-exempt investment strategies
- Life, long-term care and critical illness insurance

Lessons Learned

"Experience is the teacher of all things" (Julius Caesar)

Just when you think you have seen everything that can disrupt the markets, something new comes along to add an element of uncertainty and nervousness. Do you remember soaring interest rates and oil prices in the late 70's/early 80's, the fall of the Berlin Wall, Y2K, 9/11, the Iraq War, Asian contagion, sub-prime mortgage crunch, the tech bubble, the great recession of 2008/9? These are just a few precipitous events that have occurred over the past three decades since we have been advising clients. Navigating through these market obstacles and surviving to tell the tales has given us some good perspective on what's most important.

What Clients Have Taught Us:

- **Retirement is #1:** The fundamental question and concern of clients is "Will I have enough money when I retire?" We can talk about returns, risk management, estate planning, tax minimization, but at the end of the day it's all about obtaining a secure retirement.
- **Loss is more memorable than gain:** The euphoria experienced from owning a hot stock never makes up for the despondency associated with owning a big loser. Consequently, we tend to stay away from trying to pick hot stocks, but rather follow a conservative, disciplined approach focused on meeting retirement goals with the minimum amount of risk.
- **Risk in the abstract is totally different from risk in reality.** When asked about feelings towards risk tolerance, many clients claim that they could handle a 10-15% correction, but when the pullback occurs and it translates to a $150,000 decline in the market value, the client perspective is not so sanguine, and understandably so. Consequently, we have learned to view client risk assertions with a degree of conservatism and focus on minimizing the effects of market declines through proper diversification and regular rebalancing.
- **Focus on quality investments vs. the best new thing:** Every day we are inundated with new investment products to consider. You would be amazed at the range and complexity of the offerings. We, by and large, avoid structured products – many of them are introduced in response to something that is happening in the markets (i.e. low interest rates) or the latest fad investment theme. We prefer investing in known investments that are easy to understand and explain, with a focus on quality.

What we have learned is that clients expect no more from us than we do of ourselves – integrity, transparency, a planned process and best effort. We may not always be perfect, but we are doing our best. We sincerely hope that you agree.

RBC Wealth Management
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Is Juvenile Insurance Right for Your Family?

If the thought of insuring the life of your child sends shivers down your spine, you might want to think again. Juvenile life insurance is gaining popularity as a smart financial planning tool, providing a tax-advantaged savings vehicle with numerous intergenerational and wealth transfer benefits.

In a nutshell, this strategy requires that a parent or grandparent own an insurance policy on the life of the child or grandchild. The parent or grandparent pays the premium on the policy which grows the liquid cash value and policy face amount. At some future date (determined by the policy owner) the policy ownership is transferred to the child on a tax-free rollover basis. The child, who is most likely an adult by then, can access the cash value at his or her tax rates to use the funds as they wish.

Key Benefits:

- Build up of tax-deferred cash value inside of the insurance policy
- The policy can be fully paid up in as little as 5 to10 years
- No medical requirements for insurability of minors
- Flexible access to cash value in the policy – can be used for education funding, buying real estate, business start up, with no restrictions
- Face amount of insurance is transferred tax-free to beneficiaries
- Creditor protection of cash value
- Policy owner maintains control of the policy for as long as they wish

Some Qualifications:

- A crucial point is that most insurance carriers require that a parent or grandparent have life insurance in place on their own lives prior to purchasing a policy for a child. Most carriers require the parent have twice the coverage as the child.
- Under the Income Tax Act, the policy must be gifted to the child. In other words, the child cannot pay consideration to the policyholder for the transfer of ownership.

Here's an Example:

A 60-year-old client recently purchased a $500,000 Canada Life juvenile whole life policy on his 14-year-old son. We chose Canada Life because it has one of the best whole life contracts in the marketplace today in terms of generating short-term cash values as well as long-term death benefit values. In this scenario, the annual cost of insurance is $6,935 per year and is fixed and guaranteed for 20 years. Thereafter the policy is fully paid up and no further deposits required. However, the client chose to overfund the policy to the maximum allowable for the first 10 years (an additional deposit of $4,005 per year). By overfunding the policy, it is able to pay for itself after 10 years thereby shortening the payment period. Even at the current dividend scale less one percent (5.50%), the policy is conservatively projected to generate over $1,000,000 in death benefits and more than $300,000 of cash value within 30 years. All this from a total deposit of $109,400 invested over 10 years. In this example, when the son turns 44 he will have access to a $300,000 pool of capital and own a life insurance policy on his life worth over $1,000,000 which he can designate to his family as beneficiaries. Not a bad way to leave a legacy for your loved ones considering that there was no medical testing required.

If you are interested in discussing this strategy in greater detail, please give us a call. We would be happy to introduce you to our Estate Planning Specialist Matthew Leggett to see if this strategy makes sense for your situation.

Five Major Reasons Why the U.S. Dollar Won't Collapse

Many investment gurus and economic forecasters have been claiming that the U.S. dollar is set to collapse and cease to dominate the international currency world.

Given that a currency reflects the strength of the nation that issues it, it's important to consider the following five reasons why we believe the U.S. dollar will maintain its strength as the global reserve currency for many years to come.

1. Economic Productivity.

Among developed nations, the U.S. has had the strongest productivity over the last decade. For example, the U.S. averaged 2.2%, compared to Japan 1.6%, UK 1.2%, Germany 0.9%, Canada 0.9%, France 0.8% and Italy flat. This trend is likely to continue, especially considering the deflationary trends now at work in emerging markets and other developed nations.

2. The World's Largest Economy

The U.S. continues to be the world's largest economy. In 2012, U.S. GDP was $15.7 trillion. The second closest was China, at just half the size – $8.2 trillion. In order for China to overtake the U.S. in terms of size, it would have to grow 12% per year for 20 years to catch up. At the current growth rate of 7.5%, the gap will continue to be substantial.

3. Deep and Broad Financial Markets

Money wants to be where the action is. That requires not only a powerful and large economy, but also deep and broad markets in which to invest. The U.S. treasury market trumps all others in size and safety. According to the IMF, 62% of the world's currency reserves are in U.S. dollars. The next one is euros, at 24%, down from 29% four years ago.

4. Free and Open Financial Markets and Economy

Investors feel safest in markets that are free and open. China is not free and open, as witnessed by their periodic freezing of their currency and other unpredictable controls.

5. Credibility

Even though the U.S. debt was downgraded last year by Standard & Poors from triple AAA to AA+, the debt market barely saw a ripple.

What the New Wills, Estates and Succession Act (WESA) Means for You

A new law, the Wills, Estates and Succession Act (WESA), came into force in British Columbia on March 31, 2014. It replaces four existing statutes that currently govern Wills and estates with a single comprehensive statute.

Much of the WESA is long overdue law reform that corrects anomalies in the law and eliminates obscure and outdated laws that made sense in feudal times but are not relevant in today's society. For lawyers working in the area, many of the reforms are welcome and will simplify and clarify the law. For most clients and situations there will be little obvious change. Most changes relate to gifting, intestacy and survivorship rules for jointly owned assets.

Do People Need to Prepare New Wills Because of the WESA?

The short answer is "no." The WESA does not invalidate existing Wills. Wills properly made prior to the WESA are preserved and remain valid under the WESA. However, everyone is always encouraged to review their existing Will from time to time to ensure it reflects their current intentions. They should do this at least every five years, and this change to the law serves as a reminder that circumstances and the law change.

What's New at the Westside Wealth Management Group of RBC Dominion Securities

New Reference Guide to Acting as an Attorney under a Power of Attorney (POA). Includes what it means to be an attorney, typical duties, things to consider and a POA checklist. If you would like a copy, contact Kate at kate.wolfe@rbc.com or 604-713-2741.

New Pension Buyback Calculator. We have a new tool designed to help clients decide whether or not to buy back credited service in their pension plan. Future annual cash flows generated from buying back credited service can be compared to keeping existing retirement funds invested.

Best of the Best. RBC Wealth Management has been recognized for "Best Private Banking Services Overall" in Canada for an unprecedented 7th consecutive year in the 2014 Euromoney Private Banking and Wealth Management Survey.

Quote of the Day

"I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel."

– *Maya Angelou*

Newsletter Editor: Kate Wolfe. If you like what we're doing please tell a friend, if you don't please tell us. **kate.wolfe@rbc.com**