SUMMER 2011

# THE Stanton Report

*Views and opinions for the friends and clients of Investment Advisor Richard Stanton*

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## *A Word from Richard*

Well September has come to a close and I have to say that's one month I would not like to repeat. Market volatility has taken on a whole new meaning these days. I know I speak for all of us when I say hopefully things will improve over the next little while.

Our family is back into the swing of school, after-school activities and work; following a not so memorable summer, weather wise. However, we still did manage to enjoy the summer break. The girls are back and thriving in their French immersion school. Jenelle has a full course of dance classes while Olivia is still enjoying her Karate, she is now a brown belt. It is still amazing to watch them grow and mature with their own individuality. We've added a temporary addition to our family, Christian. Christian is a Rotary exchange student and he will be living with us until December. His home is the Netherlands and he is loving Canadian life! Already he has been exposed to so many new and interesting experiences, everyday is a new adventure for him and we're having fun being a part of it.

With Thanksgiving behind us and Christmas on its way I would like to take this opportunity to thank you all for your business and I hope you have an enjoying relaxing holiday with your friends and family.

*Here's what has happened year-to-date:*

- **S&P/TSX Composite Index -13.5%**
- **Dow Jones Industrial Average -5.7%**
- **MSCI World Index -11.7%**
- **Crude Oil -16.7%**
- **Natural Gas -24.3%**
- **Gold 14.3%**
- **Silver -3.3%**
- **Copper -25.3%**
- **Canadian Dollar -4.9%**

# Wealth management – what it is and what it's not

Wealth management is a comprehensive approach to managing your financial concerns and achieving your goals in life. It includes advice on your investments and retirement plans – but it extends well beyond that to include advice on protecting your lifestyle, minimizing your tax exposures, maximizing your income and organizing your estate.

It's an important distinction because some financial advisors will claim to offer "wealth management" but a closer look shows they are mostly limited to selling certain investment products. If your financial situation is more complex, you may need much more than that – you may need real wealth management. In fact, even the very best financial advisor, acting alone, cannot really provide wealth management. It is a multi-disciplinary approach involving experts in different areas, including investment advisors, financial planners, insurance specialists, estate planners, legal advisors and more. In short, while you may have one advisor coordinating things, you actually need a team of experts to truly deliver wealth management.

*Please contact us for more information about wealth management and how it can help you achieve your personal and financial goals.*

## Financial planning: clarifying your overall financial situation

The wealth management process normally starts with a comprehensive, professionally prepared financial plan. With this calibre of financial plan, you can address all aspects of your financial affairs, including cash and debt management, tax and risk exposures, investment management, retirement planning and estate planning. At a minimum, a comprehensive financial plan should include:

- An in-depth information-gathering session to establish your financial goals
- Recommendations to improve your current financial strategies
- Detailed financial projections based on your current and recommended strategies
- An action plan to implement recommended strategies

## Estate planning: leaving your affairs neat and tidy

A major focus of wealth management is on protecting your legacy to your family, while making it easier for them to settle your estate. Working with your tax, legal, insurance and trust experts, you will need to look at:

- Your overall estate plan, including major documents such as your Will, Powers of Attorney and Trusts
- Insurance-based strategies to enhance and protect your estate value
- Estate settlement services, which are especially useful when you have a more complex estate

## Insurance: protecting everything you've built

Insurance is an indispensible and very flexible wealth-planning tool that not only covers the major "what-ifs" in life but can also help build and protect wealth during your lifetime and when your estate is settled. Together with your insurance experts, look at how you can maximize insurance to:

- Provide financial security in the event of illness or injury, or if you or a family member need long-term care
- Shelter your investment assets from taxes to provide tax-free retirement income and tax-free death benefits
- Protect your estate assets from taxes, including taxes on RRSP/RRIF balances, capital gains and vacation property

# Harness the Power of Dividends


*Dividends are quarterly payouts from a company to its shareholders. And today's healthy dividend yields are eclipsing those of money market funds and the bond market. Their advantages are numerous and they carry great potential. But how powerful is the power of dividends?*

Income-focused investors often look to dividend-paying stocks – typically large-cap companies that are less volatile – as a source of stability and income and as a way to diversify their portfolios. Although companies are not obligated to pay dividends to investors, most continue to do so. In fact, all of the largest Canadian banks are known to maintain their dividend payouts to investors instead of reinvesting them, and today the Big Five average yield is about 4.4% (Globe Investor).
Some investors see dividend payments as a signal of the company's confidence in its future earning power, particularly in tenuous markets. They also help to mitigate stock market downturns, particularly in the wake of the financial crisis.

## The long-term advantages

According to Standard and Poor's, dividends have contributed to approximately one third of S&P 500 total return since 1926, while capital appreciations have contributed two thirds. Therefore, both sustainable dividend income and capital appreciation potential are important to total return expectations.
Closer to home, and more recently, dividends have contributed 2.5% of the average 7.5% total return of the S&P/TSX Composite Index (Jan. 31, 2009, Morningstar; annual compound total return for S&P/TSX Composite Index from 1988-2008). Today, because stock valuations are lower, the dividend yield (the dividend paid per share divided by the share price) on the S&P/TSX Composite Index is higher.

## The DRIP strategy

Many stocks make automatic Dividend Reinvestment Plans (DRIPs) available, through which investors can reinvest their dividends for future growth (and more dividends) instead of spending them.
Suppose you invest $100 initially, and an additional $75 per quarter, at an anticipated stock price appreciation of 7% and an anticipated dividend yield of 2%. In 20 years, you would have invested a total of $6,025 and reinvested dividends of $2,324.88 for a total cost basis of $8,349.88. Your capital gain would be $8,166.42 – and your total value would be $16,516.29!

## Dividend tax advantages

Dividends received from Canadian corporations are effectively taxed at a lower rate than interest income, due to the dividend tax credit that is applied to the federal and provincial tax payable. This tax credit is meant to recognize that the Canadian corporation paying the dividends has already paid tax on its earnings, which are now being distributed to its investors. Dividends from foreign corporations do not receive the same dividend tax credit, and are taxed at a higher rate than those of Canadian corporations.
For example, if you earn more than $126,000 in annual taxable income, and receive $1,000 in dividend income from a Canadian company, you keep approximately $775 after federal and provincial taxes – less the dividend tax credit. By comparison, $1,000 in interest income will net about $555 after taxes – the same for $1,000 in foreign dividend income, because it is not subject to the tax credit for Canadian corporations, and is taxed at a higher rate.

*When considered in light of total returns and tax advantages, dividend-paying stocks may be an attractive option. If you think it's time to talk about the power of dividends, please contact us today.*

# *Jalapeno Guacamole*

2 ripe avocadoes, mashed
1 tomato, diced
2 tsp lime juice
2-3 cloves garlic, crushed
3 fresh jalapenos, finely chopped
*(the more seeds you include in the guacamole, t ll be)*

½ cup mayo (not Miracle Whip)
½ large onion, diced
½ tsp coriander
½ tsp salt

Mix everything together and chill for a couple of hours before serving.

## Easy Switch to eStatements

Now you can switch to eStatements simply by calling your investment advisor. With eStatements, you can reduce your paperwork by receiving your official RBC Dominion Securities account statements online instead of in the mail. You also have access to a seven-year archive of past statements (Starting from November 2007)

## Remember to RIFF

Are you turning 71 this year? Remember you have until the end of 2011 to convert your Registered Retirement Savings Plan (RRSP ) into a Registered Retirement Income Fund (RRIF) or other income source. For assistance converting your RRSP, and advice on your RRSP maturity options, please contact your investment advisor

**"Believe me, Harry, don't worry about capital gains taxes for last year."**





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