SUMMER 2011

# THE Stanton Report

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

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If you know anyone who would like to receive a copy of this newsletter or be added to our mailing list, please contact Tracy Dykens at (250) 847-6680. Please contact Tracy if you would like secure internet access to your accounts. Use our toll-free number from anywhere in North America.

## A Word from Richard

Hello to everyone! We're back from a brief hiatus. I know there has been a service interruption in my newsletter circulation and I trust that is over now and we will be delivering quarterly reports to you beginning with this July issue. As most of you know there has been a change in the office this past year. Shauna, my assistant of 7 years, left in April 2010 and have I spent the better part of the last year training my new assistant, Tracy Dykens…or has she been training me? In all seriousness, Tracy has been studying to become a licensed assistant and I am happy to say that she passed her Canadian Securities Course in May 2011 and is willing and able to assist you with all your account queries. Drop down to the office sometime and meet her or better yet come to our golf tournament on August 27th! You should have all received invitations in the mail. If you don't golf you are welcome to come join us for dinner. Just give Tracy a call and she'll mark you down. She can also assist any of you out of town clients in making arrangements for accommodation.

I hope everyone will have some time to relax and enjoy what little summer it appears that there will be.

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

- **S&P/TSX Composite Index 0.2%**
- **Dow Jones Industrial Average 8.6%**
- **MSCI World Index 5.6%**
- **Crude Oil 4.4%**
- **Natural Gas -0.7%**
- **Gold and Silver 5.6% 12.2%, respectively**
- **Copper -2.4%**

# RIF Q & A

**Q: Can I have more than one RIF, or an RSP and a RIF at the same time?**

A: Yes. You can set up as many RIFs as you like. And if you are younger than age 69, you can have both an RSP and a RIF at the same time.

**Q: I've heard about the spousal RIF. Are the benefits the same as a spousal RSP?**

A: Yes, they are. A spousal RIF is simply a continuation of a spousal RSP, which simply means the spousal RSP is in the name of one spouse, while the other spouse makes contributions. Most Canadians have a spousal RSP because it offers income splitting and tax saving advantages. Set up properly, the higher income spouse will receive the tax deduction for the RSP contribution, while the lower income spouse will be taxed on the income from the RIF at a rate that could be much lower than that of the contributing spouse.

**Q: Can you combine your RIF with other sources of retirement income?**

A: Yes, you can. In fact, most retired Canadians receive income from one or more public or private sources, including pension plans, self-employment, personal savings, etc. Your RIF can be used as a primary source of retirement income or as a supplement to existing plans.

**Q: Are there specific times during the year I can withdraw funds from my RIF?**

A: Again, the RIF is very flexible. You can make regular withdrawals every month, every two months, quarterly, semi-annually, or annually. You can also withdraw lump-sum amounts any time during the year. Your funds will be transferred to your RBC Dominion Securities cash account, or we will be happy to transfer it to your bank or trust company. We can also issue a cheque or reinvest your funds in a non-registered account.

**Q: I have income from my pension, so I don't need to withdraw funds from my RIF this year. Do I have to make a withdrawal, even if I don't need it?**

A: Unfortunately, yes, you do. You must withdraw the minimum annual amount except in the year you set up your plan. If you don't need the income, your RBC Dominion Securities Investment Advisor can help you reinvest the funds in a non-registered plan so it can continue to grow.

**Q: I've heard I can lower my minimum withdrawal amount by using my spouse's age. Is this true?**

A: Again, yes. Usually your minimum withdrawal is calculated based on the age of the RIF owner at the beginning of each year. You can, however, lower your annual minimum withdrawal amount by choosing to base this calculation on the age of the younger spouse. But remember you cannot change this amount after withdrawals have begun.

**Q: How are withdrawals from my RIF taxed?**

A: RIF withdrawals are taxable as income in the year they are received. The remaining funds continue to grow on a tax-deferred basis. Withdrawals beyond the required minimum amount are subject to a withholding tax deducted by RBC Dominion Securities and paid to the Canada Revenue Agencge on your behalf. If you are 65 or older, RIF income is eligible for the $1,000 pension income tax credit. RBC Dominion Securities will provide you with appropriate tax information and slips for your annual

## WHY MOST CANADIANS CHOOSE RIFS OVER ANNUITIES

*This comparison table lets you judge for yourself*

| RIF | ANNUITY |
|---|---|
| You maintain complete control | You must give up control to the annuity issuer, usually an insurance or trust company |
| Your invested funds may earn returns greater than the money you receive as income. The entire return on your investment belongs to you. The better your RIF performs, the more money you receive | Your invested funds may earn returns above the amounts you receive as income. However, all extra profit belongs to the issuer of the annuity |
| You can plan your estate more effectively because the RIF can provide income for your spouse or heirs after death | You may not be able to provide for your heirs through an annuity, depending on the terms of your contract. Any value remaining may die along with you |
| You can transfer your RIF from one institute to another, and you can change its content | You are locked in for the full period of the contract |
| You decide how much you withdraw each year, subject to a minimum legal requirement | You get a fixed sum on a regular basis for a specified period of time regardless of your financial needs or how inflation impacts your purchasing power |
| You can change your investments to reflect changing economic conditions. You can hold equities or equity mutual funds, which generally perform better over the long term than interest investments. You can also gain the benefits of combining reinvestment with tax-deferred compounding. However, because you gain these freedoms, you will have to give up a guaranteed return | You are counting on interest rates staying the same during the life of your contract. Very unlikely guaranteed, but your contract locks you in and you cannot change the investment during its lifetime |

# INVESTING FOR INCOME

## THE CHALLENGE OF TODAY'S LOW INTEREST RATES

Income-hungry investors are increasingly looking for higher-yielding alternatives to government bonds. But in their quest for higher income, are some investors taking more risk than they realize?

Ten years ago, you could get a satisfactory income from government bonds. Interest rates ranged between 7-9%. But today, rates range between 3-5%.* Once you pay taxes, and factor in inflation, there can be very little left over.

### NEW ALTERNATIVES

With rates persistently low for several years, it is no wonder investors are seeking new alternatives to boost their income. These alternatives include corporate bonds, dividend-paying stocks, preferred shares and income trusts. However, while often offering higher income potential, for the most part, they also pose higher risk.

### THE DILEMMA

For income-oriented investors, this has presented a dilemma—should they accept greater risk in pursuit of higher income, or settle for the modest income offered by guaranteed investments like government bonds? Indeed, many investors have taken more risk than they would otherwise be comfortable taking because they require the income or don't fully understand the risks.

### RISKS AND REWARDS

It is important to understand the risks of any investment. A bond guaranteed by the Government of Canada is about as close to risk free as it gets. Other investments may offer greater income potential, but also move up the risk continuum.

For example, you could substitute corporate bonds for government bonds in your portfolio. But corporate bonds—while often offering higher rates—typically have a commensurately higher risk of default than government bonds. In fact, corporate bonds can vary widely in quality—from speculative "junk bonds" to investment grade bonds suitable for more conservative investors.

As another example, you could swap your government bonds for income trusts—not an uncommon occurrence in recent years with income trusts providing impressive average yields of 8%. But again, while income trusts can enhance your income, they also have inherenty higher risk.

An income trust is actually a form of equity, like a common stock. And like a common stock, it can go up and down in value. Depending on the performance of the underlying business, the cash distribution paid out by an income trust can also vary.

### THE RIGHT BALANCE

The potentially higher income offered by these alternatives to traditional government bonds can be very tempting to income-starved investors. And unquestionably they can play an important role in an income-oriented portfolio. The key is to find the right balance.

Instead of switching your government bonds for income trusts or corporate bonds entirely, take a more balanced approach.

Set aside a portion of your portfolio for government bonds, guaranteed investment certificates, corporate bonds, preferred shares, dividend-paying stocks, income trusts and so on. By diversifying among these various types of investments, you can spread out the risk, while gaining some of the potential upside.

**Average yields for 1-3 year and 10+ Government of Canada marketable bonds.*

# THINGS TO PONDER

**Q: Did you ever wonder why dimes, quarters and half dollars have notches, while pennies and nickels do not?**

A: The US Mint began putting notches on the edges of coins containing gold and silver to discourage holders from shaving off small quantities of the precious metals. Dimes, quarters and half dollars are notched because they used to contain silver. Pennies and nickels aren't notched because the metals they contain are not valuable enough to shave.

**Q: Why do men's clothes have buttons on the right while women's clothes have buttons on the left?**

A: When buttons were invented, they were very expensive and worn primarily by the rich. Because wealthy women were dressed by maids, dressmakers put the buttons on the maid's right. Since most people are right-handed, it is easier to push the left. And that's where women's buttons have remained since.

**Q: Why do X's at the end of a letter signify kisses?**

A: In the Middle Ages, when many people were unable to read or write, documents were often signed using an X. Kissing the X represented an oath to fulfill obligations specified in the document. The X and the kiss eventually became synonymous.

**Q: Why is shifting responsibility to someone else called "passing the buck"?**

A: In card games, it was once customary to pass an item, called a buck, from player to player to indicate whose turn it was to deal. If someone did not wish to assume the responsibility, he would "pass the buck" to the next player.

**Q: Why do people clink their glasses before drinking a toast?**

A: It used to be common for someone to try to kill an enemy by offering him a poisoned drink. To prove to a guest that a drink was safe, it became customary for a guest to pour a small amount of his drink into the glass of the host. Both men would drink it simultaneously. When a guest trusted his host, he would then just touch or clink the host's glass with his own.

## OUT OF TOWN SCHEDULE

**TERRACE**
September 21, 22, & 23

**BURNS LAKE**
September 15 & 16

*"My broker says don't panic, I'm still young enough to recoup my losses."*





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