Denham's DIGEST

An exclusive newsletter for the friends and clients of Matthew Denham

WINTER 2011

Matthew Denham
Vice-President & Portfolio Manager
416-842-2432
matthew.denham@rbc.com

Tracey Spence-Sebalj
Associate
416-842-2478
tracey.spence-sebalj@rbc.com

Courtney Galea
Associate
416-842-3508
courtney.galea@rbc.com

Toll free: 1 (800) 561-6431
Fax: (416) 842-2434
www.mattdenham.com

RBC Dominion Securities
Royal Bank Plaza, South Tower
Suite 3900, P.O. Box 88
Toronto, ON M5J 2J2

Smart retirement planning strategies

Between today's historically low interest rates and the subdued stock markets, it can feel like your retirement savings are caught between a rock and a hard place. While market conditions have improved since the economic downturn of 2007-2009, they remain challenging. Opportunities can be found, but they're scarce, with very little "easy money" to be made. That makes it much more important to make the most of your opportunities. And smart planning strategies to optimize your financial resources, reduce your taxes and enhance your retirement plan can make all the difference.

MAXIMIZE TAX-DEFERRED GROWTH

Your registered plans offer some key tax advantages, including tax-deferred compound growth. The longer you leave your investments in your registered plans, the more you benefit from this. If you have a Registered Retirement Savings Plan (RRSP), contribute the maximum each year. Also try to contribute earlier in the year, so your assets have more time to grow on a tax-deferred basis. If you've fallen behind over the last few years, try to catch up as soon as possible – all your unused RRSP contribution room carries forward.

MAXIMIZE THE TAX DEDUCTIONS

As you probably know, you can claim any contribution you make to your RRSP up to your contribution limit as a tax deduction on your annual income tax return, which can result in a tax refund. But you don't have to claim a deduction in the same year you make a contribution. And if you expect to have higher taxable income in a future year, it can make sense to wait to claim the deduction, as you may receive greater tax savings.

Welcome & Thank You

A warm welcome to the clients who have recently joined us, and a special thank you to the people who mentioned our name to them. We appreciate your trust and support.

RRSP DEADLINES / CONTRIBUTION LIMITS

You can contribute up to 18% of your earned income to the maximums outlined below, minus any pension adjustments, but plus any unused contribution room from previous years. Check your latest Notice of Assessment, Notice of Reassessment, T1028 form, or log in to your Canada Revenue Agency account at www.cra-arc.gc.ca/myaccount.

Tax year	Contribution Limit	Deadline
2010	$22,000	March 1, 2011
2011	$22,450	February 29, 2012
2012	$22,970	March 1, 2013

SPLIT INCOME TO REDUCE COMBINED TAXES

Because of Canada's progressive tax rates, the higher your income, the higher your tax rate. As a result, a couple earning similar retirement incomes generally pays less tax than a couple with unequal retirement incomes (assuming both couples earn the same combined income). Fortunately, starting at age 65, you can now split "eligible pension income" (such as RRIF income) up to 50/50 with your spouse to even out your retirement incomes. You simply report the split amount as your spouse's on both of your tax returns – it's that easy.

But what if you don't think splitting pension income alone will completely even out your retirement income with your spouse? Consider a spousal RRSP. You can make up to 100% of your RRSP contributions to a spousal plan. You get the tax deductions, and your spouse draws the income in retirement to help further even out your incomes.

Remember that you can continue contributing to a spousal RRSP even after you've converted your own RRSP to an RRIF – so long as you have RRSP contribution room and your spouse is 71 or younger on December 31 of the year you make the contribution.

REDUCE CURRENCY CONVERSION COSTS WITH A U.S. DOLLAR REGISTERED PLAN

When trading U.S. securities in an RRSP, RRIF or TFSA, you normally have to pay currency conversion charges automatically. To give you control over when you convert between Canadian and U.S. dollars, we recently introduced Canada's first full-service U.S./Canadian dollar registered plan. This feature is available now for new and existing registered plans – all you have to do is ask.

DELAY CONVERTING YOUR RRSP FOR MORE TAX-DEFERRED GROWTH

If it makes sense in your situation, wait until the deadline before converting your RRSP into a Registered Retirement Income Fund (RRIF) – December 31 of the year in which you turn 71. Once you convert to a RRIF, try to withdraw just the required minimum amount each year, leaving more assets inside the plan to continue growing on a tax-deferred basis.

Market and economic outlook

Up to half-speed

- The U.S. remains in the midst of a half-speed recovery hampered by high unemployment, excess industrial capacity, and a sagging housing market. The recent improvement in investor sentiment has been driven by the prospects of large liquidity injections from the Federal Reserve through a second round of quantitative easing (QE) measures.
- Following the recent rally, equity markets appear to have largely discounted the prospects of some form of quantitative easing already. The size of the program and the extent of the Fed's commitment to keeping longer-term rates at very low levels will be key determinants of market sentiment in the short term. Beyond that, evidence that the measures are proving successful in boosting consumer sentiment and stimulating economic growth will likely be needed to sustain the current rally. This may prove challenging.
- We continue to believe that government bond yields are pricing in a very downbeat scenario, leaving scant protection from an upside surprise in growth or inflation. While the market has priced in some sort of quantitative easing, the actual reaction to such an announcement is still up in the air – note that the March 2009 commencement of QE actually marked a near-term bottom for bond yields.

For a more detailed discussion of our outlook for the Canadian, U.S. and global markets, please visit www.mattdenham.com for a copy of our latest *Portfolio Strategy Quarterly* or *Mid-Quarter Update*.

Listen to a webcast from our chief investment strategist, Jim Allworth, at www.rbcds.com/market_outlook

Happy New Year from myself, Tracey and Courtney ... and the tax man too!

Starting January 1, you can make your 2011 contribution to your Tax-Free Savings Account (TFSA) – and earn tax-free investment income. Each adult in your family can contribute up to $5,000 per year whether or not they have any earned income (unlike an RRSP). If you haven't opened your TFSA yet, you can make the 2009/2010 contributions too, for a total contribution of $15,000. Contact Courtney at 416- 842-3508 or courtney.galea@rbc.com.