

By: Brad Davidson, CIM, CFP Vice President & Portfolio Manager  
Chris Emms, FMA, CFP Associate Advisor & Financial Planner

August 2013

- **Investor Psychology**  
Emotional investing can be hazardous to your wealth
- **The Family Cottage –**  
Structuring the family home away from home
- **Canadian Sector Performance**
- **Number Crunching**

## Investor Psychology – Taking the emotions out of emotional investing



**Brad Davidson, CIM, CFP**  
Vice President & Portfolio Manager  
**Chris Emms, FMA, CFP**  
Associate Advisor & Financial Planner  
**Clare Brennan**  
Associate Advisor  
**Kimberly Foster**  
Associate  
**Greg McQueen**  
Associate

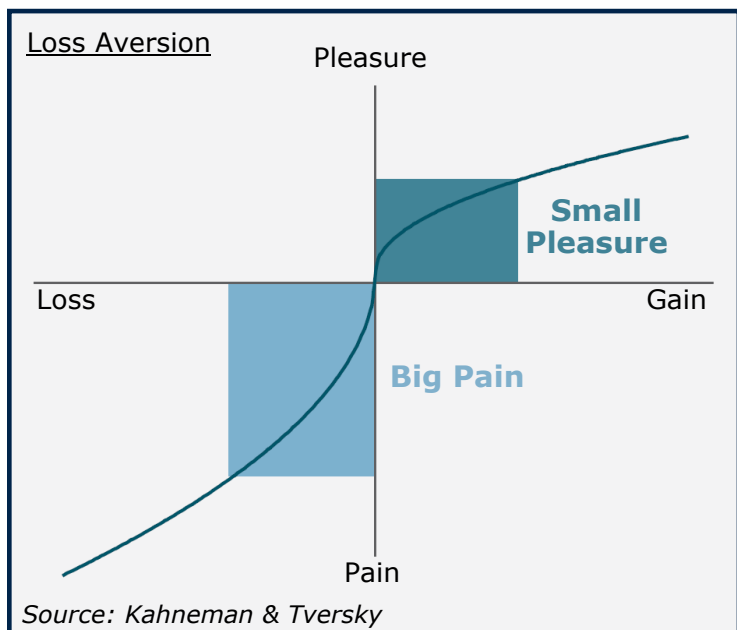
Typically, human emotions play a significant role in financial decision making, and as a result, individuals can be swayed more by emotion and impulse than by reality and fact. Investors are often drawn to assets that have strong near term performance and purchase them under the assumption that those recent gains will translate into future gains. This type of “Recency Bias” can lead to performance chasing, buying investments near their highs and selling them at their lows, which when considered in retrospect is a poor investment strategy.

Continued on page 2



August 2013

Despite studies that show that emotions cause investors to feel the pain of a loss more than the pleasure of a gain, investors still value the opportunity to gain more with less certainty, rather than an opportunity to gain less but with more certainty.



## Taking the emotions out of emotional investing

Countering these emotional, and wealth destroying tendencies is difficult, but understanding a few solutions can ensure decisions are based on facts rather than feelings.

- Focus on overall performance rather than individual holdings. Portfolios should be designed to be diversified and have a variety of correlations. This reduces risk but can result in individual holdings moving in different directions.
- Forced rebalancing – this allows your diversified portfolio to buy the

underperformers and crystallize the gains from the winners, rather than *hoping* (an emotion) for the winners to gain more.

- Approach investing in a similar fashion to watching grass grow; slow and steady positive returns compound to greater wealth over time.

Remember, letting your emotions rule your investments can be hazardous to your wealth.

\* \* \*

## The Family Cottage – Structuring the family home away from home

*Whether you call it a cottage, chalet, camp or cabin, it's your family's special place to relax and enjoy the great outdoors. And for many families, it's a place filled with happy memories that's been in the family for generations, and may be for generations to come.*

But keeping the cottage in the family from one generation to the next isn't always as easy as it might seem. There are many issues to consider, including how certain taxes will be paid.

### Capital gains taxes

If your cottage has been in the family for many years, its value has probably increased dramatically. The property your family bought for a few thousand dollars might be worth a few hundred thousand dollars today. Even property bought within your lifetime might have experienced significant growth. This increase in value can result in a very large, taxable capital gain, which is

Continued on page 3

August 2013

triggered when you pass along the property to anyone other than your spouse, including your children. However, there are several ways you can address this tax bill in order to reduce or defer it.

### Cover the tax bill with an insurance policy

The most common way for property to be passed on to the next generation is through

a bequest made in your Will. When your property is bequeathed to anyone other than your spouse, it triggers a taxable capital gain, which your beneficiaries may not have the cash to pay. One solution is to take out a life insurance policy equal to the tax portion of the capital gains liability that will be triggered upon your death or upon the death of your spouse. In some cases, the next generation pays for the parents' insurance premiums since they will be the ultimate beneficiaries of the tax free family cottage.

### Factor in the potential for conflicts

Leaving the cottage to more than one person may cause friction between family members. Try to anticipate and address these issues ahead of time and ensure clear communication. Placing the cottage in a family trust with clear-cut rules for its use may help. Bear in mind that transferring the cottage to a living trust will result in a disposition at market value. A separate fund could also be established to finance maintenance expenses.

Recreational property for your heirs to share and enjoy can unintentionally become the source of conflict or financial frustration. Take the time to consider how you can reduce the chances of this happening. Cottage owners are encouraged to begin discussing the planning process with children and other key family members now so as to cover thoughts, strategies and ideas about what will happen to the home away from home in the future and how each strategy will affect the finances of each individual family member.



# Davidson Professional Wealth Management

By Brad Davidson, CIM, CFP  
Vice President & Portfolio Manager  
Chris Emms, CFP, FMA  
Associate Advisor & Financial Planner

August 2013

Canadian Sector Performance	YTD	2012
Energy	2.8%	-3.63%
Materials	-30.7%	-6.9%
Industrials	14.4%	12.67%
Consumer Discretionary	25.1%	18.67%
Consumer Staples	21.9%	20.35%
Health Care	43.1%	24.13%
Financials	6.0%	12.78%
Information Technology	23.8%	-3.21%
Telecommunication Services	-2.8%	6.38%
Utilities	-4.8%	-0.83%

## Number Crunching

Year to date performance as of July 31<sup>st</sup>, 2013 of select currency and equity indices. All returns are in local currencies.

Equity Indices	YTD	2012
S&P/TSX Composite Index Total Return	2.3%	7.19%
Dow Jones Industrial Average	18.3%	7.26%
S&P 500	18.2%	13.41%
NASDAQ Composite Index	20.1%	15.91%
MSCI EAFE	7.8%	13.55%
Currencies (in Cdn \$)	YTD	2012
US Dollar	3.6%	-2.86%
Euro	4.4%	-1.07%

### Contact Us

#### Kimberly Foster

Associate  
Kimberly.foster@rbc.com  
Tel: (519) 747 - 0939

#### RBC Dominion Securities

95 King Street South  
3<sup>rd</sup> Floor  
Waterloo, ON N2J 5A2

#### Brad Davidson

bradley.davidson@rbc.com  
Tel: (519) 747 - 1889

#### Chris Emms

chris.emms@rbc.com  
Tel: (519) 747 - 1349  
[www.dpwm.ca](http://www.dpwm.ca)

### E-Newsletter!

We are pleased to now offer our quarterly newsletter in electronic format. If you would prefer this method of delivery please email us at [chris.emms@rbc.com](mailto:chris.emms@rbc.com).



Source: RBC Dominion Securities

### Tax Planning Update:

2013 RRSP Contribution Limit: 18% of earned income to a maximum of \$23,820

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.\* and Royal Bank of Canada are separate corporate entities which are affiliated. \*Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under licence. RBC Dominion S®Registered trademark of Royal Bank of Canada. Used under licence. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under licence. ©Copyright 2013. All rights reserved.

Professional Wealth Management Since 1901



RBC Wealth Management  
Dominion Securities