CIBC Wood Gundy

# Perspective

**Compliments Of Voronoff Private Wealth Management**

**Fourth Quarter 2014**

# Mind Over Matter

For most of the year, North American financial markets continued on an upward climb. Despite much global geopolitical friction and slower economic recovery closer to home, the markets didn't seem to take much notice. Yet, during this time, there have also been periods of volatility.

In both situations, investors have climbed the proverbial wall of worry. Our brains are hardwired to react emotionally, in good times and bad. Getting through these ups and downs is often a case of mind over matter.

**Corrections are a normal part of every market.** Since the market hit its low in 2009, the S&P/TSX Composite Index (S&P/TSX) has experienced various temporary dips, including a correction that spanned for most of 2011. Yet, the index gained over 120 percent from March 2009 to July 2014.*

**Participating can be better.** The past five years are a testament to the importance of staying invested. An investor who put $100,000 in the S&P/TSX at the beginning of 2007 would have about $148,000 today (before tax). If that same investor exited the market at its low in March 2009 and reinvested one year later, (s)he would have just over $100,000. If these funds weren`t reinvested and kept as cash, they would be worth around $70,000.*

**Trying to time the markets may have consequences.** For starters, nobody knows how long a bull or bear market will last. Since 1970, Canadian bull markets have averaged 58 months in length, whereas bear markets have averaged only 11 months. The longest bull market spanned 7.5 years, which never could have been predicted. Selling and rebuying may also create a costly tax situation in taxable accounts or forego dividend income opportunities.

A disciplined approach emphasizing quality and patience will serve investors well. Keep perspective and remember the importance of mind over matter in navigating the inevitable market cycles.

*S&P/TSX Composite Total Return (dividends reinvested) monthly close to 07/31/14. Cash assumed to return 1%.

Voronoff Private Wealth Management

**Speaking Personally:** Although the end of the year is still months away, it's never too early to start planning for the year's close. Whether it is making portfolio changes to impact your 2014 tax year or meeting RRIF mandatory withdrawal requirements, we can help.

In this season of thanks, we would like to extend our appreciation to you for trusting us with your financial matters.

## Financial Market Monitor

| | Recent 09-05-14 | Six Months Ago (03-06) | One Year Ago (09-05) |
|---|---|---|---|
| ***S&P/TSX Composite Index*** | 15569.92 | 14271.92 | 12845.06 |
| ***Dow Jones Industrial Average*** | 17137.36 | 16421.89 | 14937.48 |
| ***Canadian Interest Rates/Yields*** | | | |
| ***Canadian Prime Rate*** | 3.00% | 3.00% | 3.00% |
| ***Treasury Bills* -3 month*** | 0.93% | 0.83% | 1.00% |
| ***-6 month*** | 0.96% | 0.87% | 1.03% |
| ***Gov't. of Canada Bonds* -5 year*** | 1.58% | 1.71% | 2.15% |
| ***-10 year*** | 2.11% | 2.50% | 2.80% |

* Approximate annual rates.
Subject to transaction volumes, availability of specific issues, and other important factors.

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Staying Current

# Digital Estate Planning

While just 20 years ago the word "internet" didn't exist in most vocabularies, the digital world is now so ubiquitous that it has become an important consideration in estate planning. Anyone who spends time online should consider keeping records detailing their digital "footprint" for estate planning purposes.

Why? One of the main reasons to provide your will's administrator with your online information is because accessing a person's data after death may be very difficult depending on the privacy policies of online companies. In extreme cases, court orders have been required to gain access to online data.

**Why Access May Be Important**

**Helps prevent identity theft** — Accounts containing personal data can be closed. Most accounts remain open if online providers aren't notified, providing an opportunity for identity theft. Even information stored on hardware can be compromised if it is not properly deleted.

**Provides information when administering an estate** — Online data may provide greater information to settle an estate more quickly and comprehensively. It can help beneficiaries receive the complete and intended gifts after your death.

**Facilitates a transfer of funds** — If online assets generate income, such as PayPal or eBay seller accounts, funds can easily be identified and transferred.

**Information To Document**

- User IDs and access information for online accounts that contain personal information, as well as any income generating accounts (e.g., PayPal)
- Website URLs or domain names that you may own
- Digital hardware such as mobile devices, computers or flash drives that contain personal information

Hard copies containing this confidential information should be kept in a secure location and updates should be made regularly.

Digital estate planning remains a relatively new concept and will continue to evolve over time.

If you need assistance from an Estate Planning Specialist to understand whether digital estate planning should be a consideration within your estate plan, please don't hesitate to call.

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You Asked...

# What Is An Alter Ego Trust?

An alter ego trust is a trust created by you while you are alive that may help in estate planning. According to the rules in the Income Tax Act, only individuals 65 years of age and older may establish this type of trust.

During your lifetime, you must be entitled to all of the trust's income and are the only person who can benefit from the capital of the trust. After your death, the "contingent" beneficiaries named within the trust will be entitled to the trust's assets.

Any assets contributed to an alter ego trust can be transferred to the trust on a tax-deferred basis, meaning that the trust receives the assets at your adjusted cost base and no capital gains are triggered at the time of the transfer, which isn't the case with transfers to some trusts. Generally, as income is earned in the trust on an annual basis, it is reported by you on your personal income tax return. In the year you pass away, any capital gains on the assets held in the trust would be considered to be realized and subject to tax within the trust.

Why consider an alter ego trust? Here are some reasons:

- **Protects assets** — Passing assets through the trust may protect them from estate litigation by unsatisfied family members.
- **Avoids probate** — Assets held in an alter ego trust are not subject to the probate process, which may save considerable time and stress and can provide significant cost savings in provinces where probate fees apply. Assets can be managed and distributed without delay and other legal costs associated with probating a will may also be avoided.
- **Maintains privacy** — Holding assets in an alter ego trust provides privacy, unlike a probated will which is a public document.
- **Provides an alternative to power of attorney** — The power of attorney over property (of which the name varies across Canada) does not continue after death, whereas the duties exercised by the trustee appointed to the alter ego trust continue after death. This may also be beneficial if assets, such as real estate, are owned in multiple jurisdictions as separate powers may not need to be drafted for each jurisdiction.

Be aware that setting up an alter ego trust may impact the ability to create testamentary trusts or make significant charitable donations at death. Please seek professional advice if you are considering creating an alter ego trust.

Please note that comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

Investment Concepts

# When "Splitting Up" Can Be Good

"Splitting up" may be a good thing — when it comes to stocks, that is. Stock splits take place when a company divides its existing shares into a greater number of shares. Since the overall value of the company doesn't change, and neither does its market capitalization (the share price multiplied by the number of shares outstanding), the result is that the company's share price is reduced based on the number of new shares that are created upon the split.

As an investor, if you hold shares in the company, you will be issued a greater number of shares at the new lower price, equivalent to the value of the holding.

**Why Undertake A Stock Split?**

If a share price is high, a company may wish to make its shares available to a broader group of investors by lowering the cost per share. A stock split may also result in improved liquidity for a stock and has the potential to narrow the bid-ask spread.

Some analysts have found that companies that split their shares show positive performance in the years following the split. Although splits do not directly affect a company's financials, they usually occur at a time when a company is performing well or reports higher earnings which can give the share price a boost.

**Stock Splits: Interesting Facts**

Intel has had one of the highest number of stock splits, with 13 splits since its initial public offering (IPO) in 1971. An investor who purchased 100 shares of Intel in 1971 would have 121,500 shares today!

Walmart has also had numerous stock splits — 11 times since its IPO in 1970. Walmart has had fewer stock splits than Intel but the splits have, on average, been larger, so an investor who purchased 100 shares in 1970 would have 204,800 shares today!

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Heading South?

# Snowbirds: New Border Procedures

It's almost that time of year when the annual migration of Canada's snowbirds begins. If you're one of the many Canadians who visits the U.S. for extended periods of time, you should be aware of recent changes relating to how the government tracks the time spent by visitors south of the border.

On June 30th, Canadian and U.S. border services began exchanging biographic data on travellers entering and exiting at all Canada/U.S. border crossings. Before this time, information was generally only recorded when an individual entered either country.

Although this change does not affect existing tax rules, it is a good reminder for snowbirds to keep accurate records because this data, which impacts an individual's tax position, will now be more accurately tracked. The "substantial presence test" (SPT) determines whether a snowbird may be considered a U.S. resident for tax purposes based on the number of days spent in the U.S. The SPT is calculated by adding the number of days spent in the U.S. in the current year, plus one-third of the number of days spent the year before, plus one-sixth of the number of days spent two years prior. An individual may be considered a resident for tax purposes if the sum is 183 days or more and the individual has spent at least 31 days in the U.S. in the current year.

If an individual meets the SPT, it doesn't necessarily mean that a full U.S. tax return will need to be filed. An individual may have options such as declaring a "closer connection exemption" (claiming a closer connection to Canada than the U.S. by filing IRS Form 8840), or filing a non-resident tax form (IRS Form 1040NR) and treaty-based return disclosure (IRS Form 8833). If you spend a significant amount of time in the U.S., a tax professional familiar with U.S. tax law can provide advice on your situation.

## Reminder: RRIF In-Kind Withdrawals

Meeting minimum withdrawal requirements for the Registered Retirement Income Fund (RRIF) doesn't necessarily mean that your portfolio composition has to drastically change. If you are not in need of immediate funds, don't forget the option to continue owning shares by transferring them "in-kind" from the RRIF to a non-registered account or Tax-Free Savings Account (TFSA), assuming the account or the investment's characteristics allow for this.

When transferring shares, the withdrawal is valued at the fair market value of the securities and this amount is added to your taxable income. When the shares are eventually sold from a non-registered account, any capital gain/loss will be calculated with reference to the value of the shares at the time of the transfer as the original cost of the shares. An in-kind transfer can satisfy all or part of the RRIF minimum withdrawal requirement.

# TFSA: Participate!

*As its contribution size has grown, the TFSA has become quite a versatile investment vehicle.*

The Tax-Free Savings Account (TFSA) is quickly becoming a significant savings vehicle for Canadians. Now in its sixth year, the total contribution limit is currently $31,000 and will increase to $36,500 at the beginning of the 2015 year for those Canadians who have not yet contributed since the TFSA was introduced. The current annual contribution limit is $5,500.

One of the most compelling reasons for investing in a TFSA is the opportunity for tax-free growth. The main difference between the TFSA and Registered Retirement Savings Plan (RRSP) is that TFSA contributions are funded with after-tax dollars, so any investment income or capital gains earned within the plan are not taxed upon withdrawal.

One of the downsides of the TFSA is that capital losses cannot be offset, like they can be in non-registered accounts. However, if a well-balanced portfolio is created for the long term, this should not be a concern.

**Which Investments Are Best Held In The TFSA?**

In order to take advantage of the TFSA's tax benefit, one of the objectives of many investors should be to maximize tax-free returns in the TFSA in a consistent and reliable way. However, many Canadians aren't doing this and instead are holding cash in this vehicle.

Investments with a higher yield potential, such as equities or mutual funds (as opposed to cash or guaranteed investment certificates (GICs)) may be ideal investments for a TFSA because the potential future gains will not be taxed. Even though the Canadian tax system offers a tax break on capital gains and Canadian dividends, the opportunity to earn these gains on a tax-free basis should not be overlooked.

Foreign shares are often better invested outside of the TFSA. Within RRSPs or Registered Retirement Income Funds (RRIFs), dividends earned on U.S. shares are exempt from withholding taxes, which isn't the case if the shares are held within a TFSA. Foreign shares from countries outside of the U.S. may also be better held outside of a TFSA because any foreign tax (withheld at source) cannot be claimed as a foreign tax credit on a personal income tax return.

**Short Term Or Long Term?**

One beneficial feature of the TFSA is that withdrawals (other than withdrawals to correct over-contributions) will be added back to the following year's contribution room, whereas RRSP withdrawals cannot be re-contributed.

Given this benefit, the TFSA can be an effective investment vehicle for both the short and long term. Some investors may choose to use the TFSA as an emergency fund and invest in more liquid assets like shorter-term fixed income investments. Others may wish to invest in longer-term income generating investments. The key is deciding how best to use the TFSA for your particular situation and choosing the appropriate investments accordingly. As the contribution amount continues to grow each year, investors can more easily construct a portfolio which serves multiple time horizon objectives.

**The Bottom Line?**

The opportunity to accumulate future wealth through the use of a TFSA can be significant. An investor who invested the full contribution amount annually since the TFSA's inception in 2009 of $36,500 (including next year's contribution) and then stopped will have accumulated over $100,000 after 25 years, assuming a rate of return of 5 percent.

If the government maintains the TFSA's current annual contribution limit in the years to come, the investor will accumulate almost $270,000 by the TFSA's 25th anniversary by continuing to invest the full amount each year, assuming a 5 percent return and no inflation. As well, there will be no tax paid on the withdrawal of funds accumulated within the TFSA.

At the end of the day, taking advantage of the tax-free growth opportunity provided by the TFSA should be a priority. If you haven't already done so, be sure to participate!


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