CIBC Wood Gundy

Perspective

Personal Newsletter From Anton Voronoff

Third Quarter 2012

Continued Growing Pains

Financial markets are experiencing ongoing volatility. When will things settle down?

Economic recovery is being challenged globally. The European debt crisis continues to escalate and various European countries are now experiencing double-dip recessions. China's growth has also slowed as export demand has declined. The volatility that this causes in the markets reminds us that our global markets are inextricably linked.

Closer to home, the situation has been improving, but economic output still continues to struggle.

Unemployment is generally tied to slower economic growth. Canadian job creation figures released in the spring have been encouraging, indicating that employment may be returning back to normal levels. But, south of the border, the job market remains more sluggish.

The excess amount of debt built up over many years across global financial systems needs to return to more manageable levels. The move to delever will continue to take time.

The most successful long-term investors recognize the importance of maintaining discipline through these difficult times. One of the keys to success is to separate emotions from the investing process. This is not easy in practice but there are various ways we can help.

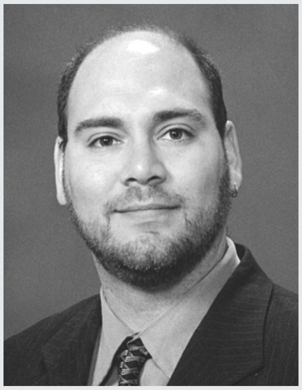
Rebalancing your portfolio on a regular basis is good discipline. Investing in managed products can put buy and sell decisions in the hands of others. But most important, keeping focus on your own objectives and your investment plan will help guide you through the challenging times.

This is not a time to avoid the markets. History has shown that even in difficult times excellent investing opportunities may arise.

Financial Market Monitor

	Recent 06-12-12	Six Months Ago (12-07)	One Year Ago (06-09)
S&P/TSX Composite Index	11497.30	12148.73	13255.74
Dow Jones Industrial Average	12573.80	12196.37	12124.36
Canadian Interest Rates/Yields			
Canadian Prime Rate	3.00%	3.00%	3.00%
Treasury Bills* -3 month	0.88%	0.84%	0.94%
-6 month	0.95%	0.89%	1.03%
Gov't. of Canada Bonds* -5 year	1.27%	1.33%	2.25%
-10 year	1.80%	2.06%	3.04%

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



Anton Voronoff
Ch.P., CFP, FMA, FCSI
Investment Advisor

For many of us, the definition of retirement is changing. We are living and working longer and we are facing a variety of changes impacting our retirement. In this issue, we discuss changes to the OAS pension age eligibility.

One of our most important roles is to support you at every stage of the retirement process. We're here to help.

Have a warm, relaxing and enjoyable summer!

In This Issue:

CIBC Wood Gundy, 123 Commerce Valley Drive East, Thornhill, Ont. L3T 7W8.

Estate Planning

Your Finances And The Power Of Attorney

Although it may be uncomfortable to think of yourself in a situation where you may become mentally or physically incapacitated, planning ahead for such a possibility may help to make a very difficult time much easier for the people you love.

A Power of Attorney (POA) is a document that appoints a person (or persons), often called the “attorney”, to make decisions on your behalf should you become unable during your lifetime. In Quebec, a POA is called a “mandate”. Depending on province of residence, there may be separate types of POA, such as those for healthcare or finances, with differing levels of authority.

When it comes to your finances, without a POA, the situation can become complicated in the event of incapacity. Due to privacy laws, under many circumstances financial advisors are restricted from contacting family members, even if a client has become unable to manage his or her finances. Without a POA, some families have had to seek court assistance in appointing a guardian to manage an individual's finances, which can be time consuming, stressful and costly during an emotionally difficult time.

Some believe that having a spouse named as a joint account holder can overcome these issues, but there are situations in which the consent of both parties is required when dealing with joint assets, which may be impossible if one spouse becomes incapacitated.

Choosing the right individual for the POA should be done carefully. It is important to select someone you trust, who understands what may be required of him/her, and who is willing to represent your wishes. Depending on your situation, this may be a spouse, close family member, or close friend. It may also be possible to appoint multiple attorneys but, in some cases, this may add unneeded complexity.

Keep in mind that there are many differences in provincial and territorial laws, so it is important to understand your particular jurisdiction's rules relating to the Power of Attorney. If you don't know where to start or would like help with a potentially complex situation, don't be afraid to seek professional assistance. If you already have a POA, it may be a good time for a review especially if the document was created some time ago.

Changes To Benefits

Are You 54 Years Of Age Or Younger?

According to Statistics Canada, in 1971 there were 15 senior citizens for every 100 working-age persons. By 2056, there will be 50 seniors for every 100 workers. As the costs to support the elderly rise, it may not be surprising that the government is taking steps to change its retirement social programs.

The recent federal budget proposes to increase the age of eligibility for the Old Age Security (OAS) pension and Guaranteed Income Supplement (GIS) programs from 65 years of age to 67 for individuals born after March 31, 1958.

This means that if you are 54 years of age or younger today, your government retirement benefits will be changing. For those born between March 31, 1958 and January 31, 1962, the eligibility age will be phased in, staggered between 65 and 67 years of age. If you were born on or before March 31, 1958, the OAS and GIS programs will remain the same.

Starting July 1, 2013, the government will also allow for voluntary deferral of the OAS pension for five years, indicating that the annual pension will be increased by 7.2 percent for each full year that it is deferred.

Alongside these changes, the survivor allowance age of eligibility will also change, from 60 to 62 years of age, depending on birth date.

But what does this really mean? Those who haven't reached retirement age probably haven't given thought to the impact of changes to these programs.

In today's terms, the maximum annual OAS pension is $6,481 for a single person. If net income before adjustments is greater than $69,562, 15 percent of the excess over this amount must be repaid. This means that for a retiree with a net income of $112,769 the entire OAS pension must be repaid. (These figures are current at the time of writing. Benefit amounts are adjusted quarterly based on the CPI.)

GIS benefits are available for low-income seniors. A single person with total income of less than $16,368 or a couple, both OAS pensioners, with a combined income of less than $21,648 would be eligible. The maximum annual GIS payment for a single person is $8,788.

For higher-income earners, a two year deferral of benefits may have minimal impact on retirement decisions. This may not be the case for many low-income earners. And this may just be the beginning of other changes to come.

For more information, visit: www.servicecanada.gc.ca/retirement

Consider The Bigger Picture

Deferring Taxes To Maximize Asset Values

For some investors, taxes can become one of their biggest single, recurring expenses. As such, investors should consider opportunities to maximize their after-tax returns.

One way to improve a tax position is by deferring taxes. Tax deferral may be advantageous because, in most circumstances, it is better to pay a dollar of tax tomorrow instead of today due to the time value of money -- that dollar can instead be invested today to earn additional returns for tomorrow. Deferring your taxes may also mean that the amount of taxes owed is reduced, for example when a taxpayer ends up in a lower future tax bracket.

Deferring Taxes On Investments

There are a variety of ways in which an investor can defer taxes. Here are just a few ideas:

Participating In Registered Accounts — One of the most conventional ways to delay taxes is by investing in a registered account such as a Registered Retirement Savings Plan (RRSP) or Registered Education Savings Plan (RESP). Taxes are deferred until future withdrawals from the account are made.

With an RRSP, there may be a greater likelihood that your future tax bracket at retirement will be lower than your current tax bracket. With an RESP, future tax obligations may be reduced by tuition or education tax credits claimed by the beneficiary.

Investors should also consider which types of investments to hold in these accounts. Holding investments that are taxed at the highest marginal rate in a registered account, such as those producing interest income or foreign dividends, may be more efficient from a tax perspective.

Deferring Unrealized Gains — Tax-deferral benefits can be achieved by holding an appreciating investment instead of engaging in the multiple sale and reinvestment of capital. Consider an investment of $200,000 with a growth rate of 6 percent and a 20 percent capital gains tax. Over a 20-year period, if you were to buy and hold the investment, your total net worth after taxes would be about $553,000. If you were to switch investments every five years, requiring you to pay taxes each time, your net worth after the same period of time would be about $32,000 less.

Of course, there are many reasons to switch out of an investment that are unrelated to tax, for example when rebalancing a portfolio or determining that an investment no longer meets a portfolio's objectives. Tax implications are just one consideration.

Investing In Tax-Advantaged Mutual Funds — Corporate Class Mutual Funds (CCMFs) are tax-advantaged mutual funds that are structured as shares in a corporation instead of as trusts. Under this structure, a variety of share classes may exist, with each class tracking a particular underlying portfolio.

An investor can avoid triggering a capital gain/loss when disposing of an interest in one of these mutual funds provided he or she directly switches to another share class in the same mutual fund corporation. The capital gain/loss only occurs when the investment in the corporation is sold.

CCMFs do not protect against intermittent taxable distributions. However, these distributions can sometimes be minimized by the CCMF as excess tax deductions in one share class can shield the taxable income of another share class under the same corporation.

Consider The Bigger Picture

Deferring the payment of income tax is a proven strategy to maximize future asset values. However, the impact of taxes on an investment portfolio should be only one consideration of many when it comes to an investor's overall investment plan.

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.

Dealing With Uncertainty

The Importance Of Staying Invested

Here is one reason why staying invested can have its merits. The chart below shows the effect of missing the best year of returns in each of the past 10-year periods for the growth of a $1,000 investment in the S&P/TSX Composite Index*.

Missed Best Year		*Continuous Investment*
$1,615	10 Year Returns 2002 - 2011	$1,973
$3,269	20 Year Returns 1992 - 2011	$5,293
$6,252	30 Year Returns 1982 - 2011	$13,715

Note: Past performance is not necessarily an indicator of future performance.
*Source: Annual returns for the S&P/TSX Composite Total Return Index from 1982 to 2011.

Life Insurance For All Stages Of Life

Life insurance can play a valuable role in all stages of life. In the younger years, it may start off as a protection vehicle, but in the later years it can play an important role in retirement and estate planning.

Protecting Your Family

For most young families, one of the main reasons for seeking life insurance may be for protection in the event that they are faced with an unexpected accident, illness or death. Many young families carry a large mortgage or are faced with expenses associated with growing children and may not be prepared for a situation in which a spouse may no longer be able to provide for the family.

Term insurance may be one of the best options to create an insurance protection strategy for a given time period in a relatively inexpensive way.

Supporting Your Business

Life insurance can also play a role if you own a business. Key-person insurance can help to facilitate business continuity in the event that a key individual is lost. In a shareholders' agreement, life insurance may support a buyout agreement in the event of a shareholder's death. The proceeds of a life insurance policy can be used by the remaining shareholders to buy the shares of the deceased shareholder.

But life insurance can go further than protection. It can help to minimize taxes or maximize assets. For example, if a business needs a life insurance policy for key-person insurance and has excess cash flow, an insurance policy with a cash value account could also be an attractive investment vehicle since funds can grow on a tax-exempt basis within the policy and be received by the beneficiary on a tax-free basis.

Enhancing Retirement And Beyond

As individuals near retirement, using life insurance as part of an investment program may offer estate or tax planning benefits, or even act as a source of improving retirement income.

With permanent insurance, such as whole life or universal life, part of the premium paid goes into a cash value account that can grow through investing. The main advantage is that, generally, the investments can grow on a tax-sheltered basis inside the policy and can be paid out on a tax-free basis when you pass away, based on certain regulatory limits. (The new federal budget announced changes to the calculation of the limits which may result in a reduction of income permitted to grow on a tax-sheltered basis within an exempt policy. Changes will apply to policies issued after 2013.) In many cases, the cash value can also be withdrawn to supplement retirement income.

Other ways in which life insurance may play a valuable role include:

Funding taxes on death – Life insurance may be used to cover the taxes due by an estate. For instance, a second property, such as a family cottage or cabin, may be subject to substantial capital gains taxes upon death if it is not a principal residence. A life insurance policy that covers the estimated tax bill may help to ensure that the property does not need to be sold in order to fund the taxes.

Providing liquidity – Life insurance may provide liquidity if a business doesn't have the liquid assets to pay the estate taxes when being passed on to children. It may also help to equalize inheritance if there are children who won't be part of the family business.

Donating to charity – Life insurance may help to promote philanthropic goals. As an example, a charity may be designated as a beneficiary to a life insurance policy. Upon death, your estate will receive a tax receipt for proceeds received from the policy which can reduce income tax liabilities, while providing a donation legacy in your name.

Get More Information

For many families, life insurance may start off as a means of protection. But its many uses mean that it can progress to becoming an important part of an overall investment plan. Given our understanding of your investment situation, we would be well placed to assist should you wish to review your insurance options.

Insurance services are available through CIBC Wood Gundy Financial Services Inc. In Quebec, insurance services are available through CIBC Wood Gundy Financial Services (Quebec) Inc.

With the compliments of...

Anton Voronoff
Ch.P., CFP, FMA, FCSI
Investment Advisor

CIBC Wood Gundy
123 Commerce Valley Drive E.
Suite 100
Thornhill, Ontario L3T 7W8

Telephone: 905-762-2321
Toll Free: 1-800-668-3800
Fax: 905-762-2301
Email: anton.voronoff@cibc.ca