Volume 21, Number 2
2nd Quarter, 2015

Published by
The ECC Group

The Personal Financial Advisor

In This Issue

The First 6 Months, The Next 6 Months

Chris Snyder, RFP

The year is now half over and the indexes are mostly close to where they were at the first of the year. For a while they rose about 5%, but they have since fallen to about 1%. This is amid the never-ending international and local stories that increase investors' uncertainty. Canadians are carrying too much debt and real estate prices, particularly in Vancouver are up in the heavens. (I was chatting with several people recently whose children are moving back from Vancouver to Ontario because they cannot afford the housing prices). There are ongoing ISIS stories and there are epidemics of little-known diseases. A federal election is looming and the Government trying to give everyone something, and using scare tactics about security to draw voter support to them and their policies.

While the markets have remained level, these worrying pronouncements affect how we spend money, including where we travel, whether or not to buy insurance, the investment choices we make and when we should plan to retire.

Fear is the emotion that most affects our financial decisions. But while it plays an important role and causes people to be cautious, cutting through to the facts and using common sense is vital in all aspects of personal finance. Investment markets have had a good run, as have low interest rates. It is a fact that markets will adjust — they always have and interest rates will go up. The question is when and to what extent? The name of the game is to be ready for these changes and if they do occur, what will be the impact on your personal finances? In the main, it will mean staying the course and not reacting precipitously. Ask yourself what are the chances of something happening, and if it happens can you live with it or should you do something now to offset the impact? I believe the world and life are always full of risks, and now is probably no more riskier than most other times.

In the investment world, people often buy bonds to offset the risk of a downturn in the markets. Bonds though are not immune from risk. An increase in interest rates can clobber long-term bonds, at least in the short run.

Now might be a good time to sit down with your advisor to help determine your risk exposure and your strategy to deal not only with your investment risk but with other areas of your financial life that could be affected. There is an old expression, because stock markets usually do nothing during the summer, to "sell in May and go away." While we do not advocate that, we do say put yourself in a position so that your financial affairs provide you with peace of mind and you can go away and enjoy. Have a good summer!

THE VALUE OF AN ADVISOR

Chris Snyder, RFP

Disclosure of what your advisor gets paid from investment products will become a reality in the New Year. It may result in you asking "Am I getting value for what I am paying?" Vanguard recently estimated it to be on average 3% of the value of your investment. I do not know how they came up with this number. What you receive is not always quantifiable and will vary from year to year. In some situations the value will be much more than you are paying, in others much less. Some advisors will include other outside services, however, tax returns and tax planning, settling estates and other unusual happenings are normally charged over and above.

Here is an excerpt from my book ***"BE SMART WITH YOUR MONEY"*** outlining some of the ways an Advisor can add value:

1) They can help you make reasonable and prudent financial decisions.

Henry and Louise had just sold their home in Vancouver on which they were servicing a huge mortgage and found it difficult to make ends meet. Fortunately they made some money on the sale. Part of their rationale to sell was that their other investments had declined in value and they did not have enough money on which to retire. They planned to move to property they owned in the Okanagan region, and wanted to spend time in England to be close to Louise's family. They thought that with real estate values being depressed, and the pound being low in the U.K. they could buy a property at a low cost in England and make up some of their lost investments. After looking at the numbers, the risks of currency fluctuations, the state of the economy and other costs with their advisor, they realized such a move would put them back into the same position – i.e. not enough income on which to retire. As a result, they conservatively invested the proceeds of their Vancouver home. This gave them plenty of income and allowed them to go to England often and for as long as they wished.

2) They can save you time.

Johann, age 40, was a business executive who travelled a lot. His wife, Inelda was a teacher, and had the primary responsibility of looking after their three children. While both had an interest in investments, neither had the time to do the research or do the specific investing. Their advisor did the research and recommended investments that would suit their portfolio guidelines.

3) They can provide specific advice.

Knowledge is the key to a lot of good financial management. Tan and Norette had their own small cleaning business. They were quite successful, but as new Canadians from Cambodia, they did not have Canadian tax, accounting or investment knowledge. Their advisor helped them both with their accounting and with investing their money.

4) They can help you prioritize and create a plan.

Tempra and Remi had a great relationship except for one thing – they could not agree on how to spend their money. Tempra wanted to have everything now. Her parents had died young and her credo was "life is for living and having things now – tomorrow may never come". Remi had watched his parents retire on a small pension and he and his sister had to support them. He did not want to be in that position in the future. This couple needed to

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THE VALUE OF AN ADVISOR *continued…..*

Chris Snyder, RFP

work together to develop a solid plan to sort out their priorities and required assistance to help them achieve their goals. Their financial advisor helped them work out a plan that balanced today with tomorrow and gave Remi the sense of security that he needed.

5) The can help sort out different financial products.

For years, Paulo and Senora had read a lot about money and had heard many radio ads encouraging them to buy their insurance directly from the insurance company without using an agent in order to save fees. When they bought their first house, they did this. The options, choices and exclusions were many. They got very confused and could not figure what was the best policy and how much it cost. They wanted and needed someone to talk to in person. Senora asked for a reference from a friend for an insurance broker. The broker helped them wade through a myriad of options and showed them what to include and exclude in their policy. They also knew that if there was a claim, there was someone they could turn to to discuss their options.

6) They can provide ongoing guidance.

Ethan and Doreen, in their early 80's, had been using a financial advisor ever since the company she worked for provided her with financial planning assistance to help them plan their retirement. Since then, they had worked with the advisor on a number of life-stage developments ranging from selling several homes, purchasing and renting property in Florida, and helping their daughter who was on permanent disability, to investment and taxation issues, choosing pension options and arranging their finances for proper succession.

7) They can help you when you are in trouble.

Stan was always a "do-it-yourself" guy. He had started his own business, was successful, and then sold it. He started to do some of his own investing with the proceeds. He always thought real estate was the way to go. He took most of the proceeds from the sale of his business and invested it in several syndicated housing projects in the southern United States. Things went beautifully for awhile. Unfortunately, two things went wrong. Firstly, he did not declare all of his foreign income. In 2007, he received a letter from Canada Revenue Agency stating that it had reason to believe he had undeclared income. The second jolt came a year later. The housing market collapsed in the U.S. Stan was 66 and most of his assets were gone. Good advice earlier on could have helped him.

8) They can help with special situations.

After 30 years with her company, Kristin, age 56, lost her job as a senior executive. She had a reasonable pension, a small house and severance equal to 15 months of income. She also had some savings, much of which had come from her deceased husband's life insurance payments.

Her children were grown and financially independent. She had many concerns: Would she have enough money to live on? Could she get another job? What medical benefits was she entitled to? How should she receive her severance payments? Should she sell her home? And should she drop her club membership to save money? As well as helping her sort through the emotional issues, her advisor helped her find the answers to these questions, and

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THE VALUE OF AN ADVISOR *continued…..*

Chris Snyder, RFP

did some income projections to help her determine what future income she could expect. This gave her comfort and an understanding of what she needed to do. In her case, she could afford to work either part time or for far less money.

9) They can help you when you are getting started.

Monty and Meg were just getting started. They were recently married, still had some student debts but had two incomes and some savings. They wanted to buy a house. Each had also been accustomed to making his or her own financial decisions. Now it was the two of them. What should they do? Their advisor helped them determine their needs and wants and helped them work out a plan.

10) They can help you add value to your assets.

This can happen in many ways. Homer and Wanda went to an advisor on the recommendation of her cousin. They wanted someone to help them invest their money with the best rate of return. After a review with their advisor, they learned that wealth management is more than obtaining the best rate of return. It is also about taxes and types of investments, income-splitting, appropriate asset mix, utilization of tax-assisted vehicles and other wealth management techniques such as budgeting, cash flow management and purchasing insurance to protect their assets, and estate planning. Adding value can also include setting goals, obtaining peace of mind, providing financial statements, learning about money and ensuring investment choices are suitable to one's personality.

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DESIGNATING A TAX FREE SAVINGS ACCOUNT (TFSA) BENEFICIARY

Vicki Lungu, CFP

When TFSAs were introduced in 2009, the annual contribution limit was $5,000. This increased to $5,500 in 2013 and now, starting this year, has jumped to $10,000. With the higher limit and lifetime carry-forward contribution room, TFSA accounts are expected to grow to hundreds of thousands of dollars. Consequently, it is important to know the tax implications of holding a TFSA at the time of death.

TFSAs are registered plans and naming a beneficiary will reduce income taxes and probate fees payable by your estate. TFSA rules allow two options when it comes to designating a beneficiary:

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DESIGNATING A TAX FREE SAVINGS ACCOUNT (TFSA) BENEFICIARY *continued…..*

Vicki Lungu, CFP

1) TFSA Successor Holder

Only a spouse or common-law partner may be designated as the successor holder. Similar to the "successor annuitant" designation on a Registered Retirement Income Fund (RRIF), your successor holder simply replaces you as holder of your TFSA, and the plan continues with all rights passing to your successor. Successor holders do not require TFSA contribution room to receive this benefit.

Advantages to naming a successor holder

- Money will remain in a TFSA
- No tax issues since money is never deregistered
- No probate fees
- The surviving spouse can continue to have their own TFSA, their lifetime and annual contribution limits unaffected, and they can consolidate the two separate TFSA accounts without affecting available contribution room.

2) TFSA Beneficiary

A beneficiary can be any person. If the beneficiary is not a spouse or common-law partner, the money will be transferred to a non-registered account in the name of the beneficiary and is no longer tax sheltered.

Naming a spouse or common law partner as a beneficiary instead of successor holder complicates things, as the increase in value of the TFSA between the time of death and the time of distribution is not tax sheltered and therefore fully taxable.

For example, John names his spouse, Kathy, beneficiary of his TFSA. At the time of his death, the TFSA value is $30,000. By the time the account is transferred to Kathy, the value of the TFSA has increased to $31,500, so Kathy has to include $1,500 in her taxable income. Had she been a successor holder, the entire amount ($31,500) would have been tax sheltered. Kathy also has to notify CRA about the TFSA transfer within 30 days.

What happens to the TFSA if I don't name a successor holder or beneficiary?

If you don't specify a successor or beneficiary on the TFSA, the money will become part of your estate. That money can still go to a spouse or common-law partner, but probate fees will be applied and the money will no longer be tax sheltered.

Most provinces allow a TFSA holder to designate both a successor-holder and a beneficiary, so name the spouse/common law partner as a successor holder and somebody else as the beneficiary. If you and the successor holder die at the same time, the beneficiary will get the money. Check with your financial institution. If you name both a successor holder and beneficiary on a TFSA, the successor holder will override the beneficiary. If you live in Quebec, these options don't exist; the TFSA can be passed only through the estate.

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DESIGNATING A TAX FREE SAVINGS ACCOUNT (TFSA) BENEFICIARY *continued…..*

Vicki Lungu, CFP

Review your TFSA plan documents to determine whether you have appointed your spouse or common-law partner as a "successor account holder" or designated a beneficiary, and speak to your TFSA administrator to confirm it.

You should periodically review your will and estate plan to ensure that the TFSA beneficiary designation aligns with the terms of your will.

DEALING WITH AGING PARENTS, PART 2 WHAT YOU CAN DO

Chris Snyder, RFP

(Excerpted from Chris Snyder's book "BE SMART WITH YOUR MONEY")

As a general statement, "the earlier the issue is raised, the better". In an ideal situation, one's parents will have taken care of and discussed financial issues with their children well in advance of them losing their interest in and ability to deal with their financial affairs. They will have had Wills and Powers of Attorney drawn up, listed their assets and advisors, and completed an information sheet showing where documents are located. Unfortunately, most people do not do this, and as a child of such parents, you may have to initiate the conversation. It can be hard. Perhaps you could say, "Mom and Dad it may not be any of my business, but we are concerned about your financial affairs and we want to make sure your affairs are in order the way you want and are not causing you concerns. For example, do you have a Power of Attorney? Do you have enough income? Are you satisfied with your investments? Who are your advisors?" It goes without saying, your parents should be treated with great respect. It is their hard earned money.

Once the ice has been broken, try to work with your parents to develop a financial plan that involves such things as taxes, investments, estate planning and cash flow management. The plan should be as simple as living within a budget and paying the bills. While many can draw up an appropriate plan themselves, it may be a good idea to bring in a professional advisor who can act as an impartial guide to help everyone through the various financial issues, and provide help and simple techniques. Meeting should take place with other members of the family members present, so that everyone is aware of what is going on.

It may be necessary to help your parents determine their income needs. Last year's tax return is a good place to start. It will show sources and types of income. The mix of investment should be reviewed and recorded. Some older people like to continue to look after their investments, while others are happy either to turn it over to their children or to work with an advisor. One person I know completed and filed his own tax return one month before his death at age 99. Some may turn their affairs over to an advisor and give him or her complete discretion, but this, in my opinion, is dangerous. Decision should always involve a family member.

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DEALING WITH AGING PARENTS, PART 2 WHAT YOU CAN DO *continued…..*

Chris Snyder, RFP

(Excerpted from Chris Snyder's book "BE SMART WITH YOUR MONEY")

Investments should be diversified, able to generate adequate income and simple enough to be understood. You can arrange to have investment and other income deposited directly to your parents bank account. You may also wish to do an income projection, or have it done, so your parents are secure in the knowledge that they will not run out of money.

Help your parents work through an estate plan. This could include the ownership and registration of assets; ensuring that Wills state what your parents wish to happen to their money; putting powers of attorney in place; arranging gifts to children and grandchildren; and naming beneficiaries on life insurance policies and RRIFs. Be sure to put in writing a complete list of advisors and people to contact, as well as assets and liabilities. Normally it is a good idea to deal with specific issues that may be of concern, such as retirement or nursing homes, whether your parents have enough money and tax issues.

In all of this, make sure everyone is involved in what is going on, but do appoint one or more persons to be in charge, as it is usually impractical to have everyone act on behalf of a parent. These are just a few guidelines. Everyone's family and financial situation is different, but in my experience, broaching the subject sooner rather than later makes good sense. Bringing family finances out in the open can also create opportunities to discuss and resolve old family issues.

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NUMBERS

Here is the update of the most recent economic indicators as of June 19, 2015

ECONOMIC DATA

Canada-Key Indicators	Level	Report Date	At Dec. 2014
Real GDP (YoY%)	1.5	31-Mar-15	2.8
Core CPI(YoY%)	2.2	31-May-15	2.2
Unemployment Rate(%)	6.8	31-May-15	6.7
Net Chng Emplmt(000s)	58.9	31-May-15	-11.3
Consumer Confidence	95.3	20-Apr-15	104.9
Retail Sales (YoY%)	1.7	30-Apr-15	3.7

US-Key Indicators	Level	Report Date	At Dec. 2014
Real GDP(YoY%)	2.7	31-Mar-15	2.4
Core CPI(YoY%)	1.7	31-May-15	1.6
Unemployment Rate(%)	5.5	31-May-15	5.6
Consumer Confidence	95.4	31-May-15	93.1
Retail Sales (YoY%)	2.7	31-May-15	3.3

Commodities	Price	Change YTD
Crude Oil WTI(US$/bbl)	59.61	11.9%
Natural Gas(US$/MMBtu)	2.82	-6.5%
Gold(US$/troy oz)	1200.27	1.3%
Copper(US$/lb)	2.58	-8.9%

Currencies	Rate	Change YTD
CAD/USD	0.8143	-5.40%
USD/CAD	1.228	5.7%
USD/JPY	122.63	2.3%
EUR/USD	1.1342	-6.3%
GBP/USD	1.5872	1.9%
EUR/CAD	1.3929	-0.9%
GBP/CAD	1.9491	7.7%

EQUITY MARKETS

Canada	Level	YTD	YTD C$
S&P/TSX Composite	14653	0.1%	0.1%
S&P/TSX 60	852	-0.3%	-0.3%
S&P/TSX Small Cap	587	1.3%	1.3%

US	Level	YTD	YTD C$
Dow Jones	18016	1.1%	6.9%
S&P 500	2110	2.5%	8.3%
Nadsaq	5117	8.0%	14.2%
Russell 2000	1285	6.6%	12.7%

International	Level	YTD	YTD C$
DAX	11040	15.6%	14.5%
FTSE 100	6710	2.2%	10.1%
Nikkei	20174	23.8%	27.8%
MSCI EAFE	1883	6.1%	12.2%
MSCI World	1775	3.8%	9.8%
MSCI EM	975	1.9%	7.7%

FIXED INCOME

Indices/Rates	Level	YTD
DEX Universe Bond	981	2.1%
DEX Real Return Bond	548	3.1%
LIBOR 3-month	0.2813%	10.1%

Government Bond Yield

	3-mo T-Bill	10-year Bond	30-year Bond
Canada	0.58	1.716	2.332
US	0.00	2.259	3.048
Spread	0.58	-0.543	-0.716

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