Volume 24, Number 2
2nd Quarter, 2016

Published by
The ECC Group

The Personal Financial Advisor

In This Issue

BREXIT - WHAT'S NEXT?.................... 1

28 WAYS TO HELP YOU OPTIMIZE YOUR INVESTMENT RETURNS? 2

WHEN SHOULD YOU REVIEW AND UPDATE YOUR ESTATE PLAN? 5

A $200 BRIBE - THE WISEST INVESTMENT MY MOTHER EVER MADE 8

BREXIT - WHAT'S NEXT?

Chris Snyder, RFP

By now we have all heard the surprising and shocking news regarding the vote in Britain to exit from the EU. I am not known for my accurate predictions, however I will go out on a limb and predict - It will not happen!

Here is some of my thinking:

First of all, it has not happened. While the 52% to 48% vote expressed the current feelings of the public, there are many legal obstacles in the way before an exit is achieved. As the old saying has it, "The devil is in the details." It may be several months before the British Parliament officially advises the EU of its intent to leave, which will trigger a two-year negotiating period. And a lot can happen in that time. What is certain is the uncertainty Brexit is creating. This will plague markets and other facets of life for some time.

No one knows all the potential fallout created by those who want to go back to the good old days. It could include the emigration of young people, a recession, Scotland seeking and gaining independence, job loss and increased cost of imports. Deprived of European opportunities, young people will be hurt the most, and the good old days will not happen. The days of Rule Britannia have gone forever.

It has been said the Leavers' issues were sovereignty, immigration and emotion. They did not give much thought to the economic implications, which may not be so surprising since these voters were mainly older, and the long-term economic impact is less important to them.

Admittedly, countries such as Norway and Switzerland are strong economically and have negotiated good terms without being a part of the EU. However, when Britain gets to the negotiating table, the EU will undoubtedly take a very tough stand, possibly denying UK citizens the ease of obtaining employment in Europe and imposing higher tariffs, thus reducing the demand for British goods and services. Sovereignty is not solely a British issue — it is a concern for most of the EU countries and the EU will want to show them that opting out carries a high cost.

continued on page 2

"We Make A Difference"

continued from page 1

BREXIT - WHAT'S NEXT? *continued…*

The EU was born out of an attempt to stop European wars like the First and Second World Wars and, in spite of growing pains, it has managed to create a better world in Europe than existed in the early years of the 20th century. In fact, the EU was awarded the 2013 Nobel Peace Prize for this reason. The way forward has been to create a working-together environment. The cost, in part, is giving up some sovereignty.

The immigration factor is significant, not only in Europe but elsewhere, caused in large part by the more than 60 million refugees worldwide. Certainly much has been done to deal with this issue, however, it is far from being resolved. The reality is that much of the UK opposition to immigration is based on race and the fear of job loss.

In fact, the vast majority of non-white people in the UK are those whose parents and grandparents arrived many years ago as a result of the open immigration policies that allowed people from Commonwealth countries easy access to permanent residence in the UK.

At the risk of being called a Pollyanna, I believe that as negotiations get underway and the terms of Brexit evolve, the UK will realize that pulling out could be a colossal mistake, and that trying to resolve sovereignty and immigration issues within the EU is a better way to go. The EU, meanwhile, also has a vested interest in dealing with sovereignty and immigration since these issues concern every member country.

Many have called former British Prime Minister David Cameron's referendum a huge mistake. It certainly appears that way now. In two to three years, however, people may be saying the UK vote was needed in order to deal with the very real and universal concerns of sovereignty and immigration, and to help people understand that, while not perfect, the EU is in most peoples' best interests.

In the meantime, be prepared for some market volatility but do not try to jump out of your investments. The world is not over...yes, the UK is an important player, however, Brexit in the overall scheme of things is not catastrophic for most people. In fact, many investment managers will be able to spot opportunities which can work in your favour. Enjoy your summer!

90613 ECC_Q2 Newsletter.indd 2 2016-07-22 11:31 AM

28 WAYS TO HELP YOU OPTIMIZE YOUR INVESTMENT RETURNS?

Chris Snyder, RFP

*In our last issue we discussed points 11-20.
(Excerpted from Chris Snyder's book "BE SMART WITH YOUR MONEY")

21. Be realistic about returns.

22. Make sure you know the real facts before you make changes.

23. While it is natural to look at recent returns, we tend to put too much weight on recent activity. Don't invest in funds just because they have had one or two good years. Says David Laibson, who teaches behavioral courses at Harvard, "people generally place full weight on events that happen today and only partial weight on possible events in the future". Think and act rationally. Look for those that have had consistent returns. Furthermore, just because an investment manager had a bad year does not mean he or she will have a second bad year. A Mackenzie Financial study has shown that those funds that have the best returns in the long run (5 years or more) often spend 1 or 2 years performing in the 3rd and 4th sections. Investing based on last year's winners and running with the crowd usually produce poor returns. Continually investing in accordance with your plan will produce better results.

24. Everything else being equal, go with funds that have lower management expense ratios(MER's).However, you are also looking for returns, good service, etc. Keep in mind, some of the money paid goes to the financial advisor (planner) who may do many other things for you including keeping you invested or keeping you out of a bad investment. Also be wary of deferred sales charges and/or low-load funds. Cashing out too soon can cost you up to 5% of the amount you had in the investment.

25. Borrowing to invest only makes sense if you need the money for an RRSP investment and will repay the money promptly, or if you are confident that your after- tax return will be greater than your after- tax cost. It will also likely be appropriate if you are investing in income- producing real estate

26. Be prepared to change your views. Get the facts. Holding on to current biases may be costly.

27. Other ways you can help yourself accumulate wealth are:

a) Continually saving or investing automatically on a regular basis,

b) Establishing your personal deadline and not investing in the heat of the moment,

c) Keeping things simple, and

d) Taking advantage of the tax rules without investing simply because of the tax savings.

continued on page 4

90613 ECC_Q2 Newsletter.indd 3 2016-07-22 11:31 AM

continued from page 3

28 WAYS TO HELP YOU OPTIMIZE YOUR INVESTMENT RETURNS? *continued…*

Chris Snyder, RFP

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

28. Be aware of the tax rules regarding investing. The following is a list of some of the more common mistakes made relating to taxes and investments.

a) Having your fixed income investments (other than short-term savings or your TFSA) outside of your RRSP.

b) Not contributing to a TFSA and an RRSP or RESP if you have children who may go on to post -secondary school.

c) Over contributing to your TFSA and your RRSP. You can put in an extra $2,000 without penalty to an RRSP. If you do contribute more than $2,000, you can be severely penalized. TFSA's also have severe penalties if you over contribute.

d) If you give money to your spouse to invest outside of a TFSA or RRSP, you will pay the tax. If you lend it at a prescribed rate, your spouse will pay tax on the gain, often at a lower rate.

e) If you are 65 or older, having dividends or investment income may make your income too high to receive Old Age Security (OAS). Tax can often be minimized on investments outside your RRSP/RRIF or TFSA by the use of tax deferred mutual funds i.e. mutual funds on which tax is not paid on any gain or distributions until you sell them. Depending on the company, they may be called Corporate Class or Capital Class Funds. T Series Regular Mutual Funds also have some tax benefits.

f) Transferring an investment to an RRSP instead of cash.

g) After 65, taking money from an RRSP instead of transferring it first to a RRIF. If taken from a RRIF, income can be split with your spouse and the first $2,000 could be tax-free for both spouses.

h) Purchasing mutual funds late in the year outside of an RRSP or TFSA means you will be allocated your share of distributions even though you have not been in the fund for a long time. This can be avoided if there are no distributions or by checking with your advisor or you utilizing a Corporate Class or T Series mutual fund.

i) Not arranging investment income so it can be taxed in the hands of the lower income spouse.

To buy "BE SMART WITH YOUR MONEY" please go to:
http://hilborn-civilsectorpress.com/products/be-smart-with-your-money OR www.amazon.com

90613 ECC_Q2 Newsletter.indd 4 2016-07-22 11:31 AM

WHEN SHOULD YOU REVIEW AND UPDATE YOUR ESTATE PLAN?

Vicki Lungu, CFP

The benefits of an estate plan are many, including peace of mind and the distribution of your assets in the way you intended. A good plan can increase your lifetime security, and also achieve your goals for your family and the charity of your choice. Once you've created an estate plan, it is important to keep it up to date, therefore you will need to revisit it after certain key life events.

CHANGES IN YOUR FAMILY SITUATION

In some provinces (except British Columbia, Alberta and Quebec) marriage revokes an existing will unless the will is made in contemplation of marriage. Separation has no effect on a will but in certain provinces divorce will affect its provisions.

Your estate plan will become more complicated if your marriage is not your first. You and your new spouse need to figure out where each of you wants your assets to go when you die. If you have children from a previous marriage, this can be a difficult discussion. There is no guarantee that if you leave your assets to your new spouse, he or she will provide for your children after you are gone. There are a number of options to ensure your children are provided for, including creating a trust for them, making them beneficiaries of life insurance policies or giving them joint ownership of property.

If you get divorced or your spouse dies, you will need to revisit your entire estate plan. It is likely that your spouse is named in some capacity in your plan — for example, as beneficiary, executor or with power of attorney. If you have a trust, you will need to make sure your spouse is no longer a trustee or beneficiary of the trust. You will also need to change the beneficiary of your retirement plans and insurance policies.

Becoming a Parent

Once you have children, it is important to name a guardian for them in your will. If you do not, the court will select a permanent guardian based on the children's best interests. The parents' choice of guardian would be taken into consideration. In addition to naming a guardian, you may also want to set up a trust for your children, putting assets aside for them for when they get older.

Similarly, when your children reach adulthood, you will want to update your plan to reflect the changes. They will no longer need a guardian, and they may not need a trust. You may even want your children to act as your executors or hold a power of attorney.

Becoming a Grandparent

You may want your grandchildren to receive a benefit under your will, either as primary beneficiaries or as contingent beneficiaries who would benefit only in the event their parent predeceases you.

continued on page 6

90613 ECC_Q2 Newsletter.indd 5 2016-07-22 11:31 AM

continued from page 5

WHEN SHOULD YOU REVIEW AND UPDATE YOUR ESTATE PLAN?*continued…*

Vicki Lungu, CFP

Death of an Executor/Trustee/Guardian/Beneficiary

If your executor, trustee or guardian dies or changes his or her mind about acting in that capacity, you need to revise the appropriate parts of your estate plan. Similarly, if a beneficiary dies, the money would pass to his or her estate. If this is not your intention, you need to make changes to your will.

CHANGES IN INSURANCE COVERAGE

Changes in life insurance coverage, disability insurance, long-term care insurance or liability insurance may affect your estate planning needs and may require you to modify your plan.

As a result, any changes, especially to your life insurance coverage, need to be properly coordinated with your overall estate plan. Such change might include an increase or decrease in the amount of coverage, a change in beneficiary designation or the purchase of an additional policy.

Changes to the Estate Plan Itself

Of course, if you make changes to any part of your estate plan, you should review the estate plan as a whole to ensure that it remains cohesive, effective and consistent with your goals. A change or addition to one part of the plan may call for changes to other aspects of it. Examples of key changes that might warrant a reexamination of the plan as a whole include: creation of a trust, execution of a will codicil and designation of a new beneficiary for an RRSP/RRIF/TFSA plan.

Other Important Changes

There are many other possible conditions and circumstances that should prompt us to review and update our estate plan. Use your common sense. Have your feelings about a beneficiary changed? Has your son finally become financially responsible? Has your spouse's health been declining? All you need to do is give it a little thought from time to time, and consult periodically with your attorney, financial planner and other professional advisors.

continued on page 7

90613 ECC_Q2 Newsletter.indd 6 2016-07-22 11:31 AM

continued from page 6

WHEN SHOULD YOU REVIEW AND UPDATE YOUR ESTATE PLAN?*continued…*

Vicki Lungu, CFP

Significant Changes in Your Financial Situation

A change in fortune for the better may allow you to give more to charity, or engage in tax-efficient planning. And if you now own real property or assets outside Canada, you may need to consider preparing multiple wills.

You should maintain an up-to-date asset list to assist with estate plan reviews, and provide a starting point for executors.

Times change and people will change with them. There are some people in your life who may not be there five or 10 years from now. Whenever you are designing or updating an estate plan, you always make sure that the information is correct and could immediately go into effect if something were to occur that very instant.

Sitting down with a professional to discuss your current estate plan and explaining the ultimate disposition of your financial legacy can bring to light deficiencies in your plan due to changed circumstances or updated estate tax laws.

90613 ECC_Q2 Newsletter.indd 7 2016-07-22 11:31 AM

A $200 BRIBE - THE WISEST INVESTMENT MY MOTHER EVER MADE

Chris Snyder, RFP

My mother was a quiet, gentle and very wise woman. While she was a smoker, she was smart enough to know that this was not a good lifestyle choice. In my early 20s, I too was a smoker — a pack-a-day man. When my wife Pat and I became engaged, my mother bribed us by offering each of us $100 if we didn't smoke until the day we were married, some six months away. We both quit cold turkey; however, I must admit I did not get the urge to smoke out of my system for many years.

What has $200 for not smoking got to do with personal finance? Well, it has saved a lot of money already and it will save even more in the future. While it is difficult to calculate the exact savings over time, here is an estimate of what this $200 could have grown to in 50 years. Taking an average $5 for a pack of 20 (cigarettes were cents a pack in those days and are now about $11), my habit would, on average, have cost about $1,800 a year. Over 50 years, the magic of compound interest, say at 6%, would increase this to $522,000. (Note, I did not try to time- or price-weight this or use actual interest rates, which during this period went as high as 18 %.). **If we also take into consideration life insurance premiums, the estimated difference in cost between a smoker and non-smoker is roughly $1,000 a year.** That $1,000 invested at 6% would grow to $290,000. The initial $200 invested at 6% would grow to $58,000.

Thus, you could argue that, by investing the $200 bribe as well as the cost of the cigarettes and the additional insurance savings at 6%, this investment could have grown to $870,000— enough to buy a nice home or second property in most communities. It could also provide a comfortable lifetime income, educate your children or provide uncounted trips to exotic places.

The savings expressed here do not take into account the additional costs of smoking: extra dental cleaning, living with the smell of smoke in your home and on your clothes, and potential health expenses — some of which would be personal and some covered by the health care system. Who knows, we might even be dead by now because of our smoking.

I must confess I did not systematically invest this money, however, by stopping smoking we did have more to invest. It also allowed us to spend more on lifestyle costs,j such as a nice home, a second property, travel and most important, our children's education. None of our children smoke and this savings too can be directed toward their lifestyle.

So you can see that a $200 bribe that has grown to $870,000 (and continues to grow with additional benefits) was a great investment. If this simple synopsis is not helpful to you personally because you do not smoke, share the concept with someone who does. Or perhaps you have other regular expenditures that you can eliminate and then invest the savings. You might even try lowering your thermostat by a degree or two this winter and put the energy cost savings into an investment. The outcome could be a healthier environment and a more prosperous retirement.

100 Simcoe Street, Suite 110
Toronto, ON M5H 3G2
Tel.: 416-364-0181
Fax: 416-364-5394
Toll Free: 1-800-665-0181
E-mail: info@eccgroup.ca

The Personal Financial Advisor is published by the ECC Group.

The ECC Group are fee-based financial advisors, and have offices and affiliates in Toronto, Montreal and Vancouver.

The information contained in this letter is obtained from various sources believed to be reliable, but cannot be guaranteed.

Circulation Enquiries: Nicole Harvey

Editorial and Consulting Enquiries: J. Christopher Snyder, CFP, RFP; Ian G. Johnson, CFP, CDFA., Vicki Lungu, CFP

90613 ECC_Q2 Newsletter.indd 8 2016-07-22 11:31 AM