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Money Wise!

CAQ Financial's Quarterly Newsletter

QUADRUS

Quadrus Investment Services Ltd.

Compliments of: Rick Irwin, CFP, CLU
Investment Representative

Outlook

Hopefully everyone had an enjoyable Holiday season this year. It's hard to believe we're welcoming another new year already and what's more…a new decade!

From an investment standpoint, most people will be quite happy to see the '00's resigned to the history book. The first decade of the new millennium produced not one but two major bear markets, one at the beginning of the period and one near the end, and as a result the returns for major world stocks markets over this 10-year time frame have been flat, even with the significant recovery experienced last year. It's no wonder that many investors are frustrated or cynical and recent investment scandals like Bernie Madoff and Earl Jones haven't helped matters.

The good news is that, historically, investment returns following extended periods of weakness tend to be followed by robust returns in the decade that follows. While only time will tell if this bears fruit this time, the best defense you can have is a well–diversified portfolio that offers protection in down markets as well as the ability to capture new opportunities as they appear.

I hope you were able to take some time to set aside the concerns of the financial world and embrace the pleasures of time spent with family and good friends - that is indeed a priceless commodity.

In closing, let me extend best wishes for a healthy, happy, prosperous New Year.

Business Update

As is often the case for small business owners, there have been challenges in trying to build the right team to help me run the business and serve my clients. In light of that, I am disappointed to announce that the assistant I hired in August, Amanda Roy, is no longer with the company, as of October. I enjoyed our short time working together and wish her well in her all future endeavors.

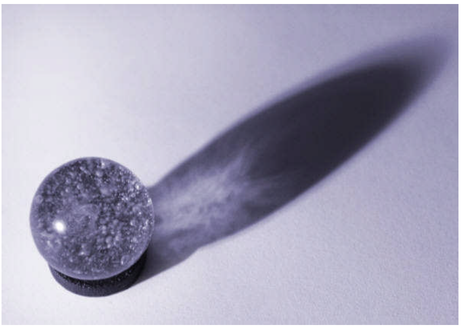
With Elisha still on maternity leave until June, I have had my hands full and I appreciate clients understanding by leaving voicemail, for example if I was unavailable to answer a call. I have tried my best to keep service levels up during this less-than-ideal time frame. In any event, I am certainly looking forward to having more service support in 2010 so I can spend more of my time meeting with clients.

Continuing to try and run the business by myself leading into the very busy RSP season is not a viable option so I have hired a new employee, Amanda Morash, who will join me Jan 11th for a 6-month period. Amanda has 5 years experience in the financial services industry, having worked as an assistant at Scotia MacLeod and Beacon Securities. She has completed the Canadian Securities Course and is very capable of responding to client inquiries and I welcome her to the team!

It is still my goal to grow the company by recruiting like-minded investment representatives and financial security advisors and if I prove successful in this, there is a possibility that Amanda could stay on past the 6-month term as a shared resource within CAQ. In any event, I am happy to have her join me!

One other recent development is my new monthly column, "Greenshoots: Financial strategies to get ahead" which appears in the community newspaper the "Bedford Weekly News". For those outside the Bedford-Sackville region, the articles are also archived on my website. www.caqfinancial.ca.

Words of wisdom revisited



What a difference a year makes! This time last year investors were badly shaken by a series of events that brought about unprecedented turmoil in financial markets. We were in the midst of one of the worst market declines in modern history; indeed of the last 70-80 years. Negative sentiment was ever-present

In the middle of this uncertain time, between Christmas and New Years, I sent out to clients "Words of Wisdom: a mini-manual for survival in difficult financial times" that attempted to put into perspective the events of 2008 into a longer-term context. The manual included various quotes and articles from long-time investors and market historians and offered a different view to the doom-and-gloom that the majority of the media was espousing at the time.

Indeed, as we entered 2009, the financial/economic situation looked quite bleak as we suffered through one of the most severe downturns in recent memory. In fact, despite reassurances like the ones in the mailing I sent, in the first few months of the year the bad news continued unabated, reinforcing the fears and uncertainties of investors everywhere.

Countering the herd mentality, Warren Buffet famously said in October 2008: "If you wait for the robins, spring will be over." Indeed, as spring arrived we started to see some encouraging signs. The stock markets experienced their lows in March but as the days got longer the markets picked themselves up and have generally forged ahead for the balance of the year. In March, the TSX/S&P index reached a low of approximately 7,500 but as of early December had climbed to about 11,400, an increase of more than 50%. Other major markets around the world had similar rebounds, despite the worst recession in decades, bank failures, government bailouts of historic proportions and seemingly endless bad news.

I included in "Words of Wisdom" data from Standard & Poor's that showed that historically, investors have made up 80% of their losses within the first year of a market recovery. You may want to look at your own portfolio and see if that is not indeed the situation. Think of how you may have been feeling this time last year. Indeed, the media was telling us it would be "years" before markets ever retuned to their highs. But, true to history, as we sit here now, less than 10 months from the market bottom, most major markets have recovered close to 80% of their losses.

I also included data from Ned Davis Research that showed that of the past 10 recessions since World War II, the average market return one year after the market bottoms out was 32% (using US data.) While it didn't seem possible at the time, here we are less than a year later and most major markets are 40% higher than the lows.

This recovery of the stock market does not necessarily mean that we are 'out of the woods'. There are certainly weaknesses in certain industry sectors and unemployment is expected to remain stubbornly in the mid 8% range. As well, the US economy is still suffering the effects of the real estate reversal but there is definitely cause for believing that we have put the worst behind us as we move into 2010.

In Canada, there are certainly ongoing encouraging signs. Real estate remains strong, interest rates are expected to remain low for the intermediate future, the net wealth of Canadian households has rebounded and economic growth for 2010 is projected to be over 2%

If you permit me some indulgence, I would like to re-print the closing part of "Words of Wisdom", the part I wrote myself amidst heavy clouds of doubt in the markets almost exactly a year ago.

"It will be interesting to revisit this in 4-5 years time. The markets will no doubt have recovered all of their losses and moved on to new highs, optimism will have replaced pessimism and lessons learned in the current period will be soon forgotten by many. Make sure you always remember how you feel right now, the fear the media has put in you and the loss of faith, perhaps, in financial markets. Know that investors in 1973-1974, and every other period of weakness quite likely felt just as you do now, and the massive turnaround that began in the depths of financial despair and gloom was as unexpected as it was appreciated. Your perseverance in this difficult time should be rewarded."

Now, I don't have a crystal ball: clearly I didn't see this downturn coming, not on the global and mammoth scale that it occurred. But I do take comfort in the lessons that history have taught us about the importance of remaining invested and the amazing ability for markets to recover even deep losses in a short amount of time once cooler heads prevail.

2008-2009 probably did represent the perfect financial storm. But a well-balanced, diversified portfolio should be able to weather any storm. Indeed, you might need to adjust the sails from time to time and you can even lose sight of the horizon for a short while but over the long term we can ride it out together.

Avoiding Probate

As the old saying goes, there's only two certainties in life: death and taxes…and when you die, taxes are once again an issue. Not only are unrealized gains or the full value of registered accounts potentially subject to tax but your estate may have to pay a sizable amount in probate fees.

Probate is the legal process whereby the Court certifies that a Will is valid and acknowledges the authority of the estate representative (executor or administrator) to deal with the estate.

Probate fees, at least in theory, represent the administrative costs incurred in settling an estate. In practice however, they are really taxes since the amount payable is directly related to the estate value. Probate fees vary widely across the country and the provincial laws need to be consulted.

Nova Scotia, for example, has a set fee structure for estates from $10,000 to $100,000 and then a flat fee of 1.48% for estates over $100,000. This means that a $500,000 estate would incur $7,400 in probate fess.

While avoiding probate shouldn't be your underlying investment objective, here are a few simple ways to avoid, or minimize probate:

1. Invest in an RRSP. RRSPs allow an individual to name a spouse as beneficiary and the full value of the account would transfer over tax-free upon the first death. If a person other than a spouse or spousal equivalent is named as a beneficiary the proceeds will flow directly to that person outside of the deceased's estate, without incurring probate fees.
2. Invest in a Tax Free Savings Account. Here you have the option of naming a spouse as successor owner in whereby the surviving spouse just assumes ownership upon the death of the accountholder. Alternatively, the TFSA holder could name a beneficiary and the TFSA proceeds would be paid directly to that person, just like an RRSP or RRIF, without incurring probate fees. Currently, the following provinces/territories allow for the naming of a beneficiary on a TFSA: British Columbia, Alberta, Ontario, Nova Scotia, New Brunswick, PEI, Newfoundland and Labrador, Yukon, and Northwest Territories.

3. Invest in a "Joint" Non Registered account. Designating an account as being held "Joint with Rights of Survivorship" generally allows the assets in that account to flow directly to the survivor upon the death of the first owner without incurring probate. You need to be careful as there are some pitfalls to be aware of, particularly in the case of registering accounts in joint ownership with a parent.

4. Invest in life insurance products. Even in the case of Non-Registered accounts that are held in sole ownership, life insurance investment products like GICs and segregated funds (the life insurance industry's equivalent of mutual funds) are able to bypass probate. Life insurance investment products also offer potential creditor protection and, in some cases, death benefit or maturity guarantees.

5. The use of estate planning tools like Family Trusts allow assets to be transferred to a separate legal entity other than oneself that will carry on after the death of the founding trustee(s). Trusts can be costly to set up an administer but they are a worthwhile option to consider, particularly with larger estates. If you are considering this as an option, you need to seek out legal advice

In the end, we don't want to pay any more than is necessary so do your best to minimize probate fees if it fits into your overall plan.

Green investing

In recent years, there has been an increased emphasis on environmental concerns and now more than ever many Canadians are looking for ways to align their social and economic interests. High oil prices and the questionable supply of fossil fuel resources has prompted exploration of alternative energy sources.

At the same time, the government in the US is seeking ways to reduce the unemployment rate and stimulate new industry. Many signs are pointing to an increased interest in clean technology companies in the years ahead.

Until very recently, there have been very limited options for Canadians to tap directly into green investments. While there are considerable opportunities, picking individual stocks can be dangerous as there will be many companies that never get off the ground.

I'd like to bring your attention to two new funds that offer access to this growing industry: Powershares Global Clean Energy and Powershares Global Water.

Powershares Global Clean Energy invests in stocks around the world engaged in cleaner energy and conservation. This may include solar, wind, hydro and geothermal companies.

Water is truly a precious resource. Powershares Global Water is designed to provide exposure to the overall performance of a portfolio of global companies that focus on the provision of potable water, the treatment of water and the technology and services that are directly related to global water consumption.

If green investing is something that appeals to you, we should look at Powershares.

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A referral is the best compliment that a client can give. Many thanks to all our clients who have referred us over the years!

Home Renovation Tax Credit

Last year, as part of their economic stimulus plan, the government brought into effect, for a limited time, the Home Renovation Tax Credit. I've had a lot of questions as to how this works, so here's a few key points.

Eligible expenses are for expenses or work performed between January 27, 2009 and February 1st, 2010. Agreements for work made prior to January 27, 2009 will not be considered eligible.

The ability to claim the HRTC relates to a family unit so only one credit is allowed per family unit. A family unit is defined as a taxpayer and his/her spouse and children under the age of 18. Although there is only one credit per family unit, it may be shared among the family members.

The HRTC is a non-refundable tax credit. As with most tax credits, the HRTC will be calculated at 15% of eligible expenditures. The maximum credit will be $1,350 and applies to eligible expenses between $1,000 and $10,000. Here is an example:

Jack and Jill incurred expenses of $15,000 renovating their kitchen. They would be allowed a non refundable tax credit of $1,350 or the lesser of the actual expense and $10,000 minus $1,000 times 15% (($10,000 - $1,000) X 15%). Jack and Jill can therefore reduce tax payable by $1,350 assuming they have at least $1,350 in tax payable.

What are 'eligible expenditures'?

Eligible expenditures are alterations or renovations to a building or land that are considered to be of an 'enduring nature' or long term. There is certainly some latitude in this definition but safe to say that replacing a roof or renovating a kitchen would certainly be considered long term whereas the cost of having one's lawn mowed and snow removed would not.

What is considered 'acceptable documentation' to support a claim for the HRTC?

According to the CRA, documentation, such as agreements, invoices, and receipts, must clearly identify the type and quantity of goods purchased or services provided. Receipts or invoices must indicate paid in full or be accompanied by other proof of payment, such as a credit card slip or cancelled cheque.

Note: Documentation does not have to be provided with the tax return but should be kept on file should the CRA ask to see it.

Renovation expenses paid to a non arms-length family member would not be eligible for the HRTC unless the person is properly registered for the Goods and Services Tax/Harmonized Sales Tax under the Excise Sales Act.

There is little doubt that this new tax credit encouraged many Canadians to invest in one of their greatest assets, their primary residence. Just make sure all of your papers are in order at tax time!