

Planning Ahead

THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS



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As the RRSP deadline approaches, it's always a busy time, but in the rush to contribute we mustn't forget the reason for all our efforts to save: our long-term financial security.

Your financial future is about so much more than your RRSP. Have you taken the time lately to think about the larger financial picture, which could include your non-registered portfolio, your insurance plan, and perhaps education savings goals for your children?

Give me a call today — when we meet to discuss your RRSP contribution, we can also take stock of these other important aspects of your financial life.



Insure yourself to protect your RRSP

One of the benefits of having an RRSP is that it can be rolled over into the RRSP of a surviving spouse to continue tax deferral. However, if you do not have a spouse or qualifying beneficiary (such as a dependent child) for your registered plan, income taxes can reduce what's left for your heirs by as much as 50%. Insurance can help to mitigate this.

Here are some insurance strategies for covering taxes and other expenses so your heirs aren't forced to sell off your assets to pay the bills.

Preserving your estate

If you don't have a qualifying beneficiary for your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), you might consider a life insurance policy to cover the taxes.

Life insurance creates an instant, tax-free source of capital at death. Depending on the health and age of the insured, it can cost only a fraction of the potential tax bill. Joint-life policies, which pay out only after the death of the second insured, can be particularly cost-effective.

Added retirement savings

Some life insurance also includes an investment component. Universal life policies, for example, offer a venue for tax-sheltered investment growth in addition to your RRSP.

Consider discussing this topic with your parents as well. They may not be aware of the potential tax implications of their RRSPs or RRIFs. Even if they're in their 60s or 70s, they may still qualify for life insurance at a reasonable price. ■

Consider small-cap funds as we swing into recovery



Small-cap companies are typically among the first to benefit when economic recovery takes hold. Given our current location in the economic cycle, now may be a good time for investors to consider making an allocation to small-cap funds. Here's why.

Historically, small-cap stock performance has beaten large-cap performance during economic recoveries and the two or three years that followed — a pattern that held up in 2009.

Small-, mid- and large-cap labels refer to a stock's "capitalization" — the total market value of the company's outstanding shares. Because Canada's market is small, the mutual fund industry combines small- and mid-cap companies into one category. There are more than 60 small/mid-cap offerings for Canadian mutual and segregated fund investors. These include Canadian, U.S., and global funds.

Why small caps outperform

There are several reasons why small caps tend to thrive during upturns:

- Earnings are usually more volatile than those of large companies. They fall more and then recover faster.
- Small-cap company growth relies more on outside financing, which typically dries up when the economy slows and starts flowing again once the recession bottoms. As with earnings, that means small caps suffer more in the down leg of a recession and gain more during the up leg.
- Smaller companies are more nimble. As the economy improves, it's easier for them to add workers and increase production.

- Energy and materials producers — among the very first to benefit from recovery — comprise about half of Canada's small/mid-cap market, based on the BMO Nesbitt Burns Small Cap Index. Another big beneficiary — the consumer discretionary sector — represents almost 10%.

- Corporate takeovers virtually halt during a recession and then pick up quickly during recovery. Small-cap companies are prime candidates.

The diversification that mutual funds provide can help mitigate their downside risk.

Maintain perspective

Small caps may shine during recoveries, but typically suffer more during downturns. And, being less liquid, they tend to be more volatile throughout the whole economic cycle. So it's important to base small-cap portfolio exposure on both your risk tolerance and the economic outlook.

Consider too that while recovery is likely under way, many analysts fear another downturn is possible.

Benefit from active management

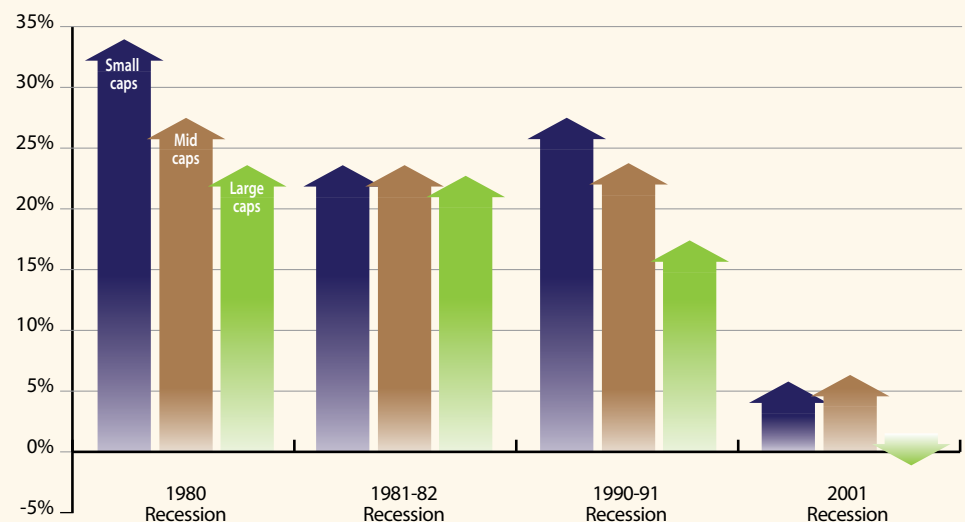
Information is critical for successful small-cap investing. These companies get significantly less coverage from stock analysts and the media. Professional small-cap fund managers have the specialized knowledge and the access to company executives that's needed to identify good prospects.

Disciplined analysis is also important, since heavily concentrated product lines make these companies more vulnerable to social and economic changes. Small-cap stocks are less liquid, so skilled trading pays off. And funds reduce risk by holding a diversified mix of companies in different sectors.

Professional advice can help determine whether small-cap mutual funds would be an appropriate addition to your portfolio. ■

Leading the recovery, again and again

Small caps and mid caps outperformed large caps after all four of the past recessions.



Source: Morningstar, Inc. Returns shown are compound annual growth rates for the small-cap Russell 2000 Index, the Russell Mid Cap Index, and the large-cap Russell 1000 Index, three years after each recession's mid point.

FINANCIAL PLANNING

Reminder: more TFSA room

The new year brings another \$5,000 in contribution room for your tax-free savings account (TFSA). Suppose you put in only \$3,000 last year. The unused \$2,000 is added to this year's \$5,000 for total room of \$7,000. If you withdrew money last year, you can now replace it without affecting this limit. Talk to me about your TFSA goals, and I can help you with strategies for reaching them. ■



TAX PLANNING

Home reno tax credit: Your time is almost up

You have until February 1 to take advantage of the temporary Home Renovation Tax Credit announced in last year's federal budget. The measure was aimed at combating the recession and covers home improvement spending from January 28, 2009, through January 31 this year. Providing the purchase of goods and services totals more than \$1,000, there's a 15% federal income tax credit. Spend \$10,000 in all and you qualify for the maximum \$1,350 credit. Note that routine maintenance and repairs don't qualify. ■



TAX PLANNING

RRSP beneficiaries now have loss provision

The federal government has made a long-overdue fairness change in the rules for taxing an RRSP or RRIF after the planholder's death. The change concerns what happens if the plan loses money while waiting to be distributed. Previously, losses were ignored, even though gains were taxed. Now, losses can be carried back to reduce the plan's taxable value at the date of death, saving the estate money. This applies to RRSP/RRIF distributions starting in 2009. ■



FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Net worth

Your net worth can be a useful tool for tracking the progress in your financial life from year to year, and getting an evolving picture of your true wealth.

What it is

Net worth measures your true wealth at a specific point in time; it's most useful when you compare it to your net worth from another year.

How it works

January is an ideal time to take stock of your net worth as you'll have year-end financial statements on hand. You and I can arrive at the figure together by calculating the difference between the total assets you own and the total debts you owe.

Why it matters

This document is a powerful way to track progress toward your financial goals. Comparing one year to the next relates your actual growth in wealth to what your financial plan assumed. By looking at your net worth, you not only gain an important indicator of your financial progress, you also have a useful tool for identifying areas where you could potentially save: for example, reducing administrative fees and interest costs by consolidating accounts or loans. We can also identify sectors where you may be too concentrated, and we can see if you can afford to reduce — or raise — your portfolio's risk level.

Protect family finances from critical illness

As you get closer to retirement, the odds of developing a serious illness increase. Fortunately, advances in medicine mean that you are more likely to survive and recover than previously.

But many people overlook the unexpected expenses associated with a critical illness. Suppose you suffered a stroke that left you unable to work. You have disability insurance, but the payments won't start for another four months. Do you have an emergency fund to look after your family's immediate financial needs? What about paying for a therapist to help you recover as soon as possible?

This is where critical illness insurance can play a role.

A different kind of insurance

Critical illness coverage is a special type of insurance that pays a tax-free lump sum benefit 30 days after diagnosis of, or surgery for, any of approximately 12 major illnesses. Keep in mind that only specified illnesses are covered.

The policy you choose may cover ailments such as cancer, heart attack, stroke, coronary bypass surgery, blindness, deafness, multiple sclerosis, and paralysis.

Since heart disease and cancer are diseases of aging, these illnesses are more likely to appear after age 65. Disability coverage generally stops by then, but critical illness insurance can go to age 100.

The payment of critical illness insurance benefits is not related to your ability to work, as is the case with disability insurance. You can be eligible for critical

illness coverage even if you don't work, don't have an income, and therefore aren't entitled to disability insurance.

As an employee, if, after a diagnosis, you return to work and therefore become ineligible for disability benefits, you will generally still be entitled to the critical illness lump sum.

Complementary role

Critical illness insurance is not intended to replace disability insurance, but it can work with it.

Disability insurance payments usually don't start right away, even though benefits may extend for many years. Some plans have a 90-day or 120-day waiting period before payments begin. Critical illness insurance is designed to meet large, short-term financial needs, filling the gap until disability benefits begin.

Some critical illness insurance policies will refund premiums to a named beneficiary if you die without having received plan benefits.

Choose the right coverage

There's significant variation in prices, terms, periods of coverage, and age limits. Compare policies and coverage carefully and make sure you understand what you're getting.

Professional advice can help you design a comprehensive insurance package to provide income, cover extra costs, and still allow your family to build toward important savings goals. ■

Is your stay-at-home spouse properly covered?

IN SOME FAMILIES with young children, one parent may decide to leave a job permanently to raise children full time. The decision to stay at home often means leaving behind employer-sponsored life, disability, and other insurance.

But it's important for stay-at-home parents to retain life and other types of insurance that reflect the true value of their contribution to the household.

Here's a checklist of items that a surviving spouse might have to start paying for:

Child care. Your children may require daycare, which for a preschooler can cost \$8,000 or more per year. A full-time nanny will cost \$40,000 a year or more.

Housework. A housekeeper who comes by once a week can cost \$5,000 and up for a year.

Income replacement. The surviving parent will have more responsibilities and may be unable to commit the same amount of time to work, suffering income loss as a result.

Household maintenance. A repairperson would typically charge \$40 to \$50 per hour, and more for professional tradespeople.

Immediate needs. These might include estate settlement costs, tax liabilities, and outstanding debts, all of which could easily drain cash resources.

Professional guidance can help you assess the value of unpaid services, so you can protect your family and meet financial goals. ■

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