TD Wealth

Return On Investment

TD Wealth Private Investment Advice

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In this issue

Financial Resolutions for 2015

As part of your New Year's resolutions, are you taking care of the financial health of you and your loved ones? The following ideas may seem basic, but they can be a good starting point to help investors maintain strong financial habits.

1. Review your investment and wealth plan. This doesn't necessarily mean that major changes are needed. Sometimes, there may be value in rebalancing a portfolio to return its asset allocation to the desired level. Or, adjustments may be required if personal circumstances have changed. Remember to have confidence in your plan. Resolve to keep your emotions in check to help overcome the periods of volatility that may be encountered in the year ahead.

2. Maximize savings plans. Consider contributing as much as possible to a registered Retirement Savings Plan (RSP) to defer taxes or a Tax-Free Savings Account (TFSA) for tax-free growth. As of Jan. 1, 2015, an additional $5,500 can be contributed to the TFSA.

3. Update your will and representation agreement/power of attorney. We recommend revisiting your will every three to five years or more often if a major life event has taken place. Beyond the basics, in-depth estate planning can help to achieve a variety of benefits, such as helping to minimize the cost of transferring assets to beneficiaries, simplify estate administration to ease family strain or preserve assets like a family cottage/cabin.

4. Look for ways to minimize your 2015 taxes. Saving tax is a year-round exercise. This may include planning with your spouse or common-law partner to take advantage of income-splitting opportunities or revisiting the way your investment and income assets are structured across accounts. Start early and plan ahead to help reduce your tax bill for 2015.

5. Consider insurance. Insurance today is as much about life as death. Critical illness or disability insurance may play an important role in financial planning. For estate planning, insurance may be helpful to offset taxes in respect of capital gains that may arise upon death on certain investments you hold or to leave a legacy by providing a tax-effective bequest to your favourite charity.

6. Contribute to an education fund. Education costs continue to rise and if you have children or grandchildren who will undertake post-secondary studies, consider supporting them. Take advantage of the grants that are provided by the Canadian government that can potentially contribute up to an additional $7,200 towards the education fund.

7. "Pay it forward." If you have disciplined financial habits, why not pass along some of this wisdom to the next generation? Teach kids about the pitfalls of debt and the value of time and compounding when saving for the future. Instilling good financial values in the younger generation early can help to make a difference for them in the long run.

Staying Current

Proposed Tax Changes for Families with Children

Tax cuts often signal that an election is on the horizon and recently announced federal government tax changes are no exception. In the last quarter of 2014, the federal government announced proposed new tax relief and benefits for families with children under the age of 18.

New: "Family Tax Cut" – Income Splitting — The Family Tax Cut proposes to provide a maximum benefit of up to $2,000 for couples in which one spouse is in a different marginal tax bracket than the other. Couples would be allowed to income-split up to $50,000 of household income for the purposes of determining their federal taxes owed. This tax cut would provide the greatest benefit to two-spouse families in which one spouse has a significantly lower income than the other. This benefit would apply for the 2014 and subsequent taxation years.

Enhanced Universal Child Care Benefit (UCCB) — The current UCCB provides a taxable payment of $100 per month (up to $1,200 per year) for each child under the age of six. As of January 1, 2015, the federal government proposes to increase this benefit to $160 per month, resulting in a taxable benefit in the form of a monthly payment totalling up to $1,920 per year for each child under the age of six. In addition, the federal government proposes a benefit of $60 per month for children ages six through 17, amounting to up to $720 per year.

The government expects that the new payments will be reflected (retroactively) to recipients in July 2015. The enhanced UCCB would replace the current Canada Child Tax Credit for the 2015 and subsequent taxation years.

Child Care Expense Deduction Increase — The Child Care Expense Deduction allows a parent to deduct child-care expenses from employment or business income (or if the parent is pursuing eligible education or research activities).

Effective for the 2015 and following taxation years, the government proposes to increase the maximum amount that can be claimed by $1,000. For each child under the age of seven, the maximum amount increases to $8,000, and for each child ages seven through 16, the maximum amount increases to $5,000. For children eligible for the Disability Tax Credit, the proposed increase is $1,000.

For a parent paying tax at the top federal rate, an additional $1,000 deduction potentially yields $290 in tax savings.

Higher Children's Fitness Tax Credit — The Children's Fitness Tax Credit would double in value, from $500 to $1,000, effective for the 2014 taxation year. Also as of January 1, 2015, it would become a refundable credit for lower-income families.

For More Information

Details on these and other proposed tax changes can be found on the Government of Canada budget website: www.budget.gc.ca. An accountant can help you determine if these tax changes will impact your financial situation.

Working Hours

World's Billionaires: How Hard Do You Work?

Do you aspire to be a billionaire? Perhaps you aren't working hard enough! The old saying "time is money" certainly rings true when it comes to how hard the world's richest are working.

Forbes Magazine recently asked some of the world's billionaires how many hours per week they worked. About 30 percent of the billionaires surveyed said that they worked more than 60 hours per week. Another 30 percent said that they worked around 60 hours per week.

The majority of the individuals who made the Forbes billionaires list — about 66 percent — were self-made, so it shouldn't be surprising to see that many of those surveyed work very long hours.

How do these working hours compare to those of the average Canadian?

According to the OECD, the average Canadian works 1,706 hours per year, which equates to only about 34 hours per week (assuming a 50-week work year). And, the average Canadian's working hours have generally been decreasing over the past 25 years. In 1990, Canadians worked an average of 1,796 hours per year, so we are actually working five percent less than we used to!

How hard are you working?

Source: Forbes Magazine, "Desk Set", August 18, 2014. Survey of 50 billionaires. Organisation for Economic Co-Operation and Development (OECD), "Average annual hours actually worked per worker", as reported for 2013 year. www.stats.oecd.org.

Estate Planning

The Benefits of Engaging an Estate Planning Specialist

Many of us have taken the first steps in estate planning by preparing a will and appointing a representative/attorney. This is a great starting point, but for most people, effective estate planning can go much further than just having these two directives.

Various situations can make estate planning more complex, including owning a family business or family property, and navigating a complicated family structure. Here are some situations in which the advice of a specialist may be useful.

Passing Along the Family Cottage/Cabin — Often a family cottage/cabin will have appreciated in value over time and capital gains taxes will be due upon death and transfer of the property to a non-spouse (or non-common-law partner). In situations in which there may not be sufficient liquid assets to cover the taxes, some families have been forced to sell the property. By planning ahead, steps can be taken with the goal of keeping property within the family for years to come. This can include the use of life insurance to cover any potential taxes.

Continuity for the Family Business — If a family business is passed on to the next generation in which there are multiple children with varying involvement, proper estate planning may be beneficial. If shares of the business are distributed equally between involved and uninvolved children, conflict may arise over how much is being paid in salaries or how much is distributed as dividends. Not only can this cause family strain, but it can potentially jeopardize the business's future. To help achieve "estate equalization," one solution may be to pass along the business to the involved children and set up a life insurance policy with a death benefit equivalent to the value of the shares of the business to fund the inheritance of those not involved.

Maintaining Privacy — Many individuals wish to keep the finances of their family private. A will may be subject to probate, which creates a publicly available record of the deceased's assets and their value. By using a trust for estate planning purposes, probate can be bypassed for those assets within the trust. Trusts may also provide benefits beyond privacy protection.

These are only a handful of situations in which proper estate planning can make a difference. The list (inset) outlines other potential benefits, noting that each personal situation may vary. We would be happy to connect you with a specialist who can assist with your particular situation.

Benefits of Effective Estate Planning

- Minimize the cost of transferring assets to beneficiaries, potentially reducing taxes or probate fees
- Provide correct (and updated) documentation to help facilitate a quicker transfer of assets to beneficiaries
- Protect minors and/or those who may need or prefer guidance in managing their finances or distributing funds
- Simplify the administration of the estate to ease the strain on your family
- Promote an open conversation about your estate with beneficiaries
- Manage complexities that may arise with assets that are located in different provinces or countries
- Support a favourite cause or charity to create a lasting legacy
- Help to prevent assets from going to unwanted individuals

Reminders: TFSAs and RSPs

Tax-Free Savings Account (TFSA) — The 2015 annual contribution limit to your TFSA is $5,500. For eligible Canadian residents who have not made any contributions since the program was established in 2009, the total available contribution room as of January 1, 2015 is $36,500.

Registered Retirement Savings Plan (RSP) — The deadline for 2014 tax year RSP contributions is Monday, March 2, 2015.

If you require assistance with your TFSA or RSP accounts, please do not hesitate to call.

Managed Funds: The Due Diligence Process

Managed funds continue to be an important part of our clients' portfolios. One of the questions that we are frequently asked is how we pick the investment managers and mutual funds that we recommend. After all, there are more managed funds available today than ever before.

The due diligence process is one of the more important aspects of our role as investment advisors. The objective of selecting future high performers requires ongoing analysis and an understanding of both qualitative and quantitative factors that drive performance.

Past Performance Isn't a Predictor of Future Performance

Our due diligence process is not based simply on the past performance of a fund. It's human nature to want to gravitate towards funds that have demonstrated superior returns as there is an expectation that this performance will continue into the future. Additionally, the average investor may not have the appropriate resources or time to conduct an in-depth analysis so past performance can end up being the only basis for an investment decision.

But research has shown that past performance is not necessarily indicative of future performance.

What We Look For

We look beyond historical results to understand how strong performance was generated to predict future outperformance. Based on research and experience, here are some best practices that we may use to assess a fund or investment manager:

Organization — Profitable and stable investment firms with diverse revenue sources and low leverage that have appropriate incentives in place for the investment team and provide investment autonomy.

Investment Staff — A team of passionate, curious individuals with complementary investing skill sets, having a strong work ethic and the temperament to act on their conviction and learn from their mistakes.

Decision-Making — An identifiable and accountable decision-maker and a process allowing decisions to be made in a timely matter.

Idea Generation — A broad source of ideas and a focus on unusual and unique insights that are continuously screened and tested.

Security Selection — Security selection reflects the investment manager's best ideas and is consistent with the fund's investment philosophy.

Sell Discipline — When making changes to the fund, the investment manager adheres to pre-defined sell triggers that align with the fund's investment philosophy. Sell triggers include better ideas replacing marginal ones, full value being reached or a change in the investing rationale.

Research — Strong analysis, not just data generation, with unique and proprietary insight that supports the investing approach of the fund.

Risk Position — An understanding of the risks associated with the benchmark index that is used by the fund for comparative performance; however, performance shouldn't mirror the benchmark used.

We would be happy to discuss any aspects of our due diligence process or answer any other questions about investment management. We are always here to provide support so please don't hesitate to call.

With the Compliments of:

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