

# Money Wise!

CAQ Financial's Quarterly Newsletter



# QUADRUS

Quadrus Investment Services Ltd.

*Compliments of: Rick Irwin, CFP, CLU  
Investment Representative*

## Markets at a glance

### Special points of interest:

- Market Commentary
- Charitable Giving
- Holiday Traditions
- Fiscal Cliff



Looking back at 2012, it has been a largely positive year for both stock and bond markets around the world.

As satisfying as it is to see the upward movement, there were plenty of twists and turns along the way. Stocks started the year on a strong foot, led by the US. The positive momentum didn't last long, as nervousness around European government debt and slowing economic growth in the US and China sent things south in the spring. Sentiment didn't really improve until mid-to-late summer when central bankers around the world committed themselves to injecting massive amounts of money into their economies. Stocks, once again, reversed course and moved higher

Looking forward after a fairly volatile year, we can see that many clouds remain on the hori-

zon. The biggest is perhaps the still-fragile euro zone

So what do we take away from the year that was?

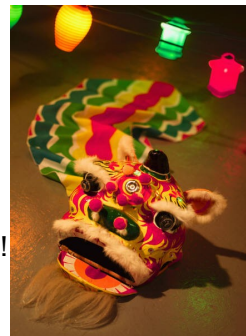
In my view, there are two important points. The first lies in the wisdom of a diversified portfolio. This means holding a mix of investments that perform well at different stages of the economic cycle; stocks, bonds and hard assets. Within stocks it is still important to diversify by geography; after a long run out of performance by Canada, the US market has been notably stronger, for example, for two years in a row. And despite the issues in the fragile Euro zone, there were a few positive surprises from countries like Germany and France.

The make up of the Canada Pension Plan is a case in point. As for June 2012, it had about one-thirds of its total holdings in bonds, over 40% in foreign stocks and just under 20% in

hard assets (primarily real estate and infrastructure). Perhaps surprisingly, it only had 9% invested in Canadian stocks. This is a reflection of the CPP Investment Board's view on the optimal risk-return trade offs in the current investment landscape, and a good reminder of the need for proper diversification.

The second important point can be drawn from the many ups and downs we witnessed in 2012. As unnerving as they can be, it's important to remind yourself that markets do tend to rise over time - it's just not in a straight line.

Once again, I wish you all the best and thank you for placing your trust in me. Best wishes to you and your loved ones and here's to a prosperous and happy 2013!



## TFSA 2013 Contribution

The government recently announced, as expected, an increase to the 2013 Tax-Free Savings Contribution limit; to \$5,500. This is an increase of \$500 over previous years. This increase was a result of guidelines established when the TFSA was first introduced in 2009.

At that time it was agreed the limit would be increased by inflation using CPI data, rounded to the nearest \$500. Unused contribution room is carried forward and will continue to accumulate for future years. This is one of the best savings vehicles for Canadians & any increases are most welcome!

Accumulate Access  
**Tax-free earnings**  
Tax-free withdrawals  
Savings Flexible  
Stability

## The Growth of Charitable Giving in Canada



Charitable giving has become increasingly popular in Canada within the last decade. Many people are unsure of what a planned gift is and how it can fit into their financial plan. If there is a charity or foundation that has a special place in your heart and you have an interest in off-setting current or future tax obligations planned giving using life insurance is a strategy that can work for you.

Charitable giving in Canada has increased for many reasons: cutbacks have occurred in government funding to charities, there are more opportunities to increase donations while living and people are realizing that the opportunity to create a lasting legacy without reducing the estate available to heirs or jeopardizing their future financial independence.

With the cutbacks in government funding, charities have become more aggressive in their marketing attempts to replace this income and are looking for stable funding over the long term.

There are several ways to make a donation and different things to consider for each option. Some of the more common options are highlighted below:

### Regular Donations:

- Convenience is usually the reason why this method is chosen and why it's the most popular method for most people.
- Making regular donations allows for an annual tax receipt.
- Money is given to the charity today, not tomorrow.

- Contribution frequency can be made at the choice of the donor.
- The amount donated can fluctuate at the donor's discretion.
- The amount given to a charity in the end only equals the amount put in.
- Charity gets cash every year that the donor wishes to donate.

### Leaving a gift In your will

- There is no cost to include a charitable gift at death through a will, making this an attractive option as well.
- The assets remain available to the donor while alive.
- There is no tax relief while alive and without care, it can be contested by heirs.
- There may not be enough in the estate to make a meaningful gift and because it's part of the estate, it's subject to probate fees and creditors.
- Bequests of property in your will may take a burden on the charity. For example, a charity may leave some income-producing property to a charitable organization. This may involve troublesome management aspects, the collection of rent, the maintenance of property, etc.

### Planned giving using life insurance:

- The 2000 Federal budget allowed charities to be named beneficiaries under a life insurance policy that is owned by the donor. As a result donors have more options on how to structure their donations using life insurance:
1. Donors can get annual tax receipts

on premiums if they have the charity own the policy and also have the charity set up as beneficiary of the policy.

2. Donors can get a tax receipt calculated from the death benefit in the year of death if they own the life insurance policy and name the charity as the beneficiary.
  - Either way, the life insurance proceeds aren't part of the estate and there are no probate taxes and creditor claims on this amount .
  - Charity gets life insurance proceeds when the donor passes away—which can be a substantially larger donation than if the donor gave cash each year.
  - At death of the donor, there is no delay of payment as the life insurance proceeds are paid at once and in cash. A bequest created by a will, in contrast, may not be settled for a considerable period of time.
  - Consult with either Rick or myself on the best way to structure your planned gift using life insurance as it does depend on several factors

- Melissa

*All comments related to taxation are general in nature and are based on current Canadian tax legislation for Canadian residents, which is subject to change.*

*This information is provided by the Great-West Life Assurance Company*

## Fiscal Cliff update

The US election was barely over before we starting hearing media talk about the (scary-sounding) "fiscal cliff." The fiscal cliff refers to the fact that the Bush-era tax cuts for the wealthy are due to expire next year, at the same time that the automatic spending cuts (made the last time the government failed to reach a deal on the raising of the debt ceiling) are due to happen simultaneously in the New Year. The worry is that if both these things come to pass at the same time it could, theoretically, push the US back into a recession.

The US is indeed massively in debt and has a long way to go to work through the problems of government finance. The solutions will take years and it will mean weaker growth in many areas touched by government spending. The general feeling from the fund managers I have spoken with or heard from is that the government will reach a deal sooner than later and avoid

falling over the proverbial cliff.

To get there, the Republicans will have to give in and allow some form of tax increases, and we are seeing some willingness there for the first time, and the Democrats will have to give up some on their side to reach the deal; primarily on spending cuts to social programs.

Despite the deep political divide we have seen over the past few years, it's very likely, given what is at stake, that the two sides will work together towards a solution. What is most likely is a compromise that has a more measured level of spending cuts than what is on the table now and that many of the tax cuts will be preserved, though not for the very wealthy.

That said, political fumbling on the fiscal cliff issues would have negative consequences and is by far is the nearest term risk to the markets and the reason for the post-election sell-off. But the managers I have spoken

to universally feel that the fiscal cliff will be avoided and will result in a surprise upside as markets are basically pricing in a likelihood of status quo (political gridlock) and another other than that would result in a big swing up, say 5-10% if its a decisive conclusion.

My feeling is that we will come through this current "crisis" well and I don't see a big downside for the US market as being a high probability. In fact, I see it as a very low probability actually and the fundamentals for US stocks, those that are global in nature, are extremely solid and it's likely US stocks will be one of the best performing asset classes in 2013, given the insatiable demand for US brand-name goods all over the developing world. In fact many managers, even of Canadian funds, have brought their US content up to maximum levels in anticipation o strong markets in the US this year, once the fiscal cliff is resolved.

-Rick

## Holiday Traditions

Well I guess my children should be glad we don't live in Austria! There, a Christmas tradition is that Santa's evil twin, Krampus, visits misbehaving children delivering coal, or even whacking particularly naughty children with sticks! Throughout the country, men dress in terrifying costumes on Christmas Eve acting as the Anti-Santa. Well, my kids are pretty good so they don't need to fear Krampus I suppose but that's a pretty scary tradition if you ask me!

This year my wife started what we hope will be an annual tradition;

"random acts of kindness" where she and my son went around the HRM dropping off clothing and toys for needy children or worthy charities, and surprising complete strangers by buying them lunch as well as other light hearted gestures of goodwill.

The Holidays are a time to be with friends and family; eat, drink and be merry. But also to reflect on how fortunate we are and on others that are not so fortunate.

Whatever your family traditions may be we hope you have a most



enjoyable Holiday season and we wish you all the best for 2013! And beware Krampus on the 24th if you haven't been good all year! -Rick :)





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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 past year!*

## New Year's Resolutions?!

Well it's a New Year and some of you may have spent a little too much over the holidays! It tends to happen every year to the best of us no matter how many times we swear we will stay on budget. The fact is life is expensive but wonderful at the same time:)

Try creating a cash flow plan for 2013. If you have a spouse, create it with them as I cannot stress how important it is that you are both on the same page. In most households there is one spender and the other person has no clue on what is going on with the finances. We see it all of the time. I know many of you are excellent savers, but some of you reading this may need a little help.

Write down what you're spending and you will quickly see how much simple things add up too.

My family and I have decided to set 2 financial goals for 2013:

1.) Cash in recyclables all year and see what they add up too. We always put them to the curb but my son just joined hockey and we had to collect them for a fundraiser and we realized how much money we are actually putting on our curb weekly!

2.) My husband and I are going to treat ourselves once a week to a Starbucks or Timmie's coffee vs. every day of the week. We figured out that we each spend \$2.00 a day on coffee once a day 6 days a week which turns out to be \$1,246 a year in Tim Horton's coffee. Plus this doesn't include all

of the order :)

It's as simple as that and I honestly hope we can stick to it. At the end of the year we will decide as a family to spend the money on something fun for the family or to perhaps add it to our children's education fund or something similar.

Perhaps you and your family can create similar resolutions. We all make them....I rarely stick to them as it's always been lose 10 pounds:) But this time I think we can do it and perhaps the 10 pounds will come too, ha!

Cheers, Melissa



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