

Well-Advised



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This is a time of year when you might be finalizing plans for a vacation, a family visit, or just making the best of these longer days of summer.

Mid-year is also a great time for us to take an opportunity to review your progress on financial and investment plans to ensure that everything remains on track and is properly aligned with any changing goals.

We're always happy to help you if you have any questions about your plans or if the articles in this publication spark any ideas you would like to discuss.

Received an inheritance? Take time to plan how to use it



Today's baby boomers are a part of the largest transfer of wealth ever between generations. If you've received an inheritance, or any other large amount of money, it's important to know a few basic principles.

To begin, take the time to plan. And, remember, you don't have to do this alone. The first step to using your inheritance wisely is to engage some professional advice. We're here to help.

Establish your priorities

While developing your plan, consider parking the money where it will earn income and is accessible, such as a money market fund.

For most people, the first priorities to address are high-interest debts, such as credit card balances and unsecured personal loans. You may also want to consider paying down your mortgage.

Next, decide what you want to do with the rest of the money. This can include investing a modest or substantial portion of it, depending on your needs. You may

want to save for retirement, buy a home or vacation property, or spend it on a treat, such as a trip. You may also want to make a large charitable donation to a cause that you are passionate about.

In addition, it's important to determine whether you want to take on more risk in your portfolio for higher potential returns or shift from capital accumulation to capital preservation.

Don't forget tax

To minimize taxation on investment earnings, consider catching up on unused contribution room in your registered plans and exploring tax-effective non-registered investments and insurance-based solutions.

You may need to update your own estate plan in light of its greater value, such as adjusting your will or purchasing life insurance to cover the increased tax liability upon your death.

We're here to help you with any financial change, ensuring that your plan meets your unique needs and goals. ■

A TFSA can help you do more than save taxes



When the Tax-Free Savings Account (TFSA) was introduced for the 2009 tax year, investors and the investment community were only getting familiar with the benefits of this new savings tool. With time, strategies and ideas have emerged to help investors take full advantage of the TFSA to suit individual needs and goals. Here are six ideas to consider.

Plan for your retirement

To take advantage of the tax-free investment growth offered by the TFSA and tax-deferred investment growth through your Registered Retirement Savings Plans, consider contributing to both.

Boost your retirement income

If you are retired and have more income than you require for your lifestyle needs, you can invest your annual minimum withdrawal from your Registered Retirement Income Fund (RRIF) in a TFSA. You'll benefit from tax-free growth and you can withdraw it later, tax-free, for future retirement needs.

Conversely, you could also supplement your RRIF payments and other

retirement income with tax-free withdrawals from your TFSA.

Max out savings as a couple

The spouse with the higher income can gift funds to the other spouse to put in his or her own TFSA. If you as a couple can contribute the maximum to both of your TFSAs in a year, you won't be taxed on any of its investment growth.

Save for your child's education

Contributing to a Registered Education Savings Plan (RESP) is key for saving for your kids' education in order to receive the maximum Canada Education Savings Grant (CESG). To supplement these savings, add to your own TFSA to be used for your child's education. You benefit from tax-free growth, tax-free withdrawals, and increased flexibility, as the money won't have any of the restrictions that an RESP does.

Once a child reaches 18, he or she is no longer eligible for the CESG. At that point, you could gift funds to your child to invest in his or her own TFSA.

Leave a legacy

You can also take advantage of estate planning benefits through your TFSA.

Leaving funds to your spouse or partner. You can name your spouse or common-law partner as successor account holder. The fair market value of your TFSA goes to your spouse's TFSA tax-free and does not affect your spouse's contribution room in any way.

Leaving funds to a beneficiary. If you are leaving your TFSA holdings to a child or another person, name them as beneficiary. The TFSA funds do not pass through your estate, so there are no probate costs. Note, however, that these beneficiaries can only put the funds into their own TFSAs if they have contribution room. Current rules in all provinces and territories except Quebec allow you to designate a TFSA beneficiary.

Gifting funds during your lifetime. You can withdraw funds tax-free from your TFSA and give the amounts to loved

To supplement RESP savings for a child's education, add to your own TFSA — the money won't have any of the restrictions that an RESP does.

ones, which they may hold in their TFSA, provided they have contribution room.

Save for short-term goals

If you're saving for a vacation, a car, or home renovations, why put money aside in an account where income is taxable, or use a line of credit where you pay interest? You can save in your TFSA and make withdrawals in a tax-free environment.

We'll be happy to talk with you about any strategies that may apply to your own needs and goals. ■

When interest rates rise, should you take action?

With interest rates expected to rise after a long period of record lows, you may be wondering how your portfolio might be affected. Rising interest rates do influence investments and can affect each asset class in different ways.

Here are some of the typical impacts of rising rates, opportunities they could present, and actions to consider.

Interest-generating investments

As rates rise, so does the interest generated by GICs, money market funds, and other interest-generating vehicles. Investors who have reason to park money in cash will be further ahead than they have been in the recent past. If rates rise significantly — though currently they are not expected to — this asset class can become more than a parking spot; conservative-minded investors may choose money markets as a desirable asset class in a well-diversified portfolio.

Bonds and bond funds

In the bond market, when interest rates rise, bond prices fall. This principle won't affect you if you own an actual bond and hold it to maturity. But if you invest in a bond fund, your potential returns will generally be lower than when interest rates are falling.

Long-term bonds are more vulnerable to rising rates; shorter-term bonds hold more of their value.

What do you do? Sell your bond holdings and re-allocate? Switch long-term bond holdings to shorter-term bonds? Stay invested for healthy returns over the long term?

Invest in a diversified bond fund positioned for any interest-rate environment?

For many investors, maintaining your desired allocation to bonds may offer the most advantages. For example, bonds can help you weather the storm during periods of volatility, when they traditionally perform better than stocks.

Equities

Many analysts believe that the effect today of interest-rate increases on the stock market will be positive — a strong sign that the economy has recovered.

A number of sectors and individual companies typically perform very well in a rising-rate environment. In Canada, during the six-month period following an initial rate increase, such strong sectors historically have included consumer durables, transportation, telecom services, and chemicals, which fund managers may choose to favour.

At other times in history, rising rates

may pose a challenge for the stock market. It's more expensive for companies to borrow money to expand their business, leading to slower growth and reduced profit.

Should you take action?

So, what should you do with your portfolio when interest rates are expected to rise? One option is do nothing. A well-diversified portfolio based on your individual time horizon, investment goals, and risk tolerance is designed to benefit from the investment opportunities that interest-rate changes present while defending against their challenges.

More active or aggressive investors, however, may wish to adjust their holdings according to different interest-rate environments.

Let's talk about how your investments are positioned in light of this period of potentially rising rates. ■

Rising rates and bonds: Time to worry?

When interest rates rise, bond prices fall; when interest rates fall, bond prices rise. Is this something you need to worry about?

Imagine you buy a bond today that promises a fixed payment reflecting today's interest rates. One month from now, interest rates rise: New bonds reflect the higher rates, providing a fixed payment that's higher than the bond you have on hand. If you try to sell your bond on the open market, it will be worth less than what you paid because its payment stream is lower than what is now available. Interest rates have increased, so the value of your bond has decreased.



Of course, the same principle holds true if a month from now interest rates fall. New bonds would reflect lower rates and offer a lower fixed-payment stream. By comparison, your bond on hand would have a higher value as it pays a higher income stream.

However, if you hold your bond until it matures, worrying about the impact of interest rates on its price or market value is unnecessary. Changes in interest rates will only affect you if you try to sell the bond.

Use universal life insurance for a tax-advantaged inheritance

It is said there are two certainties in life: death and taxes. And when it comes to leaving a legacy, the first certainty inevitably leads to the other — taxes. When you pass away, your non-registered investments endure a “deemed disposition,” which means, for tax purposes, they’re considered sold. Your estate will have to pay tax on the capital gains.

To transfer a legacy to the next generation in a highly tax-efficient manner — and build tax-deferred savings for your retirement — consider universal life insurance.

Tax-sheltered growth

A universal life insurance policy offers both tax-effective investing and a tax-free death benefit because it has two components: life insurance and an investment account.

Funds are applied to a life insurance policy, and contributions over and above your policy payments are put into an investment component, where your investments grow tax-deferred. And when the time comes, the death benefit is paid to your heirs tax-free.

The growth of your funds will depend on which investments you choose and your asset allocation. You have a wide range of investment options, including guaranteed investments, mutual funds, and domestic and foreign index investments.

Estate planning benefits

As with any life insurance policy, universal life offers an attractive death benefit in that it creates an instant legacy as soon as the policy is opened. What makes universal life even more effective is that the investment portion can be included



in the death benefit. The entire amount — the face value of the policy as well as the investment portion — can go to your heirs directly. They receive the tax-free inheritance without worrying about extended delays that can be involved in settling an estate.

For example, say that an individual deposits \$25,000 each year for 10 years into a universal life insurance policy with a \$500,000 death benefit. If the investor passes away prematurely — anytime after paying the first premium — his or her beneficiaries could receive \$500,000 plus accumulated investments tax-free.

Investing in a universal life insurance policy is a key estate planning strategy for those who have extra funds that they would like to see grow in a tax-deferred (for use during your lifetime) or tax-free (for your heirs) environment.

We can help you determine whether universal life insurance is an appropriate option for your estate plan. ■

Protect yourself against identity theft online

The Canadian Anti-Fraud Centre reports that Canadians lost almost \$11 million to identity theft in 2009. According to the Centre, identity thieves routinely use the Internet to find the personal information they need to make fraudulent credit card purchases, bank account withdrawals, and even secure bank loans.

Online scams

Here are two common ploys used by Internet fraudsters.

- **Phishing.** “Phishers” create e-mail messages, pop-up windows, and web pages that are replicas of legitimate websites and businesses. For example, during tax season, numerous people received fraudulent e-mails that looked like they were from the Canada Revenue Agency, stating they were entitled to a refund. When they replied with their Social Insurance Number, the thieves had their information.

- **Social networking.** If you belong to social networking sites such as Facebook and you haven’t yet maximized your privacy settings, a fraudster can access the personal information you’ve displayed.

Prevention measures

Be sure to use these defensive measures:

- Protect your computer with anti-virus and anti-spyware software, a spam filter, and a firewall program.
- Delete e-mails requesting personal information and close any website you suspect may be a fraudulent replica of a legitimate site.
- Do not click on any part of a suspicious pop-up window, not even a “Close” button. In Windows, press Alt and F4 to close the window. If this doesn’t work, reboot the computer.
- Use the privacy controls of social networking sites to restrict access to your personal details, and practise discretion with the information you communicate. ■

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