



## Office News

We give big congratulations to our assistant Agnieszka, (AG-NIA-SHKA), who wrote and passed her Mutual Funds exam in July. Agnieszka now has the title of Licensed Assistant. This will improve our service to you as Agnieszka is now capable of signing unsolicited documents when needed. Rick remains your financial

planner and will dispense all related investment and planning advice however having a Licensed Assistant will greatly improve our service to you. **Congratulations Agnieszka!**

## Embracing Fear

**Fear once again gripped many investors** during the first weeks of August, and why shouldn't it? The media was bombarding us with tales of devastation, financial collapse and imminent loss.



The headlines will continue to be frightening as long as there is something frightening to write about. So what is the sincere investor to do with all this doom and gloom entering our minds on a daily basis? Let's go back to October 2008. Lehman Brothers had collapsed and mass panic had gripped the world. At that time Warren Buffett, the world's most admired and least imitated investor was quoted, "I am buying stocks." Many said that he had lost his mind. Then the world changed again and the Buffett bashers disappeared shortly after March 2009.

Here is the point. Periods of above average economic and financial distress have historically been periods of above average investment opportunity. Equity prices are driven down by fear and panic selling. Equity prices of Great Companies become very attractive.

We are not saying that you should not be fearful. Experiencing fear is a normal reaction during these periods. You can't avoid it. The trick is to not let fear dictate your long-term investment decisions. Try not to think of your equity investments as pieces of paper that are losing you money. Those pieces of paper represent ownership of Great Companies and Great Companies have certain characteristics. They have a competitive advantage in the marketplace, enjoy repetitive and regular income, and are somewhat predictable, often have weak competitors, and generate lots of free cash flow. This is what you should try to focus on and then you will realize that market declines are actually periods of great opportunity. Doesn't this sound like something to embrace rather than something to discard?

Let's bring this discussion closer to home, so to speak. How would you react if your house value had declined by 30%? Most will hold and continue to live in the home they purchased. The sentiment is that it is a long-term investment. Most will do nothing and have faith that things will get better as they always have in the past.

We ask that you view your equity portfolio with the same long-term perspective. Market declines are always followed by market strength. At least that's how things have worked since the beginning of time. If you fall for the stories of doom and gloom and panic out of the market then you may wonder in a year or two what you could have possibly been thinking. You shouldn't have been selling but rather you should have been buying. Embrace fear – that is what Warren Buffett did and no one questions his ability as a great investor.

## Tax Planning and Investment Income for 2011

Income tax is often **one of the largest annual expenditures an individual makes**. All financial planning decisions should take income tax into account.

In developing an investment strategy the first thing to recognize is that various types of income are taxed differently. Paying attention to the type of income can have a significant impact on your after tax return, the money you spend or save. The tax rates below are for Ontario residents. Provincial rates vary and depending on your province of residence your top rate may be higher or lower than those illustrated.

Interest income is 100% included in income in the year it is received. It is the money paid to you for lending your money to banks in the form of savings and guaranteed deposit accounts. It is also received from investing in bonds and mortgages. The top marginal tax rate for interest income in 2011 is 46.41%.

Dividends are paid by corporations out of the profits of the company. Dividend income is subject to dividend gross up and dividend tax credit the year dividends are received. The top marginal tax rate for eligible dividends in 2011 is 28.19%.



Capital gains occur when you sell an investment and make profit. The income inclusion rate for capital gains is 50%. The top marginal tax rate for capital gains in 2011 is 23.2%.

The motto is, "It pays to know your net after tax return".

## Payment in Lieu of Severance Pay

Many of our government employee clients have received the **option to receive a payment in lieu of severance**. For certain departments the government has ended the accumulation of severance pay and frozen the amount based this year's current rate of pay. We anticipate there will be more departments offered this option in the future. If you are affected by this program you have three options.

1. Take immediate cash payment at your current rate of pay.
2. Take the accumulated weeks of severance at retirement at your exit rate of pay.
3. Cash out some weeks of severance now at your current rate of pay and have the remainder paid at termination at your exit rate of pay.

There are definite tax considerations with each option. You should therefore make your selection carefully. You can call us for assistance if needed, or consult with your tax expert.

Any amount that you take immediately is 100% taxable and added to your 2011 taxable income. The only option to reduce income taxes would be to roll over an amount into your RRSP, subject to your available contribution room. There is a special provision that allows tax to be waived if you roll \$10,000 or less into your Registered Retirement Savings Plan (RRSP). To have taxes waived on amounts above \$10,000 you must first have approval from the CRA.

Special rules exist regarding severance payment at retirement. You can roll over \$2,000 into your RRSP for each year or part year of service up to and including 1995. This special roll over does not affect your normal RRSP contribution limit. Having the ability for this extra RRSP contribution may make the option of deferring payment until retirement much more attractive from a tax as well as a retirement savings point of view. The remainder, if any, can be rolled into your RRSP, again subject to your contribution room limit. Any remaining amount will be paid in cash and taxed in the year received.

Here is another strategy to consider. Timing your retirement date can save you income tax. Normally your income is expected to be lower after retirement when you begin drawing pension. One tax reduction



strategy is to retire early in the year when the bulk of your income would be pension rather than salary. Adding any remainder taxable payment from severance would be expected to be taxed at a lower rate than if taken in a year when you are on full salary.

Please contact our office if you have received this option. We can provide assistance to help you decide on a strategy to meet your short- and long-term financial goals.

## Heart Attack, Stroke, Cancer

People insure their stuff but very few choose to insure themselves. We are talking about **critical illness insurance**. This type of insurance will pay a benefit upon the diagnosis of the three conditions mentioned in the title of this essay. It can also cover up to 23 additional critical illnesses such as Alzheimer's disease, Parkinson's disease or severe burns to name a few.



The risk of critical illness is real. Government health plans may not cover all the costs after suffering a critical illness. You may be forced to deplete your life savings to pay for the extra costs of treatment or pay for house or automobile modifications.

We often hear that this insurance is too expensive. You do have premium options to temper the cost. Ten year term rates will be the least expensive. It provides guaranteed rates for the first 10 years then renews every ten years at increased rates until age 75.

You can choose a level guaranteed premium to age 75 or to age 100. This option is more expensive however it will lock your premium for that duration.

To investigate a critical illness plan and its associated cost please contact our office. We will review your options and recommend a plan that meets your needs as well as your budget.

## Keep In Touch

We welcome your suggestions, ideas, comments and questions by email at [rick@invested-interest.ca](mailto:rick@invested-interest.ca).

You can also contact us at: 1276 Wellington Street, Ottawa, Ontario K1Y 3A7.

Phone us at 613-798-2421 or fax us at 613-798-2427

Don't forget to check our website for interesting articles, new links and updates at [www.invested-interest.ca](http://www.invested-interest.ca)

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