Macquarie Private Wealth
A world of opportunities

MACQUARIE

OUR VIEW

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RESETTING OUR GOALS

The second decade of the new century is now well underway. The acute pain of the Great Recession has eased, with the economy displaying positive signs of a strengthening recovery. Yet challenges remain, recently evidenced by worries over European debt levels, weakening commodities demand from China and general unease over global political tensions and the fragile environment of the Gulf of Mexico. Markets have gyrated in response to these events, while other economic indicators point to brighter days ahead.

For most of us, the past two or three years have been unforgettable, to say the least. Global challenges continue. Governments across the world have incurred unprecedented deficits in an effort to support their citizens.

Closer to home, several familiar corporations have ceased to exist while others now operate under the strict guidelines of the courts as they attempt to avoid bankruptcy. Unemployment also continues to be an issue. However, not all sectors have been adversely affected, with residential real estate having weathered the storm in many urban centres.

This is an excellent time to review your investment plan and reset your goals if required. Has anything changed in your personal situation since we last conducted such a review? Marriage or divorce, births or deaths, and aging family members can affect our perspectives and our objectives, both in the short and long term. Has your risk profile changed? Should your investments be altered to reflect changes in your risk tolerance or capacity?

It may be helpful to remember that investing is a long-term process that will, undoubtedly, consist of ups and downs. Volatility should remind us that growth does not always occur at a steady rate and that goals are not always achieved without enduring some hardship along the way.

Individual investors may have experienced mixed results in the recent past. However, with investing, the keys to success include a commitment to a longer holding period and an emphasis on quality, value and diversification. If your personal investment plan continues to reflect your needs, stick to it and let time in the markets help you to achieve your goals.

HARMONIZED SALES TAX ARRIVES

Ontario and British Columbia get ready to implement a harmonized sales tax

For residents of Ontario and British Columbia (BC), July 1, 2010 marks not only Canada Day but also the implementation date for the harmonized sales tax (HST).

What is Harmonized Sales Tax?

The Ontario and BC governments have chosen to integrate their respective provincial retail sales taxes (PST) with the federal goods and services tax (GST) to form the HST, effective July 1, 2010. The HST will apply at a rate of 13 per cent in Ontario (i.e., 8 per cent provincial and 5 per cent federal) and 12 per cent in BC (i.e., 7 per cent provincial and 5 per cent federal).

These provinces will now join New Brunswick, Newfoundland and Labrador, and Nova Scotia, which all moved to a harmonized sales tax system in 1997, and are the only provinces that have implemented the HST.

Provincial sales tax and harmonized sales tax rates across Canada as of July 1, 2010

Province	PST/HST	Province	PST/HST
British Columbia	12% HST[1]	Quebec	7.5% PST[3]
Alberta	no PST	Newfoundland/Labrador	13% HST
Saskatchewan	5% PST	Nova Scotia	13% HST
Manitoba	7% PST	New Brunswick	13% HST
Ontario	13% HST[2]	Prince Edward Island	10% PST

[1] 7% PST to be harmonized with the GST to create HST of 12%, as of July 1, 2010.
[2] 8% PST to be harmonized with the GST to create HST of 12%, as of July 1, 2010.
[3] Proposd increase to 8.5% QST on January 1, 2011.

When does HST apply?

For a majority of items, the taxable status of goods and services under the HST will not change. The provinces have made various products and services exempt from the provincial portion of the HST, including books, children's clothing, car seats/booster seats, diapers, and feminine hygiene products. However, only BC has exempted gasoline, ethanol and diesel fuels for motor vehicles and boats from the provincial portion of the HST. Meanwhile, only Ontario has exempted meals under $4 and print newspapers.

There will be a significant increase in taxes with respect to certain goods and services for which PST does not currently apply. These items include electricity, Internet access fees, personal services (i.e., haircuts and styling), professional services (legal services, accounting services, and real estate fees and commissions), mutual fund management expense ratios (MERs), and, in Ontario, gasoline. For more information, consult the provincial government website related to the province of enquiry:

Ontario: http://www.rev.gov.on.ca
BC: http://www.gov.bc.ca/fin/

TURNING THE TABLES

TAKE ADVANTAGE OF LOW INTEREST RATES

A quick glance at your bank statements over the past year may have caused you to adopt a "glass is half empty" view of current interest rates. However, these low rates have created two potential opportunities that may change your opinion.

Prescribed rate loans

The first opportunity involves making a documented "prescribed rate" loan, with principal due on demand, to your spouse and/or minor children for investment purposes. As long as your spouse and/or minor children pay the interest on the loan by January 30 following the end of every year the loan is outstanding, the tax attribution rules will not apply (i.e., the investment income they earn on the loan proceeds will not be considered yours for tax purposes).

The prescribed rate is determined every quarter and is based on the rates for certain Government of Canada Treasury Bills. The rate in effect for the second quarter of 2010 is one per cent — the lowest the rate has been in over 25 years.

Further, the prescribed rate prevailing at the time the loan is made to your spouse and/or minor children is the rate of interest that remains in effect for the duration of the loan.

This strategy is particularly attractive in situations where you may be in the top tax bracket but your spouse and/or minor children are in a substantially lower tax bracket. Instead of investing funds personally and paying tax on the income at the highest tax rate, you can lend these funds to your spouse and/or minor children at the prescribed rate.

You will report the interest income received from the loan on your tax return. However, assuming your spouse and/or minor children can achieve a return on their investments of greater than one per cent, you will have effectively split your income and reduced your family's overall tax burden. While the difference between the rate of return achieved by your spouse and/or minor children on the invested funds and the prescribed rate payable on the loan may not be significant now, this spread may increase as the economic climate improves.

Home purchase loans

The second opportunity also takes advantage of historically low prescribed rates and involves an employee drawing on or replacing an employee home purchase loan from their employer. If you, as an employee, obtain a home purchase loan from your employer to acquire, repay or replace a loan used to buy your home (or the home of a related person), you will be assessed a taxable benefit equal to the amount by which the prescribed rate exceeds the amount of interest that you paid on the home purchase loan. Thus, if you can obtain an interest-free home purchase loan from your employer, the assessed benefit will only be one per cent of the value of the loan.

Since the prescribed rate used to calculate the taxable benefit is the prescribed rate in effect at the time the home purchase loan is made, reset on every fifth anniversary of the loan, you will be ensured a one per cent benefit for the next five years.

DIFFERING PERSPECTIVES

PERSPECTIVES ON INVESTMENT STRATEGIES

Volatility in the markets has sparked renewed interest in market timing strategies.

During periods of uncertainty, it is human nature to begin questioning our ways. As a result of the market turbulence beginning in 2008, and the more recent volatility at the start of 2009, there has been much discussion regarding equity investment strategies, and more specifically market timing strategies. Market timing, as an equity investment strategy, is generally considered a shorter-term, "active" strategy that is intended to capture short-term changes by optimizing returns through buying and selling shares. Typically, technical, fundamental or quantitative analysis is used as a measure to judge the state of the market and determine when share prices are low, indicating opportunities to buy, or when share prices are high, indicating opportunities to sell.

Higher risk is associated with this approach given the potential for mistiming transactions related to changes in the market. Also, the approach may result in higher costs due to the prospect of a greater number of transactions and tax events over time.

Market timing strategies have been the subject of much controversy, challenged by those who believe that it is impossible to time the markets consistently and correctly, as so many factors impact changes in the markets. Many influential individuals successful with market timing have only correctly predicted a few of these events historically. Finding investors who consistently (and correctly) predict turns in the markets is difficult. Remember — only the minority can outperform the majority.

In order to be successful as the minority, significant positions that go against the majority are required which often involve increased risks. A contrasting approach to the market timing strategy is the buy and-hold strategy, considered a longer-term, "passive" approach that is intended to capture the earnings potential and appreciation of shares over time.

This strategy focuses on investing in shares of a company with long-term prospects for sustained earnings and continued growth, even though there may be price swings throughout the holding period. Shares are sold when the underlying fundamentals no longer support the stock or the holding no longer fits the investor's investment goals.

The buy-and-hold strategy is considered to be less risky as market timing errors are minimized.

Investment recommendations for all clients will ultimately be based on each individual's investment plan. Within this broad guideline, defined objectives and measurable goals will help maintain perspective despite market volatility. Asset allocation, risk tolerance, and investment timeline, to name a few important factors, must all be considered. As financial markets constantly change, the plan will need to adapt accordingly. Prospects of specific companies, industries, or even whole classes of securities may be attractive today but not as attractive tomorrow.

As an investor, your needs will also change over time depending upon your investment timeline and financial goals. Your holdings should be adjusted periodically to provide for changing circumstances.

Don't hesitate to contact us to discuss any aspect of the investment process to meet your personal investment objectives.

PLANNING INHERITANCES

GIFTING ASSETS TO CHILDREN

Most readers are aware that certain taxes will come into play upon their death and wonder if giving their money to their kids while alive is not a viable option.

Canada has no estate or gift taxes, per se, unlike the rules in the United States. A U.S. individual can give no more than $12,000 per year to any other person free of tax. Estates are subject to confusing (and evolving) rules on exemptions and tax rates. In Canada, there is no limit as to how much can be given to anyone. Moreover, Canadian gifts will be free of tax to the recipient, whether made before death or by way of a bequest after death.

However, the donor will be liable for capital gains taxes on any property transferred as of the date of the transfer. This will include gains on any securities, but also on a cottage or other vacation property. The same rules apply on death when the securities will have been deemed sold just prior to the demise, although special rules apply for spouses and dependent children.

There is no simple solution to avoid these taxes. For distribution through a will, various arrangements involving life insurance† are a possibility, with the intent of having the insurance benefit cover the taxes owing.

However, the practical effect may be to merely prepay the tax liability through ongoing insurance premiums. Still, they may be useful in certain individual situations.

Giving cash while still alive can bring its own rewards. The recipient may really appreciate it, and the donor will have the pleasure of seeing their assets put to good use while alive.

Of course, it all depends on whether the donor is comfortable parting with the money, whether recipients are capable of handling such a bequest, and whether other possible beneficiaries will be adversely impacted, particularly emotionally.

†Insurance products and services are offered by life insurance licensed Advisors through Macquarie Insurance Services Ltd., a wholly owned subsidiary of Macquarie Private Wealth Inc.

SANDWICH BOOMERS: EASING THE SQUEEZE

Today's baby boomer generation faces a new challenge: the dual role of taking care of children and aging parents. According to a 2009 survey conducted by the Investors Group*, one-third of baby boomers currently provide some form of care to aging parents and over 30 per cent of this group also provide support to children.

Increasingly, boomers are finding themselves sandwiched, as children take longer to become self-sufficient and elderly parents live longer. However, there may be ways to ease the challenges for those who face this dual support role.

Caring for parents

The planning process is best started when parties are healthy and not in a position of crisis. Often, conversations are avoided until a crisis occurs, which forces the need to make quick decisions under stressful conditions with insufficient information.

Discussions may be difficult and should be addressed with sensitivity, care and the full cooperation of all parties, especially the parents. Be prepared for the possibility of non-cooperation — talking to elders about new circumstances, particularly those involving money or lifestyle, may be met with suspicion or hostility. Each situation will differ: some may require several low-key approaches over time; others may be better supported by the services of outside professionals. Engaging all siblings may be helpful as they will likely be involved as time passes.

Having access to the financial information of aging parents may be an excellent start in order to determine what is feasible and where help may be required. If a comprehensive estate plan exists, it may be possible to offer assistance within its context. Such a plan will focus on achieving set retirement-planning objectives, maximizing asset value and minimizing taxes until the time that assets are passed on to beneficiaries. An estate plan should include a will, have defined beneficiaries and executors and may also consider the use of a trust.

A power of attorney should be drawn up if one doesn't already exist. There may be separate documents for health care and financial decisions. Depending upon the province or territory of residence, these documents may be known by different names. They should be reviewed periodically to ensure they remain relevant.

Considering your children's needs

In the event that you will need to care for your elderly parents, it is important to discuss the changing situation with your children. Children will likely have questions or concerns that will need to be addressed.

As you try to balance your family's needs, you may consider having conversations with teenagers about taking a more active role in meeting the future costs of their education; or, for older children, expectations of timing for their departure from home. Recognize that this may be a difficult and stressful time for children and do not forget the importance of your ongoing responsibility to them.

Looking after yourself

The dual role of caring for elderly parents and supporting children may be physically, emotionally and financially challenging. However, in order to be a support to others, you must first be able to look after yourself.

Many informational resources and support organizations are available to help you make the best decisions for your family. Government assistance may also be available, including the Employment Insurance Compassionate Care Benefit, for individuals who have left work temporarily to provide care to a gravely ill family member, and the Caregiver Tax Credit, for individuals living with a qualifying dependent.

Finally, it may be necessary to revisit your own financial plan when support needs change as your own financial well-being should always remain the priority. Don't hesitate to contact us for assistance with any financial or investment matters.

*Source: Boomers On Call Survey, October 2009. Investors Group, by permission.