

# OUR VIEW

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## THE THREAT OF INFLATION

**What if most of your savings were taken from you? The threat of inflation — the sustained rise in overall price levels — makes this nightmare a possibility.**

Canada's inflation rate remains more or less in check. In 2010, the Bank of Canada's core index was 1.5 per cent, under the target inflation rate of two per cent, leading many economists to believe that inflationary pressures were still at bay. Yet, the drivers of inflation signal that inflation may be imminent:

- **Oil prices** — Oil plays a significant role in our economy and affects the cost of many outputs. The price of crude oil has been rising and has once again hit triple digits, reminiscent of the 2008 crisis when crude hit US\$147 per barrel.
- **Other resource prices** — Many other commodity prices have surged recently, increasing the cost of various goods and services. Copper prices hit a record \$10,000 per tonne this year and the prices of other metals, such as gold, continue to rise.
- **Food prices** — Rising food prices have become a reality globally. Catastrophic weather, including extreme flooding in Australia and major precipitation in parts of the US, has damaged agricultural land and pushed up crop prices. The price of wheat has increased dramatically and the price of sugar has tripled over the past three years.
- **Money supply** — Various economists cite an increased money supply and lower interest rates as triggers of inflation. Many governments have decreased rates to historic lows, contributing to inflation.

### What does this mean for you?

Even moderate inflation can have a great impact. Assuming a rate of inflation of three per cent (which is close to the average annual Canadian rate of inflation over the past 30 years of 3.12 per cent), a 40-year old investor would see a \$1 million nest egg shrink to the equivalent of about \$307,000 in today's dollars by the time he or she reaches the age of 80. That's quite a difference!

### Offsetting the Impact of Inflation

Some assets may appreciate with inflation. Commodity prices generally rise with inflation and, over the long term, many equities have performed well in inflationary environments as companies are able to raise prices and increase earnings. As well, certain fixed income products are linked to changes in inflation.

Whatever your approach, consider the threat of inflation within the context of your investments to ensure you protect your future well-being.

## REDUCING CANADIAN DEBT

# MORTGAGE RULE CHANGES

Last quarter, the Government of Canada announced that it would tighten mortgage rules in an attempt to change Canadians' borrowing habits. This is the third time in the past three years that the government has tightened the mortgage rules.

Given the likely scenario of future interest rate increases, there has been concern that some Canadians will not be able to service the large debt loads that they have taken on. These rule changes are the Government's response to these concerns.

The changes to the mortgage rules took effect on March 18, 2011. As of this date, the maximum amortization period for a mortgage has been reduced from 35 years

to 30 years for new, government-backed mortgages with a down payment of less than 20 per cent. For mortgages with a down payment greater than 20%, lenders have applied different criteria.

As well, the maximum amount that can be borrowed using a home as equity has been reduced from 90 per cent to 85 per cent, effectively limiting the amount that homeowners can leverage house collateral to borrow for other purposes. The maximum amount for new owner occupied home purchases remains unchanged at 95%.

The government will also no longer insure home equity lines of credit (HELOCs). This

is intended to put greater pressure on banks to lend responsibly when issuing HELOCs and will likely stop the surge of these types of loans.

As a client of Macquarie Private Wealth, you can now access exclusive discounts on rates, preferred service and much more from our mortgage business, Macquarie Financial. You can speak with professional Mortgage Planners who provide specific advice tailored to your circumstances, while explaining how new rule changes may affect you. For more information, or a referral to Macquarie Financial for preferred rates and individual advice, contact your Investment Advisor.

The comments contained herein are general in nature and are not intended to be, nor should be construed to be, legal or tax advice to any particular individual. Accordingly, individuals should consult their own tax advisors for advice with respect to the tax consequences to them, having regard to their own particular circumstances.

## CHANGING REPORTING STANDARDS

# CANADA'S MOVE TO IFRS

Now that 2011 interim/quarterly results for many publicly traded companies are starting to be released, have you noticed changes in the way that financial statements have been prepared and reported?

As of the beginning of this year, Canada has adopted International Financial Reporting Standards (IFRS) as the accounting standard for financial reporting.

Canadian publicly traded companies are now generally required to use IFRS, instead of Canadian Generally Accepted Accounting Principles (GAAP), to prepare their financial statements for fiscal years beginning on or after January 1, 2011.

Investors should be aware that the composition of financial statements for publicly traded Canadian companies may have changed as a result of the adoption of IFRS. This may include differences in the calculation methodologies used for revenue recognition or asset valuation, as examples, that may impact such items as capital expenditures, cash flow or earnings.

Canada's move to adopt IFRS helps to align it with globally accepted accounting standards which many believe will improve the comparability of companies' results worldwide.

Canada joins many countries including Australia and those in the European Union in using IFRS.

However, not all countries have adopted IFRS. For example, the U.S. has yet to commit to adopting IFRS. As a result, there may be challenges when comparing the financial results of Canadian enterprises with those in the U.S.

For more detailed information, you may consult the Accounting Standards Board at [acsbcanada.org](http://acsbcanada.org).

According to the World Federation of Exchanges (WFE), there are 52 publicly regulated exchanges globally that play an active role in their nation's economy and meet the quality standards set by this association.

The largest is the New York Stock Exchange (NYSE) which had a market capitalization of US\$13.4 trillion at the end of 2010.

Comparatively, the smallest WFE member is the Bermuda Stock Exchange which had a market capitalization of only US\$1.5 billion.

Globally, there are over 100 stock exchanges in operation. Many smaller exchanges in developing countries have only a handful (or less) of listings. The Maldives Stock Exchange, an exchange in the small nation of islands, trades the shares of only four companies and the Douala Stock Exchange in Cameroon trades the shares of only three major companies.

**BE AWARE****IMPLICATIONS OF JOINT OWNERSHIP**

It is common for spouses to jointly own assets, such as a house or an investment account. More frequently, parents and children are now becoming joint owners of assets. Prior to entering into this type of arrangement, there are a number of implications that should be considered.

**What is “joint ownership”?**

The term “joint ownership” refers to a situation in which an asset is owned by more than one person with rights of survivorship. As a result, ownership of the asset passes directly to the surviving owner(s) upon the death of one of the owners (except in Quebec, where the laws differ). Since the asset passes outside of the deceased owner’s estate, probate fees will be reduced.

This is separate and distinct from the legal concept of tenants in common, a relationship in which the owners each hold separate ownership interests in an asset that can generally be sold, transferred, or bequeathed without the consent of the other owners.

**Implications**

The joint ownership of assets provides an advantage in that the surviving owner(s) automatically become(s) the owner(s) of the assets immediately with few legal hassles. However, since the ultimate ownership is a “last person standing” situation, only the final survivor can use his or her will to bequeath the property.

As a result, if the majority of your assets are held in joint ownership, your estate may not have sufficient assets to fund any legacies or gifts as outlined in your will. This can be especially problematic if the assets are owned jointly with a second spouse, as children from your first marriage will only receive a portion of these assets if they are a beneficiary of your second spouse’s will. Significant issues may also arise when a parent jointly owns an asset — say a bank or investment account — with only one of their children. If the deceased person’s estate is to be divided equally amongst his or her children, and the jointly-owned asset does not form part of the deceased person’s estate, expensive and divisive litigation could ensue to determine the intentions of the deceased person.

There are also tax implications to the joint ownership of assets. While you may receive tax slips and forms in the names of the joint owners of the account, the Income Tax Act could require attribution of the income earned and owned by one taxpayer to another taxpayer for tax purposes. In general, this will be governed by who provided the capital, and what proportion was used to acquire the assets in question. Moreover, the joint ownership of real estate with a child who already owns their own residence may result in a proportionate loss of the principal residence exemption, while adding a joint owner to a real estate property could result in the incidence of land transfer tax.

Finally, it is also important to recognize that joint ownership could expose the assets in question to any creditors or future ex-spouses of your joint owner.

**Be aware**

Before making what appears to be a responsible gesture as a spouse or parent, you should seek proper legal and tax advice to avoid the potential risks associated with the joint ownership of assets and determine whether other alternatives may be more beneficial.

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**BUILDING MOMENTUM****CANADIAN IPO MARKET WATCH**

For investors interested in new issues, it appears that 2011 will be a good year for Canadian markets. It is anticipated that initial public offering (IPO) activity will build on last year’s momentum as investor confidence and stability return to equity markets.

The market for Canadian IPOs came back to life in 2010 following two years of slowdown caused by economic instability and uncertainty.

In 2010, a total of 73 new issues were recorded on all Canadian exchanges, or \$5.5 billion in value, including 25 new issues on the Toronto Stock Exchange (TSX) and 42 new issues on the TSX Venture Exchange. The oil and gas, mining and real estate sectors dominated the IPO market in 2010.

This compares to a total of 28 new issues in 2009 accounting for \$1.8 billion in value, including only 4 IPOs listed on the TSX and 20 IPOs listed on the TSX Venture

Exchange. A total of 57 IPOs were listed in 2008 accounting for only \$0.7 billion in value.

What will this year’s IPO landscape look like? It is expected that new issues in the resources sector will continue as long as oil and other commodity prices remain strong. As well, it is anticipated that IPO activity will include a greater number of non-resource companies that postponed public offerings due to the economic turbulence.

Investments in initial public offerings are often highly speculative. Please read the offering memorandum, the prospectus or other offering documentation and subscription agreement carefully before investing. Consult with your investment advisor, legal or tax professionals before investing.

## “LEGAL” DOESN’T NECESSARILY MEAN “EFFECTIVE”

### **Prepare for your succession properly by seeking professional advice and keeping documents up-to-date.**

Most people will agree that preparing a will is important. Writing a legal will on your own is not difficult these days. In fact, you can get help from many sources to “do it yourself”.

But the big concern on your mind should be the effectiveness of such a document, not its legality.

Are you an expert on the complexities of family law and the succession rules of your province, not to mention Canadian income tax and investment rules, or even the current US estate tax rules? If not, creating your own will may be in the same league as attempting to conduct surgery on yourself — possible, but probably quite dangerous and likely very costly.

Nevertheless, it is curious how many people think that their affairs are so simple that they need not have an expert advise them on their last instructions. They may forget that the value of their assets can easily total several million dollars today. Make one mistake in phrasing an instruction and it could cost thousands of dollars in unnecessary taxes, for example.

Most people want to be fair with their heirs and an experienced lawyer will advise on common pitfalls to avoid. Those familiar with family discussions after a death will attest to how easily bitter disagreements and pitched battles can arise among siblings. These can involve

perceived inequities in allocations of money and even the distribution of personal effects — like who is to get the family piano!

If you have used the assistance of a professional in the past to prepare your will, the effectiveness of the will may also be in question if it has not been kept up-to-date.

Life changing events such as marriage, separation or divorce, or the birth of a child may require a will to be updated.

Other circumstances such as the disability of a child, death of an executor/beneficiary, disposition or acquisition of assets or even changes in debt or tax positions may also affect the estate and require changes to the will.

Resolve to give your assets the respect they deserve in your will. Prepare for your succession properly, with professional advice, and ensure your will reflects your current circumstances.

### **Probate fees — keep perspective**

Probate is the process by which a court examines a will of a deceased person and determines that it is indeed the final, valid will. This declaration gives comfort to executors and institutions to proceed on the basis of the instructions in that document, without fear of later disputes.

Provincial authorities charge for this service — in most cases, on the basis of the value of the estate. Over the years, these probate fees have evolved into a defacto estate tax.

It makes sense to arrange your affairs to minimize these fees, of course. The basic strategy is to pass on as much of your property as possible to your heirs without going through your will.

However, there are dangers of being too zealous in trying to minimize probate fees. It can lead to more tax, trouble and expense in other areas. For example, suppose you have two grown children as your only heirs and you designate one of them as the beneficiary of your RRSP in an attempt to bypass probate. When you die, you are deemed to have liquidated your account and taken the value of your RRSP into income. The RRSP will be transferred, but the taxes will need to be paid by the estate. Unless a provision is made for this, serious inequities may result between the two bequests.

Keep probate fees in perspective. In the final analysis, they may be little more than a nuisance relative to the size of your estate. As estate planning is a complex matter, always consult a professional in the field before taking action.

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