CIBC Wood Gundy

Perspective

Personal Newsletter from the Rabinowitz-Voronoff Financial Group

Fourth Quarter 2015

Staying the Course

"Successful investing," Warren Buffett has said, "takes time, discipline and patience." Indeed, in times like these, the importance of staying the course when investing should not be forgotten.

Over the summer of 2015, the economy and the Canadian markets continued to be challenged by persistently low oil and commodity prices. Many corporate earnings were affected by the slower-growth environment, including the manufacturing sector which didn't experience the expected uplift from a lower Canadian dollar. As a result, the Bank of Canada lowered its key interest rate in July, fuelling concerns that the Canadian economy was edging into a recession. Adding to the volatility was the reaction to international events, including China's currency devaluation and slower growth concerns.

Given the many challenges, it may be difficult to think positively. But here are some reasons to keep perspective. Although we cannot underestimate the pressure that lower oil and commodity prices put on the economy, don't forget that challenges like this aren't new and that economies typically adjust and adapt. For most of the period between 1996 and 2004, oil prices remained at $20 to $50 per barrel. Strong commodity prices have been a relatively 'new' situation, peaking between 2000 to 2009.

Certain factors may also work to increase oil prices. According to the International Energy Agency, global demand for oil is at its highest in five years.

There are other positive signs. Canada's export market experienced a significant lift over the summer. Despite overall poor national economic growth, provinces including British Columbia, Ontario and Manitoba have had relatively good year-over-year growth. South of the border, the U.S., our largest trading partner, continues to experience an economic expansion.

As you consider your own situation, don't lose sight of your longer-term financial goals. If your holdings are in line with the objectives that you have set out in your investment plan, you likely have few serious concerns. Remember that a portfolio built with an emphasis on quality, diversification and proper asset allocation is meant to help get through more volatile times.

Disciplined investment means staying focused on your goals and not being swayed by short-term volatility or pessimistic economic news. Having patience to stay the course can be one of your greatest allies.

Rabinowitz-Voronoff Financial Group

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Speaking Personally:

The beginning of the quarter marks Canada's 42nd federal election. After a summer of election promises by all candidates, there may be upcoming changes that will impact us from a financial perspective. We'll keep you apprised in upcoming newsletters.

Despite these slower-growth times, we have a lot to be grateful for living in Canada. We wish you the best this Thanksgiving season.

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You Asked...

What is Crowdfunding?

Over recent years, crowdfunding — the act of raising funds from a large number of people typically via the internet — has become popular for smaller companies looking to fund their operations.

There are four basic crowdfunding models: i) Lending — investors loan funds to a company; ii) Equity-based — investors obtain a form of equity stake in a company; iii) Reward-based — investors give funds to get a reward in return (such as a product or discount); and iv) Donation — people donate funds.

Crowdfunding has been beneficial for companies that have otherwise faced challenges in finding traditional sources of equity financing. Until recently, equity-based crowdfunding was prohibited in Canada but legislation has been rapidly changing and certain provinces now permit equity-based crowdfunding, based on varying conditions.

Equity-based crowdfunding may also provide the average investor with investment opportunities that were previously only available to the venture capital community. However, caution should be exercised as crowdfunding is not without risks, including:

Due diligence — The average investor may not have the skillset to effectively conduct due diligence of a company. Disclosure documents may also not provide an extensive view of the quality of a company's operations. Professional venture capitalists spend a great deal of time reviewing a potential investment's business model and management team. Finding a "home run" investment is considered to be the exception, not the norm.

Liquidity — There often is uncertainty as to how investors will get their money out of the investment. Venture capitalists typically get a return when an invested company is acquired or undergoes an initial public offering (IPO) on the stock market. For most crowdfunded start-ups, these traditional methods are not available.

Lack of regulation — There have been reported cases of misrepresentation and fraud. Some crowdfunded company owners simply absconded with funding. Rules have been put into place to protect investors, but they do not provide protection in all circumstances.

Provincial crowdfunding legislation continues to change and updates can be found on the websites for each provincial securities regulatory authority or the National Crowdfunding Association of Canada website: http://ncfacanada.org/.

Tax Planning Before Year End

Don't Forget: Gain from Your Losses

Since the 2007/08 financial crisis, both the Canadian and U.S. stock markets have experienced lengthy bull runs, which may mean that you have gains in your securities portfolio. If you expect to realize capital gains during the year, triggering capital losses may work to your benefit. Well before the end of the calendar year, consider a review of your securities portfolio to see if there are investments in a loss position that you may wish to sell in order to reduce your current taxable capital gain. This strategy is known as "tax-loss selling".

In general, when an investment is sold, the cost of the investment is subtracted from the proceeds to determine the capital gain (if positive) or the capital loss (if negative). If the total of all the capital gains realized exceeds the total of all the capital losses realized during the year, 50 percent of the total is included in income as a taxable capital gain.

However, if your total capital losses exceed your total capital gains realized during the year, 50 percent of the net amount is your "net capital loss" for the year. Net capital losses cannot be used to offset other income, such as employment or dividend income. You may, however, carry a net capital loss back to be claimed over the three prior taxation years to recover taxes previously paid on taxable capital gains in those years. Alternatively, you can carry net capital losses forward indefinitely to use against future taxable capital gains.

When undertaking tax-loss selling, don't forget about the "superficial loss rules", which have been put in place to prevent taxpayers from creating artificial transactions to generate capital losses. They will apply if: i) you, or an "affiliated person" (which includes a spouse/common-law partner or your Registered Retirement Savings Plan), acquire property identical to that which was sold for a loss in a period that is either 30 days before or after the date of the loss transaction; and, ii) 30 days after the loss transaction, you, or an affiliated person, own the identical property. As a result, you will not be able to use the capital loss in the current year to offset capital gains. Instead, the capital loss will be added to the adjusted cost base of the identical property.

Consider speaking with a professional tax advisor prior to engaging in tax-loss selling.

Proud to Be Canadian

Being Thankful: Measuring Happiness

Living in Canada, we have much to be thankful for. Canada often ranks as one of the best countries in which to live globally, and the recent United Nations (UN) ranking of the world's happiest countries is no exception. The 2015 report on the state of global happiness places Canada in the top five countries globally.

What makes a nation happy? According to the report, six variables account for most of the variation among countries: real Gross Domestic Product (GDP) per capita, healthy life expectancy, social support, perceived freedom to make life choices, perceived freedom from corruption, and generosity.

Tracking well-being and welfare as national indicators is a relatively new concept but has gained attention due to evidence that a society's well-being can impact its economic status.

Not only are we a happy nation, but Canada has recently placed at the top of many other international rankings, including:

- **Most Reputable & Admired Country, 2015** — Reputation Institute
- **Government Net Debt/GDP, G7 Countries, 2015** — OECD
- **Best Place to Live, Safe Cities Index, 2015** (Toronto, Montreal ranked #1, #2) — Economist Intelligence Unit
- **Best Country for Business, G20 Countries, 2014** — Forbes

Source: Global Happiness Report: http://worldhappiness.report/.

Split Income, Save Tax!

Are You Doing All You Can to Save Tax?

Canada has one of the higher top marginal tax rates on ordinary income of the major economies in the world.* With top marginal rates over 40 percent in every province/territory, and two provinces having rates equal to or above 50 percent, the opportunity to split income to reduce taxes payable should not be overlooked!

Here are some ways to shift taxable income from higher-income to lower-income spouses or common-law partners (CLPs), or to children. Please consult a tax advisor regarding your situation as some strategies may involve proper structuring to be effective.

- **Spousal Loan** — If the higher-income spouse/CLP makes a loan to the lower-income spouse/CLP at Canada Revenue Agency's (CRA's) prescribed rate (currently one percent), the net of any investment income earned in excess of the interest charged on the loan is taxed in the lower-income spouse/CLP's hands.
- **Family Trust** — If the higher-income spouse/CLP makes a loan at the prescribed rate to the family trust for the benefit of his/her minor children, the net of any investment income earned by the family trust in excess of the interest charged on the loan may be taxed in the lower-income children's hands.
- **Pension Splitting** — Up to 50 percent of eligible pension income may be split between eligible spouses/CLPs on their respective tax returns.
- **CPP/QPP Sharing** — Spouses/CLPs can apply to have their Canada Pension Plan/Quebec Pension Plan (CPP/QPP) pensions split between them for tax purposes.
- **Spousal RRSP** — If the higher-income spouse/CLP contributes to a Registered Retirement Savings Plan (RRSP) for the benefit of the lower-income spouse/CLP, future withdrawals may be taxed in the lower-income earner's hands.

- **Capital Gain/Loss Planning** — Sophisticated transactions could be explored to transfer unrealized capital losses from the lower-income spouse/CLP to the higher-income spouse/CLP or to transfer unrealized or future capital gains of the higher-income earner to the lower-income earner.
- **Cash Flow Allocation** — The higher-income spouse could pay for family expenses, such as living expenses and Registered Education Savings Plan (RESP) contributions. Consider giving funds to the lower-income spouse/CLP, who can then make a contribution to their own Tax-Free Savings Account (TFSA). The lower-income earner's funds could also be used for investment purposes to enable future investment income to be taxed at their lower marginal tax rate.

*Ordinary income represents salary, pension and interest income. Based on a 2014 analysis by PwC accounting firm of the top marginal tax rate for personal income taxes for G20 members.

Note that comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

Things to Consider When Writing a Will

When preparing or updating a will, here are some things to consider that may be overlooked.

Not having a will is actually a fairly common and problematic situation for many Canadians. But having a will that is not effective can also create significant problems.

If you haven't yet prepared a will or are in the process of updating one, here are some things to consider:

Think carefully about how the will is structured for your children. Although most parents would rather not think that they could both pass on simultaneously, the will should carefully plan around this possibility.

Sometimes, assets are passed to children at the age of majority without any conditions. However, transferring a significant amount of money to children at the relatively young age of 18 or 19 (depending on the province/territory of residence) may lead to problems. Setting up a trust under the terms of your will may be one way to pass along assets while specifying the age when beneficiaries will receive them. It may also place control over the assets in the hands of a more responsible trustee to help child beneficiaries look after the assets.

When appointing guardians for your children, consider the impact on the potential guardians. Is there a way that you can plan your estate to make it easier for them as they raise your children? The terms and instructions for how funds are distributed to guardians until children reach adulthood can be specified in the will. Remember also that if many years have gone by since appointing guardians, it may be helpful to ask if they are still willing to take on this role as their situation may have changed.

Remember which assets your will distributes (and how). A will may not include all of the assets that you hold at death. Assets held in registered accounts like Tax-Free Savings Accounts, Registered Retirement Savings Plans or Registered Retirement Income Funds, as well as certain pension plans or insurance policies, may have named beneficiaries. This generally means that these assets will pass outside of the estate. In most provinces (not including Quebec), joint assets will also pass outside of the estate. This is sometimes overlooked when equalizing an estate between multiple beneficiaries.

As well, don't forget the effect of taxes in reducing the final distribution of assets passing through a will, as taxes may not similarly affect those assets that bypass the will.

Pre-plan for cash flow issues. Will there be enough cash or liquidity to pay for the estate's taxes, funeral costs or probate (in provinces/territories where this is applicable)? There may be significant tax implications for those estates that include a family property or business. This should not be overlooked, especially if their value has significantly increased over time.

Update as things change. Regular updates to wills are commonly forgotten in the hustle and bustle of everyday life. But this is important not only when there are changes to a marital or family status, but also when the status of assets changes significantly. As well, administrative updates may be necessary, if, for example, a person named within the will experiences a name change through marriage or divorce. These updates can help to ease the future estate settlement process.

Tell someone! Finally, remember to tell a trusted friend or loved one, as well as the estate executor/liquidator, of the location of your will. This may sound obvious, but there have been instances where estates needed to be settled through the provincial courts because a will could not be located.

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