CIBC Wood Gundy

Perspective

Personal Newsletter From Anton Voronoff

Second Quarter 2013

Renewing Confidence

As the year progresses and the global economic situation shows signs of continuing improvement, there are also signs of renewing confidence in the financial markets. In the first quarter, the Dow Jones Industrial Average surpassed its record closing level set in Oct. 2007. The S&P/TSX Composite Index has recovered to the level it reached prior to the collapse of Lehman Brothers that precipitated the financial crisis in September 2008.

Will the markets continue their upward trajectory?

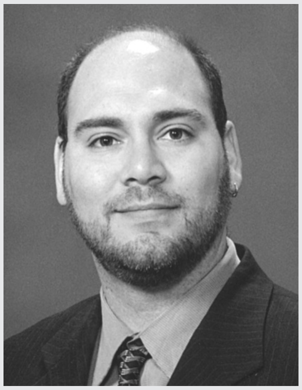
What lies ahead can never easily be predicted, regardless of what the indicators may be telling us.

Consider the performance of the markets last year. Despite Canada's relatively stable economic situation, the S&P/TSX Composite Index experienced significant declines in the middle of the year, improving in the third quarter but posting only a 4.0 percent gain over the year.

Contrasting this, the ongoing economic struggles in the U.S. dominated last year's headlines but didn't appear to adversely affect the U.S. markets and the S&P 500 Index finished with a 13.4 percent gain.

This goes to show how difficult it is to predict the future performance of the markets by extrapolation. As investors, allowing for the unpredictable can be one of the keys to investment success. This includes maintaining flexibility in your investment strategy. As times change, you may need to adapt your investment approach, by embracing new opportunities or making changes to current holdings. Equally important is investing according to the individual investment plan that has been designed with your personal goals and needs in mind, not by what the headlines may be saying.

Have confidence knowing that with the proper investment plan in place, you are better prepared to navigate whatever the future brings.



Anton Voronoff
Ch.P., CFP, FMA, FCSI
Investment Advisor

Spring is here, with the promise of longer days and warmer weather. Personal income tax season has also arrived and brings with it a good reminder that there may be options within your investment portfolio to minimize the tax bite. Now may be a great time for a review.

Enjoy the warmer months ahead. Happy Spring!

Financial Market Monitor

	Recent 03-06-13	Six Months Ago (09-07)	One Year Ago (03-08)
S&P/TSX Composite Index	12831.96	12268.01	12461.93
Dow Jones Industrial Average	14296.24	13306.64	12907.94
Canadian Interest Rates/Yields			
Canadian Prime Rate	3.00%	3.00%	3.00%
Treasury Bills* -3 month	0.95%	1.00%	0.91%
-6 month	0.99%	1.07%	0.98%
Gov't. of Canada Bonds* -5 year	1.30%	1.42%	1.50%
-10 year	1.84%	1.85%	2.01%

* Approximate annual rates.
Subject to transaction volumes, availability of specific issues, and other important factors.

In This Issue:

Estate Planning And Taxes

Leaving Less To The Tax Collector

As the old adage goes, "nothing is certain but death and taxes". So it is surprising that many of us are reluctant to address the issues that surround death, especially as they relate to taxes. There are a number of strategies that may minimize the amount of your hard-earned wealth that will be left to the tax collector.

Unlike the U.S., Canada does not have an estate tax. Rather, in Canada you are deemed to have sold all of your assets at death and your estate is subject to tax on any accrued gains. For many estates, the greatest tax exposure arises from investments sitting in a registered account such as a Registered Retirement Savings Plan (RRSP) or a Registered Retirement Income Fund (RRIF), capital gains on other investments, and assets such as vacation properties that have appreciated in value over time.

Here are some ways to minimize the tax when it comes to your estate:

- **Defer Taxes** — In extreme cases, the tax liability associated with appreciated assets can be so significant that estates have to liquidate assets, such as businesses or cottages, to cover the tax expense. In such situations and in many less extreme cases, it makes sense to defer taxes. For example, with a spousal rollover, assets may be transferred upon your death to your surviving spouse, or a spousal trust, on a tax-deferred basis with the associated tax liabilities being deferred until your spouse dies or the asset(s) are sold.
- **Use Exemptions** — Exemptions within the tax rules can offer significant savings. If you own more than one property, proper planning and use of the principal residence exemption may provide an opportunity to reduce the total tax liability on these properties. If you are a business owner, the lifetime capital gains exemption (CGE) may be effectively applied by the estate. We discuss the CGE in further detail in this newsletter.
- **Minimize Foreign Estate Taxes** — This may be necessary if you own assets outside of Canada or if any of your beneficiaries reside in a country which has an estate tax. For many Canadians it is common to own U.S. assets. Under U.S. tax law, U.S. "situs" assets, which include U.S. real estate and shares in U.S. corporations, may be subject to the U.S. estate tax. There are a variety of ways to minimize a potential U.S. estate tax bill, including disposing of U.S. situs assets prior to death or using a Canadian holding company, trust or partnership to own the U.S. situs assets.
- **Freeze Taxes** — If you own a business, you may wish to freeze your tax liability at death based on today's value of the business and transfer any future growth (and the related tax liability) to another party, such as your adult child. By using an estate freeze, you can continue to control the business and you can lock in your future tax obligations, while the other party benefits from any increases in the value of the business (but is also liable for the future taxes on the growth) after the date of the estate freeze.
- **Plan On Giving** — Leaving a legacy through a charitable donation can have a lasting impact while potentially offsetting 100 percent of net income in the year of death and the year preceding death, if structured properly.

When it comes to your estate, various tax planning techniques can have a significant impact on the assets that you leave behind. Seeking advice from a professional can help to ensure that your plan has been structured properly and most effectively, in order to keep your estate's taxes to a minimum so that more of your assets can be passed on to your heirs.

Dying Without A Will?

Dying "intestate", or without a will, may result in the province distributing your assets according to preset rules that may not align with your wishes. Administrative delays may also result from the absence of a will.

Despite these and other issues, many people continue to die without a valid will. Here are some very prominent individuals who died without a will:

- Abraham Lincoln (assassinated in 1865) — The first U.S. President to die intestate. Ironically, Lincoln was a lawyer.
- Jimi Hendrix (died in 1970) — The battle over his estate took over 30 years to settle. The estates of artists like Hendrix often face the added complexity of having incoming streams of revenue after death.
- Pablo Picasso (died in 1973) — It was estimated that Picasso's estate cost $30 million and took almost six years to settle.
- Bob Marley (died 1981) — Despite knowing that he had terminal cancer for almost a year, Marley failed to write a will for his estimated $30 million estate.

Capital Gains Exemption

Saving Tax On The Sale Of Your Business

For business owners looking to sell their businesses, the tax system may provide substantial savings to lessen the tax liability through the capital gains exemption.

Capital Gains Exemption

An individual may have the ability to claim a tax exemption on up to $750,000 of the capital gain realized on the sale of Qualified Small Business Corporation (QSBC) shares (and similar rules also apply to farming properties and fishing properties).

The definition of QSBC shares is complex and professional advice should be obtained to determine if your shares meet the requirements. In general, the conditions include the following:

- Shares must be of a Canadian-controlled private corporation;
- At the time of the sale, at least 90 percent of the fair market value of the assets of the company (including goodwill) must have been used to carry on an active business in Canada;
- During the 24-month period before the sale, you or a person related to you must have owned the shares; and
- Throughout the 24-month period before the sale, more than 50 percent of the fair market value of the assets of the company (including goodwill) must have been used to carry on an active business in Canada.

Not Incorporated? May Not Be A Problem...

If you are operating as a sole proprietor, there are special rules that may allow you to convert your business to a corporation to benefit from the capital gains exemption on a sale.

Don't Qualify? Purify!

Even if the sale of your business is not envisioned in the immediate future, since there are two-year look back tests you should constantly be aware of your company's QSBC status. If your company does not currently qualify, you can undertake transactions today to purify the company so that it will meet the requirements at the time of an eventual sale.

Qualify? Multiply!

The tax savings associated with an individual fully using their exemption will vary depending on the individual's province of residence (and ranges from $146,250 to $187,500). These savings can be multiplied by having a spouse and/or children as shareholders of the company in order to use their exemptions. Planning to multiply the exemption may be complicated and must be done well in advance of the sale of the business.

Opportunities On An Asset Sale

The capital gains exemption only applies if you sell the shares of your company. However, many sales of a business occur by way of an asset sale rather than a share sale. Planning techniques are available to make use of the exemption and reduce taxes arising from an asset sale. For more information, please consult a professional advisor.

Around The World

From Worst To First?

A look at the best performing stock markets around the world shows us that sometimes a "good" economy is not needed for good performance in the stock market.

As the chart shows, last year some of the world's worst economies performed exceptionally well. This is not to say that investors should invest in poor economies, but it does demonstrate that value is one of the driving factors in a market's performance.

In many of these world economies, the price-earnings ratio is very low compared to what we would see in North American markets.

Take Greece, for example: on a 10-year average earnings rate, the market trades at around three times earnings. Compare this to the S&P/TSX Composite Index price-earnings ratio which has largely fluctuated between the mid to high teens over the past few years.

Best Performing Stock Markets Globally

Country	Index	2012 Gain
Venezuela	IBVC	303%
Turkey	XU100	53%
Egypt	EGX 30	51%
Pakistan	KSE 100	49%
Estonia	OMX Tallinn	38%
Thailand	SET	36%
Nigeria	NSE 30	35%
Greece	ASE	33%
Philippines	PSEi	33%
Kenya	NSE 20	29%

Source: Bloomberg. Data based on local currency, dividends not reinvested.

Beyond Borders: Emerging Markets

Investing in emerging markets, or in developing countries, is one way to increase diversification in an investor's portfolio and may provide significant opportunities in today's investing environment.

Portfolio diversification has evolved over time. Twenty years ago, diversification opportunities were much more limited in scope. For many investors, the most sophisticated geographic diversification at that time consisted of adding Japanese equities or U.S. dollar denominated foreign government bonds to portfolios.

Today, investors have access to many new geographies, including emerging markets, and a broader variety of products offered within these new markets.

Why Emerging Markets?

There are many compelling reasons why a look across the ocean might be worthwhile. According to Forbes magazine, over the next few years, 70 percent of growth will come from emerging markets, with powerhouses China and India accounting for a significant portion of that growth. Corporate profits tend to grow faster when economic growth is higher, in environments in which higher interest rates and bond yields often prevail.

Many emerging markets have free market systems or have moved towards free market systems from state-run systems. Emerging markets tend to have a large base of human capital that contributes to the workforce at a lower cost than in most developed nations. In many cases, these countries are also producing an increasing number of young, skilled workers. Many emerging markets also have lower debt levels and a larger proportion of domestic savings than developed nations. As such, they have not needed to engage in the deleveraging activities that have been necessary in North America and Europe.

Emerging markets often perform quite differently than developed nation markets. After the global financial crisis of 2008-2009, equity markets in China and India were among the first to enter a bullish phase and rose more quickly than those in North America. Here at home, current ongoing low interest rates have left bond yields at low levels and finding equities trading at bargain levels has become more challenging. At a time when opportunities may be limited in Canada, there may be options abroad.

Be Aware Of Risks

Of course, with any investing opportunity also comes risk. Emerging markets should never be classified homogenously and although many of these nations share broad characteristics that have helped to drive their growth, each emerging market has its own nuances. Historical concerns about political instability are less of an issue today than in the past, but varying geopolitical environments and other factors such as regulatory issues and local business practices may still continue to pose a risk to foreign investors.

Emerging markets have also had their share of setbacks. For example, China's economic slowdown dominated headlines for part of last year and its housing market continues to be challenged. India has experienced high rates of inflation and Brazil faces challenges associated with rising consumer debt.

How To Participate?

Investing directly in the market of an emerging country may often be difficult or cumbersome. ETFs and mutual funds generally provide a diversified way of gaining exposure to these markets. Many Canadian and U.S. fund companies offer funds that invest in emerging markets for both equity and fixed income products.

Indirect exposure to emerging markets can also be attained by investing in multinational corporations that operate in these countries.

As well, some non-North American emerging market companies list their shares on U.S. exchanges as ADRs (American Depository Receipts). Benefits of investing in ADRs include the ability to trade shares using a domestic brokerage account during U.S. market hours, while assuming no additional foreign currency risk (beyond that of the U.S. dollar) since share trades and dividends are settled in U.S. dollars.

With the compliments of...

Anton Voronoff
Ch.P., CFP, FMA, FCSI
Investment Advisor

CIBC Wood Gundy
123 Commerce Valley Drive E.
Suite 100
Thornhill, Ontario L3T 7W8

Telephone: 905-762-2321
Toll Free: 1-800-668-3800
Fax: 905-762-2301
Email: anton.voronoff@cibc.ca