CIBC Wood Gundy

Perspective

Personal Newsletter From Anton Voronoff

First Quarter 2013

Don't Procrastinate, Participate!

The holiday season is behind us and our New Year's resolutions, if any, should now be firmly in place. Here's hoping you succeed with whatever objectives you have set for 2013!

Experience shows that resolutions are not easy to keep. The reason? Our natural inclination is to procrastinate. This tendency goes beyond any aspirations to lose weight, get more exercise or stop smoking. Indeed, it applies to investing as well.

The new year has started with continuing global economic concerns. At the time of writing, although the Canadian economy remains relatively resilient and there have been improvements in the U.S. labour and housing markets, ongoing questions still remain. Will the progress made in solving Europe's ongoing financial troubles continue? Has China's slowing performance stabilized? Will the U.S. federal debt situation be resolved?

All this may be enough to drive procrastination when it comes to participating in the markets. Investors would do well to remember that times of market turbulence are precisely when change may start to take place and bull markets can begin to form. One of the biggest risks in investing is often not the threat of a falling market, but the missed opportunities in a rising market.

Procrastination may also take the form of simply ignoring the value of time. The impact of contributions to an investment plan can be substantial over the years. Even small amounts regularly contributed can make a big difference. And by starting early, the magic of compounding can have significant effects.

Comedic actor Will Rogers aptly said: "Even if you are on the right track, you will get run over if you just sit there". When it comes to investing, sitting on the sidelines has never been the most effective way to build wealth. Let us help as you resolve to participate, not procrastinate!

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Time seems to move more quickly with every passing year! It is RRSP season once again, giving us one final opportunity to defer taxes for the 2012 year.

We look forward to supporting your investing and financial planning needs throughout the year ahead. Please let us know where we can be of assistance. Wishing you and your loved ones the best in 2013!

Financial Market Monitor

	Recent 12-03-12	Six Months Ago (06-12)	One Year Ago (12-07)
S&P/TSX Composite Index	12169.70	11497.30	12148.73
Dow Jones Industrial Average	12965.60	12573.80	12196.37
Canadian Interest Rates/Yields			
Canadian Prime Rate	3.00%	3.00%	3.00%
Treasury Bills* -3 month	0.95%	0.88%	0.84%
-6 month	1.02%	0.95%	0.89%
Gov't. of Canada Bonds* -5 year	1.28%	1.27%	1.33%
-10 year	1.70%	1.80%	2.06%

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

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Beyond Big...

Mega-Caps: What's Happening At The Top?

Last year, Apple claimed the definitive top spot as the most valuable company as measured by market capitalization.

Market capitalization, or the total value of all of the issued shares of a publicly-traded company, is important because it gives a true comparison of the value attributed by the stock market to a company's stock. It also provides a useful reference of comparison for publicly-traded companies in terms of size.

The categorization of companies by market capitalization often varies as there is no official consensus on definition. Generally speaking from a global perspective, "small-cap" stocks are considered to have market capitalization of under $1B or $2B and "large-cap" stocks are considered to have market capitalization of over $5B or $10B. "Mid-cap" stocks fall in the middle. The biggest players are considered "mega-cap" companies, having a market capitalization of greater than $100B or $200B.

There are only a few mega-cap players. At the start of Q4 2012, only about 10 companies exceeded a $200B market cap globally and around 50 companies exceeded the $100B mark. A handful of companies were on the cusp of achieving the $100B mega-cap status. At the time of writing, Canada's largest company by market capitalization was not considered a mega-cap, hovering around $80B.

Who will be the mega-cap leader this year? For almost all of last year, Apple overtook Exxon Mobil. In August, Apple also surpassed the record US$620.8B market capitalization set by Microsoft during the tech boom of 1999. However, its milestone was measured in nominal terms. Adjusted for inflation, Microsoft's value at that time is estimated at an impressive US$850B in today's terms! Although Apple's market capitalization has since retreated, it continues to hold the lead at the top of the mega-cap category.

What's In An Index?

The Dow Jones Industrial Average

The Dow Jones Industrial Average (DJIA) is one of the most widely watched stock market indices and is the second oldest market index in the world. But for many, its composition is overlooked.

In 1896, Charles Dow, editor of the Wall Street Journal, created an index of 12 companies and named it after himself and his business associate, statistician Edward Jones. At the time of its creation, the index was termed the "Industrial Average" as the component companies were from traditional heavy industries, including such companies as Chicago Gas and National Lead.

Today, 30 companies form the index and represent many different industries. The listing is constantly evaluated and periodically revised to ensure that only leading blue chip companies are included. The only company that has remained on the index with its original name since the DJIA's inception is General Electric.

What makes the DJIA unique is that it is a price-weighted index, while most other North American indices are value-weighted and based on the market capitalization of constituent stocks. Instead, the DJIA is created by the sum of the component share prices divided by a divisor (which changes whenever there is a stock split or dividend).

Is the DJIA a good gauge of the U.S. economy? Over its lifetime, there have been many critics. Since it is a price-weighted index, some have said that the tendency for higher-priced stocks to have greater influence over their lower-priced counterparts is a flaw of the index.

For instance, a 10 percent change in the price of a lower-priced stock will not affect the value of the index as much as a 10 percent change in the price of a higher-priced stock. This is the reason why leading tech companies Apple and Google have yet to be included in the index, as their high share prices would create imbalance in the index.

Other critics have said that the inclusion of only 30 stocks does not provide a broad enough picture of overall market performance.

Yet, despite these criticisms, the DJIA continues to be one of the most followed American indices.

Where is the DJIA headed? Since hitting its all-time high and closing at over 14,000 in 2007, the DJIA fell to a 12-year low of 6,547 in March 2009 as markets struggled. More recently, it has been hovering around the 12,000 and 13,000 mark. Next stop? Will the DJIA reach a level of 20,000?

DJIA Closing Milestones

1896 — Closes at 40.94 on the day of its inception
1972 — Closes above 1,000
1999 — Closes above 10,000
2007 — Closes above 14,000

Income Splitting Opportunities

Spousal RRSPs: Beyond Pension Income Splitting

It is Registered Retirement Savings Plan (RRSP) season and now may be a great time to consider the income splitting benefits of a spousal RRSP. For married or common-law couples that anticipate having each spouse/ partner in a different tax bracket due to differing retirement incomes, income splitting through a spousal RRSP may provide additional tax benefits beyond pension income splitting.

A spousal RRSP is a plan that you contribute to based on your available contribution room and for which you receive tax deductions, similar to a traditional RRSP. The difference is that a spousal RRSP is owned by your spouse, so any funds withdrawn are considered your spouse's income and must be included on your spouse's income tax return, subject to any income attribution rules (described below). Similar to a regular RRSP, a spousal RRSP can be converted to a spousal Registered Retirement Income Fund (RRIF).

Pension income splitting rules allow you to allocate certain income from an RRIF (or RRSP annuity) after reaching the age of 65 to your spouse for tax purposes. The maximum amount that can be split with a lower income spouse is one-half of this income. A spousal RRSP can enhance the income splitting opportunity if your spouse's future taxable income will be lower than yours, since the full amount withdrawn from the spousal RRSP or spousal RRIF may be included in your lower income spouse's tax return.

As well, unlike pension income splitting with a regular RRIF, a spousal RRSP or spousal RRIF could be used to split income prior to the age of 65 to supplement your spouse's income during a sabbatical, a period of unemployment or while on parental leave.

If you have a younger spouse, a spousal RRSP can also delay the taxation of retirement income as the spousal RRSP does not have to be collapsed or converted into a spousal RRIF until the year the spouse reaches age 71. Contributions to the plan can continue as long as you have available contribution room and the spousal RRSP has not been collapsed or converted.

Remember that the income attribution rules of the Income Tax Act generally apply if withdrawals are made by your spouse and you made contributions to any spousal RRSP within the same calendar year or either of the two previous calendar years. In these situations, the RRSP income would be taxed in your hands instead of your spouse's.

The three-year look back rule would not apply if the contributor dies, the relationship ends or if the payment was in respect of minimum RRIF withdrawals (excess RRIF withdrawals may be subject to the attribution rules). To potentially avoid the attribution rules, you could stop making spousal RRSP contributions and instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP are to be made.

RRSP Deadline Reminder

Don't forget — the deadline for Registered Retirement Savings Plan contributions for the 2012 tax year is **Friday March 1, 2013.**

The contribution limit for the 2012 tax year is **18 percent of 2011 earned income**, to a maximum of **$22,970**, less any adjustments such as a pension adjustment (PA) resulting from contributions to a registered pension plan or deferred profit-sharing plan, plus any unused contribution room carried forward.

For the 2013 tax year, the RRSP contribution limit rises to $23,820 and contributions can be made between January 1, 2013 and March 3, 2014.

Please 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.

Remember The Rules

TFSA Contribution Room

The year 2013 marks the fifth year since the introduction of the Tax-Free Savings Account (TFSA). Since January 1, 2009, eligible Canadians who are 18 years or older and have a valid social insurance number (SIN) have been able to contribute an amount of $5,000 annually to this tax-free savings vehicle, with any unused contribution room carried forward.

When the TFSA was introduced, it was announced that the annual contribution limit would be indexed to inflation in $500 increments. Starting in 2013, the annual contribution limit has increased to $5,500.

If you plan on withdrawing funds from your TFSA, be aware of the rules relating to contribution room. Any withdrawals ***do not*** create immediate contribution room in your TFSA. Instead, withdrawals are added back as available contribution room on January 1st of the following year that withdrawals have been made (other than withdrawals to correct overcontributions). Any excess contributions are subject to a penalty of one percent per month under the Income Tax Act.

Consider A Holding Company

Many business owners are unaware of the many benefits associated with a holding company.

If you own an operating company, a holding company may provide benefits. Assets, which may have accrued gains that are substantial, could generally be moved into a holding company on a tax-free basis by filing a special tax election form. While no tax would be paid at the time of the transfer, the holding company would inherit the original cost base of the assets and be subject to tax on the gain when the assets are sold.

Asset Preservation — Excess cash or other assets that were transferred from the operating company to a holding company may be protected from third party liability claims against the operating company.

Tax Deferral — Depending on your province of residence and personal cash flow needs, you may be able to defer a significant amount of tax by retaining income in your corporate structure rather than paying it out as salary or dividends in the year it is earned. Transferring these funds to a holding company increases the after-tax dollars you have to invest compared to what would have been available personally on an after-tax basis.

Estate Tax Planning — As a Canadian resident, you may be subject to U.S. estate tax if you own certain U.S. property including shares of U.S. corporations. Owning these assets in a Canadian holding company may reduce your U.S. estate tax exposure. In addition, depending on province of residence, holding companies may be used to reduce probate fees.

Income Splitting — The holding company could provide income-splitting opportunities by making family members, or a trust set up for the benefit of family members, shareholders of the holding company. Non-minor family members could receive dividend income annually to take advantage of potentially lower effective tax rates.

As well, on the sale of the business it may be possible for each family member to claim the $750,000 lifetime capital gains exemption, thereby significantly reducing the family's tax liability.

Proper set up and maintenance of the holding company should be considered to avoid the punitive rules in the Income Tax Act relating to the personal use of corporate assets and to maintain the ability to claim the capital gains exemption.

If you think a holding company may be beneficial, please consult your tax and legal advisor to review the particulars of your situation.

Small Business: Reducing Red Tape?

The federal government continues to show its commitment to streamlining the administrative rules and regulations that consume the time that business owners could otherwise dedicate to their businesses. Released in October 2012, the "Red Tape Reduction Action Plan" proposes a variety of reforms to be implemented over three years. The plan is intended to reduce the administrative burden on small businesses, ease relationships with regulators and improve service and predictability.

Some of the changes include streamlining paperwork with the Canada Revenue Agency (CRA), such as allowing the use of a single business number to manage multiple accounts with the CRA. Businesses will also be able to delegate electronic authorizations to another party such as an accountant when dealing with the CRA. For businesses dealing with the Canada Border Service Agency (CBSA), service improvements for regulatory approvals are also expected.

For more information on the proposed initiatives, please consult the federal government website: www.reduceredtape.gc.ca

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