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Perspective

Personal Newsletter from Anton Voronoff

Second Quarter 2012

Looking Forward, With Optimism

After many difficult years of global economic adversity, it appears as though the seemingly endless stream of bad news is slowly being replaced by more optimistic sentiment.

Canada's growth rate continues to be moderate. The U.S. has shown stronger than expected Gross Domestic Product (GDP) and employment growth, and positive news from the world's largest economy can only help maintain the market's recent momentum.

Corporate profits, widely viewed as a key to unlocking stock values, have soared across many industries, often beating analysts' estimates.

However, many challenges still exist. Global recovery is an ongoing process that is expected to take some time to achieve and it is difficult to accurately predict how the financial markets will respond.

Investors should continue to participate in the markets to build or groom their portfolios. The fundamental principles of investing remain the same and a view to the long term should continue to be the focus.

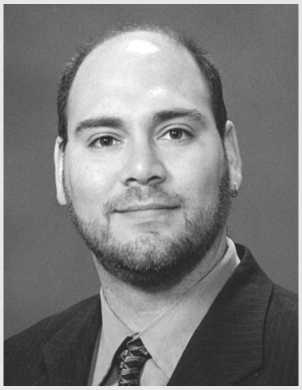
Warren Buffett recently noted that in today's world, investing in quality, productive assets is far better than investing in non-productive assets or currency-based assets. He believes that assets that are able to deliver output during inflationary times and retain their purchasing power with minimal new capital investment will exhibit superior performance over time.

Whether you believe in the particulars of his investment thesis, Buffett's perspective is a good one. As investors, we will never be able to control the events of the short term. But choosing investments that will stand the test of time will serve us well in meeting our long-term investing objectives and help us to look forward, with optimism.

Financial Market Monitor

	Recent *03-08-12*	*Six Months* *Ago (09-06)*	*One Year* *Ago (03-10)*
S&P/TSX Composite Index	12461.93	12518.54	13638.58
Dow Jones Industrial Average	12907.94	11139.30	11984.61
Canadian Interest Rates/Yields			
Canadian Prime Rate	3.00%	3.00%	3.00%
Treasury Bills* -3 month	0.91%	0.91%	0.95%
-6 month	0.98%	0.88%	1.07%
Gov't. of Canada Bonds* -5 year	1.50%	1.40%	2.68%
-10 year	2.01%	2.24%	3.27%

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



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The beginning of spring brings income tax time, a reminder that we should do all we can to legitimately reduce our annual obligations. As you complete your tax return, remember that there have been changes to tax legislation over the years. Don't forget to include all of the credits that are available to you.

Enjoy the warmer and longer days ahead.

In This Issue:

Page

Business Owner Succession Planning 2
The Merits Of Holding On 2
Investment Account Fees & Taxes 3
Simple Ways To Save Tax 4

Small Business Succession Planning

What Happens Next?

All too often, business owners have adequately prepared for their personal retirement, but not for the retirement of their businesses. A recent study by the Canadian Financial Executives Research Foundation found that only 40 percent of private enterprises have created a succession plan. Other studies estimate that number to be closer to 25 percent.

The reality is that most small businesses don't have a plan in place. Some owners claim that they are too busy building their businesses; others don't believe that succession will happen for many years to come.

Giving good thought to the business' succession well before it becomes a need can have its benefits. It helps to plan for any unwelcome surprises, such as the unforeseen death or illness of the owner. More importantly, it enables the owner to accurately plan for retirement.

Take, for instance, the small business owner who assumes that the majority of his/her retirement income will be funded by the sale of the business. Without a succession plan, the owner may not have a clear understanding of the true valuation of the enterprise, potential buyers of the business, or mechanics of the sale transaction. When the eventual sale of the business approaches, the owner may be left with a lower than anticipated business value or a costly tax position that significantly reduces proceeds from the sale. With a proper plan, these situations may be avoided.

A detailed succession plan can prove valuable in many ways by minimizing taxes, optimizing estate planning and preserving wealth. Succession planning can ensure that the company is passed on to successor(s) in the most tax-efficient manner, for example through the use of a trust. Many business owners may be aware of the tax implications of a transfer of ownership, but are unaware of the personal tax implications that may be triggered upon death. A well-designed plan may also allow the business to undertake measures to enhance value prior to the future transition, especially if it involves a sale.

A succession plan is only as good as its likelihood of being implemented. For instance, some family businesses may believe that they have appointed the next generation successor, only to discover upon transition that this individual lacks the commitment, skill set or desire to run the operation.

It is never too early to begin the process. Various experts suggest that succession planning begin at least 5 to 10 years prior to the expected transition date. Plans should be revisited periodically to address changes in the business, market or other circumstances.

Don't be afraid to seek assistance from others, including accountants or lawyers, as investing in professional advice may help to save time and money. There are many resources available to help with succession planning, and we would be happy to assist you if you are beginning the planning process.

Why not take the necessary steps today to provide greater certainty around your business' future?

Dealing With Volatility

The Merits Of Holding On

We often tout the virtues of holding on during volatile times. Although this may be difficult in practice, a look back in time shows that it can have its merits.

Recall the dot-com bubble burst at the beginning of the millennium. This precipitated the bear market of 2000 to 2002, in which the S&P/TSX Composite Index fell 43 percent over a two-year period. At that time, for many investors the temptation to give up on equities was great. But investors who stuck to their long-term wealth-building strategy fared much better than those who abandoned this strategy and moved to "safer" alternative investments.

Investment of $1 million in the S&P/TSX Composite* on Jan. 4, 2000:

One year later, was worth $1,098,289.
By October 4, 2002 was worth only $753,291.

Switching $753,291 from the equity markets and reinvesting in fixed-income securities yielding 4.75 percent (taxes ignored):

By January 4, 2006 was worth $876,096.
By January 4, 2011 was worth $1,104,897.

Staying invested in the S&P/TSX Composite*:

By January 4, 2006 was worth $1,549,684.
By January 4, 2011 was worth $2,075,867.

*Based on S&P/TSX Composite Total Return Index data for 01/04/2000 to 01/04/2011. For illustrative purposes only. Past performance isn't necessarily an indicator of future performance.

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.

It's Tax Time...

Investment Account Fees And Taxes

It's tax season, the time when taxpayers do all they can to ensure that they have included all eligible deductions in their returns. You may have more than one type of investment account, including registered and non-registered accounts, which may be managed or self-directed, and it may be confusing to know which fees are deductible for tax purposes and in what manner they may be claimed.

The Canada Revenue Agency allows for the deduction of fees relating to the buying or selling of securities and/or for the administration and management of investments to a party whose principal business is to provide such advice and/or services. Fees paid for general financial counseling or planning are not deductible for tax purposes.

However, you are only eligible to deduct for tax purposes any qualifying fees that relate to non-registered accounts. This is because fees are only deductible to the extent that the investments are owned by you. When it comes to registered accounts, such as Registered Retirement Savings Plans, Tax-Free Savings Accounts and locked-in plans, these fees are not deductible for tax purposes because the underlying investments are owned by the trusts that govern such plans, of which you are the annuitant or holder.

In the event that your non-registered accounts are held jointly with another party, any qualifying fees should be allocated for deduction in the same proportion that the income from the account is allocated.

Transaction-based fees and commissions are not deductible for tax purposes as these amounts are considered part of the cost of acquiring the respective shares/units and are added to the adjusted cost base (ACB) of the investment. Similar fees paid on the disposition of the shares/units are deducted from the gross proceeds and the net proceeds, along with the ACB, are used to calculate the resulting capital gain/loss on the investment.

South Of The Border

Elections And The Stock Market

It is a presidential election year in the U.S. and many investors will be keeping a watchful eye on political developments as they lead up to the decision this November.

A look back in time from 1952 to today shows that the S&P 500 Index demonstrated positive gains in the last seven months of the year for 13 of the 15 presidential election years.

Does this mean investors have something to look forward to when it comes to the U.S. markets, or is this just coincidental?

One theory to support this performance is that the existing administration will do everything it can to ensure that the stock market performs as well as possible during election time to help sway votes in its favour.

Even if this theory is true, in practice it hasn't held up more recently. The two outlier years in which poor performance bucked the trend occurred in the years 2000, during the Bush/Gore controversy, and 2008, during the recent financial crisis.

Worth Sharing...

The Wealthy Barber Returns

The Wealthy Barber Returns
By David Chilton
Financial Awareness Corp., 2011

Over 20 years later, the Wealthy Barber has returned! Author David Chilton's first book educated many Canadians on basic personal finance, introducing the concept of "paying yourself first" by saving or investing a portion of gross pay. This time, Chilton abandons *The Wealthy Barber*'s fictitious characters and provides his own perspective on many simple yet important money management lessons through various anecdotes.

Chilton explores how society has become overly consumption-driven, with individuals falling prey to the need for instant gratification, the ease of using credit or credit cards, and the desire to "keep up with the Joneses". He offers simple suggestions on how to live within our means.

Chilton also reminds us not to take for granted how fortunate we are as Canadians, reflecting on our significantly improved standard of living over the last few decades. Remember the old days of fixed-line rotary telephones? Today, our grocery stores are stocked with an abundance of global produce available throughout every season and even our pets live more comfortably than half of the world's population!

A few hours spent with this book are worthwhile, particularly for young adults or those new to personal finance. It is a great introduction to some essential financial concepts, a good reminder to get back to the basics of good personal finance, and simply an entertaining perspective on money management.

Simple Ways To Save Tax

Here are some simple ways to reduce last year's tax bill and lower your tax bill for the current year.

For many Canadians, this is the time of the year in which we undertake our annual "retroactive tax planning exercise". While there are very few things that can be done to reduce your 2011 tax bill, now is the perfect time to be proactive and consider a few simple ways to reduce your 2012 tax bill.

Maximize RRSP contributions — Repeated all too often perhaps, but this is still one of the best tax shelters for most Canadians. Get an immediate deduction and defer tax on investment returns until retirement.

Shelter investment income from tax — If you earn investment income personally, consider maximizing contributions to your Tax-Free Savings Account (TFSA). Unlike Registered Retirement Savings Plan (RRSP) contributions, TFSA contributions are not deductible for tax purposes; however, income earned in the account accumulates tax-free and is not subject to tax when withdrawn.

Combine saving with learning — Registered Education Savings Plans (RESPs) are a great way to income split with your children and/or grandchildren and also provide the gift of higher education. Contributions to the plan are not eligible for a tax deduction; however, income accumulates tax-free in the account, the government matches a portion of your contributions (in effect providing a significant guaranteed return on your investment), and the income earned and grants paid in the account will be taxed in your child's or grandchild's hands (presumably at a lower marginal tax rate) when distributed to him or her.

Make your interest tax deductible — Interest paid on loans used to earn income from investments is deductible for tax purposes. As a result, to the extent possible you should consider restructuring your debt obligations to ensure that your interest expense becomes tax deductible.

Make your portfolios tax efficient — When reviewing your portfolio structure, it is important to understand how different forms of income are taxed. Interest income and foreign dividends are subject to the highest rate of tax, capital gains are subject to the lowest rate of tax, and Canadian dividend income falls in the middle (but still well below the level that interest income and foreign dividends are taxed). From a tax perspective only, it may be more efficient to hold interest-producing investments in tax-deferred or tax-free accounts (i.e., RRSP and TFSA) and investments intended to produce capital gains in non-registered accounts.

Match capital losses with capital gains — In situations where you have unrealized personal capital losses and your spouse or holding company has unrealized capital gains (or vice versa), various planning techniques can be used to offset the capital gains with the available capital losses in order to minimize taxes.

Make (efficient) donations — Charitable donations can provide valuable tax credits. Your gifting can be even more tax efficient by donating marketable securities with accrued gains to the charity instead of cash, as the resulting capital gain is not subject to tax.

Income-split with family members — If you are subject to tax at the highest marginal tax rate, you may consider using a family trust or a prescribed rate investment loan to split income with a spouse or children who are subject to lower marginal tax rates.

Seek credit — There have been many changes to tax legislation in recent years, so be aware of the tax credits available (listed on Schedule 1 of your tax return) to see if they apply to you in the current or future tax years.

For example, tax credits are available for expenses relating to public transit, children's fitness and arts activities, examination fees for occupational, trade, or professional examinations, and allowable medical expenses for other dependants.

With the compliments of...

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