Quarterly Exchange

Q1 2012

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Through the *Quarterly Exchange,* we'll keep you up-to-date on current investment trends and strategies. We are committed to working one to one with you to help you achieve your financial goals. Please contact us if you have any questions or wish to discuss any of the articles in this newsletter.

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Economic Outlook 2012

Avery Shenfeld, Chief Economist, CIBC World Markets

In many countries, the climb from the recession's trough was powered by interest rate cutting. That has left little room to ease monetary policy further, and has raised political pressures to reduce deficits, even in countries where the bond market gives the leeway to do otherwise.

The squeeze of fiscal belt tightening has been all too evident in the flat or recessionary performance of countries where it's already been well underway: Greece, Spain, Ireland and even, to a lesser extent, the UK. Now the same malaise is crossing into other European countries.

A lacklustre global economy has already left its mark on Canada. Industrial commodity prices are well off their peaks, with oil a holdout, in part due to political risks to supply. Canada's exports rebounded from prior disruptions in Q3, but growth ahead will be muted by tame demand. The Bank of Canada has used unusually low interest rates to keep the domestic economy in gear, but that weapon looks to have less impact as consumers grow weary of adding to their household debt burden. Look for Canadian growth to be held to a roughly 2% pace in the next two years.

For investors, what's relevant is whether sluggish but non-recessionary times are already priced into expectations. Canadian and US equities have taken a hit associated with a reality check on both growth prospects and commodity prices. Judged by forward price-earnings ratios, stocks look to be on the cheap side of historical norms. Equities will likely have a decent rally when, at some point in 2012, Europe manages to protect its larger countries (Italy, Spain) and major banks from a catastrophic default. But we could still see choppy and cautious markets until there's greater clarity there, with less-cyclically-sensitive equities outperforming the broader market.

Can You Benefit From Income Splitting Strategies?

There are several effective income-splitting strategies such as Spousal RRSPs, pension income-splitting, pension benefits sharing and gifts and loans that you may wish to consider to reduce the amount of tax paid by your household. By using one or more methods, you may be able to lower your annual household tax bill.

Income-splitting is achieved by transferring income from a higher income earning spouse to either the lower income earning spouse, or to a family member in a lower income tax bracket. The spouse or family member can then report this income at a lower tax rate.

It's important to note that the government has implemented various rules intended to deter abuse. Therefore, when preparing an income-splitting strategy, you must consider whether the transfer of assets will trigger a taxable disposition, the applicable attribution rules if spouses separate or divorce, and the rules that apply after death.

Before deciding on any income-splitting strategy or a combination thereof, you should consult with your personal tax advisor. For more information, please contact your CIBC Wood Gundy Investment Advisor.

Thank You For Making This Our Most Successful **Miracle Day Ever**

Thanks to your generosity, a record $4.15 million was raised for kids in need on Miracle Day, held on December 7, 2011. The amount raised is the largest in the 27-year history of the campaign and will make this year a little brighter for kids who need it most. Since inception, Miracle Day has raised an amazing $64 million for children's charities across Canada and $214 million globally.

Through funds raised on CIBC Miracle Day, we are able to help organizations like Boys and Girls Clubs in over 125 communities across Canada.

Every year since 1984, on the first Wednesday in December, participating CIBC Wood Gundy Investment Advisors have donated their fees and commissions to support children in need across the country.

CIBC
Miracle Day

Giving Someone The Power To Act On Your Behalf

For many individuals, the issue of entrusting legal power for someone else to act on their behalf (Power of Attorney) can be an uncomfortable one.

People are naturally reluctant to entrust this level of power over their affairs to another individual, for fear that their destiny potentially rests in someone else's hands. It is important to note that granting power of attorney does not take away the power to act on your own behalf. Rather, it serves to share this power with your attorney who can act for you should you be unavailable to do so or, in the case of an enduring or continuing power of attorney*, should you become incapable of doing so yourself.

It may be helpful to think of a power of attorney as a measure of reasonable assurance that important decisions required on your behalf will be made as you would wish them by someone that you trust to do so.

Most people acknowledge that a properly drafted Will is an important component of a prudent estate plan. A Will is a declaration of how you wish your estate and property to be managed and disposed of after your death. However, what you may not realize is that it is also important to consider making a provision, through a power of attorney, for financial and personal decisions to be made on your behalf while you are still alive, yet unable to make them yourself, or in the case of an enduring power of attorney or its equivalent instrument, mentally incapable of making them yourself.

There are several forms that a power of attorney can take, depending upon the jurisdiction in which you reside. In Ontario, authority to make decisions regarding your property can be granted by a General Power of Attorney or Power of Attorney for Property, while a Power of Attorney for Personal Care grants authority to make decisions regarding your medical treatment, health care, shelter, clothing, hygiene and safety should you become mentally incapable of doing so yourself.

A Limited Power of Attorney may be used in circumstances where you require a legal representative to act on your behalf for a specified purpose or for specific acts. For example, a Limited Power of Attorney is regularly used in connection with the purchase and sale of real estate where you may be unavailable on important signing dates, or is regularly used in the negotiation of securities transactions involving physical certificates.

A General Power of Attorney can grant "all-encompassing" authority for virtually any type of decision relating to your property that you can make yourself, with the exception of drafting up a Will or similar testamentary dispositions such as designating the beneficiary of a registered plan account (with some limited exceptions in certain jurisdictions). In order to remain binding should you become mentally incapacitated, it must contain a "continuing" or "durable" clause and meet the witnessing and formal requirements for your jurisdiction.

If you are concerned about the decisions regarding your personal care should you become mentally incapacitated, you could consider assigning Power of Attorney for Personal Care or similar instrument to a trusted party. In this way, you can be reassured that adequate measures related to your physical well-being will be undertaken in a manner consistent with your personal wishes.

Regardless of the form of power of attorney you choose, it is imperative that you carefully select the party you designate to act in this regard, and that you consult a professional who is familiar with the formalities for a power of attorney in your jurisdiction.

*A similar function can be achieved by a representation agreement in British Columbia, or by a mandate in anticipation of incapacity in Quebec.

Keep Your Money Working For You

Your financial strategy for retirement shouldn't end when you mature your RRSP. The challenge is to keep your money working for you throughout your retirement.

There are three major routes you can take when your RRSP matures by the end of the year you reach 71*. You can take the cash, put it in an annuity, or open a Registered Retirement Income Fund (RRIF).

Taking the cash is generally not a good idea and has three major disadvantages. First, the money will be subject to withholding tax. Second, the withdrawn amount must be reported as income for the year. Third, since you won't likely need most of the money immediately, you should keep the majority of it earning for you (the tax sheltered status of the plan will be lost).

The other two RRSP maturity options will alleviate this problem. You can put your money into an annuity, since the government will not tax your RRSP assets if you do this (the annuity income will be taxable as received). Term-certain annuities specify exactly over how many years the payments will be receivable. Life annuities make payments to you as long as you live, or you or your spouse live under a joint plan.

You can also transfer your RRSP funds to a RRIF, without paying tax (RRIF income will be taxable as received). Like RRSPs, growth within RRIFs is tax deferred. However, you must withdraw a minimum amount from the RRIF each year.

With a RRIF, you can take out more than the minimum, which is a significant flexibility advantage (any amount in excess of the minimum is subject to withholding tax). For instance, this may allow you to index your payments using inflation estimates, or receive larger payments earlier if you don't expect to need the money later. Upon death, all remaining RRIF value becomes fully taxable unless rollover or other provisions are applicable. Any remaining RRIF funds can go to your heirs once taxes, if any, have been paid.

The size of the annuity payments are determined, in part, by the interest rate at the time the annuity is set up. However, since RRIFs allow you to control how you invest your money, you can take advantage of different investments depending on the stage of the economic cycle. As well, if you don't take large payments at first, a RRIF may earn considerably more for you over the long run.

Any of these options may be suitable for you. By reviewing your financial situation and time horizon, I can help you make a well-informed decision. Feel free to contact me to discuss your next moves.

*If you turn 71 this year, then you must choose an RRSP maturity option before December 31 of this year.