Quarterly Exchange

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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

By Avery Shenfeld, Chief Economist, CIBC

The global economy looks to remain mired in sluggish growth through 2013, but unlike diamonds, slow growth is not forever. Europe will struggle to emerge from recession this year, and China won't return to full flight just yet. Having outperformed the U.S. through the recession and early recovery, Canada now looks likely to slightly trail America's pace, although neither country will drift too far from a 2% growth rate this year. Fiscal tightening in the U.S., and the end to the growth contribution from homebuilding in Canada, will keep a lid on the 2013 pace, but the U.S. will face lighter budgetary headwinds come 2014, and Canada will enjoy a more supportive export environment by then.

If not for the hit from higher taxes and, in all likelihood, a deal that will crimp federal spending, the U.S. would be poised to accelerate this year. A long-awaited recovery in housing is a key element in that story, creating demand for new construction, increasing activity and prices in the resale market, and spurring related purchases of renovation services, furniture and appliances.

But cutting into that growth lift is the drain on spending power from the end to lower payroll taxes, which will cost the typical US household about $1,000 in after tax income, along with other tax hikes more narrowly focussed on upper income earners. Still on tap is a budgetary deal on spending, and even if some of the earlier-planned cuts are softened, spending and tax measures combined will represent about a 1.5% drag on real GDP growth for 2013.

Since no equivalent dose of new tax hikes is envisaged for 2014, we should see the U.S. economy accelerate next year to over 3% growth. While that will still leave the Fed waiting until 2015 to begin hiking the funds rate, talk of the end to quantitative easing by 2014, coupled with the diminished appetite for safe haven government bonds as growth expectations improve, should lift long term U.S. and Canadian yields through the latter half of 2013, with 10-year rates in both countries topping 2½%.

Canada's economy was held back by one-off disruptions in oil sector in 2012, but that sector's rebound in 2013 will be offset by a downturn in homebuilding. Consumer spending has already been brought closer into line with incomes as Canadians' appetite for debt-financed consumption began to wane. Exports and related capital spending have the potential to more than make up for homebuilding slowdown, but the global growth needed to spur that activity is unlikely to arrive until 2014.

Given those headwinds, the Bank of Canada is likely to retain its 1% overnight rate target until early next year, although as noted, longer bond rates will begin to climb through 2013. The latter half of the year could see equities tied to global growth and commodity prices take the lead in performance, as investors begin to price-in better earnings growth for 2014.

Transitioning From Business Owner To Retiree

When you retire, do you plan to travel around the world, purchase a house in the country or become a snowbird? Do you want to remain involved in your business or transition out of it completely? Today, retirement marks the transition to a new and exciting phase of your life.

To help achieve your ideal retirement, it's important to have a thorough understanding of your retirement goals and create a plan to transition out of your business. With proper planning, you have the opportunity to accomplish your retirement goals, while doing the best to provide that the business you worked so hard for continues to succeed.

Questions To Ask Yourself

Many business owners begin planning for their retirement by envisioning what their future, and the future of their business, will look like. They often ask themselves:

- When do I want to retire?
- Do I want to maintain an active role in my business after retirement?
- What will I do after I sell my business?
- Do I want a family member to take over the business or someone outside the family?
- Will I be able to maintain my standard of living when I retire?
- How can I maximize my retirement income?
- What tax implication will I have to deal with when I sell my business?

Financing Your Retirement

Before making the decision to sell your business and transition into retirement, you should have a good idea of what your business is worth and what amount would be sufficient for you to sell and retire. Determining the fair market value of your business can be a complex process as tangible assets are likely to comprise only part of the price tag; intangible assets, such as goodwill, also come into play.

This process generally begins with hiring an objective business valuator. He or she will review your books, finances, credit history and other information on your company and determine its fair value.

Other ways to finance your retirement is to set up an Individual Pension Plan (IPP) or a Retirement Compensation Arrangement (RCA). An IPP is an employer-sponsored defined benefit pension plan that often has higher contribution limits than a RRSP. Funds within an IPP accumulate on a tax-deferred basis until withdrawn during retirement. An RCA is a non-registered retirement savings plan that provides members with supplemental retirement benefits that does not compromise the integrity of RRSPs or other registered plans, such as IPPs. Contributions to an RCA are deductible as a business expense to the corporation, and are not taxed in the employee's hands until benefits are received in retirement.

Planning For The Unexpected

A complete retirement plan usually includes estate planning and insurance coverage. Estate planning includes how your assets are distributed on death. Insurance can help protect you against unexpected events, such as long-term care needs or critical illness.

Although retirement and estate planning may seem like two separate fields, there are many benefits to combining them, such as:

- Providing your spouse or common law partner with financial security
- Providing an estate for your beneficiaries
- Reducing your taxes for both your business and yourself
- The ability to cover potential expenses of a critical illness or long-term care needs, within your home or a long-term care facility
- Implementing an estate freeze strategy, shareholder's agreement or a holding company to protect your business

Understanding Mutual Fund Expenses

When selecting mutual funds, an important factor could be the management expense ratio (MER). Many investors are unaware of the costs that are associated with running a mutual fund. They may be unsure of what a management fee is and how it applies to a fund. Yet the management fee charged by a mutual fund company is one of many important considerations when selecting a fund.

A mutual fund operates just like a business. In other words, the fund is responsible for its expenses, which include a management fee and operating expenses. Both are charged to the fund.

Management fees cover the cost of the manager for managing the fund. The manager is responsible for day-to-day operations of the fund including the appointment of professional portfolio managers that may manage the fund's portfolio investments and make the investment decisions about the fund's assets. These decisions include when to buy and sell those assets. Mutual fund companies charge the management fee directly against the fund's assets and not directly to the individual investor. This will however reduce the investor rate of return. The amount charged to the fund varies from company to company.

Operating expenses are expenses other than the management fee. Some of these expenses include:

- Administrative services to investors, such as statements and confirmations of purchase, and sale of shares.
- Printing, mailing and preparation costs for quarterly reports, prospectuses.
- Commissions charged by brokerage firms for buying and selling securities, research and tracking of stock prices for monitoring companies the fund is invested in.
- Costs for annual audit of the fund and legal fees.

The management fee plus the operating expenses — expressed as a percentage of a fund's average net assets for a certain period — is referred to as the fund's management expense ratio for that period. Along with performance and qualifications of the managers, it is important when you are evaluating a fund to look closely at these two figures. In fact, securities regulations require that individuals interested in a fund must be provided with proper information, including all the expenses of a fund. Where can you find this information?

You can find information about the MER of a fund in its interim and annual financial statements. (The prospectus, however, does not include MER information nor does it include a list of all expenses paid by the fund. MER can also be found in the Fund Fact document but the requirement to deliver the Fund Fact in lieu of the simplified prospectus is not yet in force.)

You can also find information about the investment objectives, strategies and risks of a fund in its prospectus, and the prospectus should be reviewed carefully before investing.

2013 Tax-Free Savings Account (TFSA) Contribution Limit Increase

Effective January 1, 2013, Canadian residents 18 years of age and older can contribute up to $5,500 (an increase of $500 from the previous $5,000 contribution limit from 2009 to 2012) to their Tax-Free Savings Account (TFSA), plus any unused contribution room and any amounts withdrawn in previous years (with the exception of any funds withdrawn because of an over-contribution).

Features and Benefits of a TFSA
$5,500 in annual contribution room (indexed annually and rounded to the nearest $500)*
Tax-free growth on investments (assuming you stay within the contribution limits)
Funds can be withdrawn at any time, for any reason
Withdrawals are not taxable
Amounts withdrawn can be re-contributed in future years (other than withdrawals to correct over-contributions)
Unused contribution room can be carried forward indefinitely

* Effective January 1, 2013, the annual TFSA contribution room for Canadian residents 18 years of age and older rose to $5,500 to their TFSA; an increase of $500 from the $5,000 annual limit that existed since TFSAs were launched in 2009.

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Given the complexities involved, specialized tax and pension advice must be sought to ensure an Individual Pension Plan (IPP) is appropriate to individual situations. An IPP strategy must be considered within the context of a comprehensive financial and estate plan. Transactions in insurance products, including segregated funds, are made on your behalf by CIBC Wood Gundy Financial Services Inc., or in the case of Quebec residents, CIBC Wood Gundy Financial Services (Quebec) Inc.