

A&Q Update

John Armstrong, CFP

December 2006

Volume 8, Issue 2

Not Just a Day...

Another year is drawing to a close, and as is our tradition at this time of year, we would like to take the opportunity to send our heartfelt best wishes for the season and to thank our clients for their support through-

with family and friends.

For me, Christmas always seems to arrive much quicker than expected. Although retailers seem to start their Christmas promotions earlier and earlier every year, I can't begin to even contem-

We hope that this is a truly wonderful time for you and your family. We hope that you are able to enjoy your holiday traditions and maybe even start some new ones. Christmases seem to mark time; we often use them to identify a particular year or period in our lives. Our simple wish is that this will be a time period worth remembering fondly for you and your family.

May you experience the peace and joy that is the true spirit of the season, regardless of your faith or ethnic background. We hope that you have the fortune of spending time, or at least being in touch with, the people you care about.

Merry Christmas and a Happy New Year from our families to yours.



out the year.

I find December to be the most unusual month of the year. Up until the 24th it is incredibly hurried, with all sorts of little deadlines and commitments; then in the blink of an eye, gears shift and we coast at a relaxed pace through a beautiful time spent

plate the holiday season until late November.

I once heard it said that "Christmas is not just a day. It's a feeling that starts just north of November and drifts all the way into a new year". That's certainly how I feel about it.

Estate Planning Workshop

On Wednesday, January 31st we will be hosting a free workshop focusing on estate planning matters. Our program will cover: wills & powers of attorney, estate taxation & distribution, the

role of the estate trustee (executor), charitable giving, and family estate considerations. Time will be allotted for a question and answer session. Guests are welcome, and refreshments will be pro-

vided.

Space is limited, so please contact Sharon Ogilvie to register.

Phone 519-576-5766

E-mail sharono@a-q.com

Inside this issue:

Income Trust Update	2
Additional RESP Grant	2
Income Splitting Update	2
Joint Account Complications	3
Named Beneficiaries	3
Coming 2007... New Website	4



Location: Our Waterloo Office

Date: Wednesday, Jan. 31st

Time: 7:00 PM

Some Brief Financial Notes

Income Trust Update

- October 31st the federal government announced that the taxation rules for income trusts would be changing, effectively losing their tax advantage (Real Estate Income Trusts or REITs are not effected by the change).
- New trusts will be subject to the new rules upon conversion (effectively eliminating the conversions that were in the works), while existing trusts will operate under the current rules until 2011.
- The days following the announcement saw the S&P TSX index (which includes both stocks and income trusts) drop substantially, with the income trust portion of the index dropping by approximately 15% (with some individual trusts losing considerably more than this).
- Since that time, the overall S&P TSX index has recouped all of the ground lost, but the values of many income trusts remain well down from their October 31st unit prices.
- Many investment managers have expressed the view that income trusts still represent a viable asset class, particularly with the 4 year transition period to the new tax regime. This transition period gives mutual fund managers ample time to adjust their weightings to trusts, and possibly to change the mandate of their funds to reflect the new environment for income trusts.
- Our balanced approach to investing resulted in our portfolios having only moderate exposure to the income trust sector, and the portion held in income trust remain up slightly over a one year period. We will continue to monitor this situation closely.

Additional RESP Grant

An additional Canada Education Savings Grant is now available for families whose annual income is under \$72,756 (indexed annually). If your net family income is below \$36,378, the grant will be 40 cents for every dollar on the first \$500 you save in your child's RESP each year. If your net family income is between \$36,378 and \$72,756, the grant will be 30 cents for every dollar on the first \$500 you save in your child's RESP each year. This grant amount is on top of the 20 cents for every dollar on the first \$2,000 of contribution each year of eligibility for all RESP beneficiaries.

Income Splitting Update

The federal government has announced plans to introduce legislation which would allow couples to split their incomes in retirement for tax purposes (as is currently possible with their CPP benefits). This could mean substantial tax savings in cases where one partner has a significantly higher retirement income. At this point there are very few details available. We will be watching closely as this develops; obviously this change would have a significant impact on the financial planning landscape.

Holiday Office Hours

December 25 & 26— Closed
December 27-29 9am—2pm
January 1— Closed



Joint Account Complications

In order to save estate costs, many families consider setting up assets jointly among family members. For example, a mother may decide to set-up an investment account jointly with one or more of her adult children. At first glance this strategy is appealing to many because joint assets transfer directly to the surviving tenant or tenants on the joint account, avoiding probate fees. In very simple situations where there is only one beneficiary to the estate this may be a good idea; however, if there are a number of beneficiaries, the drawbacks of the joint account may far outweigh the money saved in probate fees.

Firstly, let us establish how much the probate fees actually are. In Ontario probate fees are 0.5% on the first \$50,000 of the estate and 1.5% on the amount over \$50,000. The probate fees on an estate worth \$400,000 would therefore be \$5,500.00. This is considerably less than what many people expect.

So what complications can joint registration cause? Here are a few:

- Joint accounts bypass the will, with the asset becoming the property of the surviving tenant or tenants. The distribution of assets prior to consideration of the will may mean that the estate is not divided per the wishes of the deceased.
- Assets held in joint accounts may complicate matters for the executor of the estate if these assets are needed to cover the tax liability of the estate.
- If there is a marriage breakdown situation with one of the tenants, that party's spouse may claim a share of the tenant's interest in the asset.
- If one of the joint tenants has financial problems, creditors may register a court judgment against their interest in the asset. This would be particularly devastating if the asset in question is the parents home.
- Joint tenancy on real estate means that all parties must agree to transactions regarding the asset. For exam-

ple, if a mother holds her house jointly with one or more children, the mother would require the permission of the children to sell the property and all would have to sign any documents pertaining to the property (ex. mortgages, sale agreements).

- A jointly held home can complicate the usual waiver of capital gains on the sale of a principal residence. If the child has their own principal residence, an increase in value of the jointly held home after initiation of the joint status will mean that sale of the property will trigger a capital gain on the child's share of the property.

The implications of tax, estate, and family matters should all be considered before assets are set up jointly. These and other issues will be discussed in our estate planning workshop on Wednesday, January 31st.

Named Beneficiaries On Insurance Company Investment Products

Unlike registered accounts such as RRSPs and RIFs, holders of most non-registered investment accounts are not able to name a beneficiary to the account. One exception to this rule is investment product offered by insurance providers. Those investing in GICs and segregated funds purchased from an insurance provider do have the ability to name a beneficiary on their accounts.

Having a named beneficiary (or multiple beneficiaries) provides several benefits. Assets transferred upon death go directly to the beneficiary bypassing probate. Be aware however, that some of the complications discussed above for joint account registration are also a factor here.

Privacy is also an important benefit of having a named beneficiary. Any transfer of wealth by way of a will becomes a matter of public record, the details of which are available to anyone who is interested. Naming a beneficiary allows individuals to keep the division of these assets a private matter. This may be particularly appealing if the investor wants to distribute assets in varying proportions to a number of different beneficiaries.

Because the fees charged by the manufacturers of these products may be higher than those charged by conventional investment product providers, cost/benefit analysis should be done when deciding if these vehicles are appropriate.

In cases where the asset in question is 'pure estate money', in other words it is very unlikely that the money will be spent by the investor themselves, almost certainly being passed on to the next generation, these products should become an even stronger consideration.

Another factor worth noting is that insurance company investments have the potential to provide creditor protection to the account holder. This may be important if the individual is the owner of a small business etc..





Armstrong & Quaile

ASSOCIATES INC.

"Providing Sound Financial Direction"

279 Weber St. N
Lower Suite 3
Waterloo, Ontario
N2J 3H8

Phone: 519-576-5766
Fax: 519-576-0192
Email: johna@a-q.com

Newsletter Editor : Rich Weiler

John Armstrong is a Certified Financial Planner. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

Coming in 2007...

In early 2007, our team will be launching a new website. When we started on this project earlier in the year, our goal was to develop a very client-focused website; one which would provide a valuable source of information for our clients.

We developed a very long list of ideas for producing our dream website. Our wish list was in fact so long that we decided the project would have to be

done in stages. Although the first incarnation of the site will not include all of those ideas, we think that you will find our site very worthwhile.

The site will feature: links to on-line client statements, team member bios, a description of our approach to financial planning and a listing of the products and services we provide, back issues of our newsletter, posting of upcoming events, contact and office loca-

tion details, and links to other websites of financial interest. Additional features will be added in future. Stay tuned for details on the site. We look forward to your feedback!

Also in 2007, we have plans to conduct a client survey with some of our clients. We'll be soliciting some feedback in order to try and improve the service we provide our clients. Once again details will follow.

A Helpful Computer Tip

Many people have difficulty with small text when trying to read e-mail or web page print. If you hold down the Ctrl key on your keyboard and turn the small wheel in the middle of your mouse, the print size will change -it will either get larger or smaller - depending on which way you turn the wheel. Give it a try!

3 Secrets of Happy

"Work like you don't need the money, love like you've never been hurt, dance like nobody's watching."

Source unknown. From the IA Clarington Great Stuff Publication



Note: Mutual funds are sold by simplified prospectus only. Before investing, obtain a copy of the prospectus and read it carefully. Unit values and investment returns for mutual funds will fluctuate. Funds are sold through Armstrong & Quaile Associates Inc.