

# Planning Ahead

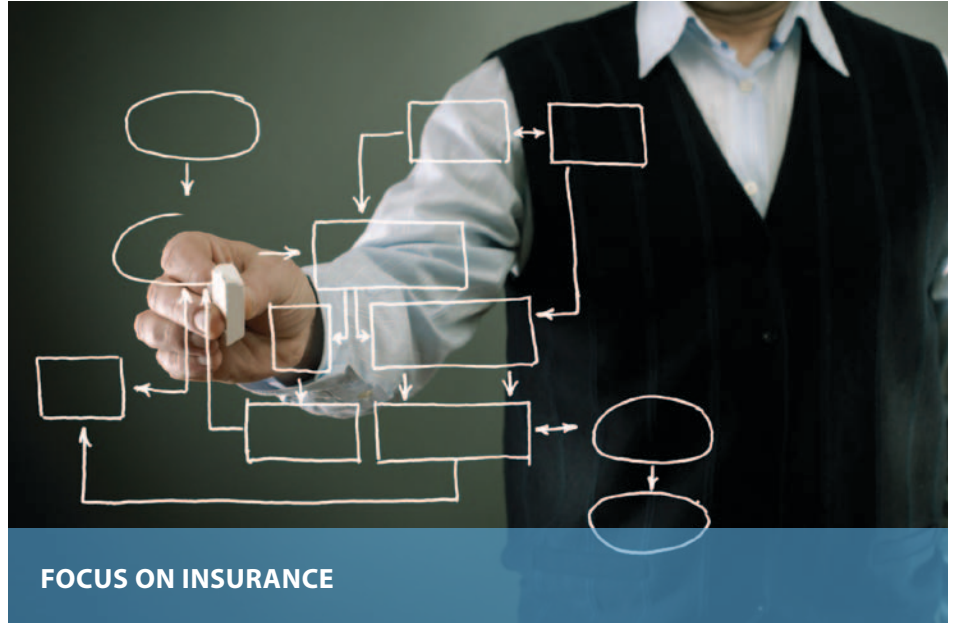


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It's time to take advantage of one of the best investment and tax-saving opportunities available to Canadians: the Registered Retirement Savings Plan (RRSP).

You have until March 1, 2012, to make your RRSP contribution for the 2011 tax year. But the first thing you should do is discuss your contribution strategy with us as well. We can review your investment options with you to help you take full advantage of this great way to build tax-deferred retirement savings.

Let's talk soon. It's the best way to ensure that your retirement savings will get you where you want to go.



## Look back to move forward

**W**ith 2011 drawing to a close, it's an ideal time for us to review your insurance strategy. Our goal should be to ensure your coverage is keeping pace with changes in your life.

Let's look at what's happened in your life recently. Some developments that may warrant changes in insurance coverage include marriage or divorce, the birth of children, children growing into adulthood, a death in the family, a new job, a higher salary, an inheritance, or a change in your wealth or debt levels.

### Make sure you have enough

Inadequate insurance can lead to financial difficulties or less support for your family in an emergency. Sufficient coverage will allow you and your family to weather events that could otherwise lead to financial problems.

### Do you need less?

There's no point in paying for insurance you no longer require. Instead, we can consider diverting the money you'll save on premiums into savings and investments.

### Consider more than just life insurance

An annual review is the best way to assess whether your coverage is adequate, and whether you're making the best use of all the insurance products you need to guard your financial security and that of your family. While life insurance is central to coverage, we should explore possibly unanticipated needs such as long-term care, critical illness, and disability insurance.

Together, we can review your coverage and ensure you have the peace of mind that comes from knowing you're well covered for 2012. ■



MUTUAL FUNDS

# How you can turn fund losses into tax benefits

**W**ith the end of the year approaching, it's an ideal time to review the performance of your investments — in particular, mutual fund holdings that have declined in value.

Because fund performance sometimes results in a loss, depending on the markets in a given year, we need to pay as much attention to our "sell" strategy as we did to the steps that originally led us to make those investments.

The end of the year is a good time to consider selling underperforming mutual funds. We may not be able to revive them, but the right strategy can help minimize taxes and give the holdings one last crack at doing some good for your portfolio returns.

If the proceeds from those funds can be used in more promising investments, this could be the time to sell at a loss to improve your year-end tax position.

### A good opportunity to 'sell low'

By redeeming fund units (outside your registered plans such as Registered Retirement Savings Plans) for less than their original cost, you will create a capital loss that can be used to offset capital gains on your income tax return. By reducing your capital gains, you reduce your tax bill. You may even be able to use that loss to reduce taxes in future or past years.

If you own money-losing mutual funds

that are likely to make a year-end distribution, you take advantage of the capital loss for tax purposes and avoid a taxable distribution by redeeming before the distribution date (generally mid-December).

We need to carefully consider which of your mutual fund holdings are candidates for tax-loss selling. These should be investments we believe have little opportunity for recovery. We also need to weigh the financial benefits of tax-loss selling in each case.

When we create a capital loss, it must first be used to offset any capital gains earned in the same tax year. Any remaining losses can be carried forward indefinitely to future years or applied to gains from the previous three years.

### How it works

Here's an example of how tax-loss selling can work to your benefit.

Let's assume you invested \$80,000 in a mutual fund a few years ago (outside a registered plan) and sold that investment this year \$100,000, for a profit of \$20,000. You also sold a money-losing fund investment this year for a loss of \$10,000. (See infographic.)

You would deduct the \$10,000 loss from the \$20,000 gain, leaving you with a capital gain of \$10,000 for the year. Half that amount must be reported as a taxable capital gain on your income tax return, so you will pay tax on \$5,000.

You can use a capital loss on any eligible investment to offset a capital gain on any other eligible investment. For example,

your mutual fund loss could be used to offset gains from mutual funds, stocks, bonds, exchange-traded funds, or even investment real estate. However, capital losses can normally be used only to reduce or eliminate capital gains, not to offset other income.

There is one important caveat: When you sell a security to claim a capital loss, do not buy that security again for at least 30 days. Otherwise it will be deemed a superficial loss by the Canadian Revenue Agency and you won't be allowed to use it to reduce taxable gains.

Timing is important. Transactions need to be completed before year-end to qualify for your 2011 income tax return. Please refer to your tax professional or accountant for advice. ■

## How tax-loss selling works

### No tax-loss selling

**\$20,000**

Amount gained from selling A

x 50%

Only 50% of the gain is declared for tax purposes

**\$10,000**

Taxable capital gain, not using tax-loss selling

### Using tax-loss selling

**\$20,000**

Amount gained from selling A

**-\$10,000**

Amount lost from selling B

**\$10,000**

Net gain, after applying B against A

x 50%

Only 50% of the gain is declared for tax purposes

**\$5,000**

Taxable capital gain, using tax-loss selling

**MONEY FILE**

## Power up your TFSA

A November 2010 survey by BMO Financial Group showed that while more than a third of Canadians have opened a Tax-Free Savings Account (TFSA), they know little about the wide range of investments that they can hold within those plans. As a result, investors may not be taking full advantage of the tax benefits and investment return potential of TFSAs.

The survey showed that 37% had no idea what investments are eligible for their TFSAs. Only 20% knew that mutual funds were eligible and 26% knew that Guaranteed Investment Certificates (GICs) could be included in their plans. The reality is that a TFSA can hold many types of investments. Here's a look:

**It's not a simple 'account'**

The range of eligible investments is similar to what qualifies for inclusion in a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). That means a wide selection of individual securities, such as eligible stocks and bonds, mutual funds, real estate investment trusts (REITs), annuity contracts, foreign currency, and more.

Diversifying beyond cash or savings-type investments in your TFSA can improve long-term growth potential and returns. Because your investment returns are completely tax-sheltered in the TFSA and tax-free upon withdrawal, the more you earn in your TFSA, the more you benefit from the tax advantages. Compounding of tax-sheltered returns can greatly increase your investment profits and

leave you with a much larger pool of wealth than you would have if you invest in a taxable account.

**Strategy is key**

The investments you hold in your TFSA will depend on your financial goals, your risk tolerance, and other factors. We need to consider your TFSA as part of your overall investment plan, carefully balancing what you hold in your TFSA, RRSP, and non-registered investments. We also need to ensure that your investment decisions aren't driven solely by tax considerations, but that taxes are just one part of deciding how and when to invest.

We can make the most of your TFSA by exploring its full investment and tax-saving potential within your overall investment plan. ■

**MONEY TALK**

## Manage the stress of an emergency

As the Canadian population ages, more of us in our 40s, 50s, and beyond are supporting the care of, or helping to care for, senior parents. There's a good chance that at some point we'll be called upon to deal with emergencies involving our aging relatives. Sometimes those emergencies require us to supply information needed for our parents' care or well-being.

When that time comes, you'll want to access that information as quickly as possible. You or your loved ones don't want to be scrambling to figure out necessary details when time is critical and stress is high.

The best way to make sure you can act quickly and confidently is to prepare in advance. Speak with your parents about their information, compile it and any documents you might need, and make sure they're easily accessible. The more knowledgeable you are, the better you'll be able to look after not just your parents, but yourself as well.

We recommend putting together the following:

**Medical information**

If a parent is in sudden need of medical care, supplying the right information in a hurry can be a lifesaver. Keep a list of your parents' blood types, medications, details of allergies, a history of past illnesses and surgeries, and contact information for doctors and other caregivers. You'll also want to have details of any medical

insurance plans, as well as supplemental coverage such as critical illness insurance or long-term care insurance.

**Financial information**

You may be called on to manage or help manage your parents' finances in an emergency. This will require access to bank account information, credit card information, details of loans and loan payments, investment information, and any other pertinent financial details and documents.

**Legal documents**

Quick access to important legal documents is essential for medical and financial matters. If you or another family member has power of attorney to manage your parents' healthcare or finances, copies and originals must be easily accessible. Other information you may need in an emergency includes your parents' wills, their written instructions about the level of medical treatment they want if they can't express their wishes (sometimes known as a "living will"), and insurance policies. Other estate planning information should also be readily available. The documents and information you need will depend on your parents' situation. We can help you plan a strategy for gathering the necessary documentation, speaking with your parents, and deciding where their information should be kept for immediate access. ■

# Stability and safety for your income

**N**obody wants their lifestyle jeopardized because of financial market fluctuations. In light of the market environment over the past year, you might be seeking alternatives for income that will offer stability and security for at least part of your income, no matter what happens with financial markets.

Annuities can provide that safety and stability. Here's a look at why the time might be right for annuities.

## The beauty of being predictable

Annuities were created for people who need their income stream to be predictable. An annuity is a contract with an insurance company that converts a lump sum into a stream of guaranteed income for a specified period or for life.

Its primary purpose is to hedge against the risk that you could outlive your income. Your annuity purchase buys guaranteed regular income payments, regardless of the ups and downs of financial markets, which means there is no investment risk.

The market fluctuations of the past year have helped bring annuities — often overlooked by retirees in these days of low interest rates — back into focus. While the most popular retirement income choice for Canadians — the Registered Retirement Income Fund (RRIF) — can be outlived, an annuity can offset or eliminate market-induced volatility.

There's another reason to consider an annuity now. With interest rates at historical lows, there's practically nowhere

for them to go but up, and some experts expect gradual increases in 2012. Annuities purchased in times of rising rates will generate higher income because payments are determined in part by interest rates at time of purchase. Payments, which are typically monthly, are a combination of repayment of the principal of your investment, plus investment income.

## You can customize

There are many types of annuities, making it possible to tailor a strategy that meets your individual needs for income. An annuity can be used as a long-term income solution or as a shorter-term stopgap. For example, you may want a life annuity to provide income for as long as you live. Or you could purchase a term-certain annuity for a set number of years to tide you over until other income kicks in — such as Canada Pension Plan payments.

If you want both stability and the opportunity to retain an active investment portfolio during retirement, we can combine one or more annuities and a RRIF as part of your income strategy. That way you'll have the benefits of stability and the potential for growth that can protect your purchasing power.

Let's talk about whether an annuity should be part of your retirement income plan. Even if today isn't the right time, an annuity might be worth considering down the road — particularly when interest rates move higher. ■

## You're a survivor, but is your income?

A RECENT STUDY by a leading Canadian financial company showed that most Canadians believe they would survive a critical illness, but at the same time, fear that they would need financial support from family or friends to cover costs.

Indeed, 65% of Canadians are confident they would survive a critical illness, while 67% are afraid that family or friends would have to provide financial support. Another 65% recognize the need to save money to cover costs associated with future health problems.

What these results suggest is that Canadians are employing risky strategies that threaten not just the financial well-being of themselves, their family and friends, but also their close personal relationships too. It doesn't have to be this way.

If any of these approaches sound a little too familiar, we should have a conversation on how insurance could cover costs associated with illness while keeping your finances and those of family and friends healthy too.

The financial consequences of many common health concerns — like Alzheimer's, disability, or a chronic illness like diabetes — can be covered by critical illness insurance. Disability and long-term care insurance can also help meet short-term and long-term health costs.

Together, we can find the right coverage so you won't need to worry that an illness will have a serious impact on your financial future or that of your family. ■

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