Financial
UPDATE
From Milestone Wealth & Estate Planning Group Inc.
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Staying on track to achieving your investment goals

The volatile ride in equity markets and the uncertainty of the global economy may have you feeling weary and questioning your investment decisions and your portfolio. Here's some insight into today's equity market conditions, what's happening with them, and how to confidently reach your investment goals by sticking with them over the long term.

Equity markets: big picture view

With ongoing concerns, many investors are expressing desire to get out of equities.

The media has a big influence in shaping perceptions. If you're wondering what the reality is, it's been a case of two steps forward, one step back.

Clearly there's no shortage of macro-economic challenges. However, the fundamentals of the companies that make up the stock market show a much brighter picture.

Over the 10-year period ending March 31, 2012, the S&P 500 rose by a total of 23 per cent, but its company earnings grew by 130 per cent. In other words, there's inherent value in the companies that make up the stock market, which isn't necessarily reflected in the share price.

Bottom line: there's a lot of opportunity for equity investors to harness growth potential over the medium to long term to capture returns in their portfolios – for those with patience.

Fixed income – safe-haven investments?

With all the challenges and worries in the markets today, it's easy to understand why investors are attracted to perceived safe-haven investments. And for many, that's been fixed-income investments.

Investors have become accustomed to very attractive returns in the Canadian bond market over the past decade, in the range of six to seven per cent. Now, in sharp contrast, returns are down in the two-per-cent range.

There are two challenges for bonds with the current low-yield environment:

1. With interest rates as low as they are, investors aren't likely to see the same results they've been used to. And really, bond yields don't have much room to go any lower.
2. In an environment where interest rates could rise, bonds are likely to show negative returns. And the longer the term of the bond, the greater the risk and impact.

Diversification is just as important among your bond funds as it is for equities.

Over the past decade, we've seen several equity market corrections. In each instance, diversified investors with both equities and fixed income saw bonds provide far superior returns versus cash.

Volatility is expected to continue and fixed-income investments are expected to continue to provide an important stabilizing effect for a diversified portfolio in today's market environment.

For more information about the markets, current opportunities and your investment plan, please contact us.

One solution to help small business owners creditor-proof some assets

It's common for small business owners, self-employed individuals and professionals (such as doctors and lawyers) to use personal assets as collateral for a loan for their business. It's also common for them not to take the necessary steps to protect their uncommitted property.

So what happens in the unfortunate event that your small business or practice ultimately fails? You may wish to have the potential for creditor protection if you face:

- Litigation against a company – as owner or even as an officer or director of a corporation you may be held personally liable if lawsuits are filed against the corporation
- Personal litigation – for example, a serious injury not covered by property or casualty insurance
- Bankruptcy

In addition to losing your business, you may often have to cope with losing some or all of your personal assets, such as your home or automobile or investments.

How a segregated fund policy can help

Like a mutual fund, a segregated fund is a pool of money invested in a variety of securities through professional fund managers. However, unlike mutual funds, segregated funds are only available through an insurance company. Because segregated fund policies are life insurance contracts, they have special protection features.

When a life insurance policy meets certain criteria, creditor protection may be available under provincial insurance legislation. This legislation is intended to protect the rights of the beneficiaries under the insurance contract. This means during the policyowner's lifetime, the assets covered by the policy are potentially untouchable by creditors when there's an appropriate beneficiary designation. And after the policyowner's death, the assets pass directly to the beneficiary, bypassing the estate.

Creditor protection may be achieved by ensuring the beneficiary designated on your life insurance contract is:

- The spouse, child, grandchild or parent of the life insured (in all provinces except Quebec)
- An ascendant, descendant or a married or civil union spouse of the policyowner (in Quebec)
- An irrevocable beneficiary

Beneficiaries that would not qualify a policy for creditor protection include your estate, corporations or charitable foundations.

Find out more

Segregated funds can be a useful tool for potential creditor protection. If you're interested in protecting your hard-earned assets from creditors and building wealth outside your business, you should seek legal advice as to whether the protection would be available based on your personal circumstances. We can help you obtain this advice and assist you in making the right decision when it comes to investing using segregated fund policies.

Creditor protection depends on court decisions and applicable legislation, which can be subject to change and can vary from each province; it can never be guaranteed. Talk to your lawyer to find out more about the potential for creditor protection for your specific situation.

A description of the key features of the segregated fund policy is contained in the information folder.
Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.

The facts on standard charge mortgages vs. collateral charge mortgages

Some financial institutions are adding collateral charge mortgages to their mortgage lineup. It's important you understand the differences between collateral and standard mortgages because the type of mortgage you choose can affect your financial security plan.

Standard charge mortgage

With a standard charge mortgage or standard mortgage, you and your lender agree on how much you can borrow, the length of the term and the interest rate. If you make your payments on time you can renew your mortgage and after a period of time, pay off the balance. Under normal circumstances, the principal balance on a conventional mortgage goes only one way – down.

Collateral charge mortgage

A collateral charge mortgage or collateral mortgage also allows you and your lender to agree upon an interest rate and term. The amount secured by the mortgage, however, is registered for more than the actual amount advanced to you, allowing you to access further funds at a later date should the need arise, without further administrative or legal fees.

Collateral mortgages can be enticing if you want the extra borrowing ability added to your mortgage. However, the following are points to consider with collateral mortgages:

- You need to understand the difference between the two types of mortgages. It's important you find out early what type of mortgage you have; learning what you have when closing the purchase of your home can be too late.
- Transferring a collateral mortgage at renewal time can be more difficult as some lending institutions will not accept the transfer of a collateral mortgage from another financial institution. The amount secured by the collateral mortgage may not have been fully advanced but this could negatively affect your ability to borrow elsewhere. Collateral mortgages with some lending institutions may also secure consumer debt, such as auto loans and credit cards.

Compare the costs

COLLATERAL CHARGE MORTGAGE	STANDARD CHARGE MORTGAGE
Interest charges are calculated monthly	Interest charges calculated every six months
At the end of the mortgage term, you'll be required to pay discharge fees to get out of one mortgage and pay additional fees to register a new mortgage at another financial institution	At the end of the term, you can switch to another lender for little to no cost
Benefit from refinancing – allows you to take out additional funds from the equity in the home without incurring further legal fees	Readvance clause – allows you to take out additional funds from the equity in the home without incurring further legal fees

The information provided is accurate to the best of our knowledge as of the date of publication, based on information publicly available. The comparison is open to change subject to receipt of further information.

We refer you to a London Life mortgage planning specialist who will help you choose the right mortgage that will help you meet your financial security planning needs.

Four strategies to help you pay less tax

Chances are you've just finished filing your 2012 tax returns. Why not consider ways to reduce the tax you pay next year and put extra money in your pocket. You can put every dollar you save toward a financial cushion, a legacy, your retirement, debt repayment, someone's education or the vacation of a lifetime.

1. **Maximize registered retirement savings plan (RRSP) contributions**
   Money you contribute, up to your maximum allowable limit, can be deducted from taxable income. The growth on these contributions isn't taxed until funds are withdrawn from the plan. Remember, you can confirm your carry-forward room (unused contributions) for the current tax year, by checking your previous year's notice of assessment from the Canada Revenue Agency.

2. **Set up a spousal RRSP**
   Contributing to a spousal or common-law partner RRSP will help reduce your current income and increase your partner's income in future years when the funds are withdrawn – accomplishing a form of income splitting at retirement. At withdrawal, the funds can generally be taxed in the hands of a lower income spouse.

3. **Open a tax-free savings account (TFSA)**
   A TFSA allows Canadian residents 18 years or older to save $5,500 a year, earning tax-free income for life. Withdrawals aren't taxed, don't negatively affect your eligibility for government benefits and can be contributed the following calendar year. Note, contributions to a TFSA are not tax deductible.

4. **Purchase permanent life insurance**
   Permanent life insurance usually builds cash value and provides a tax-free death benefit to a named beneficiary. Within certain legal limits, cash value accumulates within the policy on a tax-advantaged basis. If the accumulation stays within prescribed limits, the cash value is only subject to income tax when it's withdrawn. If necessary, you can withdraw cash or borrow against its value. Tax-exempt life insurance can be a powerful tool in a financial security planning portfolio because of its unique tax structure. Permanent cash value life insurance (for example, participating life insurance and universal life insurance) provides cash at death to help cover taxes and other estate planning needs, as well as a pool of tax-advantaged capital that can be accessed during the life of the insured.

Consult with us or your tax professional to develop a tax reduction strategy that's right for your needs and your financial security plan. Check the next issue of *Financial Update* for more strategies to help you pay less tax.

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