

The Perspective



Winter 2014



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2013 Year in Review

2013 was the Year of the Snake. It was the year that US President Barack Obama signed the American Taxpayer Relief Act of 2012 preventing the "fiscal cliff". It was the year that Pope Benedict XVI became the first Pope to resign since Gregory XII in 1415, and his successor Pope Francis became the first non European Pope in 1200 years. It was the year that saw Canadian Mark Carney take over as the Governor of the Bank of England, and also saw England celebrate the birth of Prince George of Cambridge who became third in line to succeed Queen Elizabeth II. It saw the death of Venezuelan President Hugo Chavez, and former UK Prime Minister Margaret Thatcher, as well as South Africa's beloved "Madiba", Nelson Mandela.

In Canada, 2013 saw the introduction of the ninth Governor of the Bank of Canada in May when Stephen Poloz replaced the aforementioned Mark Carney, as well as the revival of David Bowie's "Space Oddity", sung by astronaut Chris Hadfield in his historic role as Commander of the International Space Station.

2013 Year in Review

It was also the year we bid adieu to notable Canadians such as Loblaw's pitchman Dave Nichols, Cape Breton's first lady of song Rita McNeil, newspaper man Peter Worthington, Glee Actor Cory Monteith, former Alberta Premier Ralph Klein and Canada's legendary toe tapping patriot Stompin-Tom Connors.

In contrast 2013 was not the year of the "Selfie" as altruists pronounced it to be, rather, it was the year of the "Taper". Tapering is the term that went viral in May when US Federal Reserve Chairman Ben Bernanke suggested that the Federal Reserve may taper its bond-buying program known as Quantitative Easing (QE). Since December 2012, QE has called for \$85 billion in government bonds to be purchased by the US Federal Reserve monthly, in the hopes that this increased liquidity stimulates the economy.

Part of the rationale for QE was also to provide stability to financial markets, however, as "Taper-talk" continued to focus on when the Fed would reduce their monthly bond purchases, volatility increased. Tapering speculation finally ended in December when the Fed announced its intention (in early 2014) to reduce the amount of QE from \$85 billion to \$75 billion a month. In response equity markets initially faltered at the news, but quickly regained strength as investors realized that this announcement indicated that the world's largest economy had finally regained its footing.

As 2013 developed so to did financial markets, especially in the last quarter of the year which saw the S&P/TSX Composite rally by 7.3% (Guardian Capital LP) in the fourth quarter and 13.0% (Guardian Capital LP) for the year. Although growth in Canada was strong on an absolute basis, foreign equity markets posted even more impressive results, led by the Japanese Nikkei Index,



which returned more than 50% (Guardian Capital LP) and the S&P 500 Index which was up nearly 32.4% (Guardian Capital LP) during 2013.

So while the Year of the Snake was dominated by "The Great Taper" as well as the answer to the question posed from YouTube's top song of 2013 "What Does the Fox Say", the question now is what will dominate the "Year of the Horse". And while questions remain about the strength of the US economy, continued European contraction and economic restructuring in Asia, China and Japan, perhaps the New Year will bring a continued sense of optimism. As always optimism must be measured against one's goals and risk tolerances.

Planning on an Inheritance-Think Again!



As parents our goal is to ensure for the happiness and stability of our children, and as children our tendency is often to presume that our parents will always be there to pick us up should we fall.

The recent Manulife Financial Investment Sentiment Index which surveyed 2000 Canadians aged 25+, casts some doubt on parents goals and children's expectations. The November 2013 survey results showed that it is "not likely that younger Canadians - already challenged by a tough job market and chronic underemployment - have a future inheritance to look forward to." The survey found:

- 43% of Canadians report they haven't given any thought to how much cash or assets they'll leave to their heirs.
- 13% per cent say they plan to leave nothing, while more than one quarter (29%) say they will leave less than \$100,000, the index shows.
- Only two per cent of Canadians report that they plan to leave an inheritance of \$1 million or more to their offspring.

While this survey helps to provide some clarity around Canadian parent's lack of foresight, it doesn't elaborate on how to create or even to quantify a legacy (inheritance). While a goal of parents is to educate their children in order to help them become financially independent, most parents also have the goal of ensuring for the ongoing well being of their children. There are some steps that may help in that endeavor.

Taking Inventory

An inventory is essentially a list of all assets currently owned. This list can be as specific or as broad as you want to make it. For instance the list could indicate that dad's hockey card collection is to be left to a specific grandchild or that the entire residue of the estate is to be left in equal portion to all of the beneficiaries of the estate. The advantage of being specific about family heirlooms is the avoidance of strife between beneficiaries who place the same value on the item. As parents we should talk to our children about what personal property they want to receive. Then prepare a detailed disposition list, perhaps even with photos (i.e., which ring did you intend to pass on?).

Setting Goals

Goal setting is always important and includes both determining how much you need in order to lead your desired lifestyle as well as how much you wish to distribute to your heirs at death. While not easy to quantify either amount your current lifestyle requirements should not be minimized and should also include amounts for the potential of long term care and disability needs. After all you earned it.

Think Again

Creating and Protecting Wealth

An often overlooked aspect of estate planning is the use of life insurance as a means of protecting and creating wealth. Life insurance can provide a tax-efficient way to transfer all you've worked for to your family.

Life insurance proceeds can be used to preserve estate assets as it can be used as a facility to pay for funeral expenses, pay down debt and address tax liabilities. It can also be used to create wealth as funding of the policy can sometimes be less painful than years of saving and prudent investing.

Update your documents

Unfortunately many marriages end in divorce and divorced spouses often assume that upon all rights of an ex-spouse are also expunged. This is however not the case as your Will is only declared invalid upon the execution of a new Will or upon marriage. As a result many ex-spouses have cheerfully received inheritances when Wills and beneficiary designations were not updated.

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