



Since 1972

# Macdonald, Shymko & Company Ltd.

Fee Only Financial Advisors/Portfolio Manager

## WEALTH MONITOR

### CONDO FEE HAZARDS

While we are finding many clients are trading down residences from detached homes to condominiums or townhouses, a recent article in *The Globe and Mail* by Steve Ladurantaye, "Faulty Towers: The Hidden Dangers of Low Condo Maintenance Fees", chronicled some common pitfalls many strata councils find themselves facing.

The story is about a condo building in Ontario where the residents had enjoyed low maintenance fees for many years, based on the

decisions of the condo board (residents who were elected to the board). However, the result of the low fees was a lack of funding to cover the annual repairs and maintenance that the aging building required. As a result, after decades of neglect there are now serious repairs and maintenance required that will cost millions, but no reserve or adequate source of funding to cover the expenses.

Given the dire situation, many residents have been trying to sell, but buyers are

not interested. The current members of the condo board realized that action was finally required, and recommended a special assessment to all owners to provide the funding for the repairs. However, the proposal and special assessment was voted down. The board elevated the situation to the courts and an Ontario judge took the drastic step of appointing an administrator to take over the building and impose fees to break the impasse.

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### MARKET NEWS

Financial Markets have been front and center in the news headlines in August, with markets around the world experiencing great volatility that reminds investors of the 2008/2009 financial crisis. While the markets continue to be nervous, markets have been more encouraging in mid-August as investors have been looking at some of this weakness as a buying opportunity.

It is important to consider the issues and concerns that have been driving the mar-

kets recently, and review if they are the same issues as in 2008/2009. The factors this time include government debt in Europe and the U.S., the U.S. credit rating downgrade, and concerns over a double dip-recession. When Standard & Poor's downgraded the U.S. government credit rating on August 5<sup>th</sup> from AAA to AA+, although this change was not really a surprise based on previous warnings, it created a panic in markets on the following Monday. The downgrade reflected the high level of

U.S. government debt, and ongoing budget deficits (from a high level of spending, with low tax rates), and what was viewed by many as unsatisfactory compromise on the part of U.S. politicians in the recent budget battle.

While the downgraded U.S. credit rating was a major event, given its historic significance to a country that has always maintained a top rating, it is important to note that investors clearly

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### SUMMER 2011



Happiness is not something you postpone for the future; it is something you design for the present.

~ John Rohn

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## HEALTH MATTERS

In the recent BC Budget it was announced that Medical Services Plan premiums will increase, effective January 1, 2012. Maximum monthly premiums will increase by about 6%. The premiums will increase by \$3.50 per month to \$64 for single persons, \$7 per month to \$116 for two-person families, and \$7 per month to \$128 for families of three or more persons.

## E-STATEMENTS AVAILABLE

Did you know that you may eliminate paper statements if your accounts are held with the custodian Raymond James?

To elect electronic delivery, first ensure that you are able to access your account online. Log in, proceed to "My Profile," and choose:

- "Change my account statement delivery method,"

and/or

- "Change my trade confirmation delivery method."

Contact your MSC advisor to set up online account access or for assistance with switching to e-delivery should you require assistance.

## MSC NEWS

- ◆ In April, Ian Black was granted the Trust and Estate Practitioner designation "TEP" by the Society of Trust and Estate Practitioners (STEP). He joins David Shymko as the 2<sup>nd</sup> member of our firm to attain the designation.
  - ◆ Ngoc Day received the prize for the highest mark in the STEP Taxation course. Ngoc has one more course to complete before being eligible to be granted the TEP designation.
    - ◇ The Society of Trust and Estate Practitioners (STEP) is the leading international organization for trust and estates professionals. Headquartered in London, England, it has more than 16,500 members worldwide in 66 countries.
- STEP Canada, founded in 1998, has almost 2,000 members with branches in the following cities and regions: Atlantic, Montreal, Ottawa, Toronto, Winnipeg, Calgary, Edmonton and Vancouver.
- STEP is a multi-disciplinary organization with the most experienced and senior practitioners in the field, including: lawyers, accountants, financial planners, insurance advisors and trust professionals. They provide domestic and international advice on trusts and estates, including planning, administration and related taxes.
- ◆ *Globe and Mail* Financial Facelift articles: Ian Black was quoted in the March 18, 2011 article, "Couple Can Have It All, But Not All At Once"; Keith Copping was quoted in the August 5, 2011 article, "Dentist's Dream to Move West Possible But Risky".

## CONDO FEE HAZARDS (CONTINUED FROM PAGE 1)

"[The building] has suffered from years of neglect by successive boards of directors who, aided by the support or indifference of many residents, kept the common expenses unreasonably low," wrote Justice G.R. Strathy in his ruling, "neglecting repairs and maintenance and postponing the inevitable day when the chickens came home to roost. That day has come and gone."

While this was an extreme situation, the focus on short-term priorities that lead past condo boards to focus on low fees versus long-term maintenance priorities is a common problem. This sto-

ry reinforces the possible risks when purchasing a condo. Many residents are afraid that high monthly strata fees will make it difficult to sell their units in the future, as buyers focus on the monthly cost without proper consideration of the condition of the building, upcoming maintenance costs, contingency reserves, etc.

Also, buyers are generally very cautious when purchasing a detached house (home inspections are common), but may be less careful when purchasing a condo (on the false assumption that the ongoing maintenance issues are professionally managed). A thorough review of the strata

council meeting notes and a building inspection by a qualified home inspector specializing in strata units are essential considerations, depending on the age and type of building.



## FEDERAL BUDGET COMMENTS - JUNE 6, 2011 (FROM DELOITTE)

- **Children’s Art Tax Credit:** The budget proposes a new 15% non-refundable Children’s Art Tax Credit for eligible expenses up to \$500. The credit will be available in respect of a child who is under 16 years of age at the beginning of the year who is enrolled in an eligible artistic, cultural, recreational or developmental activity. This credit will be structured in the same manner as the existing Children’s Fitness Tax Credit. The credit will apply to eligible expenses paid in the 2011 and subsequent taxation years, and will be able to be claimed by either parent, or shared by both parents.
- **Family Caregiver Tax Credit:** A Family Caregiver tax credit is proposed for a caregiver of a dependent person who has a mental or physical infirmity. The credit will be integrated into the existing dependency-related credits and will be based on an amount of \$2,000. The credit will apply beginning in 2012.
- **Medical Expense Tax Credit cap removal:** The Medical Expense Tax Credit in respect of a dependent relative (other than a child who has not reached the age of 18 years before the end of the taxation year) is proposed to be amended to remove the current \$10,000 limit on eligible expenses that can be claimed. This measure will apply to the 2011 and subsequent taxation years.
- **Amended Registered Disability Savings Plan (RDSP) rules:** The RDSP rules are proposed to be amended to enhance the ability for a beneficiary with a shortened life expectancy to withdraw amounts from the RDSP without triggering the 10-year repayment rule in respect of Canada Disability Savings Grants and Canada Disability Savings Bonds. This measure will apply, subject to a transitional measure, after 2010 to withdrawals made after Royal Assent.
- **Increased Flexibility with Registered Education Savings Plan (RESP) allocations:** The budget proposes to allow for greater flexibility with respect to the allocation of RESP assets among siblings by expanding the ability to transfer between individual RESPs for siblings, without tax penalties or triggering the repayment of Canada Education Savings Grants, to individuals who are not connected by blood or adoption, such as aunts or uncles. This proposal will apply to asset transfers that occur after 2010.
- **Changes to RRSP rules to limit abuses:** The RRSP rules are proposed to be amended to address certain perceived abuses, a number of which involved accessing an RRSP without a corresponding income inclusion. Measures similar to those recently implemented in respect of TFSA’s are proposed to be introduced for RRSPs. Subject to certain exceptions, these measures are proposed to apply to transactions occurring and investments acquired after March 22, 2011.
- **Individual Pension Plans (IPPs) updates:** The budget proposes two amendments in respect of Registered Pension Plans that are considered IPPs.

  - Similar to the requirements applicable to a Registered Retirement Income Fund, annual minimum amounts will be required to be withdrawn from an IPP once a plan member reaches 72 years of age. This measure is proposed to be applicable to the 2012 and subsequent taxation years.
  - Contributions to an IPP that relate to past years of employment will be required to be funded first out of RRSP assets or a reduction in RRSP contribution room before a deductible contribution can be made. This measure is proposed to be generally applicable to past service contributions made after March 22, 2011.
- **“Kiddie Tax” extension to Capital Gains:** The tax on split income, also known as the “kiddie tax”, is proposed to be amended to extend the application of the 29% tax to certain capital gains. The provision is proposed to apply to capital gains realized on the disposition of shares of a corporation to a person who does not deal at arm’s length with the minor, if taxable dividends on those shares would have been subject to the “kiddie tax”. If this provision applies, the capital gains will be treated as dividends and neither the capital gains inclusion rate nor the lifetime capital gains exemption will apply. This measure is proposed to apply to capital gains realized on or after March 22, 2011.
- **Donation of Flow-through Shares limitation:** In order to prevent taxpayers from acquiring and donating flow-through shares at little or no after-tax cost, the budget proposes to allow the exemption from capital gains tax on donations of flow-through shares only to the extent that cumulative capital gains in respect of dispositions of shares of that class exceed the original cost of the flow-through shares. This measure applies for shares issued pursuant to a flow-through share agreement entered into on or after March 22, 2011.



## MARKET NEWS (CONTINUED FROM PAGE 1)

do not fear a U.S. Bankruptcy. In fact, not only did the price of U.S. bonds not fall, but investors actually increased their demand for the safety of U.S. Treasury Notes after the rating change.

Overall, investors are still concerned about the possibility of a double-dip recession, and see the global efforts of governments to reduce spending and rein in stimulus spending as a limiting factor to economic growth. On the other hand, corporate earnings in many sectors of the economy have been strong in 2011, and overall most companies are in stronger financial shape than they were in 2008. If there is a silver lining in the recent market events, it may be that the risk of rising inflation is reduced, which could allow interest rates to remain low. While low interest rates do not help the investor on the fixed income side, it does reduce costs for borrowers (government, consumers and corporations), and provides motivation for consumers/

companies to spend/invest and increase the level of economic activity. In Canada and the U.S., governments have already indicated that interest rates are likely to remain at current levels for the next period of time.

While the level of volatility in financial markets changes, and the “News” that drives the markets always changes, there will always be events that create volatility. “Corrections” are a normal part of market cycles, and the only thing we can really predict is that markets will not remain static.

While we continue to monitor the daily situation, we remain focused on your long-term goals and the investment time horizon for you, our clients. It is impossible to predict short-term market events, and we continue to believe that it is critical to remain invested throughout these periods. As always, the cornerstone of the Portfolio Management process remains the individual investor’s Asset Allocation Targets, as this will

control the overall level of volatility of the Portfolio. In addition, wide diversification, both across asset classes and within each asset class, remains the key to provide the appropriate balance between the risks and rewards of investing.

We welcome your calls to discuss any of the above comments and the impact these may have on your Portfolio.



## WHAT'S AHEAD FOR MSC

- In October 2011, many of our advisors will be attending the Institute of Advanced Financial Planners' (IAFP's) Symposium in Toronto, ON, and a number of advisors will be attending the Dimensional Fund Advisors Advanced Conference in Austin, TX.
- MSC is pleased to offer the *Wealth Monitor* by email. If you prefer e-delivery, or if you'd like to share the *Wealth Monitor* with a friend or loved one, send us a message at [newsletter@msc-feeonly.com](mailto:newsletter@msc-feeonly.com).
- The *Wealth Monitor* continues to evolve, and we hope you enjoy its contents and appearance. We welcome your feedback at [newsletter@msc-feeonly.com](mailto:newsletter@msc-feeonly.com).

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