Since 1972

**Macdonald, Shymko & Company Ltd.**

*Fee Only Financial Advisors/Portfolio Manager*

# WEALTH MONITOR

WINTER 2010

## HERE'S TO YOUR RENEWED FINANCIAL HEALTH!

The New Year is almost upon us, bringing with it a spirit of renewal, improvement and change. Surely a few folks are crafting resolutions to improve their financial health. We commend you! Financial well-being is important, no less in economic times where stagnation and uncertainty seem prevalent.

Financial change, as with any resolution, can leave us liable to backslide. Whether you aim to reduce debt, embark on a savings plan or rebalance our holdings in the market, it's important to be realistic about what you have to work with and what you wish to achieve. How can you create realistic goals, and ensure that your efforts will be successful?

Good planning is essential to financial well-being. A well-thought-out plan offers focus and direction, and can help mitigate fears and keep you on track when you're tempted to waver or react emotionally. A clear understanding of your goals, risk tolerance and suitable rate of return is essential.

If the previous year has been financially challenging, debt reduction may be your foremost goal. A strategic and informed approach to debt management can help you reduce your debt load in a shorter period of time, and generally with less cost. Factors such as debt type, inflation, interest rates, and market activity may impact one's planning. Because each situation is unique, the advice of a professional can help you to set an effective, targeted debt reduction plan.

Whether confronting debt or building wealth, prioritizing is key. Consider your current habits, then identify what you can do without. Commit to tracking all of your purchases for a week: the results can be surprising and revelatory, especially since many of us are skilled at rationalizing our excess spending. When you are clear about your resources, goals and values in this area, develop a meaningful budget to guide you on a day-to-day basis. *(Continued on page 2)*

## RETIREMENT: HOW MUCH IS ENOUGH?

"If I save a million dollars by the time I'm 65, I'm set for retirement, right?"

A million at 65 is often touted as the target for a well-funded retirement. However, with historical lifespan increasing, and no corollary adjustment to the retirement age, $1 million intended to fund a 20-year retirement may fall strikingly short of funding a 30-year retirement.

Capital needs in retirement are highly personalized, depending not only on the projected time frame, but also one's lifestyle expectations during that time.

Whether your goals include travel, community involvement or creating a legacy, fixed capital is the constant; that is, contributions are no longer being added to your reserve. *(continued on p. 3)*

***MSC wishes you & your loved ones a safe & joyous holiday season!***

**INSIDE THIS ISSUE:**

## TAX NOTES

The year-end brings several important tax deadlines:

**RRSP** Contributions are due December 31st, or can be attributed to the 2010 tax year if made within the first 60 days of 2011. Allowable contribution room is based on 18% of the prior year's earned income, to a maximum of $22,000.

**RESP** Contributions are due December 31st. The government will match 20% of contributions up to $2,500. This amount may be carried forward to the following year.

**TFSA** New contribution space of $5,000 becomes available January 1, 2011.

## MSC IN THE NEWS

**Doug Macdonald** was quoted in a November 1st *Maclean's* article regarding the state of the Canadian housing market. "Should buyers beware" appears as part of *Maclean's* "Investing after the fall" series.

**Brinsley Saleken** was quoted in a November 17th Globe and Mail article. "Investing road map can keep you on track" illustrates the role and importance of an Investment Policy Statement.

## PROFESSIONAL DEVELOPMENT AT MSC

- MSC's advisors and assistants attended the 25th Annual Institute Advanced of Financial Planners' Symposium in Banff, September 22-25. Keynote speaker Preston Manning emphasized ethics and honesty in advisory relationships and institutional settings, while seminars and workshops included estate planning, insurance trends, portfolio building and income strategies in the wake of the market's 2008 crash and 2009 recovery.
- Ian Black, Keith Copping, Gina Macdonald and Brinsley Saleken attended the Dimensional Funds (DFA) Advanced Symposium in Santa Monica, October 20-22, while Peter Edge attended the DFA Introductory Symposium November 18-19.
- David Shymko attended the Canadian Tax Foundation's British Columbia Tax Conference, September 20-21.
- Ngoc Day is currently enrolled in the Society of Trust and Estate Practitioners' Diploma program. In September she wrote and passed the second of three exams leading to the Trust and Estate Practitioner designation.
- Larry Jacobson attended the iShares conference in November, gleaning an inside look at the structure and operation of this increasingly prominent aspect of the markets.

## FINANCIAL HEALTH (CONTINUED FROM PAGE 1)

If your goal involves saving and you find this a challenge, be honest with yourself. Set up systems to do the heavy lifting for you, such as automatic deduction from your paycheque to your RRSP. In addition to the benefits of tax sheltered growth, withdrawal from an RRSP requires deregistration and triggers onerous withholding taxes, both of which should serve as a disincentive. Alternatively, if you're saving toward a specific goal or simply have extra cash on hand, consider using a TFSA as your "safekeeping" vehicle. Income earned in a TFSA is exempt from taxation, and withdrawal is relatively simple.

Regardless of your current goals, it is wise to regularly review and revise your tax plan. Tax planning is highly individualized, and must evolve as your personal and family situation changes. MSC's advisors are well-versed in tax planning, and can help you design and maintain an efficient, meaningful strategy to reduce your tax liability and leave more cash in your pocket.

It is wise to also periodically review your will and estate plan, and to consider the importance of insurance to your personal situation. How would it impact your family should you suddenly pass away or become critically ill without having such measures in place? Both fiscal and emotional realities should be considered.

While it may seem there are so many and ever-changing considerations, tending to your financial health need not be overwhelming. To begin developing a strategy, first identify your goals. Then, work backward to develop manageable, realistic and timely steps that are in line with your resources and values. Bear in mind that your financial advisor is an excellent resource in this process and can be involved in guiding you as much or as little as you choose.

Perhaps most importantly, remember to enjoy life and have fun. After all, the best financial plan is one that you don't have to think about all the time.

# INTELLIGENT INVESTING: A DISCIPLINED APPROACH

The allure of the markets is manifold. Some may be looking for security, others for the next "big" stock. Most investors, however, are looking to protect or grow their capital while mitigating inherent risks.

It seems logical that the active tending and anticipation of market events would deliver a greater return. However, many studies have been conducted that question the superiority of this approach.

"Buy low and sell high," is … challenging to do"

The adage, "buy low and sell high," is an excellent idea, but is challenging to do. Perfectionism in trying to choose the "right" stock, fear or greed may undermine wise decisions that lead to reasonable returns. Meanwhile, pride makes it difficult to accept a poor decision. Hoping for an investment to recover often results in a bad situation getting worse. To date, we have not come across a reliable methodology to know whether a stock is at its top or bottom, and a way to know when to act. The excitement and momentum of the day's "hot" investments often result in the purchase of stocks already driven up in price.

Stock picking, whether individually or through an actively managed fund, is based on the idea that returns are gained by timing the market; that one can exploit inefficiencies in the availability of investment information. However, this means that one has to be right twice, both when buying and selling. Even where one's judgment is correct, the effect of market impact may be felt; that is, where the volume of buys and sells artificially inflates prices one day, only to result in a correction the next. Moreover, each transaction generally bears trading costs and tax implications, often resulting in considerable costs, irrespective of the investment's performance.

"Pay for advice on what matters"

MSC believes that Asset Class investing should be the prevailing investment philosophy applied in your portfolio. Some of the principles of this disciplined approach are as follows:

1. Markets work – securities are efficiently priced as information is readily accessible to all investors.

2. Take risks worth taking – expose the portfolio to equity asset classes that have empirical evidence to back up the risk return expectation.

3. Don't gamble with your money – invest rather than speculate, which means relaying on sound principles rather than an individual "picking" your stocks.

4. Diversify across various asset classes – don't speculate which asset class will outperform or underperform each year. There is very little predictability in asset class performance.

5. Keep costs low – given that active stock picking likely doesn't work, pay for advice on what matters and use cost efficient Asset Class strategies for the investments.

6. Manage your emotions and greed and don't get caught up in the chatter of the day.

7. Keep a long term perspective.

With your MSC Advisor assisting you to develop an appropriate asset mix, the above approach should lead to a successful investment experience.

# RETIREMENT PLANNING ARTICLE (CONTINUED FROM PAGE 1)

Spending generally doesn't decrease in retirement, so projections should be based on realistic goals.

Market activity may also impact upon one's financial resources. Compounding, where interest earned on capital then earns interest, is a boon when investing. Conversely, drawing on a fixed amount when markets are down creates negative compounding. With a fixed asset base, recovery is rare. One bad month at the start of retirement can reduce one's portfolio life by years.

To help ensure a financially secure retirement, start planning early. Whatever your age, resources and goals, your advisor is a valuable ally. He or she can help you to develop and savings plan, maximize tax efficiency and investment income, and provide invaluable peace of mind.

## 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 access or for assistance with switching to e-delivery should you require assistance.

## NEWS BRIEFS

- The personal income tax reduction for BC residents of 15% on the first $72,000 of income has been suspended, pending the change of Liberal party leadership and the Executive Council. A status quo budget is expected to be tabled on February 15, 2011.
- British Columbians who have built up at least 15% equity in their principal residence and have children under the age of 18 are able to defer property taxes until the home is sold.
- Canadian banks are expected to begin raising their dividends for the first time in two years, likely in the new year. The move signals the ongoing strength of Canadian banks and their confidence in the domestic economy.
- The Canadian Government continues to progress toward a national securities regulator. A transition plan, developed by a transition officer in conjunction with participating provinces and territories, was released in July. While the participants continue with organizational and administrative development, a number of provinces are not committed to this process.
- New and more stringent transparency measures have been enacted on federally regulated credit card issuing institutions. Consumers may expect greater grace and increased clarity in terms of payment application, the effects of accruing interest and changes in terms.

***As sure as the spring will follow the winter, prosperity and economic growth will follow recession. ~ Bo Bennett***

## WHAT'S AHEAD FOR MSC

- Please visit our newly redesigned website at **www.macdonaldshymko.com.** We welcome your feedback!
- 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.
- The *Wealth Monitor* continues to evolve, and we hope you enjoy its contents and appearance. We welcome your feedback at newsletter@msc-feeonly.com.
- Our offices are closed December 27th and 28th and January 3rd. We look forward to seeing you in the New Year!



MS &C
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