

June 14, 2011

Dear Clients and Friends,

Quote of the Month: Character: Leadership is the capacity and will to rally men and women to a common purpose and the character which inspires confidence” Bernard Montgomery...British Field Marshal

Market Update: What is the world is going on??? Lots!

There are several key themes that have persisted on a Global bases, US and Canada which has created a market correction over the last few months. A market correction by definition is a drop of 10% on a stock exchange...the TSX crossed that barrier yesterday dropping from its high of just over 14,000 to yesterday below 13,000. Just to reassure you this is a normal cycle of a healthy stock exchange and has had very minimal effect on your portfolios over the last 3 months 1 to 3% decline depending of the portfolio mix. So what has caused the correction?

- * Inflation is emerging markets like China and India of 5% plus.
- * Slowing demand for our resources short-term.
- * Ongoing Sovereign DEBT crisis in Europe...mainly Greece right now. Everyone knows Greece with eventually default (nothing new they have repeated this many times as a nation...The sins of our fathers being repeated sadly!) The EU is postponing default due to the serious ripple effects on banks and Countries that hold Greece debt...but one day the house of cards will come crashing down!
- * Slowdown in the US economy...still high employment, ongoing massive foreclosures of housing market, QE2 coming to an end (Government injection of cash to prop up economy to the banks in the TRILLIONS of dollars...Gigantic DEBT), inflation mainly due to rising fuel prices (which effects cost of FOOD, Transport of ALL GOODS, etc.) and the devaluing of the US Currency.
- * In Canada our economy is doing quite well, jobs returning in many Provinces like Ontario and Alberta, Saskatchewan and Alberta leads the way.
- * Expect the Canadian dollar to remain above Par with the Greenback for the foreseeable future. The CA Dollar will be volatile due to the fact that Canada is a Resource currency much like Australia. As I have stated before Canadians will greatly benefit for our Natural Resources if wisely used and will fund our healthcare, pensions, infrastructure, etc. and the quality of life we all enjoy in Canada.
- * Now that we have the uncertainty out of the Government with a majority; let's hope they continue to do a great job and provide stability through their leadership and polices.
- * The BIGGEST concern in Canada is the Massive DEBT loads many Canadians are carrying....mainly BAD DEBT for toys and trips using credit cards or lines of credit. This is a sure recipe for financial ruin....pay cash for trips and depreciating assets. Canadians are carrying 1.5 TRILLION of BAD DEBT...this is a record (this does not include mortgages)!!! Don't be lured into this trap...**when interest rates go up which they will** for many this will increase their monthly debt costs and possibly cause very serious debt loads for families. If you are concerned about your current DEBT load I am happy to discuss this with you and help you create a plan to get out of debt permanently. The only debt you should carry is GOOD Debt for Investment purposes and even this must be conservative...meaning you can carry the payment long-term when interest rate rise.
- * Expect Gas prices to remain over a \$1.00 a litre...this will be our new norm long-term. Global demand, market manipulation, wars, earthquakes, and devastating storms will ensure this!

Thinking about Retirement Part 2: How much will I need to Retire or better yet Transition to a Slower Lifestyle?

Let us step back before I answer this question and review last month's e-letter and a few important points: 85% of Canadians 65 years old are still working (50% because they have too and 35% because they want too). This trend will continue to grow, but not all is bad since Boomers work ethic and skills are in big demand. Best to start a small business and contract yourself to a company (you choose the hours, the pay and you will have superior tax advantages doing it this way). Expect to live 80 plus so plan accordingly. The BIGGEST threat to your financial plan in your golden years will be HEALTH CARE COSTS... I can show you how to prevent this! Keys will be being DEBT FREE, having good health, strong family and social network and having several baskets of assets to draw from. Most importantly have a solid life plan and financial plan.

Let's talk about income: Not all incomes are created EQUAL. All RRSP's and pensions including Canada Pension are 100% Taxable. Best not to put all your eggs in these types of vehicles since the Government will be taking 25% to 40% plus right off the top in TAXES! Most Canadians don't realize this until they see how little they have to live off. Your \$3000 a month income is now worth \$2100 as an example. There is a big difference in lifestyle and choices when you factor in TAX and having a fixed income! When your car breaks down or you need a new roof the government still wants there tax! 94% of Canadian transition with less than \$3000 per month and many receive less than \$2000 per month in real dollars...that is sobering but the reality for many ... this is the reason why many Canadians are going back to work. O did I mention that over 60% of Canadians over age 60 are still carrying a mortgage...this really does complicate things!

Having NON-Registered Assets to draw income from is superior for tax purposes **if planned properly**. Worst to BEST!

- * Interest bearing 100% taxable income just like RRSP or pensions, GIC's, T-Bills, Saving accounts, etc. If you want low risk it is superior to use Insurance products like GIA's, Annuities, GLWB products that give you far more favourable tax treatment.
- * Dividend income is superior to interest for tax purposes.
- * Capital gains from business, real-estate, investments provides 50% tax free growth (must be NON-Registered and there can be certain qualifiers especially for business sales).
- * REIT's (Real Estate Investment Trusts) can provide Return of Capitol which is tax-free for many years. I have one of the BEST in Class Apartment REITS in Canada...ask me for details.
- * TFSA....this should be one of the Asset Baskets you take advantage of....TAX FREE GROWTH and you can put in \$5000 per year. Most of my clients received between 8 to 15% growth using low to medium risk vehicles with no fee's to access the money.
- * ULs or Whole Life Policies can be used very strategically to create a TAX deferred benefits and TAX free income down the road...you need 15 plus years to make this work for you.

So how much income will you need? Well it depends on your lifestyle...but most experts suggest 60 to 80% of your current income to slow down comfortably. If you earn \$70,000 per year after tax, you will need \$58,000 at 80%; and \$42,000 is 60%. If you are a typical Canadian and earn less than \$3,000 per month you could be in trouble or have a very reduced lifestyle. Let's say you qualify for both Canada Pension (max \$960 at age 65 (2011) for individual unless you qualify for Supplement, Disability or Survival benefit then it is slightly more) , OAS max if you

qualify for individual \$526.85 and this can be clawed back if you make over \$66,000 per year. In after tax benefits let say you qualify for both (CPP & OAS) you will have approximately ... \$1,300 (depending on your Tax Bracket MTR) and you have a pension or RRSP to draw from of \$1,600 per month...so you are thinking that's not bad...that's \$2,900 to live on $2900 \times 12 = \$34,800$ per year...but remember the goal is \$58,000. If you are happy with 60% of 70K you would require \$42,000 and you are still short \$7,200 per year. We still need more baskets to draw from to enjoy a quality lifestyle. Ideally you will want your home paid off, no debts, and have \$250K to a million plus in assets divided into several baskets, call me if you feel the need to develop or adjust your plan. The SOONER you get started the BETTER!

The keys are to develop a quality plan with many different baskets to draw from and make sure the majority of your income is tax advantaged (meaning non-registered) and this ensures more is in your pocket to enjoy.

Important Notice: I will be away from my office from July 1st to July 20th enjoying the beauty of the Maritimes and Southern Ontario with my dear wife Tammie. I can be reached by email or my cell for emergencies.

One more sleep...Go Canucks Go!!!

PS. Please call me if you have any questions or would like to further develop your plan.

Best regards,

Bill Westmacott, President & Financial Advisor

Fivefold Wealth Management

www.fivefoldwealth.com

Office: 403-455-3776 Cell: 1-888-614-0614

107 Copperstone Grove SE, Calgary, AB, T2Z 4X7

Branch Manager, Global Exempt Market Solutions

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