New Financial Realities

Real Wealth Management That Works!

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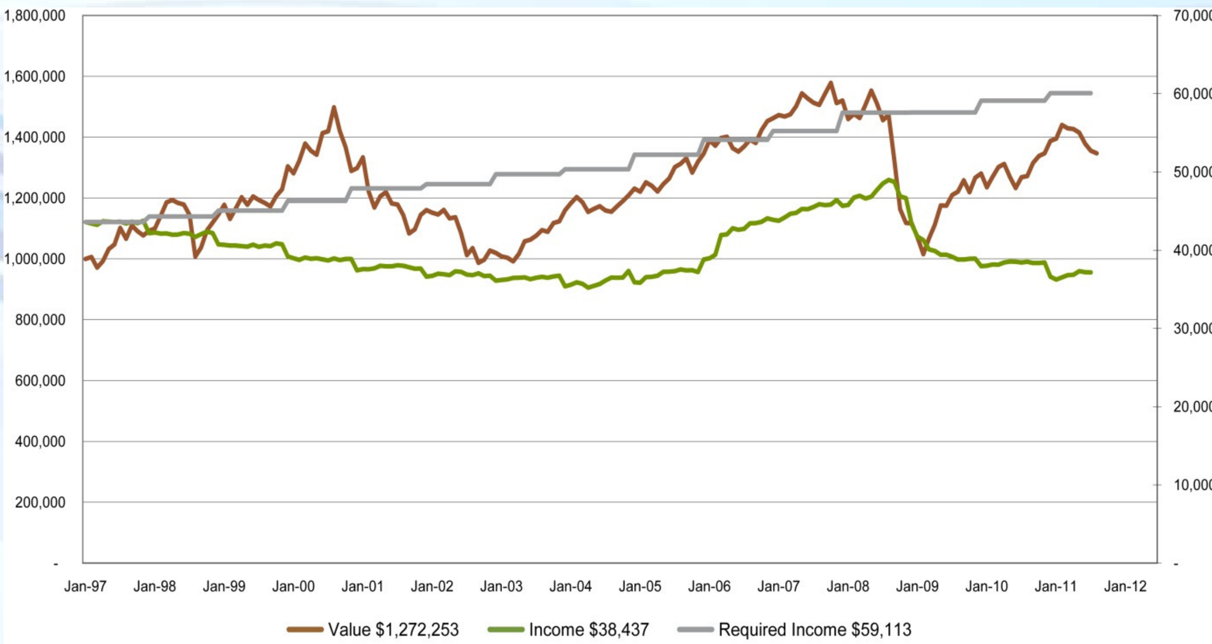
Agenda

1. Private Wealth Management
2. Tax Planning that focuses on reduction strategies
3. Managed Yield
4. Simplifying your retirement strategy

Introduction – The Classic Asset Mix Doesn't Work Anymore…

- Classic portfolio model: 40% long-term fixed income ladder, 40% S&P/TSX Index Funds, 20% S&P 500 Index Funds
- By 2016, more than 30% of the population will be 55+.
- Income security is a major issue; income solutions involve using equity markets. **Source: Sentry Investments, Bloomberg LP, as at August 31, 2011**



Is anything really changing?

- European debt crisis
- Greece default
- Japan experiencing slow growth
- China growth slowing
- U.S. economic growth slowing
- U.S. fiscal problems
- Global economic direction??

The Five Pillars of Elite Financial Management…

1. Asset Protection

2. Retirement Planning

3. Investment Planning

4. Estate Planning

5. Tax Planning and Strategy

Tax Planning & Strategy

"It's not what a dollar is but what a dollar's worth"

-Corey Sparling FMA

Tax Considerations for Distributions for Specific Asset Classes…

Distribution Type	Taxable Effect
RRSP’s/RRIF’s/LIF’s/LRIF’s	100% taxable
TFSA’s	Zero
Bonds	Interest 100% taxable
Preferred Shares	Dividends – gross up and then apply the Dividend Tax Credit
Common Shares and Equity Funds	Capital Gains 50% taxable
SWP’s	Blended
T-SWP’s	Deferred capital gains
“Yield”	Blended interest, dividends, capital gains, accounting ROC (real estate)

Tax Planning and Focusing on Reduction…

- Cash flow after taxes is the most important factor in cash flow planning
- Planning should be done as a family, with consideration to each other's tax brackets and asset levels
- $10,000 of income* can be worth different amounts depending on your structure:
    - Interest 100% taxable = $5,359
    - Eligible Dividends 26.58% taxable = $7,342
    - Capital Gains 23.2% taxable = $7,680
    - Deferred Capital Gains and Accounting ROC no immediate tax = $10,000

*Assumes highest (46.4%) MTR for an Ontario resident

It all comes down to STRUCTURE!

Different Tax Structures for Open Money

Tax Structure	Features	Ideal For
Capital Gains Class	Annual distributions are anticipated to be capital gains	• Harvest current or historic tax losses • Reduce fixed income tax by half
Return of Capital Class	Deferred capital gains and monthly distributions treated as investor principal	• Higher income investors looking for tax-efficient cash flow • Investors looking to manage "clawbacks" from OAS
Dividend Tax Credit Class	Distributions taxed as Canadian dividends	• Maximizing dividend tax credit to create tax-effective income for individuals with little or no income • Income sprinkling
Compound Growth Class	Minimize annual distributions in order to maximize growth on a tax-deferred basis	• Investors wishing to focus on capital growth • No need for income from portfolio • Defer high tax-rate income

Scenario # 1
Reducing Taxes and OAS Recapture

Client is a retired teacher:

- 66 year-old widow
- Highest marginal tax bracket
- Rental property revenue $25,000
- Pension income $38,000
- OAS of $6,500
- VERY risk averse…$1,000,000 in non-registered GIC's (3% interest)
- Total annual cash flow $69,915
- OAS clawback $4,491
- Taxes paid $25,094

Client doesn't realize it, but she is OVER-PAYING taxes!

Why does this happen?

- The income from her GIC's turned her income from $69,500 to $99,500
- Furthermore they were included as taxable income and bumped her into a higher marginal tax rate
- She was clear that she did not need the income
- A different asset structure based on her overall financial needs and situation was the solution

Return of Capital Class

- Convert her GIC's on maturity to a Bond fund using the ROC Tax Class Structure
- This will defer the taxation on the interest income until she sells the fund
- If she wishes, she can supplement the cash flow with return of capital

- Her pension income, rental income, and OAS remain the same
- In fact, her overall cash flow does as well

- But her tax bill has been dramatically reduced, and her OAS clawback is gone!

Client Solution:

- Rental property revenue $25,000
- Pension income $38,000
- OAS $6,500
- STILL VERY RISK AVERSE: $1,000,000 in non-registered bond fund using ROC Tax Class Structure (3% return)
- Total annual cash flow $69,915 + $30,000 from Open investment = $99,915

- New taxes paid $14,991 (from $25,094)
- OAS recaptured $4,491
- Total savings $14,594 per year

Scenario # 2
Spousal Loans Using Dividend Tax Credit Class

- Husband and wife. One makes $300,000 per year plus bonuses and the spouse stays home with their 3 children earning no taxable income.
- Working spouse also has a $600,000 Open investment portfolio earning approx. $36,000 in various income types per year, which are all taxable in her hands.
- Assuming 45% MTR for the working spouse, the incremental tax bill on the interest income is $16,200.

Dividend Tax Credit Class

- The Canada Income Tax Act allows investors to claim an income tax credit for taxes already paid by the corporation that issues "eligible" dividends
- The Dividend Tax Credit eliminates double-taxation on the investment income

- Assuming no other taxable income, $51,900 of eligible dividends can be issued in Ontario free of regular income tax as of 2011.
- Using the DTC Tax Class Structure which pays a $0.05 per month eligible dividend on a NAV of $10, you could invest $865,000 and draw tax-free income (in Ontario).

Client Solution:

- Using the spousal loan strategy, the stay-at-home spouse takes the funds and invests in the DTC Class Tax Structure.
- He will be required to write a cheque to his wife by January 30th each year for an amount equal to the loan x CRA's prescribed interest rate of 1%, or $6,000
- This amount is deductible for him and taxable as interest to her.
- The dividend income from the new portfolio is now taxable in the stay-at-home spouse's hands

Client Solution:

	Working Spouse	Stay-at-home Spouse	Total
Investment Income	$6,000		$6,000
Investment Interest Paid		($6,000)	$6,000
Canadian Eligible Dividends		$36,000	$36,000
Taxes Payable	$2,700	$0	$2,700
Taxes prior to strategy implementation			$16,200
Savings to the family			+$13,500

Scenario # 3
Accessing and Investing Trapped Surplus

- Funds held inside a corporate structure face punitive taxation as they are taxed at a rate greater than the small business rate because they're not "active"
- The Corporate Insured Retirement Program eliminates the 45.92% passive investment tax and the 31.3% dividend tax on assets inside private corporations (Ontario only)
- Provides large tax free estate benefits
- Provides access to corporate assets to provide for future pension or asset needs
- Diversification of a portion of retained earnings of a corp

CIRP Method

1. Opco purchases a life insurance policy on the owner, paying for the premiums from retained earnings
2. Assets accumulate inside the policy tax-free for the remainder of the owner’s life.
3. At retirement, the assets in the policy are used as collateral for a series of bank loans which the owner receives as a tax-free income stream, thus eliminating dividend taxes that would normally be paid.
4. At death, the loan is paid out of the insurance benefit and any excess benefit is paid tax-free to the owner’s estate via the capital dividend account.

CIRP Solution

- 45-year old NS male makes annual premiums of $62,450 each year for 10 years (10-pay life), with plan to begin withdrawals 5 years later at age 60.
- Cash value at age 60 is $1,042,955. If drawn, a portion will become taxable so this amount is used to secure the loans, i.e. no disposition
- Loans of $73,984 taken beginning at age 60 until 80. Loan is repaid at owner's death at age 81.
- Over the life of the strategy, the total premiums paid are $624,500 and the total income received after age 60 is $1,553,664. Net benefit to the estate at age 81 is approx. $5.9 million.

- All things being equal, using a traditional investment approach and paying taxes each year at the passive rate would deplete the investment account by age 70.

Underlying Insurance Program

- Currently crediting 7% on assets, managed directly by the insurance company who accept most of the investment risk
- There is a minimum 4% guaranteed cash value/return in the policy on surplus assets invested
- Extremely stable returns
- Easier to secure as collateral against loans because of the stability of the program.

Scenario # 4
Eliminating Corporate Tax on Death

Problem:

- Corp has a lot of value in retained earnings and potential asset value on sale ($10 million)
- To transfer to children would attract large taxes at death ($2.3 million)
- How to eliminate the tax and maintain full value of the enterprise?

Solution:

- Opco borrows $10M
- Dividend up to Holdco
- Holdco purchases a $10M annuity
- Use the annuity income to buy a T-100 insurance policy for $10M and pay loan interest
- Net cash flow is neutral, i.e. annuity providing income for both the life insurance and loan interest

At Death

1. Life insurance policy pays $10M death benefit to Holdco, which pays proceeds to Opco. The annuity value is zero eliminating the asset value.
2. The Opco has zero taxable value as the $10M in assets was offset by the $10M loan. The annuity was in the Holdco as was the insurance policy.
3. The Opco takes the $10M death benefit and pays off the original bank loan whose proceeds were transferred as an intercompany dividend.
4. The original $10M in assets can now be distributed tax-free to the owner's estate/beneficiaries through the capital dividend account.

No Taxes Paid on Corporate Values!

Portfolio Strategy

Investment Approaches

Style	Description
Growth	Invests in companies whose earnings are growing faster than the overall market
Value	“Buy low sell high”. Focuses on buying shares of companies trading below intrinsic value
Strategic Asset Allocation	Invests in multiple asset classes (i.e. stocks, bonds, cash) according to risk tolerance and re-balances on a set schedule
Tactical Asset Allocation	Same as above, but asset classes are tilted in the direction of the most favourable
Momentum	Follows market trends and tries to only invest in whatever direction the market is going “the trend is your friend”

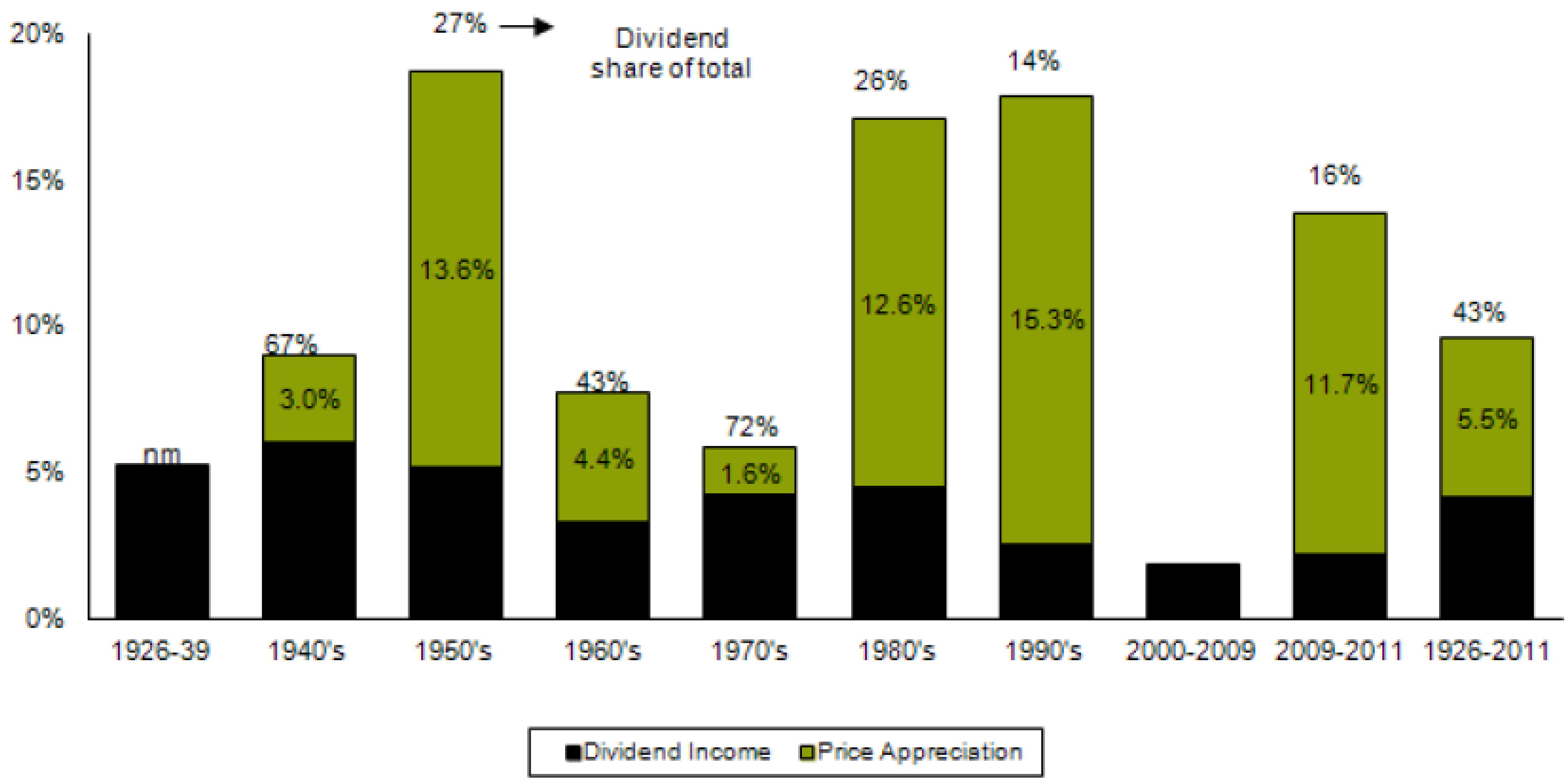
Managed Yield Strategy…

- Main differentiator between approach used by Eagle Wealth Counsel vs. traditional investment approaches.
- “Traditional” approaches were based on Modern Portfolio Theory (MPT). This worked perfectly during an 18-year bull market which was the biggest in history.
- Managed Yield Strategies make money two ways:
  1. Growth of principal (still essential)
  2. Income distributions from underlying fund holdings

  **Income is tax preferred and can be taken as cash or used in a DRIP

The Value of Dividends

Contribution of dividends and price appreciation to S&P 500 Total Return Index 1926 to 2011

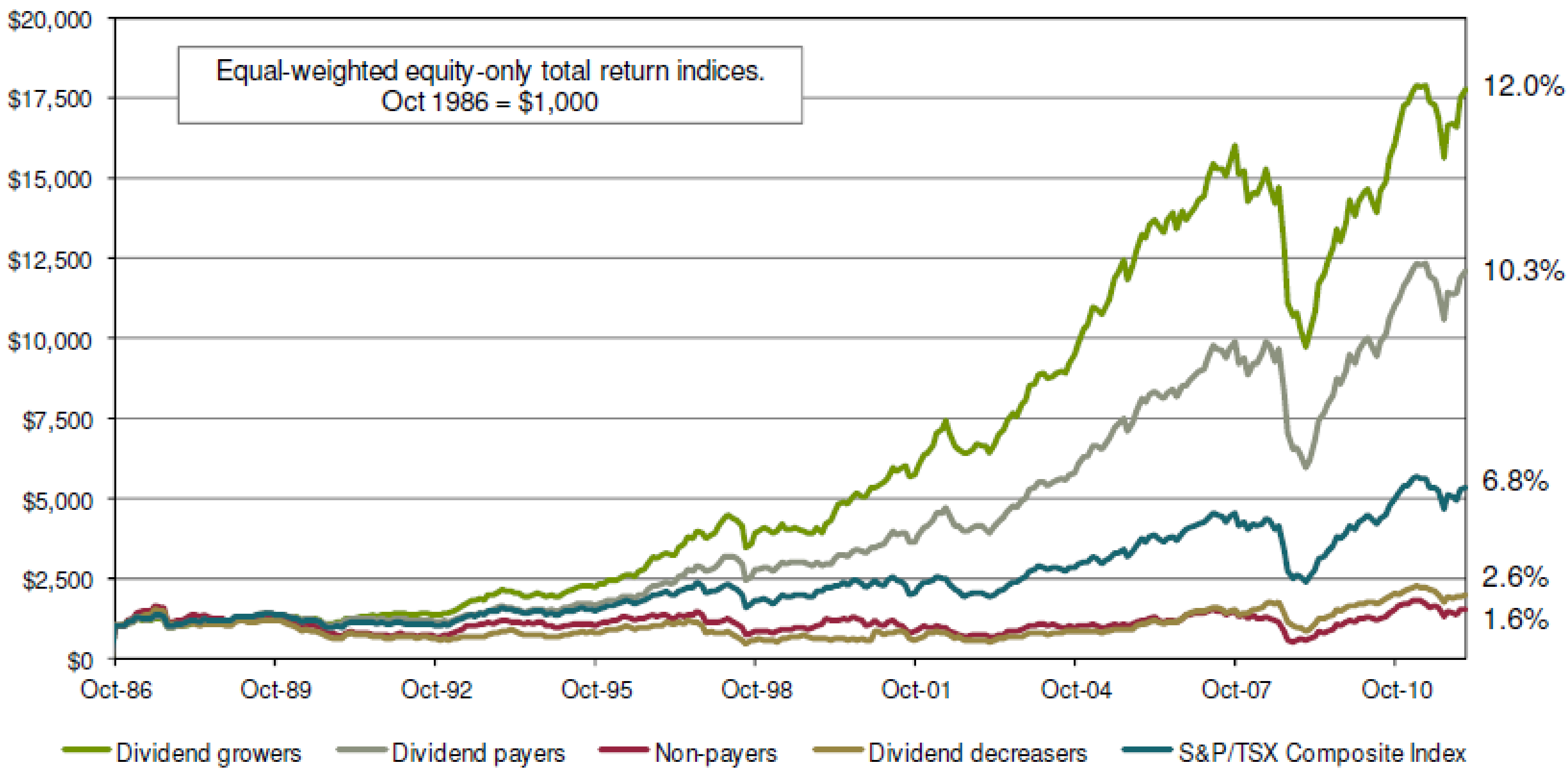


*nm = not meaningful

Source: Sanford Bernstein Research, as at December 31, 2011

The Market Tells Us That Quality Income Outperforms!

Canada: Total portfolio returns 1986 to 2012

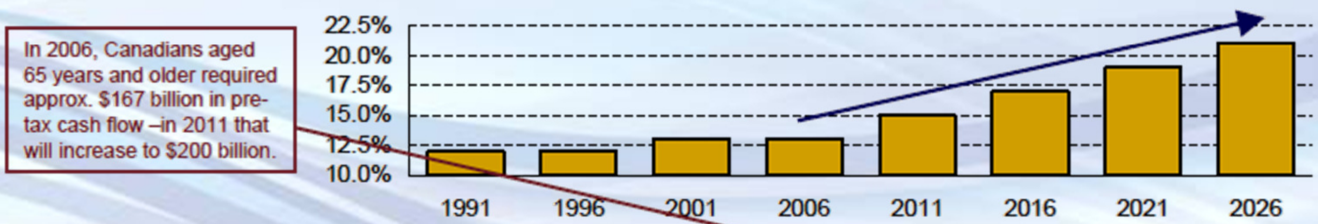


Source: RBC Capital Markets Quantitative Research as at February 29, 2012

The Yield Super-Cycle
Demand for Yield Increasing

Past performance is not a guarantee of future results

Canadian Population Estimates	1991	1996	2001	2006	2011	2016	2021	2026
Canadian Population (MM)	**27.3**	**28.8**	**30**	**32.2**	**33.4**	**34.4**	**35.4**	**36.2**
0-24	35%	34%	32%	31%	29%	27%	26%	26%
25-65	53%	54%	55%	56%	56%	56%	55%	53%
65+	**12%**	**12%**	**13%**	**13%**	**15%**	**17%**	**19%**	**21%**
growth rate		*0%*	*8%*	*0%*	*15%*	*13%*	*12%*	*11%*



	1991	1996	2001	2006	2011	2016	2021	2026
Assume $40,000 Annually ($Bln)	$131	$138	$156	$167	$200	$234	$269	$304

Source: RBC Capital Markets

How to "Buy Yield"?

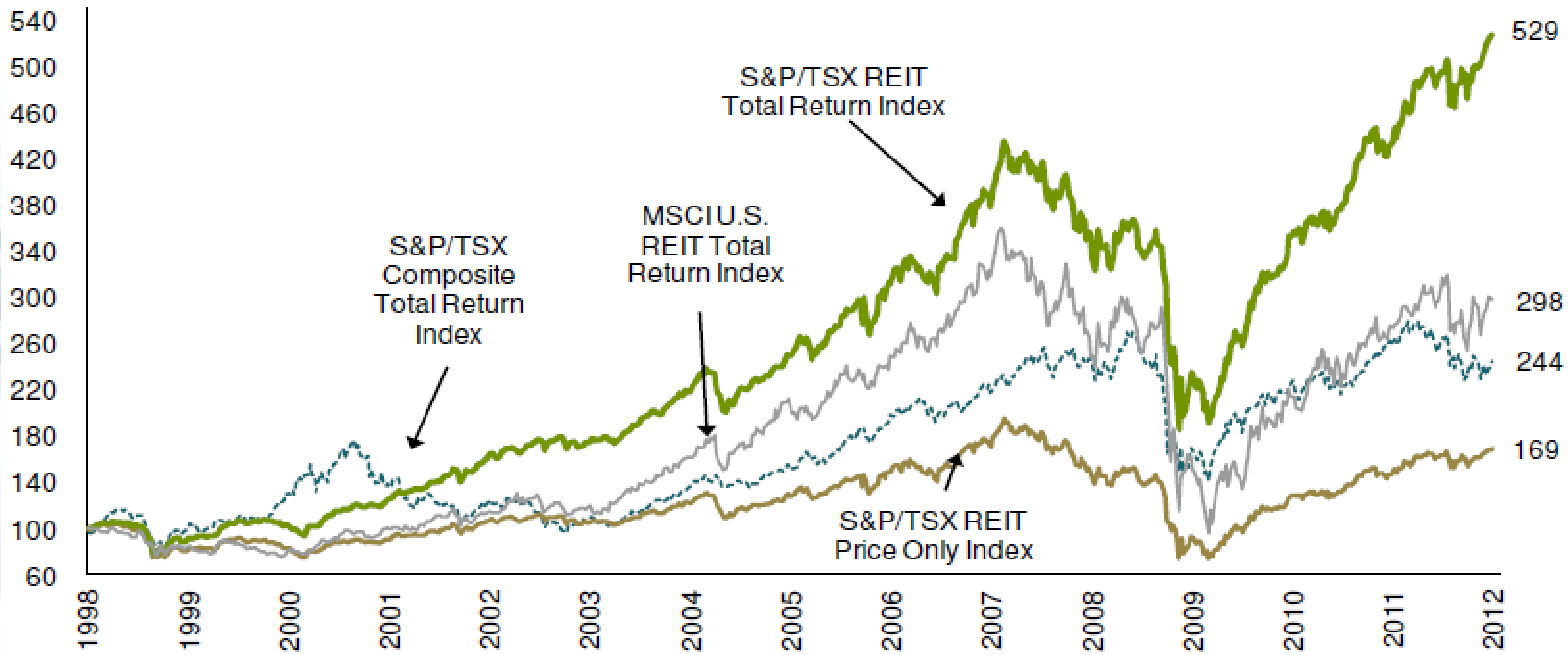
Yield-focused fund managers look for companies that meet the following criteria:

1. High return on capital and equity
2. Low leverage
3. Free cash flow
4. Strong management
5. **Companies that have consistently grown their dividends over time.**

Best Yield Opportunity….
Real Estate Investment Funds

Long-term returns

Indexed at 100 as at December 24, 1997



Source: Bloomberg LP, Scotia Capital, as at January 6, 2012

Over the long term, consistent income wins out.

Real Estate Investment Funds…

If returns are the reward, what's the risk?

1.Remember they represent sector-specific funds so their returns could be negative when the overall market is positive.

2.Rising interest rates.

3.From an investment standpoint, Occupancy Risk is the main risk that real estate funds face.

4.Your goal should be to invest in high occupancy with quality tenants!

Intelligent Retirement Strategy

Strategy Based on Unique Needs – Pension Fund Approach

Retirement Analysis

Planning Options

Your retirement situation:

Based on your goals, the information you have provided and the assumptions used in this analysis...

You are projected to have adequate income producing assets to fund your retirement.

Your financial situation offers you a number of planning options:

Option #1: Increase Lifestyle — *$131,400 after-tax income starting at age 60*

Amount by which you can increase your retirement income goal: $11,400

$120,000

Base retirement income assuming no additional savings: $112,600 — *After-tax retirement income potential: $131,400*

Option #2: Retire Sooner — *$120,000 after-tax income starting at age 58*

Number of years you can retire before your planned retirement age: 2

Age 58

Your age on January 1st: 39 — *Age you plan to retire at: 60*

Option #3: Take Less Risk — *$120,000 after-tax income starting at age 60*

Average annual amount you can reduce Return on Investment and still reach your goals: 1.49%

ROR 5.51%

Inflation adjusted rate of return: 2.44% — *Return on Investment your plans are based on: 7.00%*

Option #4: Asset Allocation — *$120,000 after-tax income starting at age 60*

Amount by which you can reduce your annual savings each year, and still reach your goals: $13,600

$1,351,000

Current value of income producing capital: $260,000 — *Capital you are projected to have at your retirement: $1,908,000*

The planning options presented are based on numerous assumptions that are certain to change and cannot be guaranteed. Actual results will vary over the life of your plan.

Strategy Based on Unique Needs – Pension Fund Approach

- Client needs only +5.51% over the lifetime of his plan to realize his stated goals and objectives, we recommended the following:
  1. Investment Portfolio 80% – long-term placement in Managed Yield
  2. Self-Directed Portfolio 20% - combination of other styles
- Another client case showed a required return of +2.3% over the plan's lifetime, so the recommendation was:
  1. Investment Portfolio 34%
  2. Self-Directed Portfolio 66%

- Given global stock markets are UNRELIABLE (to be polite) and government bond yields are at historic lows, doesn't an investment and self-directed approach, with Managed Yield at the core make the most sense?

Where Have We Been?

1. Retirement and Investing are just two parts of what should be an integrated overall plan.
2. Focus on tax reduction and net cash flow.
3. “The trend is your friend”…pension funds are accumulating yield and will probably continue doing so for the next 5-10 years.
4. Yield allows you to get paid in two ways: principal appreciation and cash distributions. We call this “return diversification”.
5. Real estate funds provide the best opportunity for sustainable yield and should be part of your investment strategy.
6. Portfolio construction should include an investment portion and trading portion. The investment portion should use managed yield at the core.
7. Advanced (real) wealth management pulls together all 5 pillars of elite financial management and personalizes your planning strategy based on your unique situation.

Where Do We Go From Here?

1. Schedule one-on-one meeting to brief us on your personal situation and begin financial discovery process.

2. Review your goals and objectives in each of your key financial areas: asset protection, estate planning, retirement, tax strategy, investment planning.

3. We will analyze your financial situation and provide you with a written analysis.

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