THE
Guardian

... building better retirement incomes since 1974 **Spring 2014**

Sticking With The Plan

Housing prices, the weather and guessing who will be the next general manager and coach of the Vancouver Canucks seem to be the popular topics in current conversations. Not far behind Is the current state of North American stock markets, given the significant increase we have witnessed since markets plumbed their lows in March 2009.

Opinions are varied, and ironically, the strongest and most passionate often come from those who have the least knowledge.

By contrast, some of the world's most respected and seasoned investors strike a humbler tone, having learned from personal experience about the unpredictability of markets and deciding to focus instead on those things within their control.

Take for instance, the frequently heard line that smart investors should seek to time their entry points to markets and wait for the volatility to clear. We are hearing a lot of that right now as the Russian/Ukraine conflict and the slowing of the Chinese economy dominate market attention.

Writing about this in 1979 before one of the biggest bull markets in history, Warren Buffett said: "Before reaching for that crutch (market timing), face up to two unpleasant facts: The future is never clear (and) you pay a very high price for cheery consensus. Uncertainty actually is the friend of the buyer of long-term values."

Another line from the "investment experts" is to spot the best market-beating returns and harvest them before someone else finds out.

Asked about this in 2007, two years before his death, legendary investment consultant and historian Peter Bernstein said it was better to focus on risk than return. "The central role of risk, if anything, has grown rather than diminished," he said. “We really can’t manage returns because we don’t know what they’re going to be. The only way we can play the game is to decide what kinds of risk we’re going to take.”

A third perennial topic is the role of stock picking in investment success. The line here is that the key to wealth building lies in painstakingly analyzing individual stocks and buying them based on a forecast or even a hunch about their prospects.

Prompted by a newspaper reporter for his opinion on that piece of conventional wisdom. Charley Ellis, long-time Wall Street observer and the founder of Greenwich Associates, said the truth was actually quite the opposite.

“The best way to achieve long-term success is not in stock picking and not in market timing and not even in changing portfolio strategy,”Ellis said.

“Sure, these approaches all have their current heroes and war stories, but few hero investors last for long and not all the war stories are entirely true. The great pathway to long-term success comes via sound, sustained investment policy, setting the right asset mix and holding onto it.”

While it won’t sell newspapers or bump radio show ratings, it is a sound and durable investment philosophy that has stood the test of time.

Changes To Testamentary Trusts

Budget 2014 proposed a number of changes to the taxation of trusts that will have a significant impact on tax planning. Arguably the most significant was the elimination of graduated rates on testamentary trusts effective 2016.

Prior to the budget, testamentary trusts (trusts created by the Will) were taxed at the same graduated tax rate applicable to individuals. Accordingly, instead of the beneficiary of a Will receiving capital directly, theoretically investing the capital and having the investment yield taxed on top of other sources of income, the second set of graduated tax rates provided by the testamentary trust resulted in a tax saving. The government now proposes to generally eliminate the preferential treatment afforded testamentary trusts by taxing such trusts at the highest individual rate.

To recognize the fact that an Estate can take a reasonable period of time to settle, the graduated tax rates will apply for three years following the testator's passing. Finally, a special exemption is proposed for testamentary trusts set up for individuals who qualify for the disability tax credit, where the graduated tax rates will remain in effect.

The elimination of the graduated tax rates noted, there are still practical reasons to utilize a testamentary trust.

The trust can be used to administer and manage inheritances for minor beneficiaries until they reach the age of majority. This becomes particularly important in the context of a life insurance policy, where it's often advisable to set up a life insurance testamentary trust to receive the death benefit.

Another benefit of using a testamentary trust is that your trustee can maintain control over both the timing and amount of distributions to your beneficiaries. For example, you can specify that 50% of an inheritance would be distributed when the beneficiary reaches age 25 and the remainder at age 30. This level of control could be particularly useful for spendthrift or incapacitated beneficiaries, who may not have the responsibility or capacity to manage funds themselves.

If your main Estate planning goal is the preservation of an inheritance, then a testamentary trust is an ideal vehicle. You could, for example, set up a trust in your Will that specifies that income from a portion of the assets in your Estate will be available to provide for the needs of your surviving spouse or partner during his or her lifetime but that the remaining Estate assets will ultimately go to your children upon your spouse's death.

If you already have testamentary trusts set up in your Will, you should speak to your lawyer to determine whether the current wording is still appropriate, given the proposed change in tax law beginning in 2016.

REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON $100,000
COMMENCING ONE MONTH FROM ISSUE

Best Current Rate: 2.90%

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$175,635.01
60	278.00	161,706.51
65	334.00	149,143.33
71	616.00	135,681.71

A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, $100,000 will produce the following monthly income.

For 5 years: $1778.00
For 10 years: $960.00
For 15 years: $684.00

MONTHLY ANNUITY INCOMES COMMENCING ONE MONTH FROM ISSUE BASED ON $100,000

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
55	$461.64	$433.03	$460.84	$435.08	$405.88
60	507.82	467.01	512.37	470.31	439.09
65	572.58	518.96	561.22	513.40	473.76
71	689.75	620.61	651.17	597.89	543.58

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Manulife Securities | INCORPORATED

Vancouver: 805 - 675 West Hastings Street
Vancouver, BC V6B 1N2 — Telephone: **(604) 688-9577** — **Toll Free in BC 1-800-663-0644**
Website: www.solguard.com
Email: info@solguard.com

North Shore: 200 - 100 Park Royal South
West Vancouver, BC — ***By Appointment Only***

Victoria: 520 - 645 Fort Street
Victoria, BC V8W 1G2 — Telephone: **(250) 385-3636** — **Toll Free in BC 1-877-500-3636**