

# The Dream Achiever



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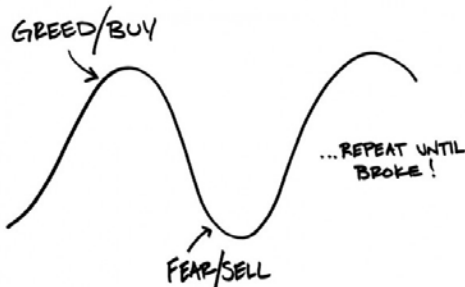
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*"Live each day as if your life had just begun."*

*~ Johann Wolfgang Von Goethe*

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## Surf's up! Riding the wave correctly

We don't need any reminders that summer is officially here. The temperatures have been very warm, the kids are out of school, and many of us have our summer holiday vacations just around the corner. At this time of year many of us put our planning matters aside to enjoy the few months of good weather that we get.

Recently the experience in the markets has been very much like the surfer in the picture riding the pipeline of the wave. You are moving forward, but then again so is the water. Just when you think you have reached the light at the end of the tunnel, the wave has caught up to you. The key to avoiding a catastrophe is to keep surfing forward and not let the fear of the wave overtake you. Eventually the wave dies down and you escape from its grasp unscathed.

Right now, many governments around the world are deploying measures to bring budgets more in line with their country's economic reality. There is usually a period of hurt when countries go through this process but then emerge stronger. We could think of Canada having gone through this in the early 90's. The protests we have seen in many countries prove that someone is hurting. In Greece we saw marches revolting against massive government spending cuts, yet on June 17<sup>th</sup> by a vote they elected a government committed to staying in the Euro zone and to austerity.

Q2 has not been an easy quarter for the North American stock markets. The TSX Composite was down 6.4% while the S&P 500 was down 3.3%.\* The balanced approach that we preach has allowed investors to avoid the same type of losses and volatility as the markets but your portfolios may have had a small pullback since March 31<sup>st</sup>.

There is no hiding from the fact that there isn't a whole lot of great news out there, but there isn't really a safe place to hide as interest rates have remained extremely low. The good news is that there has been very little inflation. Five years ago no newspaper headlines talked about the accumulation of corrosive debt and no protests erupted as pension benefits were increased, but the markets increased and businesses expanded, ignorant of the financial chaos ahead. The silver lining is the fact that everyone now knows the troubles.

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## Market Overview Continued

Another matter that is being discussed frequently in the press is the issue of Canadian household debt and the Canadian **home price to household income ratio**. We have been warned by Mark Carney (Governor of the Bank of Canada) that we need to keep our debts manageable for when interest rates do start to rise and also warned that we may see a bit of a pricing correction in real estate. So far Canada has been one of the few countries in the world where real estate pricing has not been negatively affected. While listening to a recent presentation from Fidelity portfolio manager Daniel Duport, he stated that the U.S. price to household income ratio peaked at 4.4 times income but is now close to 3 times income which is close to the historical norm, while the current Canadian average is now about 4.5 times income. In certain pockets like Vancouver this ratio is over 10 times income!

There is growing concern of a real estate bubble in China due to the fact that in some of the major cities the home price to household income ratios are so high that Vancouver starts to look like a great bargain. One point of caution could be that if China's economy continues to slow, Canada would suffer due the large amounts of resource exports to them.

We continue to stress that like the surfer in the picture you need to stick to your investment plans when you feel nervous because when this wave of bad news subsides you will be very satisfied that you did.

## Planning items

- **RRSP Contribution Room for 2012:** Please provide us with your room for the 2012 tax year from your Federal Notice of Assessment that you received after filing your 2011 taxes. The maximum room for 2012 is \$22,970. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2012 will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done.



## Matt's Planning Corner – The INs and OUTs of a TFSA

One thing that is often misunderstood is the idea of how a TFSA's contribution room is calculated and dealt with. Some of you may have already heard of people having been issued an excess contribution statement from the federal government with associated penalties.

It's pretty straight forward that we have all gotten \$5,000 of new contribution room per year since the program started, but the issue lies with contributions and withdrawals that can result in negative tax consequences. The result could be a 1% per month penalty tax that is applied to excess contributions.

With clients I have used the analogy that the TFSA is like a box with an "IN" door and an "OUT" door. The amount that can pass through the "IN" door in any calendar year is **your limit (\$5,000 of new room + any money that came out the "OUT" door in the previous year + any carry forward room from previous years)**. For example, let's assume that your TFSA room is \$5,000 and you max that out in January and then make a withdrawal of \$3000 in March. If in June you added back the \$3,000 you will be considered over contributed by \$3000 and owe a \$30/ month penalty until the end of the year when you will get a new \$5,000 of room. That's because you had \$8,000 pass through the TFSA "IN" door. If you get one of these over contribution letters because you did not know the rules you should contact the CRA immediately to determine your options and see if they will waive or reduce the penalty.

### Disclaimer:

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