The Dream Achiever

DD HUMES

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INSIDE THIS ISSUE

"“You live longer once you realize that any time spent being unhappy is wasted.”

~ Ruth E. Renkl

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"Sorry, Bill, but story reading takes place during 'Quality Time'. During 'Fiscal Responsibility Time' we discuss prudent investment strategies."

FundEX INVESTMENTS INC.

Attempting a soft landing from the fiscal cliff

We welcome the opportunity to wish all of you health and happiness in 2013 and to thank you for your continued patronage and trust. Things are off to a good start already: The Mayan calendar was wrong, the markets have gotten off to a good start, and the NHL is back.

If you have been listening to the media reports this past year, you are probably grimacing as you open your year-end account statements. Despite reports that most world markets were in disarray, it has been a decent year for most portfolios, evidenced by respectable returns.

Markets were up across the board. The Canadian TSX composite finished up 7.2%, the American S&P 500 (in $CAD) 13.5%, MSCI World 14.0%, and B ofAML Canadian Broad Market Bond 3.7%.**

On November 6th, Barak Obama and V.P. Joe Biden were elected to a second term. On New Year's Day the House of Representatives approved a senate bill that maintained tax cuts for most Americans avoiding the “fiscal cliff”. This resolution averted a crisis situation that may have tipped the U.S. economy into a recession. It addressed the immediate fiscal concerns and left issues surrounding the debt ceiling limit, tax reform, and entitlements to be discussed at a later date. Expect some more drama in the coming months. The backdrop for equities remains supportive. Corporate America remains strong, profitability is robust, and earnings are poised to remain positive this year. In light of this, we remind you that as an investor your focus for investments should be on the long term.

We feel like a broken record when we write about the risks involved with rising inflation and interest rates. In the past we have mentioned how running the U.S. money printing press will probably create an inflationary environment at some point in the future. Many are saying that 2013 could be the year when the tide on rates begins to shift. We feel that if there is an increase, it would not be significant in the near term as many of the factors that have kept rates low in 2012 continue to exist. Our feeling is that fixed income mandates need to be flexible to protect value when rates do turn and that your personal debt levels be at levels that a moderate increase in interest rates will not squeeze you too tightly.

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Market Overview Continued

2012 served as another reminder that getting too caught up in the day-to-day noise of the media could keep you from making proper investment decisions. Accessing information is easier today than at any time in history. The more difficult task is determining what information is relevant and what is not. Those who stuck to their investment plans have been rewarded. While we do consider all risks, we try to keep them in perspective and not get influenced by media hype. We refuse to let these macroeconomic fears paralyze some very interesting investment processes that we employ.

So as a New Year opens, we find ourselves standing calmly on our own two feet, having stared down uncertainty and accomplishing a great deal by sticking to our time-tested strategies.

New-year planning items

Things to look at in the new-year include:

- **RRSP Contribution deadline:** For the 2012 tax year you need to contribute before March 1, 2013**.** The maximum room for 2012 is $22,970. If you want to get working on your 2013 contributions, the maximum limit for this coming year is $23,820.
- **Tax Free Savings Account (TFSA)** : As of January 1, 2013 you received another **$5,500** of contribution room. This represents an increase of $500 vs. previous years. This was announced by the federal government on Nov 26, 2012. http://www.fin.gc.ca/n12/12-151-eng.asp
- **RESP**: You can now do your 2013 RESP contributions and benefit from the generous government grants.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2013 (born in 1942) will need to convert their RRSPs into RRIF accounts. Check to see if you'll have a final contribution before year end. We will be in contact to assist you on how to get that done.
- **Your annual review**
- **$2K pension deduction:** Those who turn age 65 or older and not already receiving recognized pension income

The Planning Corner – RRSP or TFSA?

"Should I invest in my RRSP or TFSA?" is a question that we often get. The answer to that is partly mathematics and partly about the savings goal timeline. If you are saving for retirement, the answer is simple math:

If your income (and tax bracket) is higher now than it will be when you withdraw from your plan, then assuming the same rates of return in both plans, your RRSP should work out to be mathematically better after tax than a TFSA. If the opposite is true, your current income (and tax bracket) being lower now than in the future, the TFSA would prove to be more advantageous.

From a flexibility standpoint the TFSA is a better registered solution for shorter term savings goals because you can withdraw from the plan and then regain the contribution room in future years to put back in. When you withdraw from an RRSP not only is the withdrawal taxable, but that contribution room is lost forever. One exception to this rule of thumb would be the use of RRSPs via the Home Buyers Plan or Lifelong Learning Plan.

Please call us to discuss what would be the best savings plan for you.