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# The Francis Forum



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## Back to the Basics

What a ride we have had to begin 2008 and I hope that you are not getting nauseous. Turbulent times have made us all take a step back and revisit our tolerance to the volatility in the markets today. I believe in times like these it is important go back to the basics and ensure that we understand why we do what we do and where we are going to. Here are 8 eternal truths about investing for us to remember in times like these.

- Investments go up.....and down
- Most people do the wrong thing at the wrong time
- Markets usually over-react
- No one knows what the future will bring
- Diversification is the best strategy
- Savings accounts and GIC's will not make you wealthy
- Uncertainty creates opportunity
- Never say never

Sticking to our financial plans and being diversified through these times and not chasing after returns or safety is the true formula for success.

Don't forget to visit our new website at [www.duanesmywealthpartner.com](http://www.duanesmywealthpartner.com) to get latest news, upcoming events and seminars and we have several in the next few months.

Thank you all again for your continued support and please give us a call if you require anything at all. We are always here to help!!

Yours very truly,  
Duane

Our behaviour today will determine our history!!

## FOCUS ON INVESTING



## Use your tax windfall to enhance your portfolio

**L**ike many people, you may be in for a pleasant surprise when you tally up your 2007 income tax return, due April 30. If you normally get a tax refund, this year's will likely be a bit higher.

Federal tax cuts announced late last year were made retroactive to Jan. 1, 2007. This means employers deducted more tax from paycheques than turned out to be required. Before you splurge, consider how investing a few extra dollars today may turn out to be a longer-lasting windfall over time.

### The federal tax cuts

The basic personal exemption was raised, boosting the income everyone can earn tax-free to \$9,600 from \$8,929. The lowest personal income tax rate was also reduced, to 15% from 15.5%, applicable to earnings of up to \$37,178. The two measures save on average about \$240 in tax.

### Other 2008 reductions

Personal tax rates aren't the only thing to go down. Federal Finance Minister Jim Flaherty also cut the GST to 5% for 2008. And incorporated owner/managers will benefit from an acceleration in plans to reduce the small business tax rate.

### Invest or pay debts

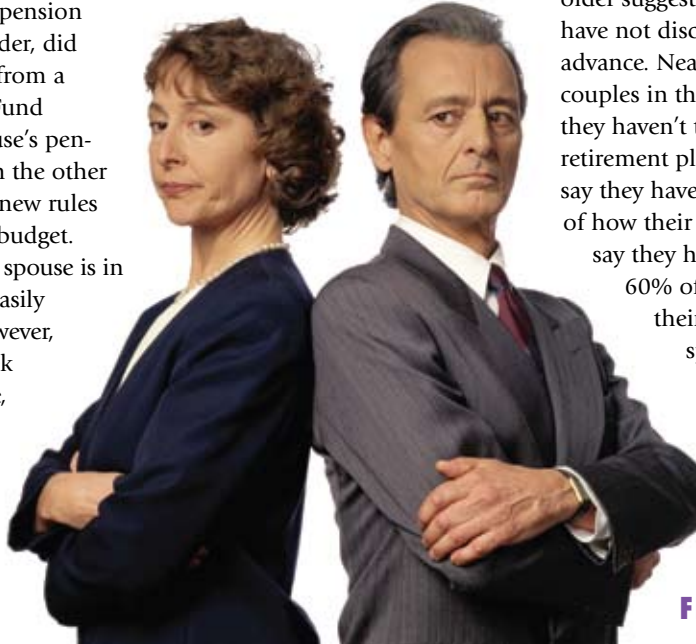
The income tax breaks and GST reduction could mean an extra \$500 to \$1,000 for a working couple. As with any tax refund, consider spending no more than 10% on a treat. Invest the rest as an extra contribution to your existing registered or non-registered portfolios, start a new savings plan, or apply it to reduce debt.

Professional advice can help you determine which scenario is the best choice. ■

## TAX PLANNING

### Split retirement income to reduce taxes

Did you or your spouse collect pension income in 2007? Or, if 65 or older, did either of you withdraw money from a Registered Retirement Income Fund (RRIF)? Up to 50% of one spouse's pension income can be reported on the other spouse's 2007 tax return under new rules introduced in the 2007 federal budget. This can save tax if the receiving spouse is in a lower bracket. The transfer is easily made using tax form T1032; however, it may be worthwhile to first seek professional advice. For instance, income splitting can affect eligibility for income-tested tax credits. It can also create new planning opportunities in deciding when to retire and start drawing a pension. ■



## FINANCIAL CLASSROOM

*your guide to the basics and how to benefit*

### Group RRSP

What it is

A group Registered Retirement Savings Plan (RRSP) is simply a collection of individual RRSPs administered by one financial organization under an agreement with the account holders' employer. It is not a formal pension plan, but does allow employees to save and invest for their own retirement.

How it works

Employees contribute to their RRSP accounts through a pre-authorized payroll withdrawal. Since this contribution is tax-deductible, less tax may be withheld at source to immediately reflect the RRSP deduction. Some employers also match the employee's contribution, up to as much as 5% of pay. All contributions count as part of a person's RRSP limit. Anything the employer contributes automatically becomes the employee's property. You make all the investment decisions, as with a personal RRSP, but your employer may limit the range of choices. If you do participate in a group RRSP, contact us to coordinate any other of your RRSP investments with those in the group plan.

Why it matters

Group RRSPs offer a great way to make the commitment to save for your own retirement. Plus, employer contributions are akin to getting tax-free pay. Payroll deductions and accelerated receipt of the RRSP tax savings make this a very convenient, affordable way to save. And your employer may have the clout to negotiate preferred investment fund management fees.

## RETIREMENT PLANNING

### Do you and your partner share retirement dreams?

Retirement usually means a big lifestyle change for couples, but a national survey of Canadians 50 years of age or

older suggests that most have not discussed plans in advance. Nearly a quarter of couples in their fifties say they haven't talked about retirement plans at all. Half say they have a "rough" idea of how their mate feels. Only about one in four say they have talked in-depth. Not surprisingly, 60% of couples polled couldn't agree on their vision of retirement. If you and your spouse save regularly for retirement, why not quiz each other on what those years could really be like? A change in goals could mean a change to your retirement savings strategy as well. ■



## FINANCIAL PLANNING

### Keep your credit card balances in the black

About 55% of Canadians carry an outstanding credit card balance at least once a year and thus incur interest charges. So says a survey conducted for Credit Canada, the national association of non-profit debt counselling agencies. Of those who owe, 14% pay interest for six months and 6% say they never get out from under their debts. If you're carrying credit-card debt and would like to reduce this to put more money toward your long-term goals, let's meet. Credit can be a useful tool for managing expenses if it's used wisely and you can avoid paying more interest than necessary. ■





MUTUAL FUNDS

## Infrastructure investments seek income from public works

**P**eter Lynch, the legendary U.S. mutual fund manager, used to advise investors to focus on boring industries that meet day-to-day needs. His reasoning: those businesses are easily understood and largely immune to the economic cycle.

Well, boring industries are now some of the most talked-about investments around. Have you ever imagined owning part of a water and sewage system? How about a tunnel, toll road, electrical grid — or even a prison? Those are just the kinds of things that specialty and diversified mutual funds are buying today on behalf of individual investors.

### Public-private partnerships

The private sector, institutional investors, and stock markets are all playing a larger role in funding infrastructure. On the supply side, governments are selling outdated facilities that need to be upgraded, replaced, or better managed. Opportunities are global, from industrialized nations to emerging economies.

On the demand side, pension funds and institutional investors such as life insurers see infrastructure investments as a good match to help fund their long-term liabilities.

As one example, the Canada Pension Plan Investment Board (CPPIB) says an established toll road has similar risk-return attributes as government bonds, utility stocks, or a well-located Class A office building. CPPIB considers these four types of assets as potentially interchangeable.

Such big money investors — who commit billions of dollars over decades — began investing in infrastructure in the

1990s. Now, an array of infrastructure-related investment funds has opened this market to individual investors, primarily those with a longer time horizon.

### Good income-earners

Many infrastructure projects include the right to provide a monopoly or near-monopoly service with regulated rates. This can create stable cash flow at relatively low risk, a hedge against inflation, and low correlation with conventional stock and bond markets. An infrastructure asset might also increase in value.

But there are vulnerabilities. Some of the most lucrative infrastructure invest-

ments — so-called “greenfield” projects to create new facilities — may carry environmental risk and cost more than expected. And there can be political risk if rates and markets are regulated by governments.

Infrastructure ownership and management agreements run a long time — often 99 years. This ensures long-term income, but also means a lack of liquidity. Mutual funds overcome this since fund units are valued and redeemable daily, making it possible for individual investors to participate.

### You may already own it

In Canada, there are a number of infrastructure mutual funds available directly from financial advisors. There are some funds closed to new investors, while others are exchange-traded and listed on the stock market.

You may even already have exposure to infrastructure investments within your diversified mutual funds, through companies involved in development or operation.

For instance, partial ownership of Ontario’s Highway 407 toll route as well as power transmission lines in Alberta contribute to the returns of engineering company SNC-Lavalin, a widely held stock. In addition to engineering and construction firms, the field includes building materials manufacturers, aggregate producers, logistical support contractors, and specialized financial companies.

If you are interested in exposure to this type of asset, we can help you determine your optimal portfolio weighting. Or, if you hold broadly diversified funds, we can tell you more about their infrastructure exposure and strategy. ■

## Infrastructure heads off inflation



THE CANADA PENSION PLAN, Quebec’s Caisse de dépôt, the Ontario Teachers’ Pension Plan, and Canada’s other major public sector pension funds all have billions of dollars invested in infrastructure projects.

**Why? Largely because of inflation.**

These organizations have to fund pensions that are indexed to the cost of living. So they need long-term investments that can reliably keep pace with inflation.

The same inflation-fighting principles can be applied to your own RRSP, in order to protect your purchasing power as a retiree. Managers of mutual funds that invest in infrastructure look for income streams that can beat inflation.

**Inflation hedge:** Infrastructure projects are recognized for their ability to hedge inflation. First, many operate in regulated environments, such as utilities, where fees are often indexed to inflation via the operating agreements between project operators and the governments. So, rates rise with inflation.

**Increased use:** Demand can pick up for certain types of investments. For instance, as usage of Ontario’s Highway 407 privatized toll road grew, the peak toll rose three times faster than the Consumer Price Index from 1997 to 2007.

**Rising asset value:** Facilities are very expensive to build and their asset value should rise as inflation drives up the cost of constructing comparable new ones.

# Consider U.S. tax impact on a snowbird retreat

**T**he soaring loonie and swooning U.S. realty market have prompted many Canadian snowbirds to consider buying a sunbelt condo or vacation home. But before closing a deal, professional advice on cross-border estate planning can help avoid unpleasant tax surprises.

## Estate tax is complex

Liability for U.S. estate tax presents a complex issue for snowbird property owners. After measures to phase it out, the U.S. estate tax will be fully restored in 2011, unless Congress makes the phase-out permanent in 2010.

In contrast, Canada has no estate tax. Instead, at death, your investment is subject to capital gains tax based on its value. This can be deferred, by passing it to a spouse, until that person's death.

Tax treatment on sunbelt real estate can fall under both Canadian and U.S. rules.

At death, U.S. estate tax would apply to your property's full value — not just any appreciation in value — if your worldwide wealth exceeds US\$2 million. That includes the value of your Canadian principal residence and life insurance.

Under a U.S.-Canada tax treaty, your estate can access the same estate tax credit Americans are entitled to, but pro-rated to the percentage of worldwide wealth that's in U.S. holdings. Some states levy their own estate tax without concessions.

Another cross-border credit aims to offset the double whammy of Canadian capital gains tax plus U.S. estate tax, but doesn't always cover the full tax hit.

## Survivors treated differently

Unlike the Canadian system, the U.S. offers no tax-free rollover of capital assets to your surviving spouse, unless that person is a U.S. citizen. There are two forms of relief — a marital credit and a deferral through a "qualified domestic trust" — but the right choice requires planning.

If you're buying property jointly with your spouse, there are some particular traps to avoid. Each of you should document your individual contributions for the purchase. If an executor cannot show who paid what, the first to die is deemed to have owned the entire property. If you buy the property on your own and later make it joint, you may face a steep U.S. gift tax.

## Smart strategies

Various strategies are used by estate-planning professionals to minimize estate tax:

- Buy life insurance to pay the projected tax bill. Note, however, that you may face other Canadian tax consequences if you buy the policy in the U.S.
- Get a "non-recourse" mortgage — a form of financing used in the U.S.
- Hold property in a properly structured trust or partnership. (Canada Revenue Agency has eliminated a former alternative, the single-purpose holding company.)
- Make sure your will and power of attorney are valid in the state where your vacation property is located.

Seek professional advice before you buy, so you can take a preventative approach to your estate planning. ■

# New plan helps dependants with disabilities

**IF THERE IS** a child with severe disabilities in your family, the Registered Disability Savings Plan (RDSP) provides a new way to secure money for his or her future care.

The RDSP works much like a Registered Education Savings Plan (RESP). Contributions are not tax-deductible, but investment earnings compound tax-free. Anyone can contribute, whether family or not. The beneficiary must begin withdrawals by the end of the year in which he or she turns 60, and will be subject to tax only on earnings, not on the capital.

The lifetime contribution limit is \$200,000 and Ottawa offers a generous matching grant. Families with net incomes up to \$74,357 (in 2007 dollars) will get three times the first \$500 contributed each year and double the next \$1,000, for up to \$3,500 in grants. Higher-income families get a 100% match on just the first \$1,000 contributed each year. Lower-income families may receive Canada Disability Savings Bonds of up to \$1,000 a year.

Professional advice can help determine whether or not an RDSP is the best option. In some cases, it may be more effective to use a trust to secure the child's future.

Legislation was passed at the end of 2007, making RDSPs available as of Jan. 1, 2008. For more details, search the Canada Revenue Agency website ([www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)) for RDSP. ■

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