WentWorth FINANCIAL SERVICES
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The New "Normal"

Historically there seemed to have been a more predictable ebb and flow in the market that was usually calculated in years. Investors may have heard or read about the machinations of the Euro zone or the struggles in the Middle East or the fiscal cliff in the US in dribs and drabs through newspapers, television or radio. With a greater time lag between major events, it helped gauge decision making and tempered reactions when investing hard earned dollars.

As mentioned in our newsletter in Jan 2012, media advances today have enabled us to hear about world events or financial catastrophes instantly and constantly. The frequency and continuous reporting on and analysis of these events in minutest detail with each hiccup, sneeze or cough has become a mental and emotional gymnastics issue for both novice and experienced investors. There is no longer a relatively gradual "ebb and flow" as with a rising or ebbing tide that helps identify a market trend. Now the "New Normal" is measured in minutes, hours or days instead of months and years, obscuring trends.

On the positive side, knowledge is power but over analysis can result in paralysis. So, it's good to be in the know but equally good to use that information to our advantage to help us make decisions, as opposed to paralyzing us with fear.

There are serious issues facing us all in 2013 and beyond. We do need to be sensitive to the US and its fiscal crisis. When they cough we get the flu. Their politicians need to take concrete and effective steps to sort out their fiscal problems. They need to get back to governing as a country and working together. Failing to do that will have serious national and international economic consequences.

The euro zone crisis will not be solved in the short term. It's taken those weaker countries years if not decades to get into their financial mess so it's not reasonable to expect them to solve those problems in one or two years. As reported Nov 3, 2012 in the Globe and Mail, Angela Merkel, the Chancellor of Germany, indicated the euro zone crisis will last at least another five years, so we will continue to hear about their issues regularly and our markets will be negatively affected each time there is a hint of failure.

China is still growing but certainly slowing down from its World Bank reported 14.2% growth rate in 2007, falling to 9% in 2011. That's not necessarily a bad thing because such a high growth rate presents its own array of internal problems - chief among them is inflation and a growing spread between the 'nouveau' wealthy and the poor.

The Middle East continues to be a powder keg with incalculable human costs. Warring nations cannot focus on innovation, growth and sustainability when they're focused on survival.

Companies continue to have strong balance sheets but are uncertain about the economic trend so are afraid of expanding or hiring to avoid future unsustainable liabilities.

So, what is an investor to do? How do we pick and choose what is relevant and tune out that constant bombardment of "news" that oftentimes serves to confuse? How do we protect our nest egg"?

Chief among strategies is to make sure you don't have all you eggs in one basket. This means you need to have an array of investment funds that would include Bonds, Laddered Guaranteed Investment Certificates, cash and, yes, equity mutual funds both global and domestic.

The cash is there for two reasons. One, having a high interest cash account can provide monthly retirement income payments or be available for planned short term major purchases such as a house, car or vacation. The second reason to own cash it to use it to invest when markets fall. If all of our money is tied up how can we

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take advantage of opportunities when they present themselves?

Laddered Guaranteed Investment Certificates or Bonds are used as a buffer. Based on today's interest rates, they pay a very modest interest or coupon but act like a car's air bag when markets fall. If the market downturn is protracted, they can also be used as a source of cash rather than cashing in fluctuating assets such as equity mutual funds.

Owning equity mutual funds enables you to have a small amount of ownership in a variety of companies. They provide you with the growth component of your nest egg but also have the greatest fluctuation. This is the part of your nest egg that is most susceptible to all the "news" in the media – when the news is good they rise in value and when it's bad they fall. When investing in Equity mutual funds, caution needs to be exercised by making sure you don't have all your eggs in one "equity" basket. This means investing both inside and outside of Canada to spread your growth opportunities. Frightening as that concept may be with all of the political and fiscal risk in the market, the key is to make sure you are investing in global companies. They may be US or Canadian based but the market for their goods is global.

The percentage to allocate to any of the above investments is very personal. It depends on your stage in life, your financial ability to withstand market downturns or fluctuations, your ultimate or present retirement income needs and your ability to adjust your saving strategies or spending habits if you don't make the rate of return you determine you need to retire comfortably. Having a financial roadmap with steps to help you achieve your financial goals will help you weed through the "New Normal" market gyrations and economic media hype.

Transferring your RRSP to a RRIF: Five Questions to Ask

1. Should I make one last contribution?

RRSP contributions are generally not permitted for RRSP account holders who are older than age 71; however, if you are 71 years of age and have RRSP contribution room this opportunity may be to your advantage, particularly if you expect to be in a lower tax bracket in future years. If you are older than age 71, have unused contribution room and have a spouse or common-law partner (CLP) under age 71, you may want to consider a contribution to a spousal RRSP. This will create a tax deduction on your return and as long as the withdrawals do not commence until three years after the contribution date, you can reduce your tax bill by taking advantage of this income-splitting opportunity.

2. Have I Named a Beneficiary on My RRIF Application?

The beneficiary named on your RRSP does not automatically carry-over to your RRIF account. Be sure to name a beneficiary (ies) on the RRIF application to avoid having your RRIF proceeds flow through your Estate. If your spouse/CLP is to inherit your RRIF, you could name your spouse/CLP as "successor annuitant" or "beneficiary". This allows your spouse/CLP to receive the RRIF proceeds based on the original terms and conditions of the plan. For example, if the income was based on your age then income payments would continue based on your age. Alternatively, the beneficiary designation generally requires that your spouse/CLP set up a new RRIF based on new terms and conditions. If your spouse/CLP is older, the RRIF minimum income will be higher and less tax-sheltered.

3. Whose Age Should I Use to Calculate the Minimums?

When you purchase a RRIF you have the option of using your own age or the age of your spouse/CLP. Basically, the younger the person, the lower the income is and thus tax-deferral period is longer. If you don't require the income, consider investing the proceeds in a Tax-Free Savings Account (TFSA) subject to contribution room.

4. Should I Increase Withholding Tax on RRIF Payments?

Withdrawals from RRIFs are generally subject to a withholding tax between 0 and 30% depending on the amount redeemed. If you receive other sources of income that are not subject to withholding tax, you could increase the withholding tax on your RRIF income to offset some of your tax payable.

5. Am I Entitled to the Pension Credit for RRIF Income?

If you are 65 or older and receiving RRIF income, consider claiming the pension credit on your federal tax return for up to $2,000 of RRIF income. There is also a similar provincial credit which varies province to province. The federal credit is worth the approximate amount of $300 and can be used to offset tax payable on any form of income. If you are under 65, the pension credit is available only if you received the RRIF income as a consequence of the death of a spouse/CLP.

Consider splitting the income with your spouse/CLP if you are eligible to claim the pension credit for RRIF income. Since 2007, income eligible for the pension credit is also eligible for pension income-splitting. If your spouse/CLP is in a lower tax bracket this would create an effective income split. You may be able to double the pension credit for your family, provided your spouse/CLP is 65 or older if you transfer the RRIF income to your spouse/CLP.

Note: Always keep in mind the Old Age Security clawback thresholds when income splitting. For 2012 OAS benefits are reduced once an individual's net income exceeds $69,562 and are completely clawed back at $112,966. As with all tax related decision, consult a tax advisor for specific advice. **Source:** Bulletin MF1902 11/12 from Mackenzie Investments

5 Critical Financial Planning Tips

1. Live Below Your Means

The key to financial planning is to live on less than you earn and save the difference. Leave yourself some wiggle room in your budget so that you don't spend up to or above your limit. Visualizing and planning for your long-term retirement goals so that you know why your giving up consumption today, coupled with actually saving between 3%-10% of your monthly salary to invest towards the future, will go a long way towards getting you there. Challenge yourself: Do not spend 100% of your next pay check and actually save the difference.

2. Fatten Up Your Piggy Bank

It's an old song but it's still a hit. Save, save, save. Even if it's only a few dollars a month. When younger workers are first starting out and trying to establish a career, they're often tied down by student loans or major purchases such as a car, their first home or – more often than not – lingering credit card debt. The trick is to incorporate savings into your budget before you become accustomed to spending it every month. Challenge yourself: On your next pay check, save $25 more than you do today.

3. D" Is For Discipline, Not Debt

The sooner an investor learns this fundamental philosophy, the better. If you have debt – whatever the source – organize it in order of interest rates and begin paying down the outstanding balances with the highest interest rates first. It might even be worthwhile to consider consolidating all loans under one umbrella – particularly if a lower overall interest rate can be negotiated but this will not be true for everyone so be sure to get advice specific to your situation before doing so. Challenge yourself: Clear out as much debt as possible, as fast as possible, so that more of your monthly income can be put to use in long-term investments that will pay huge dividends 30 or 40 years down the road.

4. Emergency Funds Are For Emergencies Only

As a general rule, an emergency fund should be about

three times your monthly expenses if you're single and six times your monthly expenses if you are part of a couple or have children. Stash away whatever rainy day funds you can in the best possible interest rate accounts you can find (consider a TFSA) and leave it alone. This is the parachute you may or may not need that will prevent you from taking on more debt and interrupting your established retirement savings plan if things go awry. Challenge yourself: start an automatic savings strategy to build up an Emergency Fund if you do not have one already. Even $10 or $20 a week will build up over time.

5. Continually Analyze All Your Spending Habits and Adjust as Necessary

Let's say, on average, you spend $10 a day on lunch. That's $50 a week and $2,600 a year. If you earn $30,000 a year, you could potentially save up to 9% of your annual salary by brown-bagging your lunch. Apply the same scrutiny to coffee drinks, cocktails after work, etc. By reigning in these non-essential expenses, you'll have more money to throw into income-generating investments that multiply substantially over the course of three or four decades. Bottom line: either you work for money or money works for you, so challenge yourself: identify one non-essential spending habit. Cut it in ½ for the next month and save the difference.

RRSP Reminder

When is the RRSP deadline for the 2012 tax year?

March 1, 2013 is the deadline for making contributions to your Registered Retirement Savings Plan (RRSP) for the 2012 tax year.

The RRSP limit for the 2012 Tax Year is: $22,970

The RRSP limit for the 2013 Tax Year is: $23,820

TFSA Contribution Limit for 2013

The TFSA contribution limit for 2013 has been announced by the Canada Revenue Agency (CRA). It will be $5500.

You may be able to contribute more than $5500 depending on your specific TFSA contribution room.

Your room each year is determined by these three amounts:

Amount One:
The TFSA dollar limit for the year -- $5,000 for 2009, 2010, 2011 and 2012 plus the $5500 TFSA contribution limit for 2013, for a total of $25,500.

Amount Two:
All TFSA withdrawals made in the calendar year.

Amount Three:
All unused contribution room from the previous year.

For example (assuming no growth):

If you had previously deposited $20,000 and made no withdrawals, your room for 2013 is $5,500 calculated as ($25,500 - $20,000 = $5,500).

If you had previously deposited $15,000 and made no withdrawals, your room for 2013 is $10,500 calculated as ($25,500 - $15,000 = $10,500).

If you had previously deposited $20,000 and deposit $5500 January 1, 2013 and then withdraw $10,000 in March, you must wait until January 1, 2014 to deposit anything additional to your TFSA. On January 1, 2014 (assuming a $5500 TFSA limit in 2014) you will be able to deposit an additional $15,500. The $10,000 you withdrew in March 2013 and the $5500 TFSA room for 2014.

It is important to note that it is only as of January 1st of the subsequent year that any “lost” TFSA room is “returned” and you are able to re-contribute amounts withdrawn from the plan.

Just like with RRSP’s, everyone has their own TFSA limit. Your TFSA contribution room information can be found on your latest notice of assessment or notice of reassessment.

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