



CPA SECURITIES INC.



CORPORATE PLANNING  
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I S S U E S

## CPA's GoldLeaf Analyzer, the Evolution Continues

It's easy to get the players; it's getting them to play together that's the tough part

*"Casey Stengel, 1889-1975, American Baseball Player and Manager"*

By Jamie Purves, Senior Vice President

FOR THOSE OF YOU FAMILIAR WITH CPA'S GOLDLEAF INVESTMENT PLATFORM YOU'LL KNOW THAT IT WAS BORN OUT OF 30 YEARS OF INVESTMENT EXPERIENCE AND HAS EVOLVED OVER THE PAST FEW YEARS TO BRING TOGETHER BEST-OF-BREED INVESTMENT MANAGERS ACROSS ALL ASSET CLASSES. IT WAS DESIGNED WITH 'OPEN ARCHITECTURE' IN MIND, ALLOWING US TO INTEGRATE SEPARATELY MANAGED ACCOUNTS (SMA'S), POOLED FUNDS, MUTUAL FUNDS AND EXCHANGE TRADED FUNDS (ETFs) INTO CUSTOMIZED PORTFOLIO SOLUTIONS. THIS OFFERING, WHICH IS UNIQUE IN CANADA, PROVIDES THE DISCIPLINE AND OBJECTIVITY OF A WELL-MANAGED PENSION FUND.

So what does this have to do with baseball? Investment products can be classified into distinct groups: Cash, Fixed Income, Canadian, US and International Stocks and alternative investments, such as Real Estate, Hedge Funds and Private Equity. Think of these as the key positions on the baseball field. We use our asset allocation modeling software, GoldLeaf Mix, to understand the appropriate allocation among these groups for a client's given risk profile. We may identify a client's need for more Fixed Income because they're sensitive to volatility or because they require a higher level of income from their investments. Another client, however, may be growth oriented and so their allocation would be more biased towards equities. We cover all the bases as needed but always with the same goal in mind; match the asset allocation to the client's risk profile.

If we're going to play baseball we need to find players who will be responsible for the different positions. In our spring 2007 newsletter, Duncan McEachran introduced our due diligence manager, Perimeter Capital Management Inc. Think of them as

our scouting agent. PCMI works very closely with CPA to choose the best investment managers available for a specific mandate, be it Fixed Income or Canadian Growth Equities. PCMI follows a rigorous process that includes both quantitative and qualitative analysis, and the use of a proprietary scoring system to rank each investment manager's performance. Only the very best are chosen to be included on our GoldLeaf Investment Platform.

As far as we're concerned we have great players and we have lots of depth on the bench (SMAs, pooled funds, mutual funds and ETFs). Depth is important because a SMA will not always be the best solution. Due to the \$150,000 minimum investment, smaller portfolios will utilize a mutual fund solution, each fund manager having been vetted by PCMI. That's not to say that pooled funds or mutual funds wouldn't have a place in a larger portfolio. Even accounts in excess of \$10 million will often incorporate pooled funds or mutual funds because that particular manager is superior to all others. At the end of the day we construct portfolios using the best managers in order to field the best team.

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# What's It Like to Retire?

By John R. Ross, *Chairman*

I am frequently asked “what’s retirement like, how do you spend your time, etc”. The questions normally come from clients who are rapidly approaching retirement and are usually worrying about the adjustment from a very busy working lifestyle to what they sometimes perceive as a boring life.

Let me first try to describe the individual who I will refer to as our “specimen”. Most of our clients are used to a very busy life. They are corporate executives for the most part, but the description also applies to professionals and entrepreneurs. They normally work 70 to 80 hours a week and that doesn’t include the times where they may not be working officially but are still thinking about the business. These are the people that miss out on family activities because they’re traveling or held up at the office because of one crisis or another. For the purposes of this article I will ignore those many clients who continue to have Board of Director responsibilities after retirement; they too will face the issue when those responsibilities are over.

Most of them do have one or more hobbies but they definitely don’t put that hobby at the top of their priority list. If they’re golfers or boaters or fishermen they usually relish the opportunity to participate in their favorite leisure activity but rarely do they have extended periods when that’s all they have to do.

Now comes retirement and they wake up every day with a blank page in their diary. For many of them this is the frightening part of retirement. To go from a life of never having enough time to one where there seems to be nothing *but* time, can be scary: no assistants to follow orders, no phone calls, no crisis to manage. I’m reminded of a story that describes the situation. The former Chairman of a major bank was home for his first day of retirement and his wife left a message on the kitchen counter outlining a number of chores that she wanted done. The former Chairman poured a cup of coffee and deliberated for some time before he finally took a pen and scribbled “approved” on the list.

My thoughts on retirement have developed over the years through observing many of our clients who have successfully made the transition, plus living during the winter in a gated community in Florida where 98% of the residents are retired, almost all from the lifestyle that I’ve described.

There are three parts to a successful retirement. First is the financial side, secondly is your health and finally the lifestyle which very much depends on the financial and health aspect. Over fifty years ago, when I started in the life insurance business, we were taught that to be financially secure in retirement you would need at least

50% of your pre retirement income. My experience is that this is nonsense. You will probably need at least 100% of your pre retirement income; more if you have a desire to travel extensively.

I am thinking here of someone who makes a direct transition from full employment to retirement. Frequently they will add the additional costs of a second or third residence plus more money spent on travel and leisure activities. This may be offset by reduced clothing costs and business expenses, but only partially.

The income may come from a generous pension plan but it will certainly need to be supplemented from investments. Having planned accordingly you will have ensured that your assets will provide the type of cash flow that you need to live the lifestyle that you want to enjoy.

Assuming that the financial side is looked after the next priority is your health. Proper exercise and diet are vital. Now’s the time to start an exercise program that will ensure that you’ll have the physical stamina to enjoy your retirement. It’s a sad sight to see someone who has worked all their life and when they retire just vegetate because they haven’t prepared themselves for enjoyment. Your mind also needs to exercise and pastimes such as crossword puzzles, sudoku, scrabble or bridge are great for stimulating your mind.

Finally, activities. How are you going to fill those 70 to 80 hours a week? Well, if you’re one of the lucky ones you’ll have many hobbies. We’ve all heard people say that I could never spend my time just playing golf or whatever, but the truth is you can have a number of different activities that will more than fill those hours. Getting involved with any of the thousands of charities that need help can easily fill 10 to 20 hours a week. Golf, tennis, exercise can also use up many of those hours and also contribute to the health side of the equation. If you become a snow bird you’ll also need a lot of time to spend with the many new friends you’ll be making. Having the time and financial means to travel means that you may find yourselves on extended holidays traveling to exotic locales where you can really soak up the culture without the need to rush, rush, and rush because you’ve got to get back to the office. More likely, your office never leaves you now because you’re locked into your blackberry.

There it is, three fundamentals: financial, health and activities. Manage them and your retirement will be bliss. I have many friends here in Florida in their 80’s and 90’s who look and feel young and really enjoy their life. Most have been retired for more than 20 years and they are never bored, in fact they all look forward to their future.

Good luck with yours.

# Planning for a Family Cottage

By Jamie Golombek, *Vice President Tax & Estate Planning, AIM Trimark Investments (Reprinted with permission from AIM Trimark.)*

Few things in life bring families closer than the time they spend at the cottage. Whether it's for weekends throughout the year, a couple of weeks in the summer or an annual Thanksgiving or holiday dinner, the memories created for many families are rich and enduring. Unfortunately, these memories can be tarnished without proper tax and estate planning, as a second property can trigger tough financial issues for children upon the death of its owners. To help ensure a tax-efficient transfer of the family cottage to heirs, the following has been developed, which provides useful background information on the topic and up-to-date tax and estate planning strategies for vacation properties.

## BACKGROUND

Prior to 1972, there was no capital gains tax in Canada and a principal residence or a second vacation property could be sold without any capital gains tax. With the introduction of the capital gains tax regime in 1972, it became more important to plan around the ultimate disposition of property. Planning for a second property didn't really become an issue, however, until the beginning of 1982 when the government changed the rules governing the principal residence exemption. Prior to 1982, it was possible for each spouse to own a property and designate it as his or her own principal residence. Beginning in 1982 this was no longer possible. A couple may only designate one property between them as their principal residence for years of ownership after 1981.

Before March 1992, the \$100,000 lifetime capital gains exemption was available on all property and would have been available to shelter a gain on the sale of a second property (or on the deemed disposition of the property upon death of the last surviving spouse before a transfer of the property to the next generation). However, in February 1992, the capital gains exemption was modified to exclude gains on most real property and, in February 1994, the \$100,000 exemption was repealed completely for all property. This led estate practitioners to come up with strategies to pass the vacation property to the next generation in the most tax-efficient manner.

## STRATEGIES

Although numerous planning ideas have been suggested over the last number of years to reduce or defer the tax liability on the transfer of the cottage, probably the most common are the use of life insurance and the transfer of the property to a trust.

### LIFE INSURANCE

A life insurance policy can be purchased on the life of the owner of the cottage or, more commonly, on the last-to-die of the owner and his or her spouse or partner. In some cases, children (or grandchildren) who stand to inherit the property may be willing to pay

the premiums on the policy. Practically, however, this may not be feasible. If the cottage owner is in his or her 60s or older, he or she may be uninsurable or, if he or she is insurable, the premiums could be prohibitively expensive. That's why it may be worth exploring other solutions.

### TRUST

Another strategy may involve the transfer of the property into an inter-vivos trust to avoid the deemed disposition of the property on the death of the original owner (or his or her spouse or partner). The biggest hesitation with transferring the property to a trust is that unless certain conditions are met (i.e., the new alter ego or joint partner trust rules), then a transfer to such a trust currently will trigger immediate capital gains tax.

If, on the other hand, you own a vacation property that has very little or no accrued capital gain currently, you may wish to transfer the property to a trust today so that any future capital gains tax that arises on the property may be passed on to your children. In addition, you may be unsure of whom to leave the property to because each child may have a different level of interest in the ultimate use or enjoyment of the property (discussed further below). By setting up a discretionary trust, the property can be transferred to the trust today. You can be the trustee of that trust and, therefore, control who gets the property at a later time.

The trust deed would normally specify that you have exclusive use of the property during your lifetime and have unlimited access to, as well as full control of the property. Later on, perhaps upon retirement, you may no longer use the property substantially, so you may wish to distribute it to the appropriate beneficiaries. The property could be rolled out of the trust to the children at the original cost base and thus tax would be deferred until the property was ultimately sold.

### WHO SHOULD INHERIT?

Of more concern than the future tax liability for some is to whom to leave the property. It is not necessarily in the best interest of parents (or more importantly, their children) to leave the cottage equally to all kids. For example, a parent with three children may have one child who may be very interested in using the cottage in future years while the other two children may have less of an interest. Perhaps the other two children may be satisfied with a particular cash legacy to be received from the estate from the liquidation of other assets, such as open investments, life insurance, or the after-tax values of RRSPs or RRIFs. In this case, it would be simpler to leave the cottage to the child who truly wants it, as opposed to dividing the property into one-third interests.

# CPA's GoldLeaf Analyzer, the Evolution Continues

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Back to Mr. Stengel's comment: how do we get them to play as a team? We know that no one player embodies all the attributes of a perfect player and even if they did they can't play all positions. So when it comes to portfolio design we need a methodology for blending managers whose strengths compliment one another.

CPA is proud to introduce the GoldLeaf Analyzer, recently made available through PCMI. This software allows us to visualize how different managers would work as a team and how that team would have fared against a relevant blended benchmark. GoldLeaf Analyzer presents 11 statistical measures related to the relationship between risk and return. Data is calculated for each manager individually and on a weighted basis to derive for the overall portfolio. The purpose of the exercise is to find the optimal blend of managers for a given asset allocation that reduces risk as much as possible while enhancing the opportunity to outperform the benchmark.

Let's consider this example: two GoldLeaf managers are being combined for the US equity allocation; one a Growth manager, the other Value. Each has outperformed their relevant benchmark over time. The Value manager's risk profile is lower than the index, the Growth manager's higher. Perhaps the Growth manager runs a very concentrated portfolio, or is overweight in certain sectors that are traditionally more volatile. By combining these two managers we achieve a risk profile closer to the index. We have neutralized style as an investment risk by introducing both Growth and Value, and if history is any indicator have a chance to outperform the index in the future without taking on any added risk.

When we set about constructing a complete portfolio with multiple managers the statistics presented can make for a dramatic investment solution. My personal favorite is referred to as "Up Market Capture" and "Down Market Capture". Basically, Up Market Capture compares the manager return with the index during months when the index was positive; Down Market Capture compares the manager return with the index during months when the index was negative. This is expressed as a percentage. Remember that each manager has their own Up Capture/Down Capture data and we're interested in how they react together. Ideally when we combine managers to create portfolios we get Up Capture numbers higher than 100% and Down Capture coming in at less than 100%. If we achieve this we know

that historically this blend of managers would add value during both bull markets and bear markets. Now that's a portfolio I want working for me.

In keeping with the original analogy, another interesting and easily understood statistic is batting average. This is a simple measure of manager/portfolio consistency. It presents, as a percentage, the frequency with which the manager and/or the overall portfolio's monthly returns exceed those of the benchmark. We know that a single coin toss has 50/50 odds of coming up heads or tails. In the investment world a consistent batting average of 55% will lead to long-term outperformance.

CPA takes the responsibility of investing seriously. As a group we meet quarterly with PCMI to review the performance of the GoldLeaf managers and to discuss ways to bring greater value to the GoldLeaf Platform. We meet directly with Goldleaf managers to understand their thinking and to have our questions answered. We continue to invest in innovative ideas like the GoldLeaf Analyzer and are actively pursuing an enhanced reporting package to make quarterly statements more meaningful to our clients. We believe that the GoldLeaf Investment Platform is unique in its offering and look forward to sharing further updates as it continues to evolve.

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## Planning for a Family Cottage

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You may engage in an open and frank discussion with your children or grandchildren as to whether or not they actually wish to accept the "burden" that a cottage represents. Children may not have the wherewithal to finance the annual upkeep and maintenance (property taxes, landscaping, etc.) that ownership requires. This will help to ensure that planning today is not wasted in situations where certain children have no real interest in inheriting the property and the inherent costs associated with its upkeep. Both tax and estate planning considerations need to be discussed thoroughly before undertaking any type of plan with regard to a second property.

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