Vested
INTEREST
Quarterly Newsletter
Fraser McDowell, CFP, CPCA

In This Issue:

- Buying A Home? Consider Life Insurance
- The Next Chapter

MAIN FOCUS THIS QUARTER:

Three Ways A Financial Advisor Can Add Value

Source: Fidelity Investments

The financial world is complex – with myriad choices, complex terminology, and high stakes. Many people prefer a do-it-yourself approach, but partnering with a financial advisor has the potential to help. Of course, that guidance comes with a cost. Is it worth it? That is a personal decision that each individual needs to evaluate, but there are advantages to working with a financial advisor.

"Having a strong relationship with a financial advisor can be a huge benefit for individuals and the people they care about," says Peter Bowen, Vice President, Tax and Retirement Research. "A financial advisor can help prevent you from being blindsided by risks, avoid making big mistakes, understand your options and confront realities about your financial situation. They also help you to make strong plans, factoring in all of your circumstances, including your goals and tax situation."

1. Investment guidance

The nightly news will always include a mention of what the S&P/TSX or Dow Jones indexes did. While these broad benchmarks have a role to play in evaluating investment returns, the truth is that most investors fall far short of "market" performance. Independent research firm DALBAR estimates that the average stock investor in the U.S. trails the stock market by nearly four percentage points annually, while Morningstar has estimated that mutual fund investors as a whole have trailed the average mutual fund by from 0.55% up to 2.5% a year, in recent years. One key reason: bad timing.

Investors as a whole tend to buy investments that have been rising and sell when they have been falling, as the emotions of fear and greed drive decisions. Unfortunately, these are often poorly timed decisions, and they end up resulting in underperformance.

A financial advisor potentially can help you create and follow a disciplined investment process to avoid these emotional decisions. This includes an appropriate asset allocation to help you reach a particular goal. Research has shown that asset allocation is a key driver of portfolio returns. The choice of an appropriate asset allocation depends on your goal, time frame, situation, and risk tolerance. But it's not easy to do. According to data from workplace savings plans that Fidelity administers in the U.S., only about half the investors who are doing it on their own have an asset allocation that is roughly on track.

Having an appropriate investment mix is important when it comes to how much risk and volatility you can tolerate. The key is to pick a portfolio mix you can stick with through market ups and downs.

"Acting on our emotions rarely produces the best financial results," says Bowen. "An experienced financial advisor can offer a steadying hand during stressful times to help you stick to a plan that's right for your situation and feelings about risk, and to navigate the markets to reach your goals."

2. Navigating the tax rules
Taxes, and all the rules around taxes are complicated, but a financial advisor may be able to help. Just helping you to think through which of your investments should be held in which account can make a big difference. Which investments are better suited for a TFSA and which for a RRSP? Because different types of investments are subject to different tax rules, and different types of accounts offer different tax benefits, coming up with a strategy for what to put where can potentially reduce the taxes you have to pay on your investments overall. These asset location decisions can be complex, but a financial advisor may be able to help. "A financial advisor can help manage your long-term tax situation, which can be critical to maximizing cash flow, especially as you move into retirement," says Bowen.

3. Financial planning for life
Having a relationship with a financial advisor also creates the opportunity for you to manage the risks and needs of your family as they change over time. This means everything from a plan for retirement saving to managing the financial impact of children and parents through different life stages, and protecting your own long-term financial goals from excessive risk.

A financial advisor can help you manage the complexities of retirement savings and spending – choosing how much to save and in which accounts, and then how much to withdraw, and which investment alternatives and accounts should be used to help generate income.
A financial advisor can also help keep your plan on track, by helping to manage changes in your life, and helping to navigate around major risks. This means helping you adjust your strategy to support your children – and your aging parents – through the different stages of life. It also means helping to protect your family from major risks. Health issues are a common cause of early retirement, and they can derail your plans. A financial advisor can help you to create a plan to protect your loved ones.

A trusted financial advisor can also help your family. In many families, a single individual is primarily responsible for investment decisions and managing money. But as you age, the risks of disability, impairment, and death rise. It may not be pleasant to consider, but who would help your spouse or children navigate your financial situation if you couldn't?

Working with a trusted financial advisor who understands your financial situation can help your loved ones manage that transition. A financial advisor can also bring an impartial perspective to challenging family conversations, including who will make decisions and what will happen to your money after you are gone.

"Our research in the U.S. shows that seven in ten adult children believe it is important to know about their parents' financial situation, and one in three feels he or she needs to know more," says Bowen. "A financial advisor can assist in these conversations and step in during the moments that matter, with the information and insight you and your family need to handle changes as you age."

Staying on track
Creating a financial plan is an important step. But as your life and the markets change, your plan will need to adapt. Fraser McDowell can help keep you on track.

Buying A Home? Consider Life Insurance

Source: SunLife Financial

It was only when my husband and I took out a mortgage to buy our very first home that we realized we needed life insurance.

When my boyfriend and I moved into our first apartment together, life insurance never crossed our minds. We both had decent-paying jobs and we were splitting the rent and expenses. Our only cares were whether we needed to go grocery shopping and whose turn it was to clean the bathroom.

Fast-forward three years. It was only when that boyfriend became my husband and we bought our very first home in Toronto that we thought about life insurance again. All of a sudden I was 27 years old with a fluctuating income and a mortgage over my head. If anything were to happen to either of us, would we want the other person to be stuck paying the entire mortgage alone and risk losing the house?

Not a chance. This is why as young newlyweds and new homeowners we finally bought life insurance. We depend on two incomes to cover our living expenses and this brand-new thing called a mortgage. We decided on an insurance policy that, if anything were to happen to one of us, would pay the survivor a tax-free lump sum sufficient to pay off the balance of our mortgage. It's a tough conversation to have, but a necessary decision that's all part of growing up.

Over the years, we have switched careers, started new businesses and leaned on each other for emotional and financial support during times of career transition. Chalk it up to being in your 20s, but there were times when I relied on my husband's income and vice-versa. Having life insurance during these uncertain periods of our lives was reassuring because I knew that my significant other would be taken care of no matter what. The house, our debts and our mortgage would be the last thing we would have to worry about if tragedy were ever to strike.
Now, you may have some sort of group life insurance through your employer as part of your benefits package. But this benefit ends if you

leave the company. For myself, I see it as an added bonus – but not the main insurance policy that I personally rely on.

So what type of life insurance should you get?
In Canada, there are three types to choose from: term, permanent and universal. Here's a quick overview of each:

<u>Term.</u> A low-cost, temporary option when money is tight and your financial obligations (such as a mortgage or young children) are heavy. You buy the policy for a certain term, such as the length of your mortgage. If you choose, you can arrange to have it automatically renew at the end of the term. Once you decide on the amount of insurance you need, it does not change. However, your premium will increase every five, 10 or 20 years, as you get older. This policy accumulates no cash value.

<u>Permanent.</u> This type of policy covers you for life and is generally a more cost-effective financial choice in the long run than term insurance. It does not need to be renewed the way a term policy does. Like term, once you've chosen the insurance amount, it does not change. However, permanent life insurance premiums are higher than term insurance when you're younger, but lower when you get older. Permanent life insurance policies usually accumulate a cash value, which can be paid out to you if you cancel the policy.

<u>Universal.</u> A universal life insurance policy typically provides lifetime protection and offers much more flexibility than conventional permanent plans. Premiums may increase from year to year or stay level throughout your life, depending on your policy. The real benefit is this: If you make payments greater than the required cost of your policy, the extra can be invested and grow tax-deferred.

Another type of coverage is mortgage protection insurance, which combines term life insurance and critical illness insurance to protect your family from the financial impact of your death or serious illness.

To learn more about Life Insurance, be sure to contact Fraser McDowell.

The Next Chapter

Source: Manulife Solutions

Whether your business is at the stage of attracting investors or partners, or you are considering reducing your involvement to pursue other opportunities or retire, a formal written succession plan is essential. Almost half the owners of Canadian small and medium-sized enterprises (SMEs) are between the ages of 50 and 64. Over three-quarters (77 per cent) of SME owners of all ages plan to exit their business within 10 years. Yet just nine per cent have a formal written succession plan.

A well-developed transition plan can help maximize the value that you have built over years of hard work. It can ensure your business is in a position to act quickly when you receive an expression of interest from a potential investor, partner or buyer. Just as critical, it can provide a framework for planning for your own future beyond the business.

The sooner business owners start planning for transition, the better. Typically, five to 10 years out is ideal. Finding appropriate investors, partners or buyers can take several years. You'll need time to lay groundwork to make the transition as smooth as possible for you and your company's managers, employees, customers and suppliers. And you may need room to maneuvre if economic conditions accelerate or postpone a sale.

Furthermore, planning ahead provides more opportunity to maximize the business's effciency and profitability leading up to a transition. Streamlining day-to-day operations and enhancing stability (for example, through long-term contracts and supply chain integration) can make your business more attractive to an investor, partner or buyer.

What are your options?
Here are some of the ways business owners can implement a transition:

- Transfer the business to a family member
- Sell the business to an internal or external buyer
- Switch from private to public ownership
- Merge with another organization
- Close up shop and wind down the business

All of these options involve relinquishing some, if not all, control over the business, and it's important to consider how to do that. Would you step away when the deal is inked? Or perhaps stay to assist through the transition? Some business owners stick around as a consultant well beyond the transition. It's important to think about how much of a role you want to play after new ownership begins to "call the shots."

Some key questions to consider when creating a succession plan for your business:

- Who has a stake in the business (ex., business partners, employees,franchisors, distributors, your family)
- Do you have business interruption insurance?
- Do you have key person insurance?
- What is the business worth?
- How will the legal transfer of ownership occur?
- How will the transfer be funded (e.g., with life insurance following an owner or partner's death)?
- What are the tax consequences of a sale?
- How will pro ts be allocated?
- What role will you and others in the company have during and after the transition?
- How will you ensure the business runs smoothly through the transition?
- How will you keep up employee morale?

Beyond business planning, it's critical to evolve your personal financial plan. A business transition can have a significant effect on your personal wealth, and may require a different approach to investment, tax and estate planning. Consider how you'll remain personally protected with health benefits and insurance. If you are retiring, you will also want to set up a tax- efficient and sustainable income stream.

These are all topics to discuss with your advisor, who may also be able to refer you to other business transition specialists, such as a lawyer, accountant and business valuator. With the right team around you, helping to implement a sound succession plan, you'll be in a stronger position to achieve your business and personal goals.

Fraser McDowell, CFP, CPCA
Financial Planner
Partner, Perler Financial Group

Marina McDowell
Executive Assistant to Fraser McDowell

Stefanie Larson
Administrative Assistant

Lisa Fong
Operations Assistant

Jasmyne Cunningham
Processing Administrator

Get In Touch!

Fraser McDowell

Phone 604-468-0888 | Fax. 604-468-0887

fmcdowell@perlerfinancial.com

marina@perlerfinancial.com

D-2232 Elgin Avenue, Port Coquitlam, BC, V3C 2B2

Visit Me On My Websites

www.FraserMcDowell.com

www.McDowellEstatePlanning.com

Interested In A Monthly eNewsletter?

If you or somebody you know are not yet on our mailing list for our monthly eNewsletter, and would like to be, please let Marina know. She will be glad to add you to our mailing list so you can receive this once a month update. Contact Marina by emailing her at marina@perlerfinancial.com or by calling her at the office 604-468-0888.

Thank-You

A heartfelt thank you for your continued patronage and all your referrals. Your confidence in us is truly appreciated.

The information contained in this newsletter is for general information purposes only and is based on the perspectives and opinions of the owners and writers. The information is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting, or professional advice. Please contact Fraser McDowell for advice on the specific circumstances before taking any action. Some of the information provided has been obtained from sources, which we believe to be reliable, but we cannot guarantee its accuracy or completeness. Worldsource Financial Management Inc. does not assume any liability for any inaccuracies in the information provided. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Mutual Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other products and services are offered through Perler Financial Group.