



**B L Garbens Associates Inc.**  
Independent Financial Advice  
Professional • Personal • Proactive

# inBrief *financial information you can use*

Fall 2011

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## PRESIDENT'S MESSAGE



*In contrast to the pleasant weather that we've experienced this summer, the stock markets have been choppy driving some to consider whether they should be managing their own investments or turning the management over to the pros. This month we cover the benefits of working with a portfolio manager for those who'd like to remove the emotion from the decision making process. Either way, if you have a plan and stick to it, you will ultimately achieve your goals.*

*With very warm wishes, have a wonderful fall season and enjoy what's left of this great summer weather!*

*Barb*

Barbara L. Garbens  
MBA, RFP, CFP

## Looking for an Alternative to Mutual Funds?

When you first started your investment journey, you likely began with mutual funds, probably the most popular way in Canada to build a portfolio over time. But if your account has grown well into six figures, it may be time to look for an alternative. Mutual funds can be a great starting point, but, for larger accounts, there may be more appropriate alternatives.

The primary reason is cost. The average equity mutual fund in Canada charges a management fee of about 2.5%. This fee is embedded in the fund and is not tax-deductible in either a registered or non-registered account. In addition, you may be paying your advisor a commission on trades or a fee to manage your account. Mutual funds can be expensive from a tax perspective as well. In a non-registered account, portfolio turnover can result in capital gains which are taxable on an annual basis, even though you haven't sold any of your units in the fund.

If your account is large enough, you may want to consider the alternative of working with a discretionary investment counsellor or portfolio manager. Once your portfolio reaches several hundred thousand dollars or more, you will find that the size of your investment pool affords a lower fee structure than is available with mass market mutual funds. This is because investment counsellors manage larger accounts on behalf of fewer clients and do not incur the additional expense of third-party distributors – it's all about economy of scale. Fees are fully disclosed on client statements and are tax-deductible for non-registered accounts. Fees generally range from 1% to 2% and are often lower for larger balances or fixed-income investments.



Because your portfolio will be invested in individual securities, you and your investment counsellor can decide when to trigger gains, based on your individual circumstances. By avoiding triggering taxes in a high-income year, you can lower the tax cost of your overall portfolio.

Discretionary management means that the investment counsellor has the authority to make investment decisions without getting prior approval from you for each transaction. These decisions will be based on your objectives and risk tolerance as outlined in an Investment Policy Statement. Portfolio managers have a fiduciary duty to act in the best interest of their clients, and, as fiduciaries, they are subject to the highest level of education and experience requirements in the securities industry. If you would like more information about investment counselling services, a good place to start is the Portfolio Management Association of Canada (PMAC) at [www.portfoliomanagement.org](http://www.portfoliomanagement.org). PMAC represents over 150 companies whose primary focus is discretionary investment management for clients such as wealthy individuals, foundations and pension funds. And, of course, we're happy to discuss your investment needs at any time.

# A Welcome New Service from CRA!

It's not often we get to describe the Canada Revenue Agency (CRA) as proactive and user-friendly. But those terms certainly apply to the feature on their website called "My Account". If you've never used this feature, you'll be surprised to find out just how much information is available here.

For example, let's say that, for some reason, you haven't yet received an assessment from your 2010 tax return filing. My Account can give you the most up-to-date information available on the status of your return – the on-line information is available well in advance of what you will eventually receive in the mail.

But this service goes far beyond providing you with information about your current tax return. Here, you can check your RRSP contribution history as well as the calculation of your deduction room all the way back to 1991. If you're currently participating in the Home Buyers' Plan or the Lifelong Learning Plan, you can see how much you've withdrawn in total, your previous annual repayments, any cancellations or income inclusions as well as the amount you still owe and the repayment you have to make for the current year. Similarly, a section on TFSA's summarizes all your transactions and shows you how much contribution room you have available.

You can also use My Account to set up or change direct deposit of tax refunds and benefit cheques as well as pre-authorized payment plans for instalment payments. If you disagree with an assessment or reassessment issued by CRA, you can even use My Account to formally register a dispute. Just remember that this has to be done within a certain time frame - the later of: one year after the date the relevant return is due, or 90 days after the date that CRA mailed the notice of assessment or the notice of determination.



And if you really don't want to get this intimately involved with CRA, you can use My Account to authorize us to deal with them on your behalf.

In order to use My Account, you need to create a user ID and password, and answer a series of security questions. CRA will then send you a security code by snail mail that will provide full access to your account. While you're waiting for Canada Post to deliver, you can use the Quick Access tab to check information such as your RRSP deduction limit, your TFSA contribution room, and the status of any benefit payments you may be entitled to receive from CRA. Services are available almost 24/7 – they shut down from 3:00 am to 6:00 am EST for maintenance.

## Contact Points for CRA My Account

If you want access to your own personal records or want to authorize a representative, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount). You can register on this page or link to further information about the services provided.

If you own an incorporated business, you may want to visit [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). Here, you can access a demo as well as a brief video giving an overview of how the system works.

Happy surfing!

## MATTERS OF INTEREST

While tax time may seem many months away, a review of year end tax planning tips can save you money on your 2011 return. Here's a handy checklist of areas to watch for:

- Make the following payments by year-end in order to claim a deduction: charities, investment counsel fees, professional memberships, political contributions and deductible legal fees;
- Make RESP contributions for children or grandchildren by December 31st;
- If you turn 71 in 2011 and still have earned income, consider making an advance RRSP contribution by year-end (December 31). There will be a small over contribution penalty for that one month, but this will be more than offset by the value of the tax deduction next April;
- If you're 65 or older, consider converting some RRSP funds to a RRIF or annuity before year-end. As long as you don't have any other pension income (except for CPP), you'll be entitled to claim the pension income credit, which offsets the tax on the first \$2000 of pension income per year;
- Consider tax loss selling to offset capital gains realized during the year;
- Consider waiting until next year to purchase mutual funds outside your registered plans to avoid paying tax on year-end distributions.

Call us to discuss whether any of these strategies are appropriate for you.



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