Volume 11 Number 1
1st Quarter, 2007

Published by
The ECC Group

The Personal Financial Advisor

In This Issue

BEING GREEN WITH YOUR GREENBACKS

J. Christopher Snyder, CFP, RFP

The environment, or more specifically climate change, is the number one issue for many Canadians these days. It is a page one topic in almost every newspaper and a key issue for all governments, whether municipal, provincial, territorial or federal. It is on the business agenda as well, as part of a company's corporate social responsibility obligations.

While much of the environmental focus has been on business and government actions, and while an improved public policy is a major component of a better environment, individuals also bear a responsibility. It is argued that governments no longer lead, they follow, and so a strong individualized grass roots initiative should help both government and business become an effective part of the solution to climate change.

Being a responsible green citizen does not mean one has to live in a tent, live off the land and walk everywhere. It does, however, require sensible and thoughtful behaviour. If we all take action, we can reduce the cost and negative impact of climate change.

Today, it is impractical for most people not to own a car, but in many cases it is cheaper and more environmentally friendly if you can manage with one car and use public transit, walk, ride a bicycle or use taxis. We can also reduce the impact of cars on the environment. We can buy more fuel-efficient cars or hybrids and use gas with an ethanol-blend made from corn. Turning off the car rather than idling, using correct tire inflation and making regular oil changes will also save money and help the environment.

A car creates considerable carbon dioxide (CO^2) emissions. Driving a mid-size car 20,000 km during the course of a year will release more than five tons of CO^2 into the atmosphere. If you have done all you can to reduce your car emissions and want to reduce further its environmental impact, you can contribute to a carbon offset project by directing money toward organizations that increase energy efficiency, develop renewable energy, restore forests or sequester carbon in the soil. It is not expensive — about $100 will offset the impact of driving 20,000 km.

Offsets are not only used for car travel. Flying also has an impact on the environment since the plane creates greenhouse gases. For example, a flight from Toronto to Tokyo creates three tons of CO^2 per person. Some airline companies such as West Jet allow you to buy an offset.

Both for and not-for-profit organizations offer opportunities to purchase offsets. If you are interested, check out **www.cooldrivepass.com, www.offsetters.com, www.zeroprint.net** or **www.carbonzero.com.**

The offset approach has been approved by

continued on page 2

continued from page 1

BEING GREEN WITH YOUR GREENBACKS

Environment Canada as well as many environmental organizations. A thriving carbon exchange in Chicago trades in offsets and the Canadian government is working on creating a similar exchange here.

Environmental awareness goes far beyond the effects of climate change. It is about the air we breathe, the health of families and healthcare system costs. It is about maintaining the beauty of our forests and the preservation of animals and birds. It is about keeping our water clean so we can drink it, swim in it and enjoy its therapeutic effects. It is about acting as stewards of the planet for our children, our grandchildren, our friends and neighbours.

There are many things we can do as individuals. The David Suzuki Foundation has called on everyone to take its Nature Challenge. Visit **www.davidsuzuki.org**, read the website, take the challenge and support the group.

Here are a few other ways you can help:

Consider using alternative energy, such as solar or wind power. Both have certain limitations but they can be overcome. Although there is a lack of sun in winter, cottages with a generator back up can be solar-powered. Wind power generates no energy if the wind is not strong enough, and if it is too strong, the windmills turn off. If you want to buy windpower, you can do it through Bullfrog, which is endorsed by the World Wildlife Fund, at **www.bullfrogpower.com**. It is more expensive but the money goes to investment in alternative clean air energy generation.

Insulate your home and wear more clothes inside. Keep the temperature at 20 degrees or below in the winter and 23 degrees or higher in the summer. I am sure many of you can remember the winter days when the temperature inside our uninsulated homes would be about 60 degrees Fahrenheit and we had to wear long underwear indoors.

Consider energy saving lights such as LED or compact florescent bulbs. Do your laundry and dirty dishes when you have a full load. Use your blue box and a clothesline, plug in heaters, program your thermostat, keep water heaters at a maximum 54 degrees and take a shower not a bath.

Recycle and reuse what you buy, do not purchase over-packaged goods and buy fresh food that is produced locally. This saves an enormous amount in transportation costs and encourages and helps the agricultural industry at home. Buy organic foods such as fruits, vegetables, eggs and coffee. While more expensive, organic food is free of the pesticides that can end up in our water system.

Limit your purchase of bottled water. Many Ontarians were alarmed by the Walkerton contaminated water incident a number of years ago, but our water is generally clean and safe. Furthermore, the bottled water industry is not regulated and much of the bottled water you buy is regular tap water that has been treated by ultraviolet light. If you are concerned about your water, buy an ultraviolet system to add to your own water system. It costs you less than bottled water and there is no need to manufacture or recycle the bottles.

There are other things that you can do to be green.

Educate yourself about the environment. Good books include *An Inconvenient Truth* by Al Gore, *The Upside of Down: Catastrophe, Creativity* and *Renewal of Civilization* by Thomas Homer Dixon, *The Weathermakers* by Tim Flannery and *Water* by Marq de Villiers. Your children can get a head start by reading magazines such as *OWL, Chickadee, Canadian Geographic* or *National Geographic*.

Talk to your friends, your Member of Parliament and business leaders about environmental issues and send them a copy of the above books. Also, encourage public policy that creates a positive environment for business to make money by being green. **We need the engine and innovation of the free enterprise system to be part of the solution.**

Make a donation to green-related causes such as the Bruce Trail Association (**www.brucetrail.org**), the Nature Conservancy of Canada (**www.natureconservancy.ca**), the World Wildlife Federation (**www.worldwildlife.org**), the David Suzuki Foundation (**www.davidsuzuki.org**) and the Sierra Legal Defense Fund (**www.sierralegal.org**). Better still, volunteer with them and, in the case of the Bruce Trail Association, go hiking.

Think green when you are making decisions, and ask yourself, "What is the environmental impact of my decision?"

Speak to your employer about recycling, using energy-efficient lights, turning off high-rise lights during the bird migration season and ensuring that each room has a single switch so not all the lights in your office are on at one time. Make sure you use recycled paper and use both sides. Turning off your computer at night saves $95 a year.

continued on page 3

continued from page 2

BEING GREEN WITH YOUR GREENBACKS

Invest in companies that are focused on the environment. One small investment fund is **Investeco**, which specializes in investing in green enterprises. These include an organic farm company, an organic milk company, a solar energy company and a company involved in ultraviolet water purifiers. This fund may be beyond the reach of many investors as the initial investment is a minimum of $150,000. There is also a new Water Fund sponsored by **Criterion Investments**, a unit of VenGrowth Asset Management, that copies the large Swiss Pictet Global Water Fund. The fund invests 32% in water technology, 17% in environmental services and 9% in mineral water.

These are just a few of the things that you can do. If you have other practical suggestions, please send them to us and we will publish them. We will make a $250 donation to the environmental NGO of your choice for the best idea and you will receive the tax deduction. We also encourage you to attend **The Green Living Show**, from April 27 to April 29 at the Automotive Building in Toronto. There will be booths and displays on eco-tourism, gardening, energy saving devices and environmental groups. It should be good!

None of us will ever be environmentally pure and leave no footprint but with some careful thought, common sense, a small change in behaviour and a green attitude, we can make a difference individually and be part of the solution.

LIVING LONGER — LIVING TOO LONG?

Robert DeMelo, CFP

As the first of the baby boomers enter their sixtieth year this year, care-free thoughts of financial freedom may quickly turn to dependence, not independence. One of the boomers' greatest concerns is the medical care not only of their parents, but of themselves. The increase in life expectancies has created a double-edged sword — longer life but at what cost? The fear of dying too soon has been replaced by fear of the consequences of living too long.

Because of old age, injury, mental or physical illness, some people find themselves in need of help with eating, bathing, dressing, toileting or simply getting from one room to another. Inability to perform these activities are often used to judge whether or not you require assistance. In general, if you cannot do two or more of these activities, or if you are cognitively impaired, you are said to need "long-term care."

Many people think that long-term care is provided exclusively in a nursing home. It can be, but it can also be provided at an adult daycare center, at an assisted living facility or at home. The coverage provided by provincial government health plans for long-term care, however, is restrictive and many people want the power to choose for themselves.

Women traditionally provide and receive the majority of long-term care services and, furthermore, are more likely than men to assist aging or disabled family members with the activities of daily living. Women are often in the difficult position of caring for both their children and parents, which can take an enormous toll on their emotional and physical health. The financial implications can also be substantial. The most obvious is the loss of work time and potential missed business opportunities, such as promotions.

Because care-giving can affect earning potential and, ultimately, a woman's quality of life, long-term care insurance may be worth considering. This insurance can replace or supplement provincial government health plans and can provide a tax-free daily benefit for each day of care. Examples of benefits covered by the insurance include:

- Care in a long-term care facility
- Home care
- Home health care
- Adult day care
- Hospice care
- Respite care
- Durable medical equipment
- Emergency response system

Long term care insurance may be a good idea for a number of reasons. You may have retirement assets that you want to preserve or you may be worried that you will not have enough assets to provide for personal care. You may want options regarding the quality of your care. You may not

continued from page 3

LIVING LONGER — LIVING TOO LONG?

want to rely on government programs for care or burden family members with care-giving duties.

Since older applicants, because of health, are often rejected, consider buying at an early age — for example, before age 60, it costs less. Furthermore, once the premium level is set, it remains for the life of the policy, unless rising claims for the group of people who have bought that policy require increasing the rates.

The premium for a 56-year old female, with a 90 day wait, would be $1,252 a year for a $100 a day payout plus $20 a year inflation protection benefit.

If you would care to learn more about long-term care, please contact your financial advisor.

THE HIGH COST OF WITHDRAWING MONEY EARLY FROM YOUR RRSP

Fabio Ventolini, CFP, CDFA

A recent survey found that 40% of Canadians have made an average of three withdrawals from their RRSPs and almost half of them do not intend to pay it back.

The government originally created RRSPs so that people could save for retirement. It has since expanded the program to help people save for their first home purchase and pay for education. This money can be paid back in to your RRSP plan .

It is clear, however, that the government does not want individuals to withdraw RRSP money for vacations, cars or home renovations. If you redeem money from your RRSP for such expenses, you cannot repay it and, furthermore, you must pay tax on the money withdrawn at your top marginal tax rate.

When you withdraw money from your RRSP, tax is withheld as follows:

From $0 to $5,000 withdrawal	10%
From $5,001 to $15,000	20%
Over $15,000	30%

A withholding tax is simply an up-front tax. You may have to pay additional tax if your top marginal rate is higher, and you will get some tax back if it is lower.

A further cost of withdrawing money from your RRSP early is the lost opportunity to compound your investment. If you are 35 and wish to withdraw $10,000 from your RRSP, you receive $8,000 net after the withholding tax. If instead you leave the $10,000 in your RRSP for 40 years, the $10,000 will compound and at 5% to $70,400 or at 7% it would be $149,744 (both numbers are pre-tax).

The survey of Canadians withdrawing from their RRSP showed that 37% withdrew an average of $18,000 to buy or build a home; 24% paid off debt; and 20% used the money for everyday living expenses. While situations do arise and current financial pressures may force you to cash in part of your RRSP, this type of activity can be a matter of concern, particularly if it happens often. One could ask, if you can't meet your day-to-day expenses now, how will you be able to upon retirement?

We suggest you discuss any plans to withdraw money from your RRSP with your advisor first. There could be other avenues to help you with your pressing financial needs, including a short-term loan or tightening your budget.

The Personal Financial Advisor

THE POWER OF COMPOUNDING GROWTH

Vicki Lungu, CFP

We have all heard that we should start saving money as soon as possible — the earlier we start, the more we will have later in life. While this is absolutely true, the question is, why? What is it about putting money away in the long term that can turn hundreds of dollars into hundreds of thousands?

The answer is the concept of compound return. Compound returns happen when your investment gains, such as interest, dividends or capital gains, are reinvested. Not only do you earn interest on your money, you earn interest on your interest. You profit from what mathematicians call *exponential returns*.

How it works

Example 1
Anne, age 25, invests $1,000 a year into an RRSP account for the next 30 years. Her investment yields 7% rate of return compounded annually. By age 55, she has invested $30,000 and her RRSP account is worth $101,000. She makes no further investments and by the time she retires at age 65, her account is worth $198,700. Not bad!

Example 2
Anne's friend, Julie, age 30, also starts investing in an RRSP account. Because she is five years older, she invests $1,200 a year for 25 years for a total of $30,000. Her account also yields 7% rate of return compounded annually. At age 55 her account is worth $81,200. She makes no further investments and by the time she retires, at age 65, her account is worth about $159,700 — almost $40,000 less than Anne's.

Factors that positively impact compound interest

Start investing early When it comes to investing, time is your ally. The earlier you start saving, the less you will have to put away each month. In other words, once you've worked for your money, your money starts working for you.

The reason Anne's investment has grown so much more than Julie's is because Anne's investment has five extra years of compounding returns.

Rate of return The annual performance of your investments makes a great deal of difference to your savings. If Anne's rate of return were 6% rather than 7%, her account would be worth about $150,000 at age 65. If the rate of return were 8% instead of 7%, her account would be worth about $264,000 at age 65.

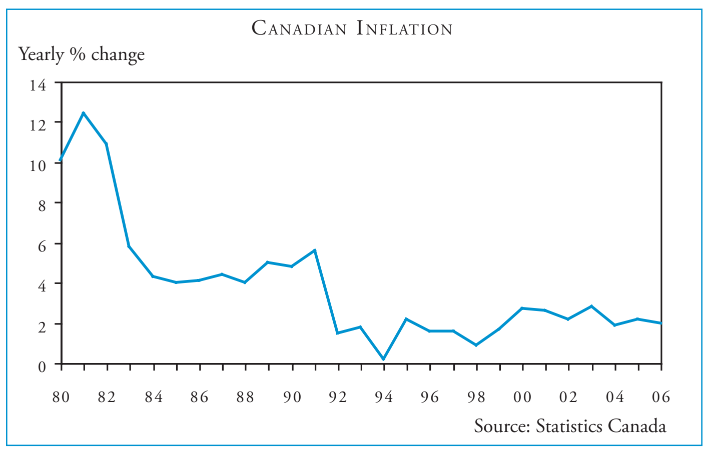
The magic of compound interest is simply a combination of time, rate of return and regular investment.

Factors that adversely impact compound returns

Why should one consider investing in the stock market instead of just depositing the money in a savings account or GIC? The answer is that savings accounts are particularly vulnerable to inflation. If you keep your money in your mattress or in a non-interest bearing bank account, you are earning 0% per year. When you factor in inflation, you are losing money every year at the rate of inflation.

Inflation

Inflation is the increase over time in the price of goods and services as measured by the Consumer Index Price (CPI). The inflation rate is expressed as a percentage increase in average prices over a year. If the cost of the goods and services in the CPI rises from $100 one year ago to $102 today, the inflation rate is 2%. When inflation rises, the purchasing power of the dollar decreases accordingly.



Canada's annual inflation rate during the past 25 years has averaged 3.7%. It reached its high of 12.4% in 1981. Although Canada has experienced relatively low inflation rates of about 2% during the past decade, even a gradual increase in the cost of goods and services can, over time, erode your purchasing power. Today's dollar simply will not buy the same goods and services in the future. For example, you would need $248.00 in today's dollars to buy $100 worth of 1981 goods.

continued on page 6

continued from page 5

THE POWER OF COMPOUNDING GROWTH

Inflation and interest rates

Low interest rates are generally a good thing. When rates are low, the stock market usually benefits, as people shift their money from fixed-income investments for the higher returns that equities usually provide. That gives companies the money they need to grow and when companies grow, they create more jobs. More money in your pocket means more spending, which boost the economy even further.

Inflation rate and your portfolio

For equity investors, low interest rates are generally good news. Increased economic activity and business expansion are good for stock prices. For income investors, however, low interest rates can be a significant burden. Low interest rates mean low returns for bonds and other guaranteed investments.

In order to see the impact of inflation on your investment you need to look at the real rate of return, otherwise known as inflation-adjusted return. By adjusting the stated (nominal) return of an investment to take account of inflation, you have a more realistic assessment of return. If your investments return 7% and inflation is 2%, the real rate of return is about 5% (4.9%). If your investments return only 3%, the real rate of return is about 1% (0.98%). This holds true for RRSP accounts, where taxes do not have to be factored in. If you have to pay taxes on the gains, you run into negative returns. This is the reason for recommending that you hold fixed income products within your registered accounts.

Inflation rate and the real estate market

Although real estate is a tangible asset, it is sensitive to interest rates. As inflation rises, the cost of buying, financing and maintaining real property increases. During the past 25 years, according to TD Economics, the average annual increase in resale home prices in Canada has been 5.6% a year, while inflation has been 3.7%. This means that the real rate of return in home prices has been 1.9% per year.

Had you bought a house at age 30 for $100,000 and you are now 55 and your house increased by nothing but inflation (3.7%), it would today be worth $248,000. If you consider the gross rate of return (5.6%), the market value of your house would be about $390,000.

If you bought the same house today for $390,000, and assume a gross rate of return of 3.9% (inflation at 2% and real rate of return 1.9%) for the next 25 years, by the time you reach 80 your house will be worth just over $1 million. Over the 25-year period, inflation accounts for a large portion of the increase in market value of your house.

Impact of taxes on your investment return

No one likes to pay taxes, especially when you work so hard for your money. Taxes essentially reduce the rate of return on your investments. The higher your tax bracket or the higher the inflation rate, the greater the impact on your real rate of return and the more you will need to consider tax-deferred investment alternatives such as RRSP accounts.

Special consideration needs to be given to fixed income products such as bonds and GICs. The combined effects of tax and inflation can erode most of the nominal GIC returns. Let us suppose that you buy a one-year GIC earning 4% interest and your marginal tax rate is 30%. Even with a low inflation rate of 2% you will end up with a real, after-tax, after-inflation, return of 0.8%. If inflation rises to 3%, you are in fact losing money (your real return would be –0.2%).

A research paper by the Individual Finance and Insurance Decisions Centre notes that, using historical data and assuming annual taxation of accrued interest, an 11% nominal return on a five-year GIC bought in 1984 and rolled over continuously until the end of 2003, yielded an annual real after-tax return of only 1.024%.

Tax on invested gains varies according to the type of investment. For example, the TSX averaged 9.76% compounded annually over the last 10 years. Using a marginal tax rate of 40% and the current capital gains rates, you would end up with a real after-tax return of 5.84% on your investments.

Compounding can help grow your money faster, but taxes will still take a big chunk out of your total return. Depending on your personal situation, an RRSP account may reduce your taxable earnings as well as the income tax due on those earnings. In all cases, the contributions you make to these plans, and their earnings, grow and compound (tax deferred) until you make withdrawals upon your retirement.

While inflation and taxation can erode your investment gains, the power of compounding can be your saving grace. Compounding plays a major role in any financial plan and can help you bridge the gap between your present financial situation and your family's goals. The power of

continued on page 7

continued from page 6

THE POWER OF COMPOUNDING GROWTH

compounding is a strong incentive for you to invest your money wisely and develop a financial plan. Most important, compounding works best over time, so leverage the power of compound interest early.

Few people can get rich from their wages alone. But by taking advantage of compound interest, which means earning interest on your interest by letting your investment returns accumulate and build on themselves, almost anyone can get rich.

WHOSE HOUSE IS IT ANYWAY?

Ian G. Johnson, CFP, PRP

"What do you mean it's not my house?" screamed the owner. "I have the deed right here."

"I'm sorry, Mrs. Jones, but we have a notarized copy of the current deed and we lent the current owners a $200,000 mortgage. They have refused to pay the monthly payments and we cannot locate them, so we have to sell the house to retrieve our money."

"Oh my God! How can this happen?" cried Mrs. Jones. "I have no place to go!"

Before this year, Mrs. Jones would have had little recourse. In 2005, the Ontario Court of Appeal ruled in *Household Realty vs Liu* that a fraudulent house sale was valid once the land title was registered.

This ruling was unfair and has allowed unscrupulous persons to prey on unsuspecting home owners for their own dishonest benefit. Such title or mortgage fraud has been carried out with some success by family members, fake corporations and even organized crime, using forged documentation.

Naturally, the elderly or immigrants with poor language skills have been prime targets. However, thieves will also often target properties that are mortgage-free and whose owners have a good credit rating. This allows the fraudsters to apply for a much larger mortgage.

Mortgage Fraud

Household Realty vs Liu is an example of mortgage fraud. The wife forged a Power of Attorney and mortgaged the house without her husband's consent to cover her gambling debts. She then paid off the first mortgage with an even larger subsequent mortgage.

Sometimes the fraudster will artificially increase the value of the property through sales and resales with a co-operating partner. Such dishonest transactions hurt both the owners and the institutional lender who is not extremely diligent.

Title Fraud

More than two million real estate transactions occur annually in Ontario. In fraudulent transactions, the fraudster uses false identification to transfer a registered owner's title to himself or herself without the registered owner's knowledge. The fraudster obtains a mortgage and then disappears. These crooks can be very sophisticated, thanks to modern technology and their knowledge of the real estate loan and transfer process. The losses from these types of fraud may result in homeowners paying thousands of dollars in legal fees and costs or the lenders losing the full amount of their mortgage.

The main problem resulting from the 2005 Court of Appeal ruling was that the lending institutions, or perhaps even the lawyers, relied on the documentation provided to them without conducting due diligence. The 2005 ruling created a nightmare in the booming real estate and mortgage market.

Decision Reversal

Fortunately, the Ontario Court of Appeal realized the ramifications of its botched 2005 ruling and, in a title fraud case in early February this year, reversed its decision. In the 5-0 ruling, the court declared a real estate transfer or mortgage loan obtained through stolen or forged identification is no longer valid. The court also placed the burden of ensuring the legitimacy of the transaction on the lending institution or any other party who has the opportunity to avoid entering the fraudulent transaction.

continued on page 8

continued from page 8

WHOSE HOUSE IS IT ANYWAY?

Protection

If such frauds are so prevalent what action can you, an average homeowner, do to protect your property?

The most obvious step is to protect your identity. Share your personal information cautiously and very carefully. Shred your discarded statements. Be alert to identity theft. Avoid spam and email scams. Always question matters of uncertainty.

Another way to gain protection is title insurance which protects your ownership against losses incurred because of undetected or unknown title risk. It pays costs, legal fees and expenses associated with title or mortgage fraud and the actions necessary to restore the title to the rightful owner.

Title insurance covers residential homes, cottages, condos, co-ops and even vacant land. It covers new purchases or can cover current owners who had not previously purchased title or mortgage insurance. For such existing property owners, the coverage can extend back to their purchase closing date.

The premiums are low, based on the value of the property and are paid only once. The coverage is valid for the entire time you own your home or, in the case of mortgage protection, for as long as there is an outstanding balance owing. There is no deductible.

Title insurance also allows transactions to close faster because it can waive many off-title inquiries yet still offer the required protection. Check with your lawyer or advisor or visit www.stewart.ca for more information.

Finally, there is a Provincial Land Titles Assurance Fund created under the Land Titles Act to compensate people for financial losses due to real estate fraud or errors and omissions in the land registry process. For most straightforward cases, title can be returned and a decision regarding compensation made within three months. It is a last resort, however, and more complicated cases can take up to two or three years to settle.

In spite of the 2007 ruling, real estate fraud can still happen. The odds are certainly against it but the consequences are so devastating it requires precautionary measures, professional advice and perhaps appropriate insurance to minimize the risk.

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The Personal Financial Advisor is published by the ECC Group.

The ECC Group are fee-based financial advisors, and have offices and affiliates in Toronto, Montreal and Vancouver. We are affiliated with The Investment Planning Counsel of Canada network who have offices in all 10 provinces.

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