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Life Choices... a newsletter from Latimer Financial Services

Retirement and Tax Planning   Education Funding   Portfolio Review
Long Term Care   Life Insurance   Critical Illness   and Disability Insurance

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What happened in 1974?

For work reasons, in 1974 I took a trip to Newport, Virginia. I flew from Toronto to Washington, D. C. In Washington, I found that I could make a better connection to Newport, so changed my flight and landed in Newport earlier than expected. As you will see shortly, this was a mistake.

When my stay in Newport was completed, I went to the airport and found that the airline had cancelled my return flight because I had not arrived in Newport at the originally scheduled time. So, they concluded that I had not come at all.

A new flight the next morning was arranged and of course, that involved staying an extra night in Newport. I phoned the local Ramada Inn and after reserving a room, asked that I be picked up at the airport. I was told: “We can pick you up, but we cannot guarantee that we will be able to take you back to the airport in the morning.”

“Why is that?” I asked.

“Because in the morning we may not be able to get any gasoline.”

A sign of the times.

In 1974 the oil price boom, inflation and the real shortage of gasoline was fueled by an Arab oil embargo. They simply were not shipping any oil to the U. S.

Same as today?

No, this time it is different.

This time the oil price boom is being fueled by a demand for more oil from China, India and other developing countries – not to mention, increased usage by North Americans as well as speculator activity. We can drive up to any gas station in town or in the country and there is gasoline available – at a price. And that price has been steadily increasing over the past few months to the point where it has reached unprecedented heights. We have reached the point of unreasonableness – we think.

Given the increases in prices and the increased demand for oil, we should not expect, we think, that prices will come down anytime soon. We don’t think that we can blame the oil companies entirely – although they are not completely in the clear when it comes to picking people to blame. It might appear that our fearless leaders once again failed to anticipate the future.

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So…?

As we observe the resulting market volatility we might have the tendency to react emotionally and negatively. The news media are there to sell newspapers. Television newscasters tend to give us the bad news simply because of the old saying: "Dog bites man" is not news. "Man bites dog" is news. Oil prices going through the roof is news because it is not something we want to hear but by gum, we're going to hear it ad nauseum.

There is a saying that I picked up once: "Son, it ain't what happens to you that matters; it's what you do about it that does."

The reality is that we've been here before. Indeed, over the years, we've written newsletters on several occasions trying to explain away the unexplainable: why is this happening again? Well it is and when we've been through this bout, we'll see it happen again in the future for a reason we have not yet heard of or even foreseen.

What should we do about it?

To begin with we think you need to have some faith in the system. If you have confidence in your financial advisor – and past performance will tell you how well founded that is – then, give him or her a call and have a chat. A calm, dispassionate conversation in which you explore (a) what has occurred, (b) how your funds are invested, (c) the asset allocation strategies you have put in place in the past, and just for interest sake, (d) take a look at how you fared when the markets "went wonky" the last time. When our clients go through this exercise they find that the recovery after these periods is solid and in most cases, relatively quick. No need to rip off band-aids – because we don't use band-aids!

Remember that your long term financial goals require a plan and your ability to meet those goals may be significantly impaired if you react emotionally to whatever bad news CNN chooses to communicate with you last night or this morning. Mutual fund investment managers continuously monitor their portfolios of money in their care. Remember that they too rely on reasonable performance or they will not keep their jobs for long.

Then, determine, once again, whether the asset allocation strategies you have been following continue to complement your ability to accept risk. Examine each investment and ask yourself, along with your advisor, whether it fits with your risk comfort level and with your short and long term objectives. Then, again, calmly and dispassionately – make whatever adjustments you feel are necessary under the circumstances.

Generally speaking, if the process has been followed all along, you'll probably find that the investment strategies you have been following for your long term investing are sound and will, in fact, support your objectives and goals. For those of you who require the income you receive from the investments today, there are also strategies that need to be in place to help weather the storm.

By and large, our clients have been through the process – we have rebalanced their portfolios to ensure that all asset classes are represented appropriate to risk levels and objectives. We continuously monitor those portfolios looking for signs of weakness and they have seen how we react when they occur.

Keep in mind that we do not shy away from the telephone during these volatile times.

We are on hand and available.

Call us!

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The Tax-Free Savings Account (TFSA)

The Tax-Free Savings Account is the single most important personal savings vehicle since the RRSP was introduced in Canada in 1957. While the RRSP is intended to assist in preparing for retirement, the TFSA is like an RRSP for everything else in your life. It will allow you to save to purchase a new car or boat, renovate your house or even buy a new one in the future, start a new business, take a trip to Europe or buy a mink coat (anybody doing that these days?)

- Starting in 2009, any taxpayer aged 18 or older can save up to $5,000 every year in a TFSA.
- Deposits made to a TFSA will not be deductible for income tax purposes – you must use tax-paid dollars – but investment income, including capital gains, earned in a TFSA will not be taxed – at any time, even when withdrawn.
- Any unused TFSA contribution room can be carried forward to future years.
- You can withdraw funds from the TFSA for any purpose at any time.
- The amount you withdraw can be replaced in a subsequent year, without affecting your contribution room.
- Neither the income earned in a TFSA nor withdrawals will affect your eligibility for federal income-tested benefits and credits.
- Contributions to a spouse's TFSA will be allowed.
- TFSA assets can be transferred to your spouse upon death.

The Tax-Free Savings Account will not be available to you until January 2009 but it is something to think about in the meantime. Obviously, there are benefits to both the TFSA and the RRSP and many people will want to take advantage of both.

As the time approaches or if you have questions in the meantime, do not hesitate to call.

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