



ADVANTAGE
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Random Thoughts

Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.

-Sir John Templeton

The investor's chief problem, and even his worst enemy, is likely to be himself.

-Benjamin Graham

To buy when others are despondently selling, and to sell when others are buying requires the greatest fortitude and pays the greatest ultimate rewards.

-Sir John Templeton

Life's rewards go to those who let their actions rise above their excuses.

Lee J Colan



The deadline for RRSP contributions for the 2012 tax year is March 1, 2013

Did you know...

The first RRSP, then called a registered retirement annuity, was created by the federal government in 1957. Back then, Canadians could contribute up to 10 per cent of their income to a maximum of \$2,500.

Originally in 1886, Coca Cola was introduced as an 'intellectual beverage' to boost brain power.

The winter of 1932 was so cold that Niagara Falls froze over completely

RRSP or TFSA...or both?

Many clients have asked me: "which type of investment plan is better - RRSP or TFSA"? My answer? As with most things in life, it depends. Some of the most significant factors on which type of account is best for you and your situation are your:

- Age
- Stage of life
- Income
- Investment purpose

To determine which plan will suit you best, you should know the key differences between the two.

RRSP:

- Primarily used for long term retirement planning
- Contributions are an income tax deduction
- You can contribute up to 18 per cent of your earned income each year and carry forward any unused balances
- Redemptions from RRSPs are treated as earned income and you will pay tax on them

May be the best option for you if:

- You are earning a higher income (at least \$40,000/yr)
- There are no expected short term needs for the funds
- You received a bonus or windfall in the previous year
- You have significant taxes owing from the previous year

RRSPs work best when the contributions are made at a higher tax bracket than when they are withdrawn. For most people, your contributions during your working years will net you a bigger tax savings than the tax paid on withdrawal in retirement.

TFSA:

- Can be a short or long term investment plan
- Not necessarily funds for retirement.
- You do not receive a tax deduction for your contribution
- You can invest \$5,500 each year (up from \$5,000 last year) regardless of your income. You can also carry forward any unused room.

• Withdrawals are not taxed, nor will they affect government benefits such as Old Age Security.

May be the best option for you if::

- Your earned income is below \$40,000
- There is a short term need for the investment: (vacation, new vehicle, renovations, etc)
- You have maxed out your RRSP contribution room
- You receive RRIF/pension income that is not necessary for your ongoing living expenses

A TFSA is most useful for contributing, then redeeming at a higher (or same) tax bracket

A recent study said that 90% of Canadians have their TFSAs in savings accounts, most of which are held at the charter banks where they are earning 1% or less a year. That is a good deal for the banks, but maybe not such a good deal for the investor. If you have a longer time horizon on your TFSA investments, there are plenty of growth oriented options that would be better suited to you.

The investments allowed inside an RRSP or TFSA are almost identical. You can invest in such diverse products as stocks, bonds, GICs, mutual funds, mortgage or high interest savings accounts. You should always consider your risk tolerance and time horizon when choosing how to invest.

In many cases, investing in both is the best strategy.

This provides tax breaks now and flexibility for lump sum purchases in the future, or in retirement. One strategy is to invest in RRSPs and then to use your tax refund to invest in your TFSA each year.

Also keep in mind, that in some cases it may not be in your best interest to invest in either of these vehicles. For some business owners, it is more prudent for them to hold their investments within their corporations, where there is already a built in tax advantage.

Please let us know if you have any questions, so we can help you determine what will work best for you.

Keeping you informed:

Should you pick an RRSP or TFSA?

<http://m.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/should-you-pick-an-rrsp-or-tfsa-depends-on-age-stage-and-income/article7427333?service=mobile>

"Giving up" on saving? Don't embrace this kind of defeatism

<http://www.findependenceday.com/cms/2013/01/19/giving-up-on-saving-dont-embrace-this-kind-of-defeatism/>

How Emotional is Your Portfolio?

<http://us2.campaign-archive2.com/?u=23ce2ac179e8158f7583c4e3f&id=12f2e13e7e>