

ADVANTAGE
FINANCIAL SERVICES

PORTFOLIO STRATEGIES

c o r p o r a t i o n

Our Team:
Ryan Peterson
Launa Anderson
Mary Smith

Office: 403.381.9195
Toll free: 888.741.1361
Fax: 403.380.2290
Mobile: 403.892.0937
Email: ryan@advfinancial.ca

#280, 104—13 Street North
Lethbridge, AB T1H 2R4

Random Thoughts

A baby is God's opinion that life should go on.

-Carl Sandburg

It's amazing that the amount of news that happens in the world every day always just exactly fits the newspaper.

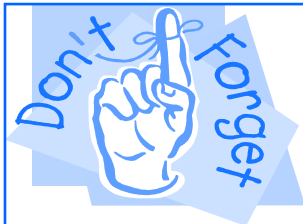
-Jerry Seinfeld

Life is really simple, but we insist on making it complicated.

-Confucius

A mistake is simply another way of doing things.

-Katharine Graham



Our **client appreciation dinner** is on November 7th, at the Fritz Sick Senior Center.

If you would like to attend, please contact our office.

Did you know...

Some 5 million Canadians are border-hopping to fly out of American airports every year, according to the Conference Board of Canada. Travelers are being lured by flights up to 30% cheaper.

Canada has more donut shops per capita than any other country in the world

SAVE THE DATE!

We will be having our annual family movie event at the Movie Mill on Saturday December 8th at 9:00 AM.
More details to be announced

Flow Through Shares . . . Explained

November is the perfect time to talk about one of the lesser understood tax breaks available to Canadians. Most people are familiar with RRSPs, TFSA's, etc, but know very little about Flow Through Shares. November and December are the ideal times to look at and potentially invest in these types of securities.

What are Flow Through Shares?

These are shares issued by energy and mineral exploration companies that 'flow through' their tax deductions to investors.

Why were they created?

The federal and provincial governments of Canada understand that our natural resources contribute to Canada being the wealthy nation that it is today. Flow Through Shares provide a strong incentive for Canadians to invest in the exploration and development of these resources.

What are the tax advantages?

If you decide to invest \$10,000 in Flow Through Shares, you can claim the full \$10,000 on your tax return. If the investment is in a mineral exploration company, you can receive an additional 15% tax credit. Your \$10,000 investment in Alberta could provide you with a \$4,800 tax break. Then, when you sell your shares, you only have to pay capital gains tax – which is only half of what income tax would be. Unlike RRSPs or TFSA's, there are no maximums for contributions.

How does it work?

As stated above, you get to claim the full amount invested against your income – plus any applicable tax credits for mineral exploration. When you sell, your adjusted cost base (ACB) is set to \$0, so whatever you sell for is your profit.

If you were to invest \$10,000, you would initially receive a \$4,500 tax break. Then, if you were to sell 2 years later for \$10,000, your profit would be considered \$10,000. So to calculate your capital gains, with a 39% tax rate, would be $\$5,000 \times 39\% = \$1,950$. So, your total after tax return on a \$10,000 investment (after you sold your shares) would be: $\$4,500 - \$1,950 = \$2,550$ or 25.5%, if the value of the shares did not change after the 2 year period.

Who should consider Flow Through Shares?

Those who :

- Are in a relatively high marginal tax bracket and are seeking additional tax deductions
- Want to defer tax and convert fully taxable income into capital gains to be taxed at a later date
- Have unused capital losses
- Donate significant amounts to charitable organizations
- Have maximized their RRSP contributions and are seeking additional tax relief
- Are redeeming large RRSP amounts

How can they be purchased?

Investors can purchase individual flow through shares on their own. However, this can be a difficult and complicated process. I recommend investing in a limited partnership with a professional money manager.

This manager meets with and picks approximately 30 companies offering Flow Through Shares. This provides expert management and the ability to diversify a smaller amount of capital into several opportunities. This way, your return won't be solely based on one company exploring for a single resource.

Are there risks/disadvantages?

The Canadian mining/energy sectors can be volatile. As well, when you purchase flow through shares, you typically have to hold them for a set period of time (ranging from 1 – 3 years) before you can sell them. Flow Through shares are also often sold at a premium due to the tax benefits and the fact that the issuer does not want to dilute their common shares. Because of the volatility and risks, your investment can lose value. You can STILL come out even or ahead, due to your initial tax break. Even if your \$10,000 investment lost 40% of its value, you would still come out ahead due to your initial \$4,500 tax break.

These are some the basics of investing in Flow Through Shares and how they work. If you are interested in learning more, or looking at your specific situation, then please call our office to schedule a meeting.

Keeping you informed:

How to Save tax with Flow-Through Shares

<http://retirehappyblog.ca/how-to-save-tax-with-flow-through-shares/>

Interest Rate Myths

<http://www.moneysense.ca/2012/09/25/interest-rate-myths/>

Why you shouldn't count on an inheritance to bail you out

<http://m.theglobeandmail.com/globe-investor/personal-finance/household-finances/why-you-shouldnt-count-on-an-inheritance-to-bail-you-out/article4587592?service=mobile>