OB REPORT

DECEMBER 2012

INSIDE THIS ISSUE

Wishing you a wonderful holiday season and a happy new year.

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What You See is What You Get

THE OTHER DAY AN ACQUAINTANCE sympathetically remarked, "Your job must be tough given the lousy economy and all the problems in the world." Such concern is common, yet we feel very differently about our jobs and the state of the world.

Frankly, we are enjoying our jobs. Navigating the 2008/09 financial crisis was no picnic, but it also created tremendous opportunity. The worst is over and the economy is on the mend, albeit slowly. Stocks have recovered much faster than expected, with the North American equity benchmarks up 79 per cent and 125 per cent from their respective 2009 lows, including reinvested dividends.[1] More importantly, clients are being rewarded for their patience and long-term orientation, as our OB Model Portfolio has performed better than the North American equity indices. We believe that investors who see the benefits of taking a long-term approach will continue to thrive.

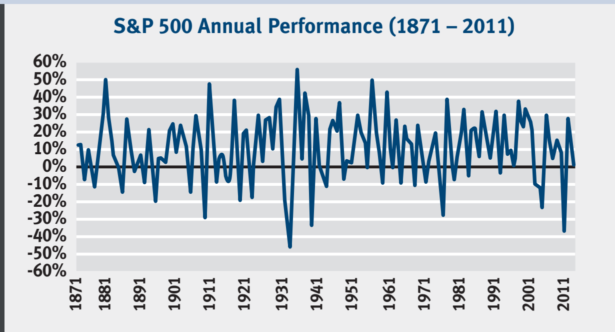
We are struck by the differences in how people see the stock market. Most, like our acquaintance, have a worried perspective and view the market as seen in the first chart. There is no doubt that the stock market is a volatile beast.

A smaller group of people, and fortunately many of our clients, have a patient and more relaxed perspective of the market as illustrated in the second chart.

Interestingly, both views of the stock market are absolutely correct. The remarkable fact is that the two charts represent the *exact same data* plotted in a different manner. The first highlights the year-over-year change in the stock market, whereas the second illustrates the cumulative performance. Why is this difference important? Because how people see the market is one of the most important determinants of long-term investment success.

PERCEPTIONS OF THE STOCK MARKET

WORRIED



Source: Wilson & Jones (North Carolina State Univ.) from 1871-1957; The Capital Group Cos. from 1958-1995; Standard & Poor's from 1996-2011.

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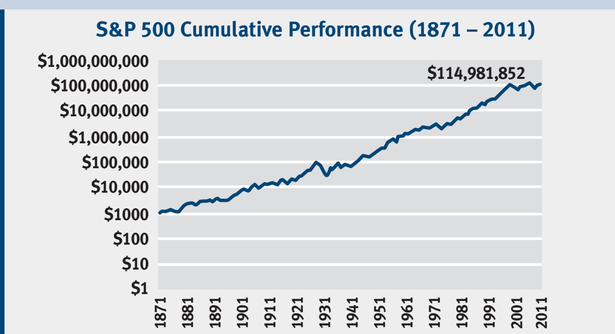

Source: Wilson & Jones (North Carolina State Univ.) from 1871-1957; The Capital Group Cos. from 1958-1995; Standard & Poor's from 1996-2007; USInflationCalculator.com from 2008-2011.

[1] As of November 26, 2012.

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EARLY MUSIC VANCOUVER
www.earlymusic.bc.ca

A Festive Favourite

For the ninth consecutive year, Odlum Brown is proud to be the Presenting Sponsor of the ***Festive Bach Cantatas for Christmas*** at the Chan Centre for the Performing Arts on December 23.

Glorious voices and an exceptional orchestra make this festive performance a musical highlight for the holidays. This year's after-noon performance, directed by Marc Destrubé, will feature Shannon Mercer, Laura Pudwell, Colin Balzer, Sumner Thompson, and Early Music Vancouver's Bach Cantata Project Players.

For ticket information, visit earlymusic.bc.ca

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What You See is What You Get

"HOW AN INVESTOR PERCEIVES THE STOCK MARKET GOES A LONG WAY TOWARDS INVESTMENT SUCCESS OR FAILURE."

If the first chart reflects your perception of the stock market, you will likely be less enthusiastic to invest because returns in any given year appear chaotic and arbitrary. Investors with this market view tend to be more stressed and are prone to overreact to the news of the day – they are more likely to buy when the news cycle is favourable and sell during pessimistic periods and times of panic. Buying high and selling low is a poor strategy for growing wealth, but this has historically been the fate of most investors.

However, if the second chart reflects your primary perception, you recognize that the incredible power of compounding more than makes up for short-term volatility. A $1,000 investment in the S&P 500 in 1871 grew to almost $115 million by 2011, which equates to an 8.7 per cent annualized return. Investors in this group tend to be more relaxed and realistic about how true, lasting wealth is created.

It is important to keep in mind that owning a stock means that you are a part owner in a business. Stock prices are not arbitrary quotations on a computer screen or figures in an investment statement. Many unsuccessful investors do not understand or appreciate this important distinction. Stocks rise over the long-term because the businesses that they represent grow their earnings and dividends, making them more valuable over time. The main reason the $1,000 investment in the S&P 500 compounded to $115 million was because American businesses created increasing amounts of valuable products and services. This, in turn, generated immense wealth for the owners of these businesses, the shareholders. It takes years for businesses to build up their value – not days, weeks, or quarters. Investors who are too focused on daily stock fluctuations tend to miss the real magic from owning stocks: building wealth from the growth of the underlying businesses.

Angst over the fiscal cliff will likely fade soon, much like the alarming 2011 debate about the U.S. debt ceiling was forgotten. While there is little doubt that there will be a level of government austerity in the near-term that will create some resistance for the U.S. economy, many headwinds have turned to tailwinds. Job growth has accelerated from anemic levels. Consumers are spending more and saving less after reducing household debt to the lowest levels since 2003. Housing prices are rebounding and banks are increasing lending after boosting equity capital. It can be easy to miss good news and other positive developments when one is too focused on the pessimistic news of the day.

There is no doubt that the stock market will remain volatile, yet we are confident that the businesses we own will grow and build value.

How an investor perceives the stock market goes a long way towards investment success or failure. One way will cause more stress and make it harder to get ahead while the other will enable you to be more relaxed and help you build lasting wealth. Same data, different results. How do you see the market?

We wish you a happy holiday season and a relaxed and wealthy 2013.

FELIX NARHI, CFA
DIRECTOR, SENIOR EQUITY ANALYST

ODLUM BROWN FINANCIAL SERVICES LIMITED

Year-End Tax Tips and Deadlines

WITH DECEMBER UPON US, here are a number of tax considerations and deadlines to remember for the 2012 tax year.

ITEM	DEADLINE	NOTES
Tax Installments	December 15	To avoid interest and penalties
1. Tax-Loss Selling	December 24	To reduce net taxable capital gains
Charitable Donations	December 31	To receive credit against 2012 taxes
2. Carrying Charges	December 31	To deduct from 2012 income
Medical Expenses	December 31	To deduct from 2012 income
3. **RRSP** Contributions	March 1, 2013	To deduct from 2012 income
4. **If you turn 71 in 2012:**		
• Final RRSP Contribution	December 31	To deduct from 2012 income
• Convert to RRIF or Annuity	December 31	To comply with legislation
5. **RESP** Contributions	December 31	To receive 2012 Canada Education Savings Grants
6. **RDSP** Contributions	December 31	To receive 2012 Registered Disability Savings Grants & Bonds
7. **TFSA** Contributions	–	See page 4 regarding withdrawals

PAYMENTS, EXPENSES AND OTHER TRANSACTIONS

1. Tax-Loss Selling

Tax-loss selling entails selling investments with unrealized capital losses before year-end to offset capital gains realized during the year. Any remaining unused capital losses can be carried over to offset capital gains from the three preceding years or in any future year. While this strategy may be advantageous from a tax perspective, do not let the "tax tail wag the investment dog."

Place your trades before Christmas. To ensure that your capital losses can be reported in the 2012 tax year, trades on Canadian securities exchanges must be placed no later than December 24, 2012 as trades typically take three business days to settle. Different dates may apply to foreign exchanges.

Beware of "superficial loss" rules. The capital loss on an investment will be denied if you buy an identical investment during the period that begins 30 days before the sale and ends 30 days after the sale *and* you still own that investment at the end of that period. These rules also apply if the identical investment is purchased by or transferred to your spouse, RRSP, RRIF, TFSA or a company controlled by you or your spouse.

If you are caught by the superficial loss rules, the denied loss amount is added to the adjusted cost base of the identical investment purchased, in essence deferring the loss until the ultimate year of disposition.

2. Carrying Charges

Investment related expenses such as fees to manage non-registered accounts, safety deposit box charges and interest paid on money borrowed for most investment purposes (other than in registered accounts) must be paid by December 31 to be deductible in 2012.

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Financial Planning

Odlum Brown's commitment to a long-term strategy is why we offer our clients exclusive access to Odlum Brown Financial Services Limited.

Together with your Investment Advisor, our specialists provide unbiased and up-to-date information to help guide our clients through the complexities of:

- Retirement, Financial or Estate Planning
- Tax Planning
- Insurance

Contact your Odlum Brown Investment Advisor or Portfolio Manager for more information.

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Year-End Tax Tips and Deadlines

CONTRIBUTIONS TO REGISTERED PLANS

3. Registered Retirement Savings Plans (RRSPs)

The maximum RRSP contribution limit for 2012 is $22,970. Check your 2011 Notice of Assessment from the CRA to find your RRSP deduction limit (also known as "contribution room") for 2012. If you have a considerable amount of contribution room or if you expect to be in a higher tax bracket in the near future, consider making the maximum contribution this year, but claim the deduction over multiple years, depending on your expected taxable income.

4. RRSP Contributions After Age 71

Although you can no longer contribute to your *own* RRSP after December 31 of the year in which you turn 71, you can contribute to a *spousal* RRSP if you still have contribution room and your spouse or common-law partner is not older than 71 in the year of contribution.

5. Registered Education Savings Plans (RESPs)

The federal government provides annual Canada Education Savings Grants (CESGs) of up to $500 with a lifetime CESG limit of $7,200 per beneficiary. Subject to the restriction outlined in the following paragraph, beneficiaries aged 17 or younger who have unused CESG carry-forward room may receive up to a maximum annual CESG of $1,000 if the account subscriber contributes $5,000 per year or more.

If your child turned 15 in 2012 and you have not contributed at least $2,000 to date or at least $100 per year in any of the four previous years, December 31 is your last chance to contribute $2,000 or more to an RESP in order to be eligible for the CESG in 2012 through 2014 (ages 15-17).

6. Registered Disability Savings Plans (RDSPs)

RDSPs are tax-deferred savings plans to help provide long-term savings for individuals who are eligible for the disability tax credit. Lifetime contributions of up to $200,000 can be made until the beneficiary turns 59. There are no annual contribution limits and the contributions are not tax deductible.

The federal government provides assistance in the form of Canada Disability Savings Grants (CDSGs) and Bonds (CDSBs) until the beneficiary turns 49:

- CDSGs of up to $3,500 per year with a lifetime limit of $70,000 are provided on a matching basis, based on the contribution amount and the beneficiary's family income.
- CDSBs of up to $1,000 per year with a lifetime limit of $20,000 are provided to low-income beneficiaries. No contributions are required to receive the bond.

RDSP holders may wish to contribute to an RDSP by December 31 to receive government assistance for the current year. Any unused CDSG and CDSB room, however, can be carried forward for up to 10 years.

7. Tax-Free Savings Accounts (TFSAs)

There is no deadline for TFSA contributions as any unused contribution room is carried forward from one year to the next. However, withdrawals in any given year do not increase TFSA contribution room until the following calendar year. Therefore, if you are planning to make a withdrawal in the near future, consider making it by December 31 to be able to re-contribute the withdrawn amount in 2013.

When TFSAs were introduced in 2009, the annual contribution limit was set at $5,000, indexed to inflation in $500 increments. So if you have not made any TFSA contributions to date, you could contribute up to a maximum of $20,000 in 2012. Effective 2013, the first $500 increment will take effect, bringing the annual contribution limit to $5,500.

MICHAEL EREZ, CGA, CFP, BA
FINANCIAL AND TAX PLANNER
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