BERKSHIRE
SECURITIES INC. *
BERKSHIRE
INSURANCE SERVICES INC.

The Francis Forum

* Member CIPF

Duane Francis, CFP, CSA, CIM, FCSI
Investment Advisor
Life Insurance Advisor

Berkshire Securities Inc.
Berkshire Insurance Services Inc.
610 – 1565 Carling Avenue
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101 Ext. 228
Toll-Free: 1-888-870-4443

Spring is in full force with summer just around the corner. I have already taken a few swings of the golf club.....yet only in my basement. I'm sure you have been as busy as I have been and will be looking forward to some summer holidays and R&R. A few house keeping items though before we get into summer mode. Keep your ears open for this month's seminar on a retirement product called Income Plus that has been getting a lot of media time and may be a benefit to your retirement portfolios. Join yours truly and Eli Nasrallah of Manulife Financial as he discusses this innovative product, you do not want to miss it. Another not to miss event is the 4th annual «Let's Take a Swing at Cancer» golf tournament that I am again organizing in support of the Ottawa Regional Cancer Centre Foundation. Mark June 7th on your calendars and take a day to join us for a fantastic event in support of a fantastic cause. You can contact our office for registration or sponsorship information.

Lastly, as we get our Income tax Notice of Assessments back we may need to discuss options for not giving the government too much of your hard earned money for the 2007 tax year. We will be in touch.

From our team to yours we thank you for not keeping our team here a secret!! We are always available to help friends and family create and preserve wealth and more importantly, provide peace of mind.

All the best and I look forward to our next discussion.

Yours very truly,

Duane

FOCUS ON INVESTING

Don't count on your home to fund your retirement

It appears that a surprisingly high number of Canadians plan on using proceeds from the sale of their home to provide a large part of their retirement income. In a recent national poll, just over one-third of respondents said that they are looking to their homes for retirement income. And of these people, 40% expect that money to provide up to half of the funds that they'll need.

Relying so heavily on a single asset, however, can be a potentially risky strategy. Here's why.

• **Unpredictable market.** Real estate is cyclical and the recent boom has masked the fact that the long-term trend has run only slightly above inflation. Don't count on the boom to continue at the same pace until you're ready to retire.

• **Sentimental value.** Home is where the heart is for many, and when the time comes, you may find it emotionally difficult to part with your home.

• **Housing costs.** If you're planning on moving into a luxury condo or retirement community, you may find that the proceeds from selling your home only just cover the purchase cost of your new dwelling.

• **Relocation issues.** Don't assume that it's cheaper to live in a small town, at the cottage, or outside of Canada unless you've tried it — especially if you enjoy urban amenities not available there.

A home is definitely a financial asset, but where retirement security is concerned, diversification is the way to go. With professional help, you can get a better sense of your home's role in your retirement plan. ■

Get the benefits of balanced mutual funds

The balanced fund is the Swiss Army knife of the mutual fund world. This one tool can be used in so many ways.

It might be called a "balanced fund" or an "asset allocation" fund. It might hold individual securities or other mutual funds (a "fund-of-funds" approach). Whatever the label, these funds are based on a simple, time-proven concept: diversification.

Income and growth

Balanced funds hold a professionally managed mix of stocks, bonds, and cash. The fund's portfolio allocation might be fixed, but more commonly it varies from time to time based on the fund's objectives and the manager's investment style and market outlook.

The fund's goal is to provide investors with some income as well as some potential for capital growth. These funds are generally considered less risky than pure equity mutual funds but riskier than funds that hold only fixed-income investments, such as bonds and mortgages. Nevertheless, investors must be prepared to accept some volatility in the unit price.

Diversified through and through

Traditional balanced and asset-allocation funds use a one-size-fits-all approach. Their equity/fixed-income weighting typically shifts between 60%/40% and 40%/60%, depending on market conditions. Funds of funds, on the other hand, tend to be offered in lineups ranging from conservative to aggressive.

The balanced philosophy applies equally within the main asset class divisions in the fund. Equity holdings may include a broad range of Canadian, U.S., and international stocks chosen from a number of industry sectors. On the fixed-income side, investments are diversified across bonds, cash, and preferred shares.

One-stop shopping or anchor

Their broad diversification makes balanced funds ideal for certain purposes:

- **As a ready-made diversified portfolio.** For a new investor with a limited amount of money, balanced funds provide a one-decision solution. These are often an appropriate choice for starting a Registered Retirement Savings Plan (RRSP), as additional small-dollar purchases can easily be added through a monthly or biweekly automatic contribution program.
- **As a modest income generator.** The mandate for many of these funds is to pay a reasonably reliable income stream monthly or quarterly. This makes them useful within Registered Retirement Income Funds (RRIFs).
- **As a core holding.** A balanced fund provides a ready-made conservative base from which to explore more aggressive funds. The balanced fund offers stability and low volatility, while the more aggressive, more volatile funds have the potential to generate higher returns.

Picking your fund

Within the balanced fund category, there is an extensive selection of funds and funds of funds, each with its own variation on the balanced theme. Getting professional advice is the best way to find the fund that's the best fit for your portfolio. ■

Let your idle assets grow with mutual funds

IT HAPPENS EVERY year. Investors vow, with the best intentions, to contribute to their Registered Retirement Savings Plan (RRSP) well before the deadline and to direct their contribution to where it will most benefit their portfolio.

Typical situation

But real life can often interfere with good intentions. And every year, thousands of Canadians make their contributions at the last minute — placing the contribution in a money market fund or savings-type RRSP just in time to claim a deduction for the previous year.

Potential consequences

But it often sits under-exploited, earning 2% or 3% a year, or less, when it might be generating 7%, 8%, or more in a conservative equity fund. Over time, that 5%-a-year gap can make a big difference. Over 10 years, for example, the difference on a $5,000 contribution is $3,144; over 25 years, it's $11,932. That's right — procrastination could cost your retirement fund thousands of dollars.

Plan of action

If you have money sitting idle, the solution is easy — move it. With professional advice, you can choose from a wide variety of mutual funds appropriate for your time horizon and objectives.

And while you're investing, consider including any income tax refund you may have recently received. You'll be adding to your portfolio's growth potential, getting a head start on reaching your maximum contribution for 2007, and setting yourself up for another possible tax refund next year. ■

FINANCIAL PLANNING

Know your property rights as an unmarried couple

A cross-Canada survey has found that nearly 60% of couples who are living together but aren't formally married erroneously believe that they have the same property rights as married couples in the event of separation.

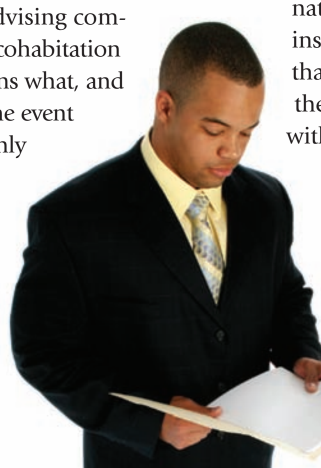
Following a 2002 Supreme Court of Canada ruling that distinguished between the property rights of legally married couples and those of common-law couples, lawyers began advising common-law couples to draft a "cohabitation agreement" to define who owns what, and how it would be divided in the event of a breakup. Nevertheless, only 30% of the couples surveyed have a "cohab."

Couples are also advised that post-breakup support entitlements are somewhat different from property rights. A common-law spouse may or may not be entitled to support, depending on both the province and the length of the relationship. ■

INSURANCE PLANNING

Understanding your disability coverage

Nearly half of the Canadians who took part in a recent national survey said that they have disability insurance — but most of those people also said that they do not fully understand the terms of their coverage. The poll's key questions dealt with when benefits would start, the amount available, and how long the payments would run.



Disability coverage is essential to the well-being of you and your family. Whether you have your own coverage or a group plan at work, reviewing the terms of your coverage with a professional can help you determine whether your income is adequately protected. ■

TAX PLANNING

Take note of your Notice of Assessment

The Canada Revenue Agency (CRA) is now mailing Notices of Assessment for the income tax returns that were due on April 30. Take a moment to read yours before filing it away. The first page will indicate whether you have unused capital losses from previous years. These can reduce the tax due on capital gains realized in 2007 or future years.

The bottom of the second page shows your RRSP "deduction limit" for 2007. That's the maximum amount you can contribute to your RRSP for this tax year. The area below shows how much of your $2,000 penalty-free over-contribution limit remains available or specifies any penalties if you're over the limit. Over-contributions are not tax-deductible, but can be worthwhile in many cases. Professional advice can help answer any questions that you may have. ■

FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Defined benefit pension plans

Defined benefit pension plans have been making headlines lately because of concerns about underfunding and proposed changes to many plans as companies seek to save money.

What they are

Defined benefit pension plans are employer-sponsored registered programs for retirement savings. About one-third of the Canadian workforce is covered by a defined benefit pension plan.

Each member is promised a set level of lifetime retirement income, usually based on the member's years of service and average earnings. The employer must pay at least half of the cost.

How they work

There are no individual accounts. All money is pooled and the plan sponsor is responsible for the investment decision-making. If the plan does not do as well as expected, then it's up to the employer — not the members — to top it up. However, some plans that are run jointly by employers and unions do require that members share the burden of any deficit. Note, too, that your annual RRSP contribution limit is adjusted downward to reflect pension contributions made on your behalf.

Why they matter

Defined benefit pension plans can reduce retirement planning risk if they are generous and well funded, and if the retiring member has a long service record.

Contributions are generally locked in; if you leave your employer before retirement, your entitlements under the plan can be transferred to a locked-in RRSP. Depending on your situation, you may also be able to transfer your accumulations to a registered pension plan with a new employer.

If you belong to a defined benefit pension plan, professional advice can help you determine its role in your complete financial strategy.

Changes to income splitting are on the horizon

Retired couples may soon see substantial income tax savings, thanks to changes proposed last fall by the federal government. In the October 31, 2006 Tax Fairness Plan, Finance Minister Jim Flaherty announced his intention to allow married and common-law couples to split certain types of retirement income, beginning in 2007.

Up to 50% of eligible income received by the higher-earning spouse could be taxed at his or her partner's lower rate — a difference worth thousands of dollars if one partner has a large pension or Registered Retirement Savings Plan (RRSP) and the other does not. It may also reduce exposure to the Old Age Security clawback by lowering "net income" for the higher-income spouse.

Qualifying income. The new provisions apply to pension income only. This includes income from a registered pension plan and, for those 65 or older, withdrawals from Registered Retirement Income Funds (RRIFs) and their locked-in equivalents (Life Income Funds and Life Retirement Income Funds).

It also applies to periodic income such as payments from an annuity purchased with money from a defined contribution pension plan, deferred profit-sharing plan, or RRSP. Lump-sum RRSP withdrawals cannot be split. Nor can investment, business, or employment income.

For those under 65, RRSP/RRIF income qualifies only if received as a result of a partner's death. For example, suppose that a husband dies shortly after using RRSP/RRIF money to buy a life annuity with payments guaranteed for 10 years. Although his widow is under 65, the guaranteed payments she's due as beneficiary qualify for splitting with her husband's final tax return, or with a new spouse.

What about spousal RRSPs? The new rules mean that all couples have the ability to split income in retirement, not just those who have set up a spousal RRSP. But spousal RRSPs offer several potential benefits that the pension-splitting proposals do not:

- Through a spousal RRSP, a couple can split income before age 65.
- The proposal allows a maximum of 50% of pension income to be transferred. With spousal RRSPs, there's no limit.
- A spousal RRSP doubles the amount that a couple can access under the Home Buyers' and Lifelong Learning Plans.
- An older spouse who is still earning income can make tax-deductible contributions to a spousal RRSP until the end of the year in which the spouse turns 69 (71, under proposals introduced in the March 19, 2007, federal budget).
- Spousal RRSP contributions create flexibility. A good or bad career development or an unexpected windfall can turn the tables on which spouse winds up with the higher retirement income.

These proposals have not yet been passed into law, even though they are to take effect as of 2007. Consulting with a professional can help you keep abreast of any changes and provide you with guidance specific to your circumstances. ■

Teaching kids financial smarts

IF YOU'RE CONCERNED about teaching the kids in your family how to manage money, you're not alone. More than 60% of respondents in a national poll said that they worry about their children's or grandchildren's ability to manage money. Here are a few tips to help you get your children off to a good start.

Pay them an allowance. Perhaps the best way to pass on money smarts is through a weekly allowance, paid in a form that facilitates saving. For example, give your child $5 in loonies, suggesting that one be put in a bank or credit union youth account for long-term saving, one be set aside for charity, and the rest used for spending or putting in a piggy bank for short-term saving.

Help them reach their goals. It's easier to understand the benefits of saving if there's a near-term reward. For example, if your child wants a new bicycle, offer to pay half once the child has saved up the other half.

Teach them how to spend wisely. It's very hard for today's kids to distinguish between needs and wants. Give yours a head start by letting each one choose and buy his or her clothes or other necessities within a preset budget.

Lend, don't give. Giving money to children does little to help them understand its value. If they're a bit "short" and come to you for cash, offer them a loan and suggest a repayment schedule.

For more ideas, check out the Canadian Bankers Association kids' site at www.yourmoney.cba.ca. ■

This newsletter has been written (unless otherwise indicated) and produced by Ariad Custom Communications.