TYLER
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Financial Services

Sound Advice

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Rod's Quarterly Commentary:

The Tale of Three Postage Stamps

Each year, you no doubt hear or read in the news that inflation, or the cost of living (CPI) has increased by a certain percentage since last year. Have you ever wondered "what does that mean to me?"

A good way to understand how inflation affects you would be to think of what it cost to mail a letter when you were born, and what it costs now. The actual process of the delivery of a letter has remained essentially unchanged in over a century, except for the labour-saving use of postal and bar codes and automatic sorting machines. At the right you will see three stamps, one is from 1946 and one from 1985 and finally one from 2010.

In 1946, mailing a regular-sized envelope in Canada cost 4 cents, and no GST! In 1985, the cost was 34 cents, and today 57 cents plus GST for a total of 60 cents. So here's the simple math. Since 1946, the cost of delivering a letter in Canada has risen from four cents to 60 cents, or 15 times. From 1985 to the present it has risen from 34 cents to 60 cents, or soon to be twice the cost.

Why 1946? That was the year I was born. Why 1985? That was the year my youngest son was born. During my lifetime, the cost of living has increased 15 times and doubled during my son's 25-year life experience.

So, if you are wondering how to calculate how much the cost of living has increased in your lifetime, you now have a simple formula. The more important question, however, is "How much will it increase during my retirement?" That is a question I will address in the next issue of Sound Advice, so stay tuned for our Fall edition.

Finally, how can you invest to overcome the relentless increase in the price of everything you will need to buy in the coming years? For that answer, see the following article called **Owner or Loaner?**

Two Generous Families, One Great Gift

In contrast to the **great estate planning failures**, there are many other families who have taken the time and forethought to plan for the wealth that they have accumulated to be passed on to others less fortunate. Warren Buffet has famously said:

> *My wealth has come from a combination of living in America, some lucky genes and compound interest. Both my children and I won what I call the ovarian lottery. For starters the odds against me being born in 1930 in the United States were at least 30 to 1. My being male and white also removed huge obstacles that a majority of Americans faced.*

You can read the rest of his comments at the Berkshire website under *My Philanthropic Pledge* by Warren Buffet. Warren Buffet has pledged to give away all of his wealth immediately following his passing. The money will be distributed through the Bill and Melinda Gates Foundation. The combined wealth being donated by each of the Buffet and Gates families is over $60 million at present and this may very well increase if the underlying shares of Berkshire and those in the Gates Foundation continue to grow.

There are at least two additional remarkable qualities about the gifts that these two families are contributing. The first is that the money the Foundation distributes is given to those who could benefit most. For example, the Foundation funds the battle to eliminate the threat of malaria to poor people living in the tropics. The Gates Foundation has two main objectives -- to improve world health and to provide education for the poorest citizens. There is a children's vaccine program, an HIV research program and a TB vaccination program. In addition, there are grants for lending agencies to give micro loans to women entrepreneurs in some of the most impoverished countries. There are millions of dollars given to libraries, and for scholarships to help high school students to graduate prepared to succeed in college, career and life. It is very evident when you listen to either Bill or Melinda Gates, or to Warren Buffet, that they have and will continue to devote a considerable amount of time to making sure that the distribution of their financial fortunes produces the maximum results for the poorest and most disadvantaged people.

Recently this trio of billionaires has called upon other wealthy families in America to pledge at least half of their wealth to charitable purposes. When asked if he knew how much money the Fortune 400 wealthiest families currently controlled, Warren Buffet quickly quipped, “oh about $600 billion. If half of that were to be given away there would still be over $300 billion left over. The only loser would be Uncle Sam.” He thought that would be a pretty satisfactory result. While none of us has a billion dollars or so to give away, we do have the opportunity to make sure that our kind, caring friends in Ottawa receive just a little bit less while our charities and families receive a little bit more. **The best plan is to have a good estate plan.**

Part of my role as your advisor is to assist you in designing an estate plan. If you would like help with your plan, please call me. I will guide you through the process. I can also refer you to a lawyer experienced in drafting estate documents.

Owner or Loaner?

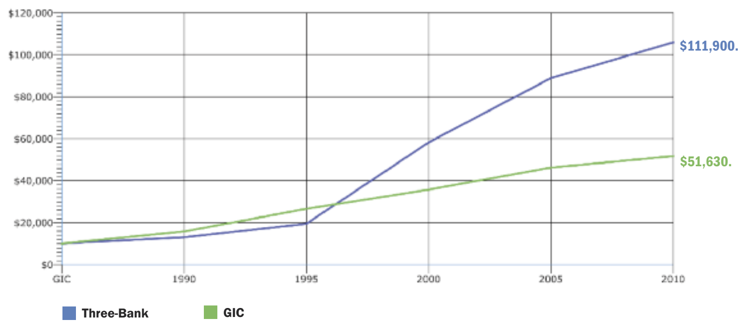
The recent past, especially the 2007-2009 period, would lead you to believe that ownership of a portfolio of well-selected businesses is indeed a very risky proposition. Even the values of those bastions of Canadian financial success – the banks – have risen and fallen and risen again by significant amounts. In other words, the price of the banks' shares has varied considerably. In response, most Canadians have done what they have always done – deposited their savings in the bank, and let others own the bank. Which is the better choice – **to own the bank** or to **deposit funds with the bank**?

By way of example let's look at the period from 1985 to 2010, or a 25-year history. What if I had invested $10,000 at the average five-year GIC rate on June 30, 1985 and then rolled over the deposit and all the interest every five years. After 25 years and five renewals, you can see the value of that deposit on the accompanying graph is now worth $51,630.*

By comparison, what if I had made a theoretical investment on June 28, 1985 of $10,000 in a combination of three of the largest Canadian banks**. You know... the ones we hate to love, but love to hate. Let's say I invested an equal amount in each bank's shares and had the quarterly dividends paid out directly to my chequing account. The result: my three-bank portfolio grew to $111,900 or 11.19 times my original investment. Along the way, I also got to spend my ever-increasing dividend which was paid out to me directly.

So there you have it – the reward for lending your money to the banks is very modest, and the reward for owning the banks is significantly greater. This illustration is intended to demonstrate that, while value of the ownership of businesses in the short term cannot be certain, the reward for owning them over a longer term is likely to be very profitable. The lesson to be learned is that if you avoid the ownership of businesses or equity investments and invest only in GICs or term deposits, you will need to save a lot more money over the long run to produce a respectable income and compensate for the inevitable increases in the cost of living – also known as inflation.

$10,000 Investment at Average GIC Rates
VS
$10,000 Three-Bank Portfolio



Source: *Bank of Canada **www.bmo.com www.rbcroyalbank.com www.cibc.com

Rod's Summer Holiday Plans

About the time you are reading this issue of *Sound Advice,* I will be climbing the Inca Trail to Machu Picchu in Peru. If you need help or assistance during the month of July, please call our office and any one of our team members will be pleased to assist you. I promise you a full report of the South American experience upon my return. In the meantime, here is a little bit of information about Machu Picchu from the *Wikkipedia* website for those of you who may be interested.

Machu Picchu, meaning "Old Mountain", is a pre-Columbian Inca site located 2,430 metres (7,970 ft) above sea level. It is situated on a mountain ridge above the Urubamba Valley in Peru, which is 80 kilometres northwest of Cuzco and through which the Urubamba River flows. Most archaeologists believe that Machu Picchu was built as an estate for the Inca emperor Pachacuti (1438–1472). Often referred to as "The Lost City of the Incas", it is perhaps the most familiar icon of the Inca World.

Great Estate Planning Failures

The Canadian football season has once again returned, and for every team, especially our beloved Saskatchewan Roughriders, the promise of a championship is the driving ambition. While we are all cheering for another Grey Cup appearance for our favourite team, I want to share with you the story of another football franchise, and how one of its original owners failed to keep it in the family.

Joe Robbie was a successful businessman, an attorney and an avid sports fan. He and television personality, Danny Thomas, co-founded the Miami Dolphins, a franchise that turned into one of the highest profile and most lucrative teams in the National Football League. Coach Don Shula led the Dolphins to two consecutive Super Bowl Championships in 1973 and 1974, and it was with this team that quarterback, Dan Marino, carved out his enviable passing record. The Miami Dolphins had a 14 and 0 winning record for all of 1972, a record that is still being chased by other NFL teams. In addition to owning the team, the team played at Joe Robbie Stadium, the first outdoor stadium to be built completely with private financing. So, as you can see, Joe Robbie created a very successful family business, and dreamed of having his business pass on to his family.

Unfortunately, that never happened. He simply never did any estate planning, and all that he ever did was leave his franchise to his wife. Joe Robbie died January 7th, 1990, and his wife soon after. In 1994, the family sold the team at a significant discount to pay the tax bill, estimated at $47 million. His nine children were at odds with each other, and Uncle Sam was not about to wait for his money. It is estimated the family could have received twice the value for the business, if they were not forced to sell it to pay taxes.

What could have been done differently? If Joe Robbie had planned his estate, he could have accessed available planning options to minimize and defer the tax bill. He could have funded all the taxes through a joint last-to-die insurance policy with his wife. He certainly had the money to do that, if he had acted soon enough. Instead, he did nothing. The result -- United States Internal Revenue Services collected a windfall. **Joe Robbie fumbled the football.**

As a Chartered Life Underwriter (CLU), it is my goal to assist my clients to plan their own estates, helping them maximize the value of their gifts to family and charity, and minimize and eliminate their "gifts" to the Canada Revenue Agency. Please call me if I can assist you or your family in this area.

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