A PORTFOLIO MANAGER'S PERSPECTIVE

Cambridge Advisors combines growth with downside protection

WEALTH MATTERS

As part of our February 2, 2012 Wealth Matters webcast, we heard from Portfolio Manager ***Brandon Snow*** *of* ***Cambridge Advisors****. His presentation, summarized on this page, offered his perspective on the global economy and markets and outlined his investment philosophy. Mr. Snow is lead manager of United Financial's Canadian Equity Growth Pool and Canadian Equity Growth Corporate Class. Please also see the reverse for highlights of the other half of the webcast in which one of United Financial's wealth planning experts discussed income splitting and other tax savings opportunities that you may want to consider as part of your planning.*

Brandon Snow's key overall message:
Despite economic and market uncertainty, Cambridge is optimistic about the prospects for stocks. We believe a foundation for attractive stock returns is in place because the fiscal and debt issues of Europe have already been priced into the market, investor sentiment is negative, and global stocks are coming off a decade of significant below-average performance. We select stocks that combine growth potential with downside protection, and take advantage of market volatility to invest at attractive prices.

Economic and market outlook
•Global economic growth is slowing but still positive.
•Cambridge remains cautious about Europe, and has concerns about the sustainability of growth in China due to issues such as excessive credit creation, a housing bubble and wage inflation.
•The U.S. economy is resilient and over the last six to eight months has shown more sustained growth.

Investment philosophy: How Brandon Snow builds the Canadian Equity Growth portfolio
•Our portfolio is not focused on the stocks of the S&P/TSX Composite Index benchmark, and our top 10 holdings are therefore quite different than the benchmark. Instead, our mandate has more small/mid-cap stocks than the benchmark and is an eclectic mix that we believe has very attractive risk/reward characteristics.
•In 2011, a challenging year in the markets, Canadian Equity Growth Pool and Canadian Equity Growth Corporate Class provided significant downside protection compared to the benchmark.
•The portfolio has a mix of long-term and shorter-term investments.
•Our long-term holdings include private equity firm **Onex Corporation** and enterprise software firm **Enghouse Systems**. These are companies that have consistent records of creating value for shareholders, where 1) **management is aligned with shareholders** – insiders hold much of the stock and/or their bonus programs provide incentives for them to work for shareholders; 2) there's a track record of **strong capital allocation** – of adding value through internal reinvestment or, if those opportunities do not exist, of returning capital to shareholders in the form of dividends, share buybacks or debt paydowns; and 3), there's **a durable business model and competitive advantages**.
•Our shorter-term holdings are opportunities that pop up in the market from time to time – typically a company that has been significantly underpriced by the market. It may be a situation where we have an information edge, an insight that other investors don't have, some news from an obscure source or ideas we have gleaned from the company's customers or competitors.
•We identify these opportunities through our analysis and experience. We understand how stocks trade within an industry and often have seen similar situations and opportunities in the past. However, just because a stock is cheap is not a sufficient reason for us to consider buying. We need to understand why and how the mispricing will end and the value will be realized, and that this will happen over a reasonable period of time.

A WEALTH PLANNING PERSPECTIVE

Income splitting and other tax savings opportunities

WEALTH MATTERS

*During the Wealth Matters webcast, one of **United Financial's** tax experts, **Brent Steele**, Regional Vice-President, Wealth Planning, outlined strategies such as income splitting that could help reduce your income tax bill. His full presentation is available by visiting the Assante Wealth Management website at www.assante.com, clicking on the Wealth Matters tab and clicking the Income Splitting and other Tax Savings Opportunities link. Some of his key points are summarized below. Your advisor has access to United Financial's multi-disciplinary group of accountants, lawyers, and financial planners, who are available to assist him or her in serving your needs.*

Generally, the purpose of tax strategies is to save tax permanently, and/or to defer tax. Before implementing a strategy, the potential tax savings should be calculated. Also, there may be non-tax aspects to consider.

•**Income splitting** – reduces taxes by shifting income from a family member in a higher tax bracket to a family member in a lower bracket. Spousal RRSPs are an example.
•A common income-splitting technique is to **take income earned by the lower-income spouse and invest it in their name**. The higher-income spouse would pay family expenses to help preserve money of the other spouse for investing. Any income earned would be taxable in the lower-income spouse's hands, saving taxes. However, the income splitting must be done according to certain rules, otherwise the Canada Revenue Agency may attribute the income to the higher-income spouse.
•**Pension splitting** – saves taxes by splitting up to 50% of eligible pension income with your spouse or common-law partner. This may permit a second pension credit to be claimed, and can also create opportunities to reduce clawbacks of Old Age Security and/or the age credit.
•**Canada Pension Plan/Quebec Pension Plan sharing** – can reduce taxes through an equal sharing between spouses and common-law partners of CPP/QPP for years they have been together. This is a form of income splitting.
•**Testamentary trusts** – trusts that come into force after death and offer tax saving and income-splitting opportunities for your spouse or children.
•**Tax-Free Savings Accounts** – although not an income-splitting strategy, are an opportunity to save tax and may also provide additional long-term growth if they are used to hold equity-type investments as opposed to bonds or GICs.

Why tax efficiency is important when it comes to investment income
Capital gains and eligible dividends are less heavily taxed than interest income, so it makes sense to seek:
•**tax-preferred** treatment as capital gains or dividends – even if your portfolio includes interest and foreign income
•**deferral of income** by minimizing distributions, which may result in absolute tax savings over time, and
•the ability to **switch or rebalance** your investment strategy without incurring tax.
All of these investment benefits can be achieved by using corporate class mutual funds.

If you would like to explore some of these tax savings opportunities, or have other wealth management questions or concerns, please contact your advisor.

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