The Kerr Report

Spring 2012

Featuring more of Rob's views, Kerr News and updates on topics that matter to you.

In this Issue...

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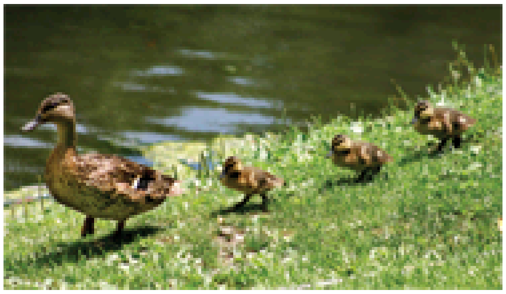
The Economy and Succession Planning

Stephen Jarislowsky tells me that succession planning is easy. He counsels *"Never retire. It keeps you young to keep working."* I agree…just don't tell my kids that I'm not going away anytime soon!

At *Kerr Financial*, we are always meeting business owners, senior executives and professionals who are planning to step down with the result that their company has to find suitable replacements. Succession Planning isn't easy and as the song says *"Easy's getting harder every day!"*

If "Fred" is the "Wayne Gretzky" of the plumbing business, it would be hard to find another "Wayne Gretzky". But the world has changed over the last thirty years and maybe Gretzky's too slow now... maybe "Crosby" is better?

Good planning calls for the whole organization to be rethought and several team members need to be involved. Training will be required and coaching put in place for new players. The organization will need to give new team members authority and responsibility, while at the same time financial experts need to consider tax planning, valuation and creativity.



Successful succession planning impacts our economy more than one would think. Consider over the next 15 years how many small to midsized, privately owned businesses will be facing organizational change as the baby boomer generation moves towards the next phase in their lives. A huge transition from this highly entrepreneurial generation needs to take place. Small to medium sized businesses employ approximately 6 million Canadians. The failure of even one firm to do this properly impacts a host of others, from employees to clients, to the local coffee shop where they stop in for lunch from time to time.

The operational need for a time lined succession plan is usually a process which focuses on tax planning and the legalities required for a successful transition, with the people element weighing in at the end. Too often planning is a reactive approach when quite suddenly the owner has the opportunity to sell the business; or has an urgent need to make this important change in his/her lifestyle.

Without a carefully thought out plan prior to making these important changes, many businesses do not survive the succession. These plans need to be challenged and tested, with time taken to bring the right people into roles to ensure a successful transition. For business to thrive in today's market, it needs to have a solid foundation in order to adapt to today's changing market. An experienced, confident team is important in order to continue to build onto the established legacy.

Ultimately, economic success is influenced by how we adapt to change, whether it be the market demands, competitive pressures or our own family plans. And the Canadian economy will respond to how we manage each generational change.

Robert J. Kerr, *CA, F.Pl., Adm.A., RFP, TEP, CPA*
Lynn Waterston

Kerr Financial Launches Multi-Manager Global Equity Fund

2012 is off to a great start on many fronts at *Kerr Financial.* The equity markets are roaring ahead once again after a challenging year in 2011. While this market rally isn't in our control, we are enthusiastic about our client's portfolio positioning in this challenging environment. In addition, we are pleased to launch our *KFA Multi-Manager Global Equity Fund* for our clients later this spring. This fund will pair together four institutional equity managers plus select index ETF strategies to offer an outstanding global equity portfolio. We believe this fund will further strengthen our clients' portfolios in these volatile times and providing long-term growth prospects in international markets.

While the stock market has been kinder to portfolios of late, we are not far removed from a calamitous European sovereign debt crisis; nor are we through considering the looming debt ceiling for US fiscal spending; or let us not mention the frequent skirmishes ensuing in Syria, Iran or North Korea that could flare up on a moment's notice. In this world of 24-7 mass-media coverage via television and the Internet, we are only one trading day removed from another global geopolitical event that could shock the markets. Ongoing market fragility following the 2008 global credit crisis combined with frequent market shocks have led to a higher than normal level of market volatility. Last year the S&P 500 rose or fell by at least 2% in a given trading day over 50 times, a phenomenon that has no precedent.

At *Kerr Financial* we have always strived to diversify investment portfolios. By adding more assets that aren't correlated to existing holdings, you can reduce your portfolio's overall risk and smooth out your returns. This diversification can occur in varying market capitalization, geography or style of investing, such as value or growth. A more consistent return profile from your portfolio afforded by enhanced diversification will lead to lower draw-downs in challenging markets and smoother positive returns long-term. In rising markets we prefer steady positive returns. In falling markets we seek to protect our principal investment by investing for lower volatility. In aggregate, this smoother return profile will calm an investor's nerves when markets are swinging up and down wildly like last year thereby preventing rash decisions such as selling at a low point and buying back once the market has already rallied.

The Canadian equity markets have had a terrific run over the past decade, returning an annual compound rate of 7.0% versus the MSCI World Net index return an annual compound rate of -0.4% in CDN$. Much of this gain can be attributed to a rally in natural resources and commodities, of which Canada has an abundance. China has been buying our commodities to secure the resources necessary to meet their energy and infrastructure needs. Further, Canadian bank stocks have benefited from their conservativenature relative to their peers south of the border causing our markets to be seen as a safe haven destination in times of uncertainty. We expect Canadian markets to slow down over the next decade, at the same time as international markets in Asia, Latin America and parts of Europe are forecasted to rise. Consequently, investors should build exposure to such faster growing economies abroad when they consider their future equity exposure.

In addition to owning both small and large cap stocks, we propose combining value and momentum investment style to your portfolio. Academic theory from the University of Chicago and NYU proclaims that in combining a value and momentum investment style your portfolio will realize the best of both and outperform either one strategy independently. In addition, if you carefully select a high quality manger of Each discipline as we believe we have with the *KFA Global Equity Fund*, each underlying manager will positively contribute to the portfolios long-term performance and should beat its benchmark index return.

We are proud to offer this fund to our clients during this challenging period for the global markets. We firmly believe a fund investor will be well-served through both reduced volatility and attractive long-term performance a fund of institutional equity investors.

Robert P.D. Kerr

news about *Kerr Financial*

from the desk of R. J. Kerr...

Succession Planning Isn't Easy... Ask Elizabeth Windsor!

Lets take, as a case study, the succession of Elizabeth Windsor. Elizabeth is a great example of someone who has been on the job a long time - 60 years as CEO! 60 years might be considered by some to be too long, but She calls herself the Queen.

Elizabeth has been through a lot of challenges while on the job and finding a suitable replacement will be no easy task. Despite the fact that She's had pesky Prime Ministers trying to tell Her what to do, Elizabeth Windsor has performed well. Yes, things got a little shaky when it came to Prince Charles and Camilla, but most would agree that She handled the Falklands well and even managed to get along with the "Iron Lady", Maggie Thatcher.

Elizabeth's chosen successor is Charles, Prince of Wales, who has been hanging around now for 30 years or so. The world may believe that She must be trying to outlast him and pass the baton on to one of Her grandsons: a succession move, it appears that everyone would like to see.

Let's not forget that Elizabeth is Britain's largest landholder. She has a very healthy annual income, does not pay income taxes and has benefits galore. Only J.K. Rowling and Madonna earn more than She does. But She needs to make succession moves before the U.K. decides that She, personally, should help to solve the country's deficit problems. Inland Revenue could move to put a capital gains tax on Her assets, and if they did, She could pass them tax-free to Philip the Duke, but not to her son or grandsons. So, you see, without careful planning, the Royals could owe £700 million in taxes with no cash to settle the account. Even Elizabeth's jewellery isn't worth that much... and who wants to sell the Crown jewels?

Of course, She could consider a merger. Norway and its oil assets may be a lucrative target. Perhaps trade Northern Ireland for Prince Edward Island? Or sell the pesky Scots to Finland? And there goes the Falklands... Or She could consider trading sister, Margaret, for the whole of the Montreal Canadiens. Then with the Winter Olympics….oops, they are hosting the Summer Olympics this year!

That just becomes another succession issue! Afterall, who would open the 2012 games? Should Elizabeth push the Frenchmen aside and show them that England's the boss? Surely we can't have Philip or Charles throw out the opening ball...or is it bowling out the opening bowl?

Succession planning isn't an easy job. Trust me...I know! And when the entire world is watching it can be an especially nerve-wracking one. Maybe Elizabeth should just call the experts from Kerr Financial! At least we could share a pot of tea with her and commiserate.

Staff Announcements

Rob P.D. Kerr joins Montreal IM team!

Rob P.D. Kerr joins the Montreal Team permanently increasing Investment Management support and expertise. Rob completed his undergraduate in the US and his EMBA at the University of Chicago (Booth Institute). Rob continued in the US to build his career in Investments for the past 15 years notably in Senior Investment Management positions for JP Morgan and Bank of America. Rob is looking forward to coming "home" and sharing with his young family all that Montreal has to offer. He will be a key contributor to our Investment Management team. We look forward to sharing a good "poutine" with Rob and his family!

A much younger ***Rob P.D.***, as seen here with his Dad in the early years of *Kerr Financial*, is putting his "stamp" on investment proposals.

Sophie Liargovas joins Toronto in front office reception!

Sophie joined the Toronto team this past November and will be a very familiar voice to our Toronto clients by the end of tax season. Sophie is originally from Montreal and later moved to Toronto with her family. She is certainly a bridge between the two front offices!

Congratulations to **Carolina Ugarte**, of our Montreal office, in successfully obtaining her CHRP designation!

GETTING THE MOST OUT OF YOUR TAX RETURN

Soon your tax preparer will be wooing you with emails or letters letting you know how happy they are that you have placed your trust in them to prepare your tax returns. They will ask you to assemble your information so that they may prepare your tax returns in a timely fashion. Your tax preparer is very clear about what he or she needs.

A useful question that you may ask at this time of the year is - what do you want from your tax preparer? You may want someone who does more than just fill in forms and wade through the mire of tax compliance paperwork for you. You want the added value that comes not only from filing on time, being fully compliant and minimizing the amount of income tax paid. Added value also comes from integrating the information assembled on your tax return with your financial planning goals to maximize the opportunities you are able to benefit from.

As an example, you will benefit from a tax preparer who is actively thinking about ways to split income effectively between couples as well as maximizing the benefit of non-refundable credits.

Depending on the structure of your affairs, your advisor may be in a unique position to recommend the timing of taxable events for you or one of your trusts or holding companies, in a manner that is more tax effective and beneficial.

Contact with your tax preparer at other times of the year can be helpful as well. They can provide insight into the taxable repercussions of acquiring a new automobile or reporting your automobile expenses for work. Your tax preparer can also advise on the timing of the purchase of durable goods in order to have the most beneficial impact on your next tax return.

In terms of what can be done now – provide more information rather than less to your tax preparer. Advise them of anticipated changes to the family situation – i.e. is your spouse entering the workforce? Is one of your children in the last year of university?

Ideally the preparation of a tax return is an opportunity to consider how your current situation can be improved and how to take advantage of as many opportunities as possible, in order to pay the least amount of tax, given your personal tax situation.

Your *Financial* Agenda

March 30
Income tax returns for inter-vivos trusts and for estates with a December 31st year end: Last day to file without penalty.

Tax reporting slips: Filing deadline for NR4 Summary and Supplementaries relating to amounts paid or credited to non-residents of Canada and for T5013 partnership slips and T3 slips for private trusts.

March 31
Earth Hour - From 8:30 p.m. to 9:30 p.m., everyone is encouraged to turn off their lights for one hour and participate in Earth Hour. This year, when the lights go back on, think about what you can change in your daily life that will benefit the planet. Visit *www.earthhour.org* for more information on the impact of this simple gesture.

April
- Get the golf clubs polished up.
- Stanley Cup Playoffs begin without the Leafs and les Canadiens.

April 17
U.S. taxes:
- U.S. individual tax returns due for U.S. citizens or residents, or file extensions, with payment for 2011.
- Make 2012 tax payments (instalments) for individuals.

April 30
Personal income tax returns: Last day to file without penalty except:
- June 15 if individual or spouse carried on a business in the year.
- a later deadline may apply if individual or spouse passed away.

May 01
Pull out 2011 tax returns and plan to do better for 2012.

June 15
- U.S. tax filing, deadline for U.S. filers resident outside the U.S.A.

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