OPENERS

Fodder For The Water Cooler

HAVE SPLIT, WILL SAVE

Income splitting for some families takes effect this year. The Family Tax Cut applies to married or common-law couples who have children under age 18. It allows the higher-earning spouse to transfer up to $50,000 of income to their lower-earning partner, explains Aurèle Courcelles, the director of tax and estate planning at Investors Group. Assuming both parents are in different tax brackets, this will ultimately lower the family's tax bill, up to a maximum of $2,000.

To claim the tax credit, eligible couples will need to complete the new Schedule 1-A and attach it to their federal tax return. In a nutshell, the new schedule compares the combined taxes payable of the couple before and after the allocation of income from the higher-income spouse to the lower-income spouse.

The difference in taxes payable will be treated as a tax credit that can be claimed by either spouse, to a maximum credit of $2,000. How do the savings break down? Courcelles provides three examples:

Spouse one makes **$60,000**	Spouse two makes **$12,000**	The savings would be about **$1,250**
Spouse one makes **$100,000**	Spouse two makes **$30,000**	The savings would be about **$1,450**
Spouse one makes **$131,000**	Spouse two makes **$40,000**	The savings would be about **$2,000**

"There's no rule of thumb," says Courcelles. "The credit parents receive will depend on the gap between incomes, and the tax rates that apply to each spouse."

How clients use their newfound cash flow will depend on how much they get back. The extra cash might be used to pay back debt. However, if the family is financially stable, they may look at different planning options. Courcelles suggests seeing if the family has sufficient life insurance or disability insurance, or if they should beef up savings for their children's education. "Every little bit counts in the long run," he says.
— *Julia Teeluck*

Copycat to Prosperity

As the saying goes: if you want to be successful, copy successful people. This is especially accurate with fund managers, according to research that appeared in the December 2014 edition of *Review of Asset Pricing Studies* journal.

In *Detecting Superior Mutual Fund Managers: Evidence From Copycats*, co-author Blake Phillips of the School of Accounting and Finance at the University of Waterloo noted that peers of superior managers have the time, training, resources and motivation to identify superior managers and emulate their strategies. Copycatting is a strategy sometimes used to improve poor performing funds.

The research looked at actively managed mutual funds in the United States between 1991 and 2013. A fund got the copycat label if the changes in portfolio weights for the copycat matched by 75 to 90 per cent of the target fund's trades in two or more consecutive periods.

Phillips told *FORUM* that a key result from the paper shows that whether a fund is a copycat or not is a leading predictor of fund failure. "If a copycat strategy was a viable alternative with a reasonable likelihood of success, it would be implemented far more commonly than we document." The paper notes that "the results do not imply that superior mutual fund managers do not exist, just that *ex ante* identification, if possible, is extremely difficult, and few investors possess this ability."

While the research doesn't look at Canadian fund managers, let's consider how copycat behaviour may be affected with Phase Two of the Client Relationship Model (CRM2) in play. "As has been observed in Australia, where similar disclosure requirements have been introduced, [there will likely be] a transition to lower cost ETFs and similar investments in Canada as a result of CMR2," says Phillips. Check out the report on raps.oxfordjournals.org. — *J.T.*

ILLUSTRATION: VEER

HOT BUTTON ISSUE

Denied Claim

The "million-dollar baby" case that made international headlines serves as a cautionary tale for travellers, pregnant women and insurance advisors. A Saskatchewan couple faces a medical bill of nearly $1 million due to the early birth of their daughter on their Hawaii vacation. The child spent six weeks in the intensive-care unit of a Hawaii hospital. While the couple had purchased travel insurance, the insurer denied the claim based on the fact the mother had had a "pre-existing condition" — a bladder infection — about two months before the trip. What lessons should your clients take away from this unfortunate story? *FORUM* consulted Saskatoon advisor Jennifer Dick, CFP, CHS, with O'Reilly Insurance representing Co-operators Life Insurance, and Robin Ingle, chairman and CEO of Toronto-based Ingle International, a travel insurance company.

Jennifer Dick　Robin Ingle

Question and disclose

Jennifer: For any health-related application, advisors must make sure all questions are read accurately and completely to the client, and answered in full. If clients are unsure of their health and diagnosis, they should check with their physician and not guess at any answer. If necessary, the definition of a health condition should be provided to the client to prevent any misunderstandings.

Robin: Consumers need to understand the products they're buying, especially if they have a unique need. Unfortunately, financial literacy is low. Consumers don't understand that a contract of insurance is *their* policy. Everything they say — including when they call in — becomes part of that contract and the intent.

Insurance companies deny claims because of a preexisting [condition] not disclosed, or because it wasn't eligible in the first place. This is not an industry that's trying to avoid payment. Remember, 97 per cent of claims are paid. Stability is always the biggest issue with travellers. If you have been diagnosed with a medical condition within the last 12 months, changed medication, been hospitalized, treated by a physician or had treatment recommended, you must tell your insurance provider.

Insurance is for the living

Robin: Most travel insurance policies only provide coverage for [people named on the insurance]. Other policies will not cover newborns under the age of 14 days or for complications to pregnancies or childbirth. Maternity benefits are also excluded in most policies with no coverage if [one is] travelling in the last eight or nine weeks of pregnancy. Some insurers do cover newborns if there are no pre-existing complications and the travel takes place before the last trimester.

Doctors are not underwriters

Jennifer: Although they may clear you for travel, doctors are not underwriters and aren't the decision-makers on insurance applications. Insurance company guidelines define stability periods and so on, and those are what matters when it comes to coverage. Advisors should make sure clients understand this as it is a common misunderstanding.

Avoid general statements

Jennifer: Advisors need to be careful about making blanket statements that could lead clients to believe they're covered for things they may not be covered for. These types of things could lead to E&O claims, or to the company being on the hook for claims that should not technically be covered under the policy.

HOW I DO IT:

NETWORKING GROUPS PAY OFF

By Jason Finner, B.A. Sc., P. Eng
Sun Life Financial, Kincardine, Ont.
Years in business: 2

I came out of the construction industry, where I worked as a project engineer and managed million-dollar municipal projects. The projects were very challenging and I'm proud of them, but in my mind there was always a disconnect between my team and the people who benefitted the most. The career I have now allows me to get direct feedback from clients so I can craft solutions for their retirement.

As I didn't grow up in Kincardine, I've had to work hard to get my name out into the community as quickly as possible. My wife's family and our friends have been helpful in promoting my services to prospective clients. Being part of a business networking group has really helped grow my business. Networking groups allow others to promote your business, and it's a great feeling to introduce one of your clients to a member of the group. Everybody wins with this approach — your client gets the help they need, and your colleague gets to grow his business.

Don't wait to be invited to business networking groups; start your own group with like-minded professionals. Although it may take time to find people — the right people who are in a growth phase of their career — share the concepts you are working on with them. Their clients may benefit from your strategy.

OPENERS

3 MINUTES WITH...

Jos Schmitt, president and CEO, Aequitas NEO Exchange

FORUM: Why should advisors give Aequitas NEO Exchange consideration over larger and more established exchanges?

Jos: Marketplaces and exchanges globally are facing fairness, liquidity and transparency issues. Investors and capital-raising companies have lost confidence. This is particularly alarming for a market like Canada, which is less resilient and lacks competition in the exchange area. Incumbent exchanges typically don't seek to address these issues as driven by their own short-term profitability considerations. They like the status quo. The Aequitas NEO Exchange is leading the march in seeking to address these issues. The only similar initiatives I am aware of are IEX, a dark pool seeking to become an exchange in the U.S., and an early-stage initiative called Project Plato in Europe. We want to create an exchange that will foster investor confidence and set capital-raising companies up for success.

FORUM: It's been a rough start of the year to launch an exchange.

Jos: The economic conditions are not favourable, but I see this as an additional reason for launching our exchange sooner rather than later. We cannot change the economic conditions, which of course also impact investor confidence, but we can at least make sure we take care of the quality of the markets and rebuild trust and confidence where we can impact it. This is what you would expect a responsible financial industry to do, and we are doing it.

FORUM: How will Aequita's new blueprint restore confidence in markets and put investors first?

Jos: We will come with a multitude of features. I would summarize the main ones as follows: curb predatory high frequency trading; leverage technology and new trading models; strengthen liquidity by implementing an innovative liquidity providing market making program; reduce the cost of trading to re-enable value-add dealers and attract more participation in general; and ensure corporations only go public when they are ready to do so and provide them with alternative mechanisms to access capital when they are not ready. We want to set up an exchange true to its purpose: efficiently facilitating the transfer of capital between investors and capital-seeking companies by putting investors, issuers and value-add dealers first. We will not focus on the benefits of a select few nor be driven by short-term profitability considerations. — *as told to Deanne Gage*

SOCIAL MEDIA MATTERS

How advisors can take advantage of Instagram, Pinterest and Tumblr

BY GEOFF EVANS

Unlike plain text, images have the power to convey messages in a special way. This could be a reason why in 2014, Instagram surpassed Twitter in the number of active monthly mobile users. Instagram now boasts 40.5 million monthly mobile users while Twitter sits slightly behind at 37.8 million. At the same time, Pinterest has grown significantly in popularity since its 2010 launch.

With photo-sharing sites becoming ever more popular, how can a financial advisor participate successfully? After all, it's safe to say the new life insurance policy you just sold is not the most interesting thing you could capture in a photo. And posting photos of marketing materials is also not likely to gain much interest or traction. Instagram, Pinterest and Tumblr require a lot more creativity to build a vibrant platform.

There's a strong link between the use of images and financial services success. I've seen proof of this link over many years of working with outstanding advisors. For instance, I've yet to meet a successful advisor who isn't a master of "napkin art" — explaining a financial idea by drawing a simple concept on a napkin or blank piece of paper.

Here's the key to visual social media: Don't share photos of your products and services. Instead, share photos of items that inspire your followers to want what you have to offer. Help your clients envision their future. Help them get to know you as a human being who contributes to their community. This way you'll attract and retain potential and existing clients.

GEOFF EVANS is founder of Social Media for Advisors (www.socialmediacoach.ca.)

Get in touch with Geoff on Twitter @NextLevel_Coach