Maximize your estate with life insurance

A common objective in estate planning is to preserve or maximize the value of the estate left to one's beneficiaries. The challenge is that a number of expenses incurred at death, such as income tax and probate fees, can erode the value of an estate. The strategic use of life insurance can help you meet the following expenses and give peace of mind to you and your family.

Income taxes

For many Canadians, the greatest impact on estate value may be income taxes. In addition to any income earned up to the date of death, a decedent is also deemed to have disposed of any capital property — such as an investment portfolio, business and real estate holdings — that he or she owned, giving rise to potentially significant capital gains taxes. In addition, any registered plans, such as a registered Retirement Savings Plan (RSP) or registered Retirement Income Fund (RIF), owned by the decedent are deemed to be de-registered and included in taxable income. It is possible to defer the taxes associated with capital property and registered plans, but generally speaking, these options are available only when the property is transferred to a surviving spouse or partner or a trust for that spouse or partner.

Legal/probate fees

Legal costs associated with the administration of an estate can also erode its value. In addition, if the Will requires probate, fees may be incurred. Probate and administration fees can be as high as $350 plus 1.4% of the value of the assets distributed through the Will (in British Columbia) and $250 plus 1.5% of the value of the assets distributed through the Will (in Ontario). Other estate costs could include funeral and burial expenses.

Estate taxes in other jurisdictions

If you own assets in other jurisdictions, your estate may be subject to any estate tax imposed by those jurisdictions. If you own U.S.-situs property, such as U.S. stocks or real estate, you may be subject to U.S. estate tax if your U.S.-situs and worldwide assets exceed certain thresholds ($60,000 and $5.25 million, respectively, for 2013). This tax can be as high as approximately 40% for 2013.

How life insurance can help

Including life insurance as part of your estate plan can help you meet these costs. In general, the proceeds paid from a life insurance policy will not be taxable in the hands of the recipient. The tax-free proceeds can be used to cover the expenses and liabilities arising on death and help preserve the estate for your beneficiaries. Proceeds from life insurance policies can also help provide liquidity so that the estate's assets, such as business interests, a vacation property or a family farm, will not have to be sold (particularly under unfavourable conditions) to pay taxes or fees.

Structuring your affairs to minimize tax and maximize your estate can be quite complicated. Your TD Wealth Portfolio Manager can put you in touch with our experienced Estate and Trust Specialists to find the solutions that work best for you and your family.

Wealth Asset Allocation Committee Message

The TD Wealth Asset Allocation Committee (WAAC) is comprised of highly experienced TD investment professionals. WAAC meets at least once per month and works with Private Investment Counsel (PIC) to determine how its views should be implemented in order to both enhance returns and most effectively control risk for PIC clients.

WAAC made several changes in the second quarter to take advantage of evolving market conditions:

- The overweight position in emerging markets was eliminated, as both economic growth and equity market performance have been disappointing.
- The final portion of gold's overweight position was deleted.
- With proceeds from these transactions, we are adding to our overweight in U.S. equities while initiating a modest overweight in international stocks. We also established a cash position.
- We remain a sharp overweight in equities, continuing to emphasize large caps with a track record and prospects of increasing their dividends.
- We are maintaining a substantial underweight in bonds, as their risk/reward profile is not favourable. Investment-grade corporate issues are heavily favoured over government bonds.

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TD Wealth

Investment Outlook

TD Wealth Private Investment Counsel

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In this issue

To serve you better in the future, we are currently exploring other options to make our communications more timely for our clients. This will be our last print edition of *Investment Outlook*. Thank you for placing your trust in TD Wealth Private Investment Counsel. We appreciate your business.

Are U.S. stocks forming a bubble?

By Robert J. Gorman, CFA, Chief Portfolio Strategist, TD Wealth

In the Winter 2013 edition of *Investment Outlook*, our 2013 forecast called for U.S. equities to advance for a fifth successive year and register a high single-digit return. U.S. stocks have indeed risen briskly so far this year (see chart) and at the time of writing recorded a double-digit return, ahead of our forecast. After such a sharp ascent, there are concerns that U.S. stocks are in bubble territory, with comparisons being drawn to the technology bubble of 2000 and the rise and subsequent collapse of the U.S. housing market. We believe these concerns are misplaced.

Scaling a wall of worry

U.S. stock markets have risen despite a litany of concerns including tepid economic growth, European sovereign debt, U.S. fiscal cliff fears, too much Quantitative Easing (QE) and, conversely, trepidation around what will happen when QE is withdrawn. What's behind the market's rise?

First, the U.S. economic backdrop has generally been supportive. Economic growth of 2.4% during the first quarter of 2013 represented a modest improvement over 2012. In addition, job growth has picked up somewhat and unemployment has dipped, though arguably due in part to the withdrawal of workers from the labour force.

Second, four key industrial trends have unfolded largely as anticipated:

- U.S. housing has embarked on a sustained recovery.
- The automotive industry is in the midst of a major replacement cycle.
- U.S. manufacturing is being revitalized as a result of improved competitiveness.
- Growing oil and gas production is boosting Gross Domestic Product.

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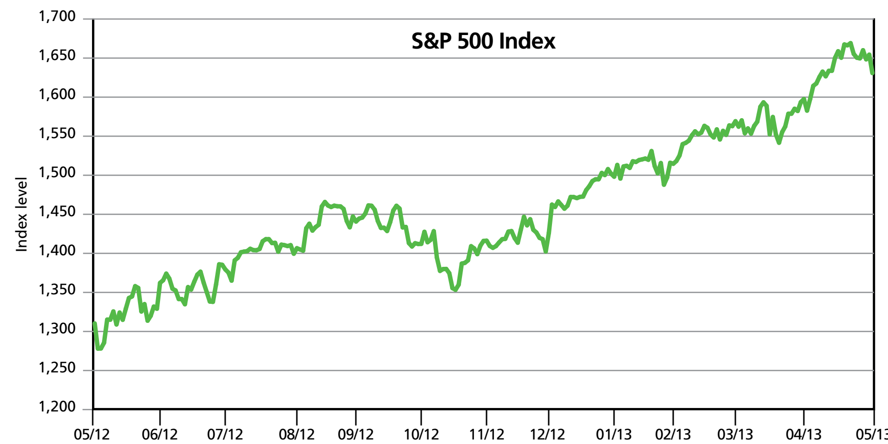
Third, corporate earnings during the first quarter rose a solid 3.3%, with 70% of S&P 500 index (S&P 500) companies beating earnings estimates (however, only 46% exceeded forecast sales).

Fourth, and very important, is the fact that investors have been willing to pay higher Price/Earnings (P/E) multiples to participate in U.S. corporate earnings. Frustrated by negligible returns on cash and with dividend yields in line with 10-year Treasury yields for the first time in half a century, investors have "gone out on the risk curve" in the hope of generating higher returns. As a result, the P/E multiple has risen from around 14 a year ago to 15 today, which would account for roughly 100 points of the S&P 500 advance in the year to date.

Scaling a wall of worry

The S&P 500 continues its impressive run. Here is a look at the past 12 months.



Source: Bloomberg Finance L.P.[1]

Bubble or not?

With the S&P 500 recently hitting an all-time high, the question being asked is: are we in a bubble similar to the technology peak, or the one reached in October 2007? Such comparisons seem flawed to us. First, the S&P 500's tech bubble peak of 1,527 was reached on March 24, 2000; thus U.S. stocks are only now reaching levels initially attained 13 years ago.

Second, valuations today are much more reasonable than they were at either of the past peaks. While the S&P 500 P/E multiple approached 30 in early 2000 and was about 18 in 2007, that multiple today is 15. Viewed relative to fixed income, U.S. stocks are again much less expensive than they were at prior peaks. The S&P 500 earnings yield (earnings per share/share price) was half the yield of the 10-year Treasury bond in 2000 while today the numbers are reversed, with an S&P 500 earnings yield of about 6.6% — more than triple the 10-year Treasury yield of approximately 2.2% in early June. Valuations, therefore, suggest we are not in bubble territory.

A second concern is that the U.S. stock market's advance has been fuelled, in part, by monetary stimulus in general and QE in particular. As the U.S. Federal Reserve ("the Fed") openly contemplates eventual reduction of monetary stimulus, markets could respond in two ways. U.S. bond yields could rise, as has already been the case, with the 10-year Treasury yield backing up from 1.7% to 2.2% in recent months. Second, equity investors could exhibit more caution, reflecting reasonable concern about the Fed's impact on the economic recovery, earnings growth and, in turn, stock prices.

Third, the U.S. stock market has come a long way in a short period, with the advance interrupted only by several shallow pullbacks. Institutional investors adding to underweight equity positions, mutual fund investors returning to U.S. equities and renewed speculative fervour manifested in near-record margin debt have all been contributing factors to both the market's advance and to very positive investor sentiment. While the unbroken market advance could continue unabated, history suggests that is improbable.

Overall, we see little evidence of a bubble in U.S. stocks and believe the longer-term trend is higher. Any material pullback, which seems more likely, would serve to restore more balanced investor sentiment and should not be a source of undue concern.

Mid-year update

Our 2013 forecast identified six dominant themes. As detailed above, we expected a fifth consecutive yearly advance for the U.S. stock market and high single-digit returns. At this point, the projection looks conservative. Second, we expected U.S. large capitalization stocks to outperform once again. There has been little to choose between large and smaller firms to date, but we do expect large-cap stocks to re-assert their leadership in the year's second half.

Third, we anticipated that Canadian equities would underperform their American cousins for the third successive year and record an upper single-digit return. Both seem reasonable at this stage. Fourth was our cautious view of bonds, calling for a modest 0% to 2% return and an overweight position in investment-grade corporate issues. The latter point seems accurate while the former is too close to call.

We expected northern European large caps to once again be solid performers among international equities, which has been the case. Japan has exceeded expectations to date, even after accounting for the yen's decline. Finally, we anticipated a second year of recovery in emerging stock markets, which has yet to materialize, though we expect improvement later in the year in response to what should be stronger global growth.

Choose your executor carefully

One of the most important decisions that you will make in estate planning is who to name to execute the terms of your Will and final wishes. Your executor (or co-executors, if you assign more than one person) will help to ensure that your wishes are carried out as stated in your Will.

Because the executor plays such an important role, many of us prefer to choose someone we know and trust, such as a close friend or family member. Trusting in someone enough to name him or her as executor is indeed conferring an honour.

However, in choosing your executor you should consider not just the willingness of the person, but the appropriateness of the selection. That's because being named an executor can also be an unwelcome burden if the circumstances aren't right. Here are some things to keep in mind when choosing an executor.

The duties of an executor

Your executor is responsible for managing and distributing your assets, based on the instructions in your Will. He or she will face a long list of administrative (and managerial) tasks that may take a considerable length of time. Duties include:

- Carrying out instructions regarding funeral and burial.
- Locating the Will.
- Locating the beneficiaries.
- Gathering details on your assets and liabilities.
- Locating and paying any creditors.
- Determining the value of the estate on death.
- Settling the estate's bills.
- Consulting with tax, legal and investment professionals.
- Contacting insurance companies regarding claims.
- Filing final tax returns.

How knowledgeable is this person in financial matters?

The demands of the executor can be complex, and he or she will be taking on fiduciary responsibilities over your estate's assets. It's ideal if an executor has some knowledge of legal and financial disciplines, or at the very least, is comfortable consulting with outside specialists.

In addition, it may take several months — or even years — for your estate's affairs to be taken care of. Be sure that your executor has the time needed to complete the tasks. For practical purposes, it may make sense to choose an executor who lives in the same city or the same province as you do.

Emotional demands of the task

In addition to dealing with the loss of a friend or family member, an executor may feel pressure from the task in other ways. Would he or she be able to stay impartial if a dispute arose between family members? Would he or she be able to confidently find a resolution? It's best to discuss these matters thoroughly with your chosen executor, so that he or she is clear on every aspect of your estate and how you want it to be settled.

Do you need an independent expert?

Some estates can be complicated to settle, especially if business assets are involved or if there are concerns about potential family disputes over your decisions. Consider naming a professional co-executor — such as a lawyer, accountant or trust company — to handle some of the more technical duties of settling your estate.

Important information regarding leverage risk

Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only.

If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same, even if the value of the securities purchased declines.

Current Private Investment Counsel strategy

Portfolio weighting

- Overweight in equities
- Significant overweight in U.S. equities, neutral in Canadian stocks
- Overweight in corporate bonds, where mandates permit
- Slight equity overweight in major international markets; neutral in emerging markets
- Cash position established

Percentage return for indices[2]

(For the period March 15, 2013 – June 15, 2013)

DEX Universe Bond Index	0.1%
S&P/TSX Composite Index	-5.0%
S&P 500 Index	4.2%
MSCI EAFE Index*	-1.4%

*Morgan Stanley Capital International Europe, Australasia and Far East Index