

An insured annuity can be the best possible investment for your golden years

If you live on investment income from conservative interest-bearing investments, a prescribed and insured annuity might pay a lot more than a 3.5 percent GIC while also preserving capital for your estate.

While it is not recommended for all, a prescribed and insured annuity can be the remedy for seniors wanting to improve their monthly cash flow, particularly if their former 8 per cent non-registered GICs mature and roll over to renew at a significantly lower rate.

The figures quoted are frequently surprising because they often show that an individual is substantially better off than if he or she had retained the original interest-bearing investments. Because of this, some seniors may shy away from annuities because they seem too good to be true.

MAXIMIZE INCOME AND PROTECT CAPITAL

An annuity maximizes income an individual can draw from non-

registered capital. It provides excellent after-tax income with security of capital as an alternative to investment in traditional interest-bearing securities.

TAX ADVANTAGES

Only a portion of the income received is taxable.

The balance is treated as a return of your original capital, thereby generating much more after-tax spendable income than traditional investments, such as GICs, bonds, term deposits or mortgages that are purchased to provide an income.

CAPITAL IS RETURNED AT DEATH

An insured annuity confers significant advantages by comparison with a traditional annuity which, although producing a significant increase in after-tax income, does not leave any capital to your estate upon death.

When you purchase an insured annuity, you also purchase an insurance policy for the original amount. Upon your death, your original deposit is returned to your

COMPARING THE BENEFITS

Here are the advantages a 70-year-old female in the top tax bracket would enjoy from an insured annuity:

	TERM DEPOSIT	PRESCRIBED & INSURED ANNUITY
Investment	\$100,000	\$100,000
Net Spendable Income	\$1995	\$4,891
Equivalent Pre-Tax Yield	3.50%	8.68%
Additional income		\$2,896

beneficiaries – family, friends or charity, etc – and could bypass any probate fees on your estate. Note: Individuals must meet certain health qualifications in order to receive the return-of-capital feature.

SECURE CAPITAL AND GUARANTEED RATES FOR LIFE

This unique investment is available in any desired amount. All figures are contractually guaranteed. "I believe that an insured annuity can provide the best combination of retirement and estate planning benefits," according to Chartered Accountant Chris Thurgood.

"The annuity insures an individual a high after-tax monthly

income during their lifetime, and the insurance component protects the capital, thereby ensuring an estate benefit to your surviving beneficiaries. It is also possible to leave the insurance legacy to a favourite charity and obtain a larger tax deduction each year," Thurgood says.

Income and returns vary daily depending on annuity rates. For further information, or to find out how the prescribed and insured annuity can work in a specific situation, please contact us directly.

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CLIENT QUARTERLY

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Planning for long-term financial security

Welcome to the first edition of the Malinka Financial Corporation Client

Quarterly newsletter, an exciting venture for me and my financial associates. Through this newsletter, we hope to show how investors seeking financial security have been able to find it with us, no matter how turbulent the times in which we live. Our focus in this newsletter will be on our clients. With their permission, we shall publish their stories within its pages and share their hopes and dreams. We will show how we have worked with each of them to address their individual and unique situations. And through that process, we hope you will also be able to see how our approach can work for you. Through these stories we also hope to show the strength of our



Frank Malinka
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YOUR FINANCIAL PLAN DEPENDS UPON A REALISTIC RISK ASSESSMENT PROFILE

commitment to your peace of mind and security. Our primary goal is to ensure that you sleep well at night, that you need not concern yourself with the day-to-day terrors of the financial markets but can rest assured, knowing you are secure for the long-term, and that you can be confident of a safe and comfortable retirement, enjoying an income that you won't outlive.

It all begins by helping our clients clarify their objectives and then working together towards a formal, written, personal and comprehensive financial and estate plan that enables our clients to meet those objectives. Risk management also plays a key role in developing a personal plan. Risk issues relating to tax loss, investment loss, health related loss, purchasing power loss are also all addressed. We show how planning must begin with a client's risk assessment profile.

Quite often, we have found that clients are prepared to take on more risk than is needed to make their plan work. By recognizing this, we can help clients develop a much more conservative plan than they first believed was necessary – and yet still be able to achieve all of their financial goals and objectives. In other cases, the plan must incorporate a more

aggressive approach than the client's risk assessment if their objectives are to be realized. The financial plan offers immense guidance in helping us to make these investment decisions.

At the heart of the financial plan is the asset allocation mix, the proportion between various forms of investment, including equities, fixed income and other assets, including real estate.

Once a portfolio's asset allocation mix has been determined, our formal, annual reviews of the plan take into account what happened in the previous year and keep up-to-date with our client's unique goals and objectives. If the asset mix has altered, we show how the portfolio should be rebalanced back to the target asset allocation designed to meet our client's investment objectives.

Our approach to client satisfaction takes time and care. For this reason, we limit the number of clients we are prepared to serve at any given time. While we always welcome the challenge of serving new clients, we shall never do so at the expense of our current clients. We shall never compromise the high levels of service and satisfaction we are committed to provide all of our clients.

JOIN US FOR A CUP OF COFFEE AND A SECOND OPINION

These days, a lot of people are a lot less happy with their investments. Sometimes that is because people bought the wrong investments. Sometimes, it is because the investments were right but the timing was wrong. We can usually tell the difference. That is why, in volatile times, we have instituted what we call Second Opinion Hour. From 8:45 a.m. to 9:45 a.m., Monday through Thursday, we will offer to give you (or get for you) an intelligent second opinion on the one investment you are holding that is causing you the most concern.

No cost. No obligation. When you stop by our office, we will also buy you a cup of coffee. We do not have all the answers. But we may have the one answer you need right now.

THE RETIREMENT DECISION

As Ed Wilson reached his early 50s, his work life was becoming less and less rewarding. Although he enjoyed his job, as a highly specialized customer service technical representative with a major utility company, much of it involved driving throughout the Lower Mainland and coping with heavy traffic every day.

Ed had invested well in GICs, when he had withdrawn his pension funds from a previous employer. During the 1990s, these funds paid off with high returns of 11.5 per cent during the first five years and 9.5 per cent during the second five-year period. By the end of the '90s, these investments had grown to more than \$300,000. He had also done well from the sale — for \$480,000 — of a 14-acre farm, which he had purchased with his first wife who pre-deceased him when he was 48 years old.

But, as the 1990s came to a close, Ed could see that GIC returns were declining and that he would need to find a better way to invest his savings over time. Not only that, his dual income — from his salary and investments — had created a strange situation. "One year, I was paying \$18,000 in taxes on my salary and another \$12,000 — \$13,000 in taxes on investment income. So there I was, on the graveyard shift, driving an hour each way to work, and paying \$30,000 in taxes. I had to ask myself, is this really making a whole lot of sense?"

THE KEY ASSUMPTIONS

Ed Wilson's primary objective was to retire with a safe, reliable income for the rest of his life, so his financial plan was based on several key assumptions, according to Frank Malinka.

"We wanted to make sure Ed had a certain level of after-tax income that was indexed to inflation."

For the purposes of the plan, we assumed an annual inflation rate of 2.5 per cent.

We assumed a conservative rate of return on his capital of only six per cent.

We wanted his after-tax purchasing power to stay intact, which means his after-tax income has to continue rolling in over time. "As Ed is now retired," says Frank, "he is drawing income from his taxable, non-registered money because it makes more sense to draw on non-registered money where you are paying the most taxes."

Later, when he has to, Ed can begin drawing on his RRSP funds. The reason for this strategy is that registered funds should be sheltered for as long as possible because every dollar you take out of RRSPs is fully taxable.

"It was not important to Ed that he leave a legacy, so the plan assumes capital will be drawn down over time, when he is older."

Building a financial retirement plan that will work during good times and bad



Frank Malinka is always ready to discuss your financial concerns in a relaxed, informal environment.

"When Ed Wilson first came to us," Frank Malinka recalled, "he made it clear to me that his main objective was to retire with a safe income, not to seek large investment gains. In other words, his risk profile was extremely conservative."

Ed agreed: "I needed someone who knew how to plan for retirement, someone who knew how to make the best return on my capital without risking it. So, I told Frank right off the top: 'Don't take any risks with this money.'"

Ed was so conservative, in fact, that he wanted to test Frank's investment strategy before fully committing himself.

Before Ed jumped into retirement he wanted to see how we could create a plan that would work for him. So Frank started a plan for him in October 1999, before he actually retired. And, instead of generating an income with the investment returns, the funds were re-invested.

"This was just before the dot.com boom reached its peak and then crashed," said Frank. "I don't suppose there could have been any better test of our financial planning."

Frank went through a couple of

years running Ed's plan, watching it in turbulent markets. This was really important for him. He wanted to prove to himself, and to feel in his guts, that it was okay. Ed wanted to satisfy himself intellectually that the plan would work, and he wanted to see how it would stand the test of time.

"One of our most important strategies, during this time when markets were collapsing, was to keep Ed invested, because if he had turned to GICs, for example, his plan would simply not have worked," says Frank. "In fact, when values were falling and the media reports were awful, we were able to put the new numbers into Ed's plan and confirm that he was still on track, that he would still be able to stay retired. And that he didn't have to worry. Ultimately, during this difficult market period, we were able to show Ed that he could invest in such a way with us that he could, indeed, retire safely and that he would not be able to outlive his income."

Finally, Ed was satisfied, after seeing his actual investment results, that it would still be okay for him to retire.

Because every client has different needs, each financial plan must be

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different. For Ed, leaving a significant estate for his heirs was not the major priority it would be for other clients. Instead, Ed was content to see all of his investment capital used to ensure that he enjoyed an income as long as he lived. In effect, this means that capital can be depleted over time — particularly during the later years of life — in order to provide a retirement income.

But, to ensure maximum security, Frank planned on Ed living much longer than most people expect to do so when he drew up Ed's financial plan. "The plan assumes that he will live

until he's 95 — and that's what we'd like to see!" Frank said. "And even if he doesn't make it that far, the residual will be available for his estate." Part of the plan also assumed that Ed would own his own house. He now shares a home with his second wife, leaving him with the security of home ownership over time.

Ed was referred to Frank by his son, Trevor, who also invests funds with Frank and his team, but whose portfolio is much less risk-averse. "My son lost money during the same time because he was in a higher-risk category," Ed recalled. "But he chose that strategy, which he can afford to do, being younger than I am."

Ed's investment portfolio, valued at more than \$600,000, has been diversified in equities and bonds, invested in Canada, the United States and internationally. The proportions allocated to each asset sector are carefully balanced to ensure a conservative investment mix.

Because the value of assets changes over time, as the market moves up or down, it is necessary to periodically re-balance the portfolio to ensure that the original asset mix does not change. "We rebalance every year to make sure the portfolio retains its balance, or whenever any part of the allocation is out of balance by 10 per cent or more," Frank said. "We aren't trying to predict any particular

segment of any market or economy. We are taking a systematic approach that has a track record of providing far better outcomes than market-index results, with less volatility." To Frank, working with clients is more than a matter of designing financial plans that work over time. Just as importantly, his job involves understanding what his clients need, and ensuring that he can meet those needs.

"I have to make time to meet with my clients and answer their questions and concerns," Frank said. "I realize how important financial issues are to people, especially when their future security depends on my advice."

Every plan developed by Frank involves working with a team. Much of Ed's financial plan, for example, was based on the research and

recommendations of Henry Hudek, Iqon's Chief of Investment Research. Follow-up is also an integral part of the approach. Every portfolio is reviewed once a year, and re-balanced where necessary to ensure the asset mix reflects the original investment objectives and risk profile. Most importantly, the outcome of the plan must match the client's expectations and needs.

"In Ed's case," said Frank, "even during the most hellish times we were able to prove to him that our investment recommendations were sound and that he could look forward to a comfortable retirement without worry. That's most important."

This is a true story about a client of Malinka Financial. However, the client's name and some of the details of the story have been changed to protect our client's confidentiality.

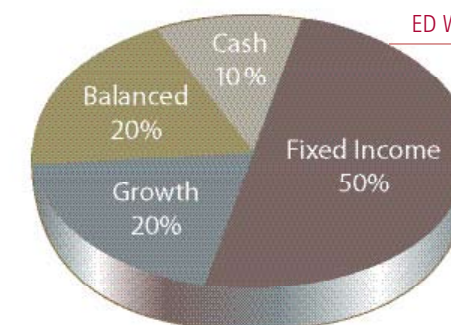
THE PAYOFF

"Frank mailed out my first cheque on August 1, 2001," Ed Wilson recalls. "And I have more take-home pay now than when I was working." Ed has a pension from his old job, he has money that Frank is managing and he also has some other funds coming in that are not with Frank. Altogether, the total is about \$4,100 per month in gross income.

"Best of all, though, because of how Frank set things up, my tax bracket has dropped so I'm making more money now because I'm paying less taxes. My tax burden has dropped way down." And is he living any differently, now that he doesn't have to work every day?

"Essentially, the answer to that question is 'no' because I'm still doing all the things I've always enjoyed except I don't go to work anymore. I've always been an outdoors person and done a lot of hunting, boating and fishing. But this year I caught more fish than ever before." Ed says that even though in some ways he had "the world's best job," he really didn't have any desire to go back to work again. "It's great not having to drive two hours back and forth to work every day. I really prefer not having to drive so much."

"I'm doing what I want to when I want to do it. And I've got the finances that enable me to live this way."



ED WILSON'S INVESTMENT MIX