

A QUARTERLY REPORT FROM CANACCORD WEALTH MANAGEMENT



## BRAVE NEW WORLD

### Exploring opportunities in the tech sector

The technology sector has always been home to creative, innovative and fast-growing companies. Today, some of these companies are well positioned to benefit from a technological revolution that will change the way we access information and communicate.

#### The components of change

Peter Misek, Managing Director & Head of Research, Canada, for Canaccord Adams, likens the shift we're about to see to the development of the home computer and the Internet in terms of its impact on our daily lives. Misek sees it as having three major components.

**For investors, these advances mean exciting opportunities to participate in potential growth.**

**Proliferation of wireless high-speed Internet access.** Soon, you'll be able to reliably access the Internet whether you're sitting in a café, strolling through a park, or flying at 30,000 feet on an airplane. This will help to propel and sustain the current trend that sees bandwidth consumption double every nine months. It will also make mobile commerce (your credit card on your cell phone) viable when combined with high levels of encryption.

## Exploring Opportunities in the Tech Sector

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**Omnipresent three screens.** We'll all have three "screens" in our lives – a computer, a television and a cell phone – with smart content that knows which one we're using and adapts to suit it. In other words, if you're at home, phone calls to your office and cell phones will automatically go to voicemail while you settle in to watch high-definition content downloaded through the Internet to your home entertainment system. When you're at work, your cell phone calls will be rerouted to your office phone and, at lunch, you can catch the end of the high-def movie you started watching at home on your office computer – optimized to your work screen.

**Yet-to-be developed devices and supporting applications.** The possibilities, when it comes to applications and devices, are truly going to become endless. Already, there's software called Layar that interprets data provided by a cell phone's camera and superimposes real-time information about what's in the area. This "augmented reality" browser combines camera, global positioning satellite (GPS) and compass technologies to provide directly relevant maps, tourist guides, transportation information and even real estate listings. And that's just one example.

### Technological advances

Making these developments possible is a tremendous increase in computer speed and power that is expected over the next five to 10 years. Imagine computer chips 10,000 times smaller than today's with 100,000 times the processing capacity. Computer technology could end up in fabrics and even in liquids. There's work under way to create transistors within a single molecule, and other research is taking a cue from DNA to build transistors out of protein strains. Nano technology isn't science fiction anymore.

For investors, these advances mean exciting opportunities to participate in potential growth. Some names you'll already be familiar with – Research In Motion, Apple, Motorola and Dell. Others may be less well known, including next-generation network technology companies DragonWave and Sandvine. All will need to embrace innovation to stay at the leading edge – and that means it's critical to identify forward-thinking management teams that understand their changing environment.

Depending on your interests, I can help you customize part of your portfolio to take advantage of technological developments, mixing mature and new companies to ensure diversification. Contact me to learn more about investment opportunities in the tech sector. 

### What's driving growth in the tech sector?

- **Mobile enterprise.** According to some estimates, 50% to 70% of all office space is unoccupied during normal business hours while people attend meetings or travel to warehouses or the manufacturing floor. But companies need to keep their workforces productive when they're away from their desks. That means employees need fast access to applications and data on mobile devices so they can get work done wherever they are.
- **Software as service.** Demand for flexibility means applications will increasingly be accessed from the Internet rather than residing on a single device. This simplifies updates because the latest software is always available online. It also increases the need for wireless high-speed Internet access everywhere.
- **More Internet-ready devices.** We're used to accessing the Internet through desktop and laptop computers, PDAs, and cell phones. Other Internet-ready devices are starting to gain a foothold, too – from ovens and refrigerators to televisions. More devices – about a billion globally today – mean more demand for applications and bandwidth.
- **Emerging markets.** Many emerging markets, with their vast populations, are entering the Internet age – and once there, there's no going back. In addition, rather than investing in costly wired telecommunications infrastructure, developing countries are expected to leap directly to wireless networks. All in all, emerging markets are likely to be the source for an explosion of demand for fast, reliable technology.

**Canaccord will be releasing a new report in November entitled "Vision of Broadband." If you'd like in-depth research and analysis about what's shaping our increasingly wireless world, I'd be pleased to send you a complimentary copy.**

## MAXIMIZE RETIREMENT INCOME

*Secure your future with an individual pension plan*




If you're in a higher-income bracket, you're at a distinct disadvantage when it comes to saving for your retirement through a Registered Retirement Savings Plan (RRSP). RRSP contributors are entitled to shelter 18% of their previous year's earned income from tax – but only up to an annual maximum.

In 2009, that maximum is \$21,000 and is reached at an annual income of \$116,667. If you earn more than that, you're not getting the full benefit of 18% of your income growing on a tax-deferred basis to fund your retirement.

### Supersize your RRSP

An Individual Pension Plan (IPP) can be an effective alternative. Essentially, an IPP is a defined benefit registered pension plan set up for one person and administered by an actuarial firm. Contribution limits are generally higher than they are for RRSPs — 18.1% of previous year's earned income at age 38, rising incrementally to 46.5% at age 71. In addition, IPPs allow for lump-sum contributions to make up for past years of service.

On the other hand, if Allan starts an IPP instead, takes full advantage of past service funding, maximizes his contributions until age 71, and earns the same rate of return, he will accumulate \$5.3 million. His greater contributions over the years will give him nearly \$420,000 in annual pension income. 

**In addition to higher contribution limits than RRSPs, IPPs offer creditor protection. Contact me to explore this excellent tax-deferral opportunity. I can help you weigh the pros and cons and decide if an IPP makes sense as part of your overall financial plan for retirement.**

*Are you missing out on a valuable opportunity? Since IPPs were launched in 1991, about 10,000 have been set up in Canada — but Canaccord estimates that 600,000 Canadian businesses are eligible to establish IPPs.*

The employer (plan sponsor) makes contributions with a targeted rate of return of 7.5%, and if performance falls short, additional contributions may be required to make up the difference. All contributions are tax-deductible by the employer.

### The IPP advantage

How much is the IPP advantage worth? Let's run through a simple example. Allan, age 50, has worked for the same company for 19 years and has made maximum RRSP contributions for that entire time. If he continues to contribute the maximum until he reaches age 71 in 2030, and the money earns 7.5% annually, he could accumulate approximately \$3.2 million inside his RRSP. He can use this money to buy an annuity that pays him approximately \$260,000 in annual pension income.



### Is an IPP a good choice for you?

- Are you over age 40?
- Do you earn more than \$100,000 in employment income?
- Are you a business owner, incorporated professional or corporate executive?

If you answered "yes" to all three questions, talk to me about whether an IPP is the right solution to meet your retirement lifestyle goals.

# Tax facts


## A tax-efficient fund can boost after-tax returns

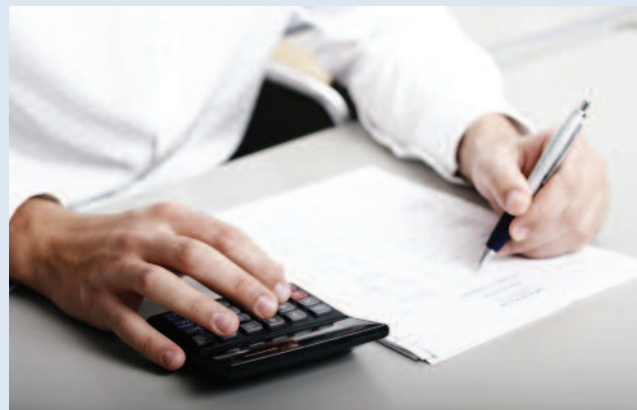
As an investor, you know that the choices you make for your portfolio can make a significant difference to the taxes you pay. For example, you can realize capital gains or losses at the most advantageous time – or simply hold an asset over the long term and defer capital gains until the day you sell. In addition, you can allocate assets between registered and non-registered accounts for maximum tax-efficiency.

## Tax-efficiency is just one measure of a fund's value in your portfolio – but it's an important and often overlooked one.

Portfolio managers, too, have strategies at their disposal to improve the tax-efficiency of mutual funds and boost the after-tax return of unit holders.

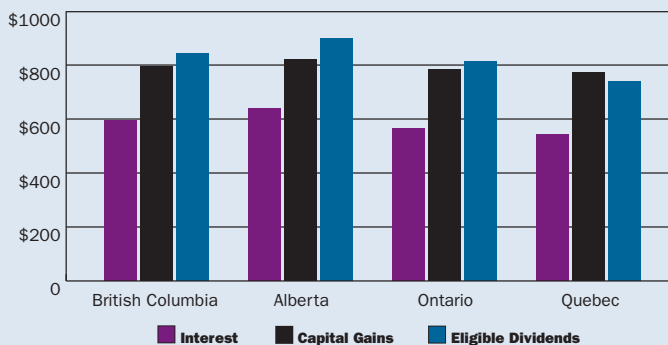
One strategy portfolio managers use to increase tax-efficiency is to reduce turnover. A buy-and-hold approach generally means the fund will incur fewer capital gains. Like you, portfolio managers can also time capital gains and losses advantageously so one offsets the other during the year. If they have loss positions in 2009, they might defer selling until 2010 when the losses can be used to offset 2010 gains, since capital losses do not flow through to fund investors.

Tax-efficiency is just one measure of a fund's value in your portfolio – but it's an important and often overlooked one. If you're interested in tracking your funds' tax-efficiency, you can access current data through Morningstar ([www.morningstar.ca](http://www.morningstar.ca)). MoneySense magazine also rates tax-efficiency in its annual honour roll of the "best" mutual funds. 



## It's what's left after tax that counts

Mutual funds distribute the interest, dividends, and capital gains they earn to unit holders. Outside of registered plans, these distributions are taxable at different rates. This chart shows what's left after tax on \$1,000 earned as interest, capital gains, and eligible dividends.



Source: Ernst & Young 2009 tax calculator. Based on an investor earning \$120,000 per year. Figures are for illustration only. Actual tax rates may vary.

**Contact me if you'd like to find out more about tax-efficient mutual funds, or if you have any other tax-related questions.**

### ABOUT CANACCORD CAPITAL INC.

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CANACCORD Wealth Management

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