# The Hudson Report

Douglas F. Hudson, CMA, MBA, CFP, CD

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**Interview with Jeffrey Lipton, CFA, MBA, LL.B,**
**President and Chief Investment Officer - Infinity Investment Counsel Ltd.**

When one thinks of the president of an investment fund company certain images come to mind - the stodgy cigar-smoking corporate power-broker. Nothing could be further from the truth. Just as Infinity is no ordinary investment fund company, Jeffrey Lipton is not your ordinary company president.

Jeffrey is 40'ish, married, a father of three, an avid sports enthusiast and like many Canadians - he plays hockey. He is also very proud of the fact that his daughter plays hockey and spent some time talking about her hockey successes.

One of the first things that strikes you about Jeffrey is that besides being extremely knowledgeable about Canadian and international markets, he has a wide variety of other interests and concerns. I'll put it very simply - he is a computer geek like myself. If you are wondering why the interview is so short, it is because we spent the bulk of the time allocated to the interview discussing other things: X-Files, artificial intelligence, the vast potential of the internet as well as some of the dangers such as the proliferation of pornography on the net and the concerns that this presents for the average family.

A large part of the interview was spent examining what has been referred to as "Merger Mania" and Jeffrey's concerns about the effect that the merger of large banks will have on "small town Canada". So let's get to the interview!

*Doug*: Jeffery, let me get to the tough question first - you recently raised your

*(Continued on page 2)*

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management fees for some funds. Can you tell me why?

*Jeffrey*: A few of our clients had some difficulty with this given that we subscribe to a "buy and hold" investment style. The answer is very simple. Last year we had $3,000,000 under management and today we have over $750,000,000. We've had to hire additional staff and incur other office and administrative expenses just to keep up with this growth. Very few companies in this industry, if any, have experienced the phenomenal growth that we have seen over this last year.

*Doug*: Let's get to the other tough question, a lot of comparison has been made between Infinity and AIC, can you tell me why that is?

*Jeffrey*: When we first started our Canadian Equity fund it may have appeared that way but this has since changed. We have very strict investment criteria for this fund. If you look for companies with greater than 18% return and over $100,000,000 in profit you have a very finite set to choose from. There are roughly 35-40 companies - true proven performers that meet our criteria. Any fund manager with similar criteria will be forced to have the same companies in their portfolio. There just aren't that many companies to choose from.

*Doug*: With some of the recent market gains, it must be tempting to cast aside the "buy and hold" philosophy and do what the bulk of the other funds companies are doing - locking in their profits by selling.

*Jeffrey:* One of the ideals that we strive for is 100% tax efficiency. Too many people do not look at this. When people like yourself sell our funds to your clients, that is a big attraction. The last thing that our clients, and yours need is to get a large T3 or T5 distribution and have to pay taxes. There are a lot of takeover bids, overzealous investors and other factors that drive the price of stocks up, and sure, it's tempting to sell, but it goes against our basic "buy and hold" philosophy. We don't see ourselves as simply holding stock, or paper that can be bought and sold in our portfolios - we see ourselves' as part-owners of the great companies that we invest in.

*Doug*: The tough questions are over. Now I want to know about one of my favorite funds, one that my clients have made a lot of money with recently - The Infinity Wealth Management Fund. What I want to know is, can we expect the same sort of returns in the future?

*Jeffrey*: There are a number of factors that point to excellent returns for this fund in the future. The first one being the shift in demographics. As a higher proportion of the population gets older, they will require the services of the banks, insurers and mutual fund companies that make up this fund. De-regulation of what was once called the "four pillars" (securities, banking, insurance and trust) also supports increased activity and growth in this sector.

*Doug*: While we are on this topic, you hold several banks in this fund. What are your

(Continued on page 3)

opinions about the recent proposed bank mergers.

*Jeffrey*: I have two opinions: 1) as an investor, and 2) as an average Canadian. The bank merger phenomenon is artificially pushing up the price of bank stock ahead of time. We hold bank stock because we believe that they are great long-term investments. They have solid returns and banks like to avoid risk. I have some concerns as an average Canadian. I don't necessarily believe that bigger is better. There is the human element to consider as well. I don't see these consolidations resulting in increased competitiveness, especially in small-town Canada where there may only be two banks.

*Doug*: Certainly if a person wants to get a loan or a mortgage their choices will be limited won't they?

*Jeffrey*: This is my point. As an investor I love banks, as a human being, I have my concerns about whether or not these mergers will be good for the average person.

*Doug*: Last week I met with Tony Colitto of your Montreal office and we discussed the possibility of Infinity Investment Counsel managing institutional money on behalf of charities, insurance companies and pension funds. I know that you have done this in the past and I look forward to bringing some of this business to your firm. This is a relatively new direction for Infinity. What other directions is Infinity taking?

*Jeffrey*: We certainly look forward to this type of business. If somebody manages institutional money and wants to adopt a "buy and hold" approach for part of their holdings, we certainly have the experience in this area. On another front we recently introduced several segregated funds and are currently working on U.S. currency denominated funds. We're pretty excited about these new funds.

*Doug*: Thank you Jeffrey for this interview. It has been a pleasure.

## Market Commentary

I am reluctant to make any comments about the market for two simple reasons. The first is that I am not a market guru. There are plenty of market gurus out there who will tell you that now is a good time to get into or out of this or that market. I am not one of these people.

The second and more important reason, is that I have come to accept the Warren Buffet approach to the market. It was Warren Buffet's mentor - Benjamin Graham that taught him how to think about the market:

> "The stock market is a manic-depressive fellow who comes to work everyday, offering to buy something from you or sell something to. The more depressed Mr. Market is, the wider his swings in his offerining prices, i.e. during the 1990 Gulf War Mr. Market became very depressed and scared, and offered to sell shares of Berkeshire Hathaway at $5,600. Today these shares are worth $47,500 (June 1997)".

These same shares recently traded at $70,000 US.

Approximately two months ago, we had another round of what has been called "The Asian Flu". Many people panicked and dumped fundamentally good stocks and funds. Today I am sure they regret doing this as the markets have, for the most part recovered.

The "Asian Flu" will be back. We know that. When that happens remember - this is a buying opportunity!

**What You Need to Do Before Going on Vacation**

The following is a checklist of some of the things you should think about before going on vacation:

- Advise Canada Post not to deliver mail to your address during the period that you will be gone. Mail piling up in a mailbox is an invitation to thieves;
- The same applies to newspapers that are delivered to your door.
- You will also want to arrange for a friend to come buy and remove any advertising or circulars collecting on your doorstep;
- Plants need to be watered as well as your lawn, cut and cared for;
- Make sure that your drivers license, registration and car insurance will not expire while you are gone.
- The same applies for other insurance premiums that may come due that are not removed directly from you bank account (life insurance, house insurance);
- Read the small print in your house insurance policy. Many policies do not insure for fire or theft if the residents leave the house un-occupied for a period of time.
- Make sure that you and your family members all have their provincial health insurance cards;
- Verify what is covered and what is not covered should you travel outside Canada by your employer's health insurance plan;
- Consider additional travel insurance to cover any gaps in insurance; and lastly, one that I have learned over the years,
- bring twice as much money and half as many clothes as you intended.

**Getting money out of a LIRA (Locked-in Retirement Account and into: 1) a spousal RRSP and 2) open Investments - Actual Case.** ***(refer to table on following page)***

I get very excited when I can get money out of an RRSP either tax free, or taxed at a low rate for my clients.

This is the situation. The client, age 48, is married and has approximately $80,000 in a Locked-In Retirement Account, or LIRA. This is money that was transferred from his employer's pension plan a few years ago. In addition to this the client has a reasonable RRSP. The spouse has much smaller RRSP. The client has a home without a mortgage.

In some provinces there are minimum ages at which a person can start to remove funds from a LIRA. Often this age is 55. In Quebec, there is no minimum age.

If we were to do nothing out of the ordinary, the LIRA would grow to $600,000 by age 69 (using a 10% growth rate) at which time the client would be obliged to withdraw some money at a minimum rate and pay tax on the amount withdrawn. This would be on top of his RRIF, QPP/CPP and any OAS income.

All of this capital is locked in and can't be touched. This would continue to age 80 at which time the client would have to purchase an annuity.

This is what we did. We borrowed $50,000 from a local bank, interest only at the prime rate using the home as collateral.

We took the $50,000 and invested it in mutual funds. Thus the interest borrowed is deductible on line 221 of the federal tax return and serves to reduce income at line 236 in much the same way that an RRSP contribution would at line 208.

My client did not want to pay a cent for any of this nor did he want this to affect his lifestyle. So how did we pay the interest? Very simply, we converted the LIRA into a Life Income Fund or LIF and we are using these funds to pay the interest.

We are withdrawing the maximum amount which is approximately $6,000 per year. This is income and yes it would increase the amount of tax owed were it not for two things. The deductible interest is roughly $3,250 but we are removing $6,000. The difference of $2,750 will go into a spousal RRSP. The increase in taxable income has been 100% offset by these two deductions.

So why would we go through all of this bother? The first is to physically have cash to spend and enjoy rather than having money locked-in. In 21 years from now when my client is 69, rather than having a large LIRA, he will have a somewhat smaller LIRA and about $371,000 of "open" money (see next page). Even if he were to pay off the loan at this time, and pay all taxes associated with this gain, he would still have about $200,000 cash to play with. He has total control over this money.

Also remeber that 100% of the money leaving an RRSP is taxed whereas with open funds, only 3/4 of the gain, and none of the capital is taxed.

Secondly, not having a larger LIRA means that he will not have as large a tax bite at age 69. He essentially flowed through a good part of this locked-in money to a non-locked-in spousal RRSP and has accomplished income splitting quite nicely.

**Getting money out of a LIRA (Locked-in Retirement Account and into: 1) a spousal RRSP and 2) open Investments - Actual Case.**
***(refer to case on previous page)***

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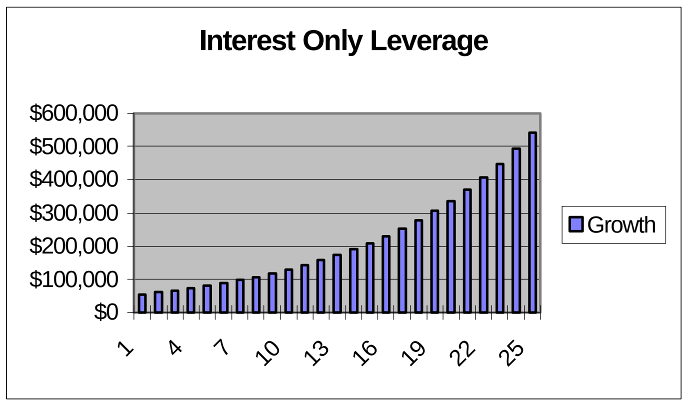
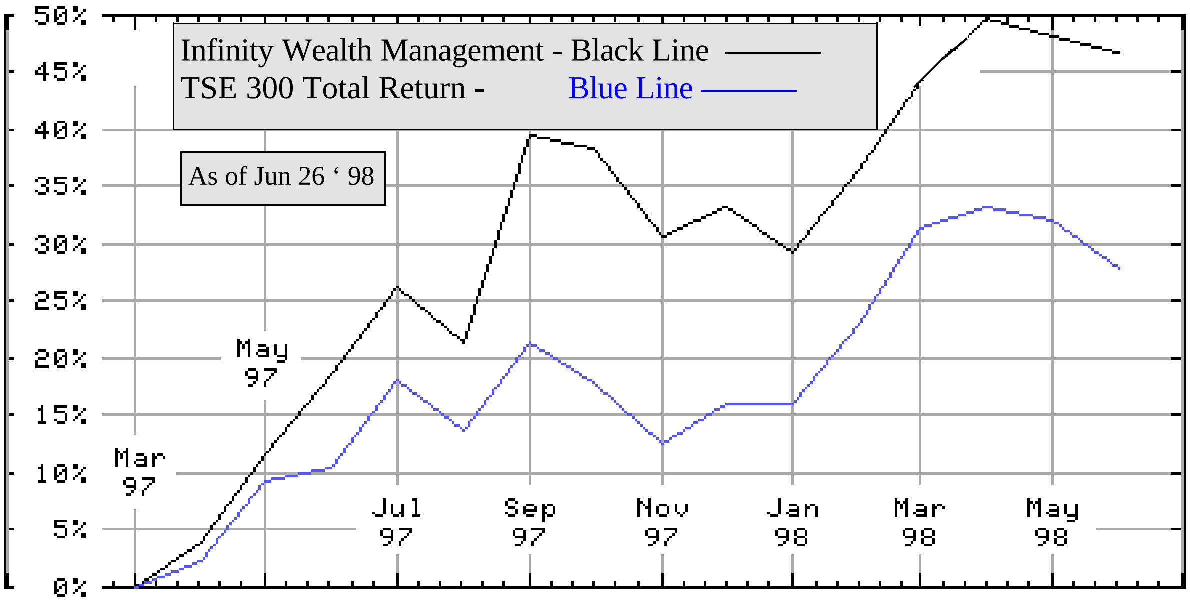
## Assumptions:

| | |
|---|---|
| **Investment** | **$50,000** |
| **Growth Rate** | **10%** |
| **Marg Tax Rate** | **50.00%** |
| **Loan Rate** | **6.50%** |




| Year | Growth | Deductible Interest | Tax Refund | Net Cost | Tax Liability | Left Over After Loan & Taxes Paid |
|---|---|---|---|---|---|---|
| 1 | $55,000 | $3,250 | $1,625 | $1,625 | $1,875 | $3,125 |
| 2 | $60,500 | $3,250 | $1,625 | $1,625 | $3,938 | $6,563 |
| 3 | $66,550 | $3,250 | $1,625 | $1,625 | $6,206 | $10,344 |
| 4 | $73,205 | $3,250 | $1,625 | $1,625 | $8,702 | $14,503 |
| 5 | $80,526 | $3,250 | $1,625 | $1,625 | $11,447 | $19,078 |
| 6 | $88,578 | $3,250 | $1,625 | $1,625 | $14,467 | $24,111 |
| 7 | $97,436 | $3,250 | $1,625 | $1,625 | $17,788 | $29,647 |
| 8 | $107,179 | $3,250 | $1,625 | $1,625 | $21,442 | $35,737 |
| 9 | $117,897 | $3,250 | $1,625 | $1,625 | $25,462 | $42,436 |
| 10 | $129,687 | $3,250 | $1,625 | $1,625 | $29,883 | $49,804 |
| 11 | $142,656 | $3,250 | $1,625 | $1,625 | $34,746 | $57,910 |
| 12 | $156,921 | $3,250 | $1,625 | $1,625 | $40,096 | $66,826 |
| 13 | $172,614 | $3,250 | $1,625 | $1,625 | $45,980 | $76,633 |
| 14 | $189,875 | $3,250 | $1,625 | $1,625 | $52,453 | $87,422 |
| 15 | $208,862 | $3,250 | $1,625 | $1,625 | $59,573 | $99,289 |
| 16 | $229,749 | $3,250 | $1,625 | $1,625 | $67,406 | $112,343 |
| 17 | $252,724 | $3,250 | $1,625 | $1,625 | $76,021 | $126,702 |
| 18 | $277,996 | $3,250 | $1,625 | $1,625 | $85,498 | $142,497 |
| 19 | $305,795 | $3,250 | $1,625 | $1,625 | $95,923 | $159,872 |
| 20 | $336,375 | $3,250 | $1,625 | $1,625 | $107,391 | $178,984 |
| 21 | $370,012 | $3,250 | $1,625 | $1,625 | $120,005 | $200,008 |
| 22 | $407,014 | $3,250 | $1,625 | $1,625 | $133,880 | $223,134 |
| 23 | $447,715 | $3,250 | $1,625 | $1,625 | $149,143 | $248,572 |
| 24 | $492,487 | $3,250 | $1,625 | $1,625 | $165,932 | $276,554 |
| 25 | $541,735 | $3,250 | $1,625 | $1,625 | $184,401 | $307,335 |

## Fund Review - The Infinity Wealth Management Fund




The Infinity Wealth Management Fund has come to be one of my favorite funds. Why is this? Let's look at some of the fund holdings (see next page). The list was given to me by David Singh, of Infinity Mutual Funds. It is a little dated and some of the percentages have changed, but it is representatitve enough for purposes of discussion.

In April of this year, one of my clients became concerned about the rapid growth of this fund and asked me if I thought it was time to sell it and buy something else. This prompted me to spend a couple of hours one morning downloading performance data on each of the holdings in the fund.

What I discovered was that many of the fund holdings had nearly doubled in price! Let's look at some examples. AGF in Apr. '97 was trading at $12.50. One year later it was trading at $22.00. Which AGF fund did as well? None! Over the same period CI's stock went from $16.00 to $28.50. Investors Group stock went from $24.00 to $49.50. What Investors Group fund doubled? None! Mackenzie went from $10.50 to $19.75. What Mackenzie fund did as well? None!

Not all of the holdings in this fund doubled in price, but a lot of them did, and even those that had dismal performance compared to the others were still respectful. An example is Trimark that went from $42.50 to $50.25 - a respectable 18%.

Demographics and de-regulation favour this fund and funds that have similar holdings. Let me give you some homework. Go to Canada Stockwatch at: http://www.canada-stockwatch.com/ and check out the performance yourself for the holdings on the following page.

## Fund Review - The Infinity Wealth Management Fund

| Infinity Wealth Management Fund<br>Statement of Investment Portfolio<br>As At December 31, 1997 (unaudited)<br>* Equity Held in More Than One Fund | | | |
|---|---|---|---|
| | | Amount Invested | $ 100,000.00 |
| | | | |
| Equities | % | Breakdown ($) | |
| | | | |
| AGF Management Ltd., Class B * | 4.0% | 4,000 | |
| BPI Financial Corp. * | 0.1% | 100 | |
| C.I. Fund Management Inc. | 0.1% | 100 | |
| Dundee Bancorp Inc., Class A * | 4.9% | 4,900 | |
| Fairfax Financial Holdings Ltd. * | 4.8% | 4,800 | |
| Franklin Resources, Inc. * | 3.9% | 3,900 | |
| Guardian Capital Group Ltd., Class A | 0.0% | 27 | |
| Investors Group Inc. | 5.7% | 5,700 | |
| J.P. Morgan * | 2.2% | 2,200 | |
| Kingsway Financial Corp. * | 0.0% | 27 | |
| Mackenzie Financial Corp. * | 7.5% | 7,500 | |
| Mellon Bank Corp. * | 2.4% | 2,400 | |
| Merrill Lynch * | 0.9% | 900 | |
| Montrusco Associates Inc. * | 0.7% | 700 | |
| Perpetual plc | 0.1% | 100 | |
| Power Financial Corp. * | 9.2% | 9,200 | |
| Royal Bank of Canada * | 5.1% | 5,100 | |
| Sceptre Investment Counsel Ltd., Class A * | 3.4% | 3,400 | |
| Swiss Reinsurance (ADR) | 0.1% | 100 | |
| T. Rowe Price Associates * | 4.4% | 4,400 | |
| Toronto Dominion Bank * | 4.4% | 4,400 | |
| Travelers Group | 1.9% | 1,900 | |
| Trimark Financial Corp. * | 6.5% | 6,500 | |
| | | | |
| | | | |
| Cash and Other Net Assets | 27.6% | 27,646 | |
| | | | |
| Total Net Assets | 100.0% | Total Amt.Invested | $ 100,000.00 |

## Useful Links

- Fund Performance http://www.globefund.com
- The Fudlibrary http://www.fundlibrary.com/home.cfm
- Financial Advisor Pages http://www.fapages.com/links.cfm
- Garth Turner’s Website http://www.garth.ca/Default.html

## This Newsletter has been prepared for you by:

Douglas F. Hudson, CMA, MBA, CFP, CD
Financial Advisor
KPLV Financial Planning
SPECIALTIES: Mutual Funds, Fixed Income, RRSPs, RRIFs, Insurance Products, Financial Planning, Retirement Planning, Estate Planning, Tax Planning, Leverage Strategies
LANGUAGES SPOKEN: English and French
LOCATION: 100 Alexis Nihon, Suite 595, Montreal, Quebec, H4M 2P1
TELEPHONE: (514) 855-0505
TOLL FREE: (888) 855-KPLV
CELLULAR: (514) 830-FUND
FAX: (514) 855-0145
E-MAIL: **doughudson@rrsp.org**
PERSONAL WEB SITE: **http://www.rrsp.org** (some parts still under construction)
Certified Financial Planner (CFP) and
Certified Management Accountant (CMA).
EDUCATION
Masters Degree in Business Administration, St. Mary's University, Halifax, Nova Scotia, 1982. Bachelor of Arts (Honors) in French from St. Thomas University, Fredericton, New Brunswick where he won two academic awards: 1) The Dr. Marguerite Michaud prize for studies in French Canadian literature and 2) The Romance Department prize for studies in linguistics.