The Munro Letter

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TECHNOLOGY

The Phablets Are Here!

A device that combines a smartphone with a tablet sounds like a great idea, but think about what you need and how you like to work before putting out any money.

Decades after brick-sized mobile phones went the way of the cassette tape, an unsuspected trend has taken the market by storm: big phones are back! This time, consumer preferences for large screen sizes have led the way to the "phablet" category: mobile phones that are smaller than a tablet but bigger than a typical smartphone. It is generally agreed that a phablet, by definition, has a screen size between five and seven inches (12.7 cm to 17.53 cm), measured diagonally.

Operating Systems

Consumers interested in purchasing a phablet will find a range of devices running Google's Android operating system from a number of manufacturers. As of this writing, phablet-sized devices running Windows Phone 8 and BlackBerry 10 are rumoured to be in development, but have not been announced.

Oh, What a Big Screen You Have!

For a business user, the large display on a phablet is better suited to getting work done when compared to a typical smartphone. The extra room makes documents and spreadsheets a bit easier to read and change, with less need for zooming and scrolling. Some models, notably the Samsung Galaxy Note series, include a pressure-sensitive stylus that is considerably more precise than your finger and can be used for handwriting, drawing and adding annotations.

Not having to tote around both a smartphone and a tablet is possibly one of the biggest advantages of a phablet, and the main idea behind the phablet design. A phablet is big enough to accomplish tasks normally suited to a tablet while small enough to still be usable as a cell phone.

Aside from work, the bigger screen lends itself easily to watching videos and makes for a better mobile gaming experience.

OK, What's the Downside?

As much as you may want to watch those YouTube videos when you're away from the office, will a phablet fit in your pocket…? Other practical concerns include actually talking on the phone; the width of such a large device may make it uncomfortable to hold in one hand. Even if you're able to wield a phablet one-handed with ease, holding it up to your ear is bound to look just as awkward as an '80s brick-phone. This can at least be mitigated by using a Bluetooth headset, which some manufacturers tacitly acknowledge by including one with the phone.

Similarly, the relative vastness of the screen lends itself poorly to one-handed operation; it might be quite a stretch to get your thumb near the outer reaches of the screen. It's not always convenient to use both hands to control your phone, particularly when you're out and about. (Think: morning coffee in one hand, phone in the other.) Some devices explicitly offer one-handed settings to optimize core applications (e.g., the phone keypad may be moved to the left or right side to put it within reach of your thumb).

Battery Life

Actual battery life of any phone will, of course, vary by model and the features included. The most significant factor to consider is how the phone will be used. Generally, the biggest draws on the battery are the wireless radios (e.g., talking and data usage), processor-intensive apps (e.g., games and graphics) and the display. While big screens have a hearty appetite for energy, big phones also tend to include proportionally larger batteries.

Not all screens are made equal; 720P and 1080P panels are common. Both are "high definition"; however, you may find 1080P to be a bit sharper in some scenarios, as it has more pixels. All those extra pixels are hungry for juice though; a 1080P display will likely sap your battery faster than a lower-resolution 720P model.

The Price Point

As with other mobile phones, the price to purchase a phablet device outright, without a contract, ranges from a low of $500 up to about $900; most are priced somewhere in the middle. Wireless carriers will likely sell subsidized devices at a lower price point with a contract.

Final Words

A phablet is distinguished from other smartphones by the huge display that is between the size of tablet and phone. Aside from the size difference, it's still a smartphone. So, should you run out and buy a phablet? As with all things, it depends. It may not be worth replacing a relatively recent smartphone just to get a bigger one. Also, you may find that an oversized smartphone just doesn't work for you if you prefer to use a phone one-handed.

On the other hand, a phablet might make sense to you if you don't like having to carry both a tablet and a phone and want the capabilities of both in a single device. If you like watching YouTube, glorious HD on a huge screen could be a perfectly legitimate reason too.

In the end it comes down to your needs and preferences. There's plenty of variety in cell phone sizes, capabilities and prices; you're bound to find one that's just right for you.

TAXATION

RRSPs, HBP, Taxes and Your First Home

Saving for that first home can seem daunting for first-time buyers. But it can be done.

The Down Payment

Regardless of where you live in Canada or the territories, buying a home is costly, especially for first-time buyers. Because the *Bank Act* forbids banks from making mortgage loans in excess of 80% of the value of a residential property, anyone wishing to purchase a home must put down at least 20% of the purchase price or appraised value (whichever is less) to qualify for a conventional mortgage from a bank. Given that the national average home price in Canada in July 2013 was $382,373, according to the Canadian Real Estate Association, a first-time buyer of an average-priced home would have to come up with $76,475 to satisfy a lender providing a conventional mortgage. In addition to the 20% down, most lending institutions have guidelines suggesting purchasers should use no more than 32% of their gross family income for payments of mortgage principal and interest, property taxes and heating; the total debt load (including consumer loans, etc.) should not exceed 40% of the gross family income.

Clearly, first-time home buyers need all the help they can get to maximize the down payment and therefore reduce the principal amount borrowed and the monthly mortgage payments.

Most Down Payments Come from Personal Savings

Sometimes, parents, other relatives or even friends may be a source of a loan or a gift, but for most first-time buyers, the down payment has to come from personal earnings. Those who have to save funds need a long-term strategy to determine the length of time it will take to save the 20% down payment and the best means of achieving that goal. The following example may provide guidance for those who think saving the "down" is next to impossible. But first, you need to consider how much your first home will cost before you can determine what that 20% amount will be. A local realtor should be able to help you come up with a realistic price range for the type of housing that will suit your needs and means.

How to Save a Down Payment

(The calculations in this article, including those in the accompanying table, are a schematic projection based on the known source deductions and tax rates for 2012.)

Assume the first-time buyer is single, lives in Ontario, is working at their first job, has personal expenses (for example, rent, clothing, food, car payments, etc.) of approximately $20,000 per year and a reported 2012 income of $40,000, which is likely to remain close to that level until 2017. Assume also that the goal is to save $76,475 (20% of $382,373) for a down payment on that average Canadian house and the purchase will be made in 2018. Because the potential buyer is working at their first job, they cannot make a contribution to their RRSP for the first year of employment. The table below shows that the total saved at the end of 2012 is $11,722.

Without RRSP Savings
If the buyer makes no RRSP contributions in any of the following five years, total savings over the six-year period will be only $70,332 ($11,722 x 6 years).

With RRSP Savings
As the chart below shows, contributing to an RRSP provides an additional $7,200 in deferred-tax savings annually for a total RRSP savings of $36,000 for the five years between 2013 and 2017. The after-tax savings for 2012 ($11,722), plus five years of RRSP-affected after-tax savings (5 x $6,157), would total $42,507. The total of RRSP and after-tax savings ($36,000 + $42,507) would be $78,507 by the end of 2017. By making RRSP contributions for five years, the total amount accumulated exceeds the amount accumulated without RRSP contributions by $8,175 ($78,507 - $70,332). In other words, by making annual RRSP contributions, the required down payment of $76,475 can be saved; without RRSP savings, the amount would fall short by $6,143 ($76,475 - $70,332).

The calculations above show that a couple could conceivably contribute as much as $157,014 (2 x $78,507) toward their first purchase, if both persons were in the financial situation described in the table.

$25,000 can be withdrawn from your RRSP as a down payment.

Using the Home Buyers' Plan (HBP)
The HBP allows a first-time buyer to borrow up to $25,000 from their RRSP for use as a down payment. Because only $25,000 of the total RRSP savings of $36,000 can be withdrawn under the HBP, the accumulated savings available is only $67,507 ($42,507 + $25,000). The remaining $8,968 ($76,475 - $67,507) required to make the down payment may also be withdrawn from the RRSP, but it will be subject to income tax in the year withdrawn. If the first-time buyer purchases the home jointly with another first-time buyer such as a spouse or common-law partner, each party to the purchase is entitled to borrow $25,000 from their individual RRSPs. If, however, either person has owned and occupied a home as a principal residence within the last five years, neither person is considered to be a first-time home buyer and neither is therefore entitled to the HBP.

This $25,000 amount must be repaid to the RRSP over a 15-year period, or an amount equal to 1/15 of the amount borrowed is added to the income of the buyer each year and is subject to taxation. The repayment period starts in the second year following the year in which you made the withdrawal(s).

(Due to space restrictions, the terms of the HBP have been somewhat simplified. Please check the CRA website: http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/rrsp-reer/hbp-rap/cndtns/frst-eng.html for complete details.)

Naturally, there are other life factors and income tax considerations that may impact the ability to accumulate personal savings, but the example establishes that a savings plan that combines personal savings with RRSP contributions can help you reach your down-payment goal.

Additional Benefits of a High Down Payment
Building an RRSP in conjunction with savings provides positive benefits beyond tax savings:

1. Lenders will see that you are a responsible borrower and a good credit risk for a mortgage.
2. The higher the down payment, the lower the amount of mortgage principal required. Over time, the lower principal requires less interest to be paid on the mortgage.

3. The higher down payment allows faster reduction of the principal amount. Thus, when it is time to renew the mortgage and interest rates have increased, the ability to continue to meet regular payments will be less of an issue.
4. A lower mortgage loan allows "wiggle" room to obtain additional funds in the event of unforeseen expenses that require additional credit.

Seek Advice from a Professional

Anyone thinking about buying their first home should consider spending time with myself to discuss their current earnings and map out a strategy that will combine personal savings with tax savings to make that home a reality.

How to Save $76,475 in Six Years

	2012*	2013	2014	2015	2016	2017	RRSP Savings	Total Savings
T4 Income	40,000	40,000	40,000	40,000	40,000	40,000		
RRSP Contribution	0	7,200	7,200	7,200	7,200	7,200	36,000	
Taxable Income	40,000	32,800	32,800	32,800	32,800	32,800		
Source Deductions	8,278	6,643	6,643	6,643	6,643	6,643		
After-Tax Income	31,722	26,157	26,157	26,157	26,157	26,157		
Cost of Living	20,000	20,000	20,000	20,000	20,000	20,000		
Annual Savings	11,722	6,157	6,157	6,157	6,157	6,157		42,507
								78,507

*First year of employment, thus no RRSP contribution.

MONEYSAVER

The Big Five-O

Retirement is coming. What should you be thinking about as you turn 50?

When you are 35, your life stretches endlessly ahead of you. You are in the midst of child rearing and career building. Over the next 15 years, paying off your home, educating your children and consolidating your career are the main areas of focus.

Then there's that fiftieth birthday party. The Big Five-O has arrived.

By now the children are probably either out of the nest or well on the way, you have a good picture of what your career is going to be and your business is well established. The issues of the day are not the same as they were when you were a younger adult with a new family and at the beginning of your career. You now have memories of formative experiences, but retirement and mortality are starting to slip into your thoughts.

No Formula for Successful Retirement

Happiness in retirement is not dependent solely on having sufficient funds. You need to look at the whole picture of the lifestyle you wish to have and the effect on it of your present and future assets and debt. A little attention paid today should give you some idea of how you want to live in retirement and enable you to start planning. Here are some areas you should consider when gathering information about the change to your life that is inevitably coming.

Retirement Goals

An important aspect of any retirement plan is determining what you would like to do. Maintenance of your present lifestyle is a good baseline from which to compare other possible lifestyles. What is the minimum amount of other income you would need to continue your present lifestyle if your earned income ended? What would it cost to do some things you can't do now because you are still working? For example, what if you want to live in Florida during the winter and spend the summer at the cottage in Canada? That retirement goal is much different from staying in Canada year round to golf in the summer and ski in the winter. Each goal requires different financial considerations.

Personal and Spousal Health

Health is an important concern, especially if you are unable to obtain additional insurance or plan to spend a lot of time at a property in a foreign jurisdiction. Before you make any major commitments to retiring abroad, make sure you understand your provincial health coverage and how to maintain it while out of province. In a similar vein, take a look at the cost and coverage of travel insurance for extended travel abroad.

Property and Other Assets

List all your real estate, personal assets and liabilities with the assigned value and debt attached with them. This will provide an estimate of your current net worth and permit a strategy aimed at reducing the debt within a reasonable time frame.

Foreign Real Estate

If you own foreign real estate and decide to spend part of your time there, you need to investigate that country's sojourn and visitor rules to ensure you do not overstay your visit and end up being deported from the country or forced to pay residency taxes.

Investments

Your portfolio should be divided between registered (RRSP) and unregistered investments and between debt and equity. What is the annual rate of return on your investments overall? Is the portfolio well diversified? Will it be able to provide funds for your retirement if it continues to grow at its historical average rate? Is your RRSP fully contributed? Does your spouse have an RRSP? Is there room for more contributions?

Wills and Powers of Attorney

If you don't have these critical pieces of documentation or if circumstances have changed significantly since they were written, make the changes now. You need to provide the survivors with a guideline for your physical care as well as for the disbursement of your physical and financial assets.

What is the likelihood of advancement, retirement or dismissal after age 50?

Job Security and Opportunities

Be honest with yourself. At the age of 50, what is the likelihood of advancement, a retirement package or dismissal? What are your options if the job ceases to exist because of changes in technology, a merger or acquisition?

If you are self-employed, what are your succession plans? Do any of your children want to take over the business? What is its growth potential if you want to sell it as a going concern?

Pensions from Employment

Review the terms of your pension plan. Is it fully funded? If you are dismissed, is the pension transferable? Is there any possibility the company may go bankrupt and be unable to honour its pension obligations?

Life and Health Insurance

Life insurance and health insurance become more expensive with age. Insurance may not be available if you become sick or present policies expire. Consider whether additional life insurance or health insurance should be purchased while you are still able.

Tax Consequences

You should have a clear understanding of the tax consequences in the event of your death, the death of your spouse, or your simultaneous deaths. Determining the financial impact on survivors will assist in determining whether the asset mix, beneficiaries or ownership should be changed or whether additional insurance might be the answer.

Putting It All Together

In the end, all of this knowledge must be synthesized in a long-term action plan. You will need to seek the advice and collaboration of your spouse, your family, your investment broker and your banker to gather all the information required. After all the information has been collected and summarized, consider meeting with myself for guidance as to whether your retirement goals must be modified to fit present and future financial realities.

MANAGEMENT

Go Forth and Prosper

At any given moment, there are many opportunities to increase sales. Here are a few suggestions worth thinking about.

After the euphoria of starting a new business has waned and the steady rhythm of day-to-day management has set in, many small-business owners discover revenue growth has stalled. How did this happen? They try more advertising but sales and revenue still do not grow as expected. Then come the moments of panic and cold sweats. What if the business cannot continue to grow? What if there is actual attrition of the client base and the bottom line starts to get smaller and smaller?

Market to the Right Customers

The success of any business is determined by marketing to the right customers. The right customers for your business are going to be determined by gender, age, income, home ownership, employment status, geographic location and a host of other factors. The secret to expanding business is not to be relevant to everybody, but rather to be relevant to an identifiable and well-defined market. As a business owner, you must constantly be ready for changes in the defining factors of your market. If you try to be everything to everyone, you will be overwhelmed by the constant need to modify your products, advertising or services. Choose one or two things you do really well and offer them to well-researched markets. Not only will your life be more manageable, but sales will also be easier and a lot more profitable.

Stay Within Your Zone of Expertise

Expand within your zone of expertise. For example, if you sell flowers and shrubs, it would not take much restructuring to extend your business into landscape design services. The existing customer base that buys your plants would probably welcome a design service from a business they already know and trust.

What Can We Do for You?

If you think you can extend your services but are not quite sure where to focus, ask your salespeople and customers. Salespeople often know more about customer preferences than they tell simply because they are never asked the right questions. A well-designed survey of your existing client base may reveal surprising unrealized opportunities for logical growth. Once a growth opportunity has been identified, do a business analysis to see whether it will be profitable.

Yes, We've Got That

Provide something the big guys don't offer. How many times have you heard someone comment that when they go to XYZ Mart it doesn't have replacement hardware or that the sales staff don't know the products? Is this an opportunity for you to provide retrofit products or better customer service through a more knowledgeable and courteous staff who can establish personal relationships with customers?

Set up an online catalogue to give your products better exposure.

Catalogues Are Not Dead

Perhaps it is time for your business to set up an online catalogue to give your products better exposure. This doesn't mean your business should forego the traditional hands-on distribution of flyers or catalogues; many larger companies still send out hardcopy. However, you may have to integrate the paper and the online editions so that those who want to browse the traditional way can find what they want in the paper catalogue then order online, by telephone or at your place of business. Over time, paper catalogues will probably be phased out. Adding an online catalogue now will prepare your business for the day when almost everything will be available only online.

Productivity with Technology

We all know that quality and productivity improves with advances in technology. As owner-manager, it is important to ensure that your software is up to date. New software can show you opportunities for cost savings through greater efficiency. Naturally, live demonstrations at trade shows or manufacturers' open houses provide an opportunity to see just what is new and on the horizon.

Outsourcing

The world is at your fingertips through the appropriately named World Wide Web. Measure a customer for a suit in Toronto, send the data to tailors in Hong Kong and your customer has the product within two weeks. If you have a new product design, or need product to keep pace with demand but have limited resources to start production, consider outsourcing. This approach can reduce need for capital expenditures and places the onus on the manufacturer to keep up with the efficiencies of changing technologies and production requirements.

Alignment

Enhancing sales by having your product or service aligned or identified with another product or cause may be an effective means of increasing sales. If, for instance, your process changes grey water into water that is safe for wetland, is it possible to partner with a non-governmental environmental agency such as Ducks Unlimited to gain additional exposure for the company's process?

Aligning with local merchants or organizations is also an effective means of promoting business. Merchants certainly see the positive impact of having midnight madness sales or participating with clubs that sponsor parades or picnics to raise funds.

Expand Your Territory

Introducing your product or service into a new market requires sales forecasts, cost analysis and operating and capital cash flows. Careful calculation will minimize risk and give you the opportunity to become a recognized name within your community. Consider the number of drug stores, pizza franchises or convenience stores that have become household names simply because they have become strategically entrenched in the mainstream of society and become the "go-to" store for a particular product or service.

Growth Is Always Possible

Even when revenue and profit growth seems to be stuck, there are still untapped growth opportunities for a creative management team. A talk with me may be in order to jump start your thinking. The potential for growth is always there.