T·E·WEALTH

NOVEMBER 2016

STRATEGIES

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# A home business star rises: the story of HomeStars.com

## Starting a business takes more than just a great idea. It requires sound financial planning and careful consideration of the steps you need to take to get you there. Here's how one T.E. Wealth client reached for the stars, and grabbed them.

According to a recent Altus Group housing report, over $20 billion more was spent on home renovations in 2015 than on new dwellings, with renovations accounting for 58% of total residential construction spending. In 2015, home renovation spending in Canada was over $70 billion. This trend is expected to continue over the next few years.[1]

With that kind of money on the line, you'll want to make sure the company you hire is reputable and reliable – but how?

HomeStars connects homeowners with reputable contractors who provide services like renovations, interior design, pest control, landscaping, cleaning and more. There are over 8,000 reviews by real homeowners added each month to HomeStars.com.

Using a recommendation score of 1-10, HomeStars acts as a referral service that lets users rate their experience with service providers, and includes how that information was obtained. It tells you the stuff you really want to know – like whether a company has ever bullied or cheated a client.

If you're like me, you're probably thinking, "This is genius! Why didn't I think of it?" I had the privilege of speaking with the genius who did, Nancy Peterson. This is her story.

**1. What prompted you to go the entrepreneurial route, and why this business in particular?**

I was doing home renovations and saw that nothing existed (besides the phone book) in terms of info on companies that did home-related contract work. I wanted more background info, like details on past behaviour and work quality. I'd been working at Kraft Foods in marketing for over a decade, and we spent so much effort on branding and informing people on products like cream cheese and salad dressings – and those cost only a fraction of what I was about to put down for my renovation.

It got me thinking about how one might codify word-of-mouth recommendations in a way that lets you look at the past work and behaviour of contractors before hiring them. In 2005, I started working on the concept and launched HomeStars in 2006. I left Kraft and went all in. At the time, I was the

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only one doing this – even Yellow Pages didn't have reviews.

**2. Did you have any misconceptions about starting your own business?**

I discovered that raising money takes a lot longer than you think. I needed to invest a lot of my own personal capital in addition to the money I received from investors to make it work. In the end, it took about six figures to get the business off the ground.

**3. What financial issues did you consider during the research phase, and what resources did you draw on to make decisions for your business?**

I was fortunate enough to have been approached by a venture capitalist who was interested in my business. I didn't end up working with them (because they wanted a co-investor), but I used that experience and the term sheet they'd given me to get help from Maple Leaf Angels (MLA). MLA helped connect me with private investors who supplemented my own savings.

> "Raising money takes a lot longer than you think."

I also consulted with a lawyer, my T.E. Wealth financial planner, a financial model builder, an SEO (Search Engine Optimization) specialist and a web developer. Given my background in marketing, I was able to build my own sales and marketing plan.

I piloted a basic site in Toronto but launched it in Boston because, in 2006, it was easier to raise money in the U.S. than in Canada. Boston seemed like a good place to start because it's the same time zone, has a good-sized market, and I was able to hire a community manager based there.

**4. In hindsight, is there anything that you would have done differently?**

I would have only launched in one market – Toronto. It would have been much easier to manage because I live here.

**5. What has been the most rewarding aspect of having your own business?**


NANCY PETERSON, FOUNDER & CEO, HOMESTARS

Helping people find great services. A lot of people have thanked me for helping them take the stress out of finding a contractor. The site has also helped companies get positive exposure. One client, who advertises on the site, told me that someone had posted an excellent review of their business. This helped them attain new business and get back on their feet again after a long slump.

> "Think about what your objectives are and what you're trying to achieve."

**6. What advice would you give to someone who is thinking about starting a business?**

Plan to raise money for a good 18 months. Think about what your objectives are and what you're trying to achieve. Don't lowball yourself because you need to have money for the things you plan for – and extra cash for the things you don't. As you start your business and learn more about running it, new costs that you didn't anticipate inevitably come up.

Also, be very careful with whom you bring in as partners and employees – it's easier to date than get married! Make sure you have the same vision, values, commitment, energy and that you have complementary skills. You really have to trust each other and be able to resolve conflict in an amicable, but effective, way.

Lastly, be in love with what you're doing. Because you'll be spending a lot of time doing it!

**7. How do you keep yourself motivated and inspired when things aren't going as you'd like?**

My husband has been very supportive since the beginning, and I spend a lot of time with good friends in a variety of activities to de-stress. I also love spending time with my dog – who's always happy to see me. When you're running your own business, you have to just expect a roller coaster and enjoy the ride!

*Lucy Conte, T.E. Wealth*

[1] Altus Group. (2016, June 27). *Home Renovations: Bigger than the New Home Sector*. Retrieved from http://www.altusgroup.com/newsroom/research/2016/home-renovations-bigger-than-the-new-home-sector/

# Emotions and investing – like oil and water

In their everyday lives, people are emotional – and often irrational – beings. Now, there's a growing body of research that shows people are just as irrational when it comes to making investment decisions. They should be checking their emotions at the door, but instead are allowing them to sway their judgment.

"We assume people make rational decisions," says C. Thomas Howard, chief executive officer and director of research at AthenaInvest, based out of Colorado. "Studies show this to be false. Almost zero rationality is involved and we must recognize that people make cognitive errors all the time."

Professor Howard is a pioneer in the academic study of investor behaviour. As a professor of business at the University of Denver and author of *Behavioral Portfolio Management*, he has long studied human behaviour in relation to financial markets. He will tell you, for example, that the pain of loss is twice as strong as the pleasure of gain. He calls it "short-term loss aversion" and the pervasive and lasting recall of losses will often cause people to act in ways that are counter to their stated investment goals.

"Emotional brakes or triggers get in the way of investors truly maximizing their wealth," he says, "and of staying on the path that was devised, specifically, to get them there."

Professor Howard says that emotion-based decisions lead to mistakes, and investors' cognitive errors create pricing distortions in the marketplace. These insights into investor behaviour — and the market opportunities presented by these emotion-driven behaviours — led him to establish AthenaInvest as an equity research firm, and to develop a formal framework for applying behavioural finance principles to portfolio management. "Behavioural Portfolio Management (BPM) assumes most investors make decisions based on emotional reactions," he says.

Athena's proprietary, patented database of fund and stock data allows it to analyze and quantify these pricing distortions and identify investment opportunities. Athena brings that expertise to the T.E. Wealth Prosperity family of pooled funds as a manager on the Prosperity U.S. Equity fund.

Professor Howard's teachings have a number of implications. First, if market ups and downs are the result of investors' emotional behaviour, BPM calls into dispute the concept of "informationally efficient" markets, as championed by Modern Portfolio Theory (MPT). This theory, which has dominated market thinking in recent years, holds that, although there is some level of emotionality in the markets, it is outdistanced by rational investors. Stock markets, therefore, are inherently rational and stock prices reflect actual values. Prices are set in response to a full set of information and markets are efficient.

**"Markets are not informationally efficient."**

Professor Howard doesn't buy that. "Markets are not informationally efficient," he maintains. Emotional crowds, he says, base decisions on anecdotal evidence and emotional reactions and that is what drives market prices. "There is almost no fundamental information reflected in stock prices."

"Prices are always wrong. It's a matter of degree."

The other implication has to do with opportunity. If a stock's value is obscured by the actions of emotional crowds, there are opportunities to buy stocks that are undervalued. But what is needed is a rational, disciplined approach to – and framework for identifying – those opportunities and acting on them.

It is perhaps this last point that has the greatest implications for individual investors. While Professor Howard believes emotions can lead investors astray, he also believes mastering emotions can lead to success. "Mastering one's emotions and following a sound financial plan," he says, "can dramatically improve the chances of avoiding the more common investor mistakes."

**"Volatility doesn't really matter in the long term."**

He admits successful investing is emotionally difficult: humans are hardwired to seek out short-term emotional comfort. Yet, successful investing requires setting aside the short term and taking a long-term view, even when your investments are losing value. It can also mean investing when volatility is high and you are emotionally uncomfortable.

"Ignore volatility,' he counsels. "Volatility doesn't really matter in the long term."

The successful investor will stand out from the crowd. What matters, Professor Howard says, is having a sound plan and the discipline to stick to it. In keeping with this philosophy, T.E. Wealth seeks to help you establish an investment plan that fits your goals and risk tolerance, while showing you the merits of sticking with that plan during short-term market dislocations.

*Tessa Wilmott is a Toronto-based editor, writer and researcher specializing in the financial services sector.*

# Starting a business in retirement

It's increasingly common for baby boomers to start a business in retirement as a means to fulfil a personal passion, retain or replace their work identity, or enhance their retirement savings. Whether continuing with your previous expertise on a consulting basis, or diving into a brand new business adventure, working in retirement requires time and planning. From Vancouver to Montreal, our wealth management experts weigh in on some financial considerations that may affect if, and how, you decide to start a business in retirement.

### 1. What are some of the benefits or implications you should consider if you choose to work in retirement?

**Lynne Triffon, Vancouver:** Sometimes, people think that if they earn additional income they'll be in a higher tax bracket. Because we pay tax in Canada at graduated rates, higher income tax rates only apply on the additional income (and may not apply if you remain under the next tax bracket threshold). Even if you do end up in a higher marginal tax bracket, you will still net additional income.

Examine your reasons for continuing to earn income in retirement. Maybe you need additional income to be able to travel more extensively. For many of my clients, it isn't necessarily the extra dollars they are earning. Rather, it is staying engaged and stimulated and often getting enjoyment out of the work itself. Making money can simply be a by-product of doing what we enjoy most. Many of my clients continue to work on a self-employed consulting basis after their traditional retirement. These people are not looking to fully retire: they are looking to reduce the amount of time they work, have more flexibility, and sometimes more autonomy and less stress.

**Harjeet Sachar, Calgary:** Whether consulting or starting a new business, you need to think about whether or not you can market it. Can you sell people on your service? Figure out what it is that you bring to the competition, and position yourself in the marketplace accordingly.

**Samuel Chinniah, Toronto:** Because income is no longer a priority, working in retirement allows you the flexibility to grow your business or consulting practice as much or as little as you like. Consulting is a particularly attractive option because little to no capital is required, and your expenses are minimal. In addition, you'll likely have built up a lot of experience and contacts, so the transition from your previous career to consulting will not require a great amount of effort. Supplementing your income in this way lets you be more carefree and experience life while you're still in good health.

**Jane Cheong, Montreal:** Working in retirement is an excellent way to enhance your retirement income if savings are insufficient. Or, if your savings are adequate, it might be having the best of both worlds that appeals to you – you can enjoy working at your own pace without corporate stress. This also helps you retain your social, professional and intellectual networks.

### 2. Should having a business affect your decision of when to take CPP/QPP and OAS?

**LT:** The biggest factor in your decision when to take CPP/QPP and OAS has to do with your expected mortality date, but there are also some other factors. For CPP/QPP, a business has to pay both the employee and employer's CPP/QPP contributions. You can opt out of contributing to CPP/QPP at age 65; however, you can also earn an enhanced CPP/QPP by continuing to make voluntary contributions.

With OAS, you need to consider the clawback thresholds. For 2016, you start to have a reduced OAS pension when your net income exceeds $73,756 and it is completely clawed back when your net income exceeds $119,615. You can defer OAS to as late as age 70 and receive an enhanced pension: 0.6% for each month deferred, to a maximum of 36% at age 70.

**HS:** Rather than look at CPP/QPP in isolation, you should take into consideration what your overall cash flow needs are. When starting a business, your income needs will change so you should first revisit your retirement plans with your planner, and then review that plan each year.

### 3. What should be considered when buying an existing business?

**HS:** Can you resell it? Is there equipment involved? Will the business/equipment be relevant in x number of years? Prior to purchase, make sure to do your due diligence with an accountant and/or planner to assess what the business is worth now, and what its expected worth will be at the estimated time of sale.

**SC:** An important consideration is whether or not you'll be able to turn around and sell the business when you're done with it. This might mean finding a similar business to sell it to. The same applies to a consulting practice – monetize your work! Find another business or individual who would be interested in purchasing your client list.

Prior to selling, find ways to maximize the value of your business to make it more profitable, and thus increase the sale price. Your financial planner can help you work on an exit strategy, succession plan, and tax strategies and exemptions.

### 4. What are some considerations when deciding whether or not to incorporate a small business?

**LT:** The overriding consideration here is whether you have any potential liability. If so, you should incorporate to protect your personal assets, regardless of how significant your income will be. The other factor with respect to incorporation is whether you will be spending the income or saving it. If the latter, incorporation can provide some tax deferral. Otherwise, there may be no benefit to incorporating.

Many of the deductions available to an incorporated company are available to unincorporated businesses, such as paying your spouse and/or children a salary. There are rules around the amounts that can be paid: essentially, the salaries need to be reasonable and reflect work that is actually performed.

**SC:** From a tax savings perspective, personal services corporations are a great way to go in that they're taxed at a 15% lower rate (for small businesses) than non-incorporated businesses. Non-incorporated businesses have a top marginal rate of 53.4%. The key benefit to incorporating would be the tax deferral. If you're in the top marginal tax bracket (53.4%), you'll keep only half of what you make if you're not incorporated. However, small businesses (making under $500,000) that are incorporated pay a lower tax rate which means they can keep that extra money in the corporation and pull it out over time. If you need all of the income from your business to live on, incorporating would not be the best way to go.

> "Examine your reasons for continuing to earn income in retirement."

**JC:** You need to estimate the income that will be generated annually and compare that with all the expenses and fees for keeping the corporation. A corporation is a separate legal entity and hence requires annual corporate tax returns, financial statements, annual reports and GST/HST/PST/QST filings as well. Incorporation costs also have to be taken into account.

### 5. What are some common mistakes/pitfalls to avoid?

**LT:** One pitfall is to not register for GST/HST when it becomes mandatory. This is based on when you achieve a threshold of cumulative income in a single quarter or over a number of quarters. Depending on the nature of your business, you may also need to set up a business account with the CRA, a payroll account, register with WCB and obtain a business license.

Another pitfall is not understanding which kinds of expenses are tax deductible, and what receipts and records need to be kept. Lastly, if you are running a business out of your home, you need to ensure that your home insurance will cover you.

**HS:** Many people underestimate how much time/money/resources will actually be required to execute their business idea. For example, say you wanted to start a catering business. You would need to consider many things, such as equipment costs and obtaining appropriate insurance if doing the work from your home (if something went wrong, you would need to be covered). Also, if you intend to do all the cooking yourself, this would require a great investment of time – time that could no longer be spent with loved ones.

**JC:** Not seeking professional advice. Since each person has a unique personal and family situation, it's important to speak with someone who can help you identify any potential red flags.

Another common mistake is planning major and complex structures in the start-up phase before generating income. Keep it simple to start. And don't underestimate the time it will take to deal with administrative filings and paperwork. You may find that you need to hire someone to take care of these tasks for you.

### 6. Are there any special considerations for U.S. citizens living in Canada who set up a business or consulting practice in retirement?

**Brent Soucie, Toronto:** There are, particularly if retirees choose to form a Canadian corporation in order to facilitate the consulting. Specifically, U.S. citizens are subject to special tax and disclosure requirements, both imposed by the IRS. Much of the same conventional wisdom applies with respect to corporate deductions, and even liability protection; however, special measures need to be taken to prevent double taxation.

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*Lucy Conte, T.E. Wealth*

# Should you incorporate your small business?

Incorporating your small business certainly has its tax advantages, but there are a few financial housekeeping items you'll need to put in order when you decide to make that leap. Here are some important implications you should be aware of.

## 1. Income Tax Savings

### Small Business Deduction

If your business is a Canadian Controlled Private Corporation (CCPC), you can benefit from the small business deduction and pay lower income tax on the first $500,000 of active business income in the corporation. From 2016 to 2019, the small business tax rate will be reduced from 11% to 9%.

To qualify for the deduction, a business must be a private corporation that is controlled by Canadian residents. Active business income does not include investment income, income from a specified investment business or income from a personal services business.

### Lifetime Capital Gains Exemption

Another big tax savings that may be available to you as the shareholder of a CCPC is the Lifetime Capital Gains Exemption (LCGE). When the time comes to sell your shares, the first $824,176 (2016) of capital gains will be exempt from income tax. This capital gains exemption was set at $800,000 in 2014 and has increased with inflation each year.

If you're considering a capital gains deduction, review your tax situation with your financial planner. He or she can help you optimize your tax strategy, and avoid any potential surprises at tax time.

## 2. Risk Management

### Shareholder Agreement

If there are multiple owners with an equity position, you should draw up a shareholders' agreement. This document will dictate how the activities of your corporation will be managed. It will address such issues as changes of ownership and what will happen in the event that a partner becomes disabled, retires or dies. It will also make it easier for a shareholder to buy out a partner, or their estate, if these situations arise.

### Insurance

It's important to make sure your company can continue to operate in the event of the disability or death of a key employee, such as the president. This makes it essential to purchase key-person disability and life insurance.

Disability insurance will make it possible to replace the disabled individual without paying an extra salary to their replacement. The life insurance death benefit will make it possible for the remaining shareholders to buy out the estate of the deceased individual.

You should also purchase business overhead expense insurance, as this policy will continue to pay for your fixed expenses when the company's income is reduced as a result of disability or death.

## 3. Estate Planning

### Estate Freeze

If part of your business plan includes leaving your company to your children, you may want to consider doing an estate freeze now. An estate freeze is done by exchanging your common shares for preferred shares, and issuing new common shares to your children or a trust. This will lock in your future taxable capital gain now, and transfer the future growth of your company to your children.

### Dual Wills

If you'd like to save on Estate Administration fees, consider drafting multiple Wills for your estate. The executor of an estate seeking probate is not obligated to probate all of the Wills. The executor has the option to probate whichever of the Wills of the deceased, and probate taxes would only apply on the assets that were part of the probated Will.

Your primary Will would cover all of your assets, except for the shares of your corporation. The secondary Will would cover the shares of your corporation. With an Estate Administration fee of 1.5% on assets over $50,000 in Ontario, there can be significant savings.

Note that the concept of a "Business Will" is absent from the Quebec Civil Code. A Shareholder Agreement should be taken into consideration when drafting a business owner's Will in the Province of Quebec.

If you're not sure whether incorporating your business is in your company's best interest, talk to your financial planner.

*Marcy Ages, T.E. Wealth*

# 5 tax tips for the self-employed

If you own and operate your own business, it's crucial to understand what you need to do to stay on side with your taxes. Wondering where to begin? Here are five tax tips to help you out.

### 1. What are your obligations?

If you're just starting out, you'll need to determine whether or not you need a Business Number (BN). Initially, not all businesses need one. The BN is assigned by the Canadian Revenue Agency (CRA) and acts as an identifier for tax purposes. It differs from a Business Identification Number (BIN), which is used by the Ministry of Government Services to identify provincial business registration. A tax professional can help you understand the particulars to determine if you are required to apply for a BN, and the type of business account you should register for – such as the GST/HST or Payroll program accounts.

If you're self-employed and your business is not incorporated, you must file an individual tax return each year and will have to report your earnings as business or professional income. If you register for a BN, you may be required to file additional information further to your personal T1 return. Learn more about registration requirements at the CRA website.

### 2. "I'll just write it off"

As a self-employed individual you are taxed on your net business/professional income, not your gross income. This presents a tax planning opportunity if you know which expenses you can legally deduct against your gross income. It is also important to understand the types of expenses that you can't deduct—such as those related to personal use or consumption. You should familiarize yourself with form T2125 and the allowable business expenses. Knowing which expenses are eligible for deduction will help you keep the necessary records.

### 3. Recordkeeping and Banking

Setting up a system to organize your invoices, bills, receipts, bank statements and government documents makes tax time less of a headache. CRA guidelines state that you're required to keep records for a minimum of six years, and these must provide sufficient information to determine your tax obligations. You can find more information on record keeping at the CRA's website.

Having a distinct bank account and credit card for your business helps separate your personal expenses from business expenses. It provides an easy method of keeping track of business revenues and expenses throughout the year, which can help you estimate and plan for the tax you are likely to owe at the end of the year.

### 4. Installments and Paying Your Final Tax Bill

If you are self-employed, the deadline for filing your return is June 15th but you still need to pay any tax owing by April 30th. Taxes are either remitted throughout the year through installment payments, or at the end of the year with your annual income tax return.

If your tax liability is more than $3,000 in the current year, and in either of the previous two years, you will be required to make installment payments. As a self-employed individual you don't have an employer withholding and remitting income tax on every paycheque, so you should plan accordingly by saving throughout the year.

If your revenues and expenses have not changed significantly year-over-year, refer to what you've paid in previous years for a good indication of what you'll owe this year. If you include your tax liability in your business budgeting process, you can set aside the funds ahead of time to pay the bill.

### 5. Professional Help

Staying on top of the various tax requirements related to a self-employed or small business filing can take valuable time away from growing your business. A tax professional can take the anxiety out of tax time, and advise you on all aspects of your personal and business tax obligations throughout the year. This can ensure you are on the right track and not overlooking anything important.

*Matthew Sears, T.E. Wealth*

# Financial advice for business owners

For the second year in a row, T.E. Wealth's Montreal team will be showcasing its financial planning expertise at the annual Stratégies PME event, a tradeshow geared toward small and medium business owners in Quebec. Last year, the event attracted nearly 6,000 attendees.

When you own or operate a small business, planning your personal financial future may be last on your list of priorities. Most likely, you're too busy growing your business, building your dream team, fine-tuning your marketing and making sure the financial results follow your business plan.

**But what about your own personal financial planning?**

Should you remain self-employed or incorporate? What will happen to your business when you're no longer there, or unable to run it? What's the impact of your marital status on the ownership of company assets? Should you pay yourself a salary or get paid in dividends? Do you have a shareholder agreement that meets your needs? How will you finance your retirement?

These questions and more will be answered by our in-house financial planning expert Karen Hennessy, who will be giving a talk at the event. T.E. Wealth will also set up an information booth for the duration of the tradeshow, where our team will field questions from visitors.

*The fifth edition of Stratégies PME will be held at Montreal's Palais des congrès on November 23 and 24, 2016. More information at www.strategiespme.com. Call us at 514-845-3200 for your complimentary ticket.*

*Willem Lebegge, T.E. Wealth*

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