CW Group

Business Matters

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INVESTMENT

Investing for Retirement

Saving for retirement can be approached in several ways.

Media ads constantly bombard us with images of happy, attractive couples enjoying their retirement years on a sunny beach in Jamaica or on a cruise ship in the Mediterranean. But to reach that dream, it is necessary to invest today's earnings so that they will grow into tomorrow's retirement fund. Certainly, the earlier one starts a systematic investment program, the greater the probability that today's fantasy will become tomorrow's reality.

Investing is more than just putting money in Guaranteed Investment Certificates or the stock market. From the start until you actually retire, you must keep reassessing your financial and other life circumstances to determine whether the strategy chosen yesterday is still valid today. Several approaches to investing are available but each is dependent upon your personality, your age and your life situation.

Traders

Financial institutions have made self-directed investment websites user friendly for easy buying and selling online. This type of investing requires substantial knowledge of the listed companies, their values and constantly changing prices. This is the approach favoured by traders whose thinking is geared to making short-term profits. However, most people are too busy with a regular occupation to get all the knowledge they need to be active investors, and the risks are enormous.

Invest and Hold Investors

These investors usually build a portfolio of stocks with a history of capital growth and regular dividend payments such as financial institutions, utilities and established corporations. Certainly, there is never a guarantee that quality stocks will always increase in value; however, this approach minimizes risk, and also reduces transaction costs.

For long-term investing, diversification is an essential risk management strategy. The usual basic diversification is to hold about 60% of your portfolio in high-quality fixed-income investments and 40% in common stock. Within the common stock portion, diversification can be achieved through owning companies in various industries, countries, or through exchange-traded funds (i.e., similar to mutual funds but traded like stocks), which give the investor access to a wide variety of asset classes such as commodities and currencies.

It is very hard to make money consistently through speculation.

Speculative Investors

Speculative investors buy securities which, in the investor's judgment, have the potential of doubling or tripling or more in a very short time. These investors think the risk of huge gain outweighs the risk of substantial loss. The difference between investment and speculation is that in speculation the risk of quick gain or loss is much greater than in an investment. Speculators often use leverage (i.e., investing borrowed money) in the hope that a short-term gain in the value of the investment will enable them to repay the debt after making a quick and substantial capital gain.

Companies whose stocks are considered speculative often have no earnings or dividend history and depend for their financing on the company issuing new shares since there are no earnings to reinvest. This is common with junior companies in the natural resources and technology industries. Raising capital with new share issues before the company strikes it rich, however, constantly dilutes the speculator's original holding and makes hoped-for capital gains dependent on a spectacular discovery. This way of investing is highly risky and not particularly

useful for the accumulation of a retirement fund.

Value Investors

Value investing is based on the principle that the prices of stocks of high intrinsic value sometimes sell well below that value. This happened in 2008 and 2009, for example, when the collapse of the subprime mortgage market caused the failure of important financial institutions, which, in turn precipitated the collapse of the stock market. At that time, many fine companies that are the backbone of the economy also saw their share prices drop far below their intrinsic value to levels that were catnip to the value investor.

The stock price of big-name companies can, however, also sometimes decline substantially even under normal market conditions. These companies must be examined carefully before investing because factors such as bad management, risk of a dividend cut, inability to compete, a highly leveraged balance sheet and many other factors can be the real reason they have lost their value. Buyers of these stocks are not value investors; they are speculators making a bet the companies' performance will turn around and produce capital gains.

Index Investors

Many studies have shown that even the most astute professional fund manager finds it impossible to outperform the market averages year after year by picking stocks. In fact, a great many mutual funds do worse than the market as measured by the Dow Jones, S&P 500 or other indices. As a result, so-called passive investing through funds structured to match the performance of the indices can be expected to perform at least as well as the market overall. Because index-based funds usually do not have research analysts and other expensive overhead, their management fees are lower than conventional mutual funds. Investors who are not confident self-managing their portfolio and are risk averse, may be comfortable holding one or more index funds.

Know Your Objectives and Risks

Your investor profile is a function of your age, ability to take risks, level of investment knowledge and your objectives. Even though young investors have more time to recover market losses, slow and steady saving and systematic investing seems to be the best strategy over the long term.

No matter what kind of a portfolio you have (non-registered, RRSP/RIF/TFSA), or how it is managed (self-directed, or managed by an investment advisor), have a well-defined objective and understand the risk you can tolerate to get there.

TAXATION

Small Business and the CRA

Ensure your books are always in order for the CRA.

Owner-managers work hard in their businesses but are often overwhelmed by the reporting requirements for the Canada Revenue Agency. Few owner-managers enjoy the time spent and cost required to meet the CRA requirements, let alone the actual taxes that have to be paid; nevertheless, owner-managers must establish good business habits to ensure they stay on the right side of the tax authorities.

So, here are a few suggestions on how to make your relationship with the CRA much easier for yourself over the long run.

Establish the Correct Legal Structure

First of all, it is important to understand the tax and legal consequences of your form of business: sole proprietorship, partnership, or corporation. Each category brings with it different legal, tax and reporting issues.

Ensure Proper Bookkeeping

Recording transactions on a regular basis not only keeps your records up to date so you know where you stand at all times with respect to your receivables, payables and bank balances as well as any profit or loss, it also has your books in constant readiness for the tax authorities. Failure to routinely record all business transactions may mean missing out on taxable deductions or payment requirements. Maintaining up-to-date records also ensures that all documents required for the CRA are regularly matched and filed to the bookkeeping records.

Segregate Business from Personal

Regardless of the legal structure of your business, ensure that business transactions, bank accounts, lease agreements, and loans are maintained separately from any personal accounts. For record keeping and tax audit purposes, a clear division between personal and business finances makes for easier bookkeeping and a cleaner tax audit.

Contractors versus Employees

Make sure you distinguish the people who work for you as employees and those who work for you as contractors. Far too often, employers have persons who work for them whom they consider to be contractors.

The CRA and The Workplace Safety and Insurance Board (WSIB) rules make a sharp distinction between contractors and employees; inappropriate classification by your payroll department will mean reassessment for Canada Pension Plan and Employment Insurance deductions as well as problems with the WSIB if premiums have not been paid for the employee incorrectly accounted for as a “contractor”. To correct any potential inaccuracy, you will have to go through the expensive process of making adjustments, and this may not be a simple process if the person is dismissed or resigns.

Non-Deductible Expenditures

Legitimate business expenses are those expenses incurred to earn income. Far too often, expenditures are run through the business that have little to do with earning income. The most common areas subject to CRA review are vehicle expenses, meals, entertainment and promotion of a product or service.

Failure to file is a big mistake.

Failing to File

When cash resources are not available, whether to remit payroll deductions, income tax or HST, owner-managers may decide not to file the required return. **BIG MISTAKE**. Better to file on time, even if the business does not have the cash flow to make the required payment. Late filing incurs penalties and interest. Filing on time without payment will probably not incur penalties but will incur interest. Additionally, the CRA is open to establishing a payment schedule as long as you contact them with a proposal before the payment deadline.

Understand Payroll

Payroll is a business’s biggest expense and involves more than just writing a cheque or depositing money in the employee’s bank account. Payroll requires calculation of source deductions, the employer’s share, vacation pay, WSIB calculations, a monthly remittance for withholding taxes for each employee, data for year-end T4s as well as records of employment in the event of layoffs or dismissals. Understanding payroll will assist in determining cash flow needs as well as job costing and ultimately the bottom line. Failure to remit payroll withholding taxes will definitely invite an audit along with penalties and interest.

Accounting System

Far too many entrepreneurs use inefficient and ineffective accounting software. As a result, the information created is inadequate for a company’s own purposes and creates additional issues not only for regular government remittances but also for the accountant preparing year-end statements and tax returns. Poor accounting systems cost money in the long run.

Quality Bookkeeper

Bookkeeping is more than entering data. A qualified and experienced bookkeeper not only understands the accounting system but will understand payroll, HST, WSIB, account allocation, reconciliation, online banking and a host of other business requirements. A good bookkeeper managing an accounting system suited to your business will provide information to management that is critical to making effective business decisions and also generates information critical for proper reporting to external sources such as the bank or the CRA. An inept bookkeeper is a recipe for disaster as the errors or omissions will result in mistakes in financial and tax reporting as well as the consequent cost of repairing the damage.

Measure Twice, Cut Once

This old carpenter's maxim is just a pithy way of saying that errors are unnecessary and correcting them is costly. Before making decisions on major purchases, financing, staffing, accounting systems or tax strategies, do your homework. Getting and using expert knowledge ensures that decisions will not run afoul of tax authorities or other regulatory bodies.

Let Others Attend to the Details

Dealing with the CRA and other regulatory bodies is not always what entrepreneurs do best. Nevertheless, establishing procedures that will allow other staff to attend to the details will make life easier for you while making sure your business meets all regulatory requirements.

TECHNOLOGY

Using Technology for Gain

Abandoning paper-based processes can improve productivity and profits.

The more a task can be automated, the greater the increase in productivity and the greater the reduction in employee overtime and management frustration. Even though technology can speed up operations and reduces costs, far too often owner-managers continue to embrace legacy behaviours that keep their businesses from being as productive and profitable as they could be.

Implementing some or all of the following suggestions could be the first step to increasing productivity and making the workplace more efficient and more enjoyable.

Track Your Behaviour

Before you adopt a new technology, make sure you understand how the job to be automated is currently being done and how technology could make it cheaper and/or more productive.

1. Analyze and review existing work patterns.
2. Determine how the available technology will improve the process.
3. Use time-tracking software to understand what you do, where you do it, and the time spent on task.
4. Keep track of your activities and the activities of employees through a typical accounting cycle (i.e., invoicing, purchasing, payroll, government remittances, payment and receipts, reconciliations, business reports, job-site reviews and quotes) to determine where and how much time was spent at various stages.
5. Analyze your work and personal habits to determine potential behaviour or procedural fixes for not only employees but also for yourself.
6. Determine whether time is being wasted at any stage.
7. Determine whether the individual doing the task is cost effective (e.g., should a skilled machine operator spend time changing a tire on a company vehicle?)

Examine the communication protocols in your business.

Use Digital Communication

Consider examining the communication protocols in your business.

1. Should communication occur using email, text messaging, productivity app, video conference or telephone?
2. When does communication need to be encrypted?
3. If communication is written, should the recipient confirm receipt?
4. How are mailboxes to be set up for access by interested parties?

Use teleconferencing to keep everyone up to date, for example:

1. Set up webinar or web conferences to reduce travel while maintaining contact among all employees — including you.
2. Determine whether online training would be a possible solution for training needs.
3. Use the Cloud to share data and files, but ensure that strict access rules and passwords are in place to avoid breaching confidentiality of employees and intellectual property.
4. Install remote access software on your tablet or smartphone to provide access to office computers so you can be updated at any time.

Digital Integration

If you are still on a largely paper filing system, consider moving to digital.

1. Hire a records-management consultant to examine your filing needs.
2. Design a digital filing system for the business.
3. Ensure everyone files data the same way so files can be retrieved quickly and never go missing.
4. Go paperless by insisting that paper documents be scanned and stored; shred the original unless needed. Where possible, digital documents should be stored in the same digital format in which they were created.
5. Establish protocols to ensure email is filed correctly for all customers, tax and regulatory authorities and employees.
6. Avoid faxed documents where possible. If fax cannot be avoided, set up a virtual fax-to-email number that will allow those that will accept fax communication and transform it to an email PDF.

Streamline Business Transactions

If your business does not have sufficient employees to justify the cost of new software, develop standardized spreadsheets that staff complete for time and expense reports and create an online process for employees to submit data in a timely fashion to the bookkeeping department.

All businesses need an accounting system that incorporates sales, purchases, payroll, accounts receivable, accounts payable and job costing. Even if you do not have the expertise or the need for a full-time bookkeeper, you can use remote communication software or an online accounting platform to enter records online that will provide you with the up-to-date information you need for everyday operations.

All tax data, financial statements, personal and corporate tax filings and enquiries exchanged between your office and your CPA should be encrypted before transmission.

Other uses of electronic technology include:

1. online billing
2. online invoicing from clients
3. accepting and making all payments (including taxes) through etransfers
4. online filing of all CRA and other regulatory forms

Marketing and Selling

Because your website is often the first contact a potential client has with your business, make sure it is attractive looking and the text is well written. That first impression may make the difference between getting and not getting a client.

1. Hire a specialist in website design to create your website.
2. Hire a specialist to service and monitor your website to make sure everything works all the time.
3. Update your website regularly with news concerning key employees, changes in the organization and new products or innovations. This will show that your company is an interesting and ongoing business operation.
4. Collect email addresses using an opt-in service to expand your email advertising or awareness campaign. Be mindful of Canada's Anti-Spam Legislation (CASL) when collecting and using email addresses.
5. Set up an online sales department for your business.
6. Check out the software packages that allow you to set up an online marketing system, track orders, track sales, change product suppliers and assist in up-selling by connecting the product purchased by the customer with one they may see as complementary.
7. Create pricing rules for discounts, individual and bulk sales.

Use Technology Wisely

Certainly a business can be overwhelmed with the ever-changing technology, but in the final analysis, technology is not about what is available to use, but rather how we use what is available to better our business and personal lives.

MANAGEMENT

Jet Lag

A little adjustment to your sleep schedule before you travel can make you alert and ready for business when you reach your destination.

Despite the ease and relatively low cost of modern telecommunications, it is still necessary for business people to travel to be onsite. This is especially true for business owners who want to grow their businesses internationally and need to meet suppliers and customers to establish the personal connections that will be the foundation of future success. Flying to remote suppliers or clients makes jet lag a reality that should be factored into travel plans.

Body Rhythms

Jet lag or "circadian rhythm desynchronosis" results when high-speed travel from east to west or west to east through multiple time zones interrupts the 24-hour or "circadian" rhythm that regulates our sleep-wake cycle and controls the biochemical, physiological and behavioural activities in our bodies.

Symptoms of Jet Lag

The following are the classic symptoms of jet lag:

- headaches, inability to sleep and irritability
- lethargy, fatigue
- mild depression
- shortened attention span
- loss of appetite
- minor confusion
- gastrointestinal disturbances

Facts about Jet Lag

The effects of jet lag vary from person to person and the distance and direction travelled:

- symptoms become more severe once two time zones have been crossed
- symptoms are more severe flying west to east
- upsets patterns for sleeping, eating and working
- older people take longer to get back to normal circadian rhythm
- cabin air pressure and reduced amount of oxygen reaching the brain may increase the severity of jet lag in some travellers
- flying north/south within the same time zone will not cause jet lag
- north/south travel may exacerbate symptoms if also combined with travelling through multiple time zones (e.g., Vancouver to Sydney, Australia).

Adjust your sleep patterns before you leave home.

Combating Jet Lag

There are several ways to minimize jet lag but they are not always effective. Suggestions made by researchers include the following.

1. Do not consume alcoholic or caffeine-based beverages during the flight.
2. Stay hydrated by drinking water.
3. Be physical fitness regime since physically fit persons suffer less from jet lag.
4. Before your flight, adjust your sleep pattern based on the direction to be travelled. If travelling from west to east, accustom your body to the destination by getting to bed *earlier* and getting up *earlier*. Research suggests that going to bed one hour sooner for each of the three days prior to your trip and exposing yourself to bright lights (at least 5000 lux) for at least 3.5 hours when you wake up will help. Thus, on day one of the three days, go to bed at 10, the next day at 9 and the next day at 8 and get up one hour earlier and expose yourself to bright lights or bright sunlight depending on the season.
5. If travelling from west to east, reverse the sleep pattern adjustment by going to bed *later* and getting up as if you had had your normal number of hours of sleep.
6. When arriving at your destination, adapt to the local timetable. For instance, if you arrive at 11 a.m. local time but it is really 6 p.m. at home, adjust your schedule and habits as if it were 11 a.m.

If you cannot prepare for the time zone of your destination, you may want to consider arriving two or three days earlier to give your body the opportunity to adjust. Not only will this tactic increase your level of performance, it will also enable you to learn about points of interest, the culture and the people at your destination, all of which can be topics for discussion when meeting with your new contacts.

The Final Analysis

Business travellers want to make the most of their time, establish solid personal relationships with their business peers and negotiate the best possible deal with new suppliers or clients. To do so it is in the best interests of your company to minimize the impact of jet lag so you and your staff are at the top of your game when you represent your business whether it is on the other side of Canada or on the other side of the world.

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