

# TALBOT'S LEVERAGE PROFESSIONAL SOFTWARE

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USER MANUAL

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BY TALBOT STEVENS

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# INTRODUCTION

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**Talbot's** Leverage Professional is a program for analyzing the net benefits of borrowing to invest. It evaluates leveraging using Interest-Only loans, Term Loans that are paid off over time, and RRSP Catch-Up loans.

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## FEATURES

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- ◆ Automatically calculates the critical "Better Than" point where the returns from leveraging start exceeding those of not leveraging.
- ◆ Investors learn how much leveraging can potentially benefit them with reasonable projections, as well as how much leveraging would hurt them if they sell when returns are below the "Better Than" return
- ◆ Shows results for 4 user customizable projected returns, so investors understand how leverage can help or hurt them over a range of possibilities
- ◆ Prints 1-page Summary Reports or Detail Projections showing year-by-year results
- ◆ Printout option for client signatures, to give advisors proof of full disclosure
- ◆ Accounts for taxable distributions in non-registered projections
- ◆ Accurate future value analysis for lump-sum and annual investments
- ◆ Analysis of limited tax deductibility of investment expenses, at the provincial and/or federal level. As of March 30, 2004, tax deductible investment expenses for Quebec residents are limited to taxable income and unused deductibility is deferred.
- ◆ Quantify the exact tangible benefit of using tax-efficient funds
- ◆ Simple, efficient interface
- ◆ AutoCalc feature automatically updates results
- ◆ Advanced Details mode allows advanced users full access to all analysis parameters
- ◆ Quantify the impact of different RRSP Refunds Strategies, allowing a comparison of the RRSP Catch-Up loan strategy with annual RRSP investing where refund is spent, reinvested, or grossed-up

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# INSTALLATION

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IF YOU HAVE *ALREADY INSTALLED* THE 30-DAY EVALUATION VERSION, PLEASE SKIP TO STEP 4.

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## STEP 1: DOWNLOADING THE INSTALLATION FILE

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1. Using Internet Explorer, go to [www.TalbotStevens.com](http://www.TalbotStevens.com)
2. Click on the **Downloads** link on the left side
3. Click on the link for **Talbot's Leverage Professional, 30-Day Evaluation Version**. Press **OK**.
4. You will be prompted to save the file to your disk. **Select a directory** where you would like the SetupLP.EXE file to be downloaded to, and press the **SAVE** button. **Remember where you saved it**, so you can run the setup program when it's finished downloading.

Note: The SetupLP.EXE file is approximately 8MB and may take up to 40 minutes to download on a 56K modem.

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## STEP 2: INSTALLING THE SOFTWARE

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1. Once download is complete, run **Windows Explorer**, and go to the directory where SetupLP.EXE was saved to (Step 4 above).
2. Run the **SetupLP.EXE** program by double clicking on it.
3. **Accept** the license agreement and continue to press **Next** until the installation is complete. This will install the software on the C: drive under the Program Files\Leverage Pro directory.

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## STEP 3: TO START THE PROGRAM

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The program can be started in one of two ways:

- ◆ Double click the icon on the desktop labeled "Talbot's Leverage Professional"
- or
- ◆ Click the START button on the bottom left of the screen, click on Programs, then Talbot's Leverage Professional.

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## STEP 4: ACTIVATING YOUR CUSTOMIZED LICENSE

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Your customized license will be sent to you by e-mail. Please follow these steps:

1. In Microsoft Outlook, go to your e-mail and right click on the attachment (License-«Your First\_Name» «Your Last Name».TXT).
2. Save the personalized license file in the folder "C:\Program Files\Leverage Pro". Your license should automatically be linked the next time you run the program.
3. Double click your LP icon on your desk top to begin the software and activate your license

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# GUIDE

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## OVERVIEW

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In order to successfully use the “Leverage Professional” Software, there are a few things that need to be first understood before using the software.

- ◆ Leverage Professional Software has been developed with the assumption that the user is either a financial advisor, or has a similar knowledge level of financial concepts.
- ◆ Leverage Professional Software is a user-friendly program, which provides analysis of three leverage strategies.
  - ◆ Interest-Only Loans
  - ◆ Term Loans
  - ◆ RRSP Catch-up Loans
- ◆ For each type of analysis, inputs are entered on the left with two panels (or tabs)
  - ◆ Investor Info
  - ◆ Projected Returns
- ◆ Analysis results are presented on the right part of the screen in four panels
  - ◆ Summary Table
  - ◆ Summary Chart
  - ◆ Projection Table
  - ◆ Projection Chart

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## DISCLAIMER

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*Please note that every possible effort has been taken to ensure that analysis and projections produced by Talbot’s Leverage Professional software are accurate. Financial Success Strategies Inc. nor any of its associates assume any liability for the accuracy of the software, the interpretation of its projections, or any damages that may result from its use.*

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# BASICS

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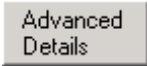
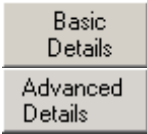
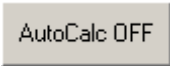



## BUTTONS AND FUNCTIONS

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### SAVE DEFAULTS

On the File menu, the “Save Defaults” item saves the current values of all inputs and setup parameters as the new defaults, and are loaded every time the program starts.

Various buttons and their functionality are explained in the table below.

	<p style="text-align: center;"><b>Advanced Details Button (Input Panel)</b></p> <p>Opens a dialog box allowing an advanced user to replace predefined values with values specific to the situation.</p>
	<p style="text-align: center;"><b>Advanced/Basic Details Button (Projection Table Panel)</b></p> <p>Clicking on the Advanced Details button allows advanced users to view additional columns for the Projection Table only. The button then changes to Basic Details. Clicking on the Basic Details button hides the additional columns.</p>
	<p style="text-align: center;"><b>AutoCalc Toggle Button</b></p> <p>Toggles Auto Calculation (AutoCalc) ON/OFF. Having AutoCalc disabled allows users with slower computers to change several parameters before updating calculations.</p>
	<p style="text-align: center;"><b>Back/Next Button</b></p> <p>Allows the user to move to the previous/next panel.</p>
	<p style="text-align: center;"><b>Help Button</b></p> <p>Displays context-sensitive Help for the screen or input you are currently on.</p>
	<p style="text-align: center;"><b>Print Button</b></p> <p>Allows printing of Summary and/or Projection Tables. Note that charts do not print.</p>

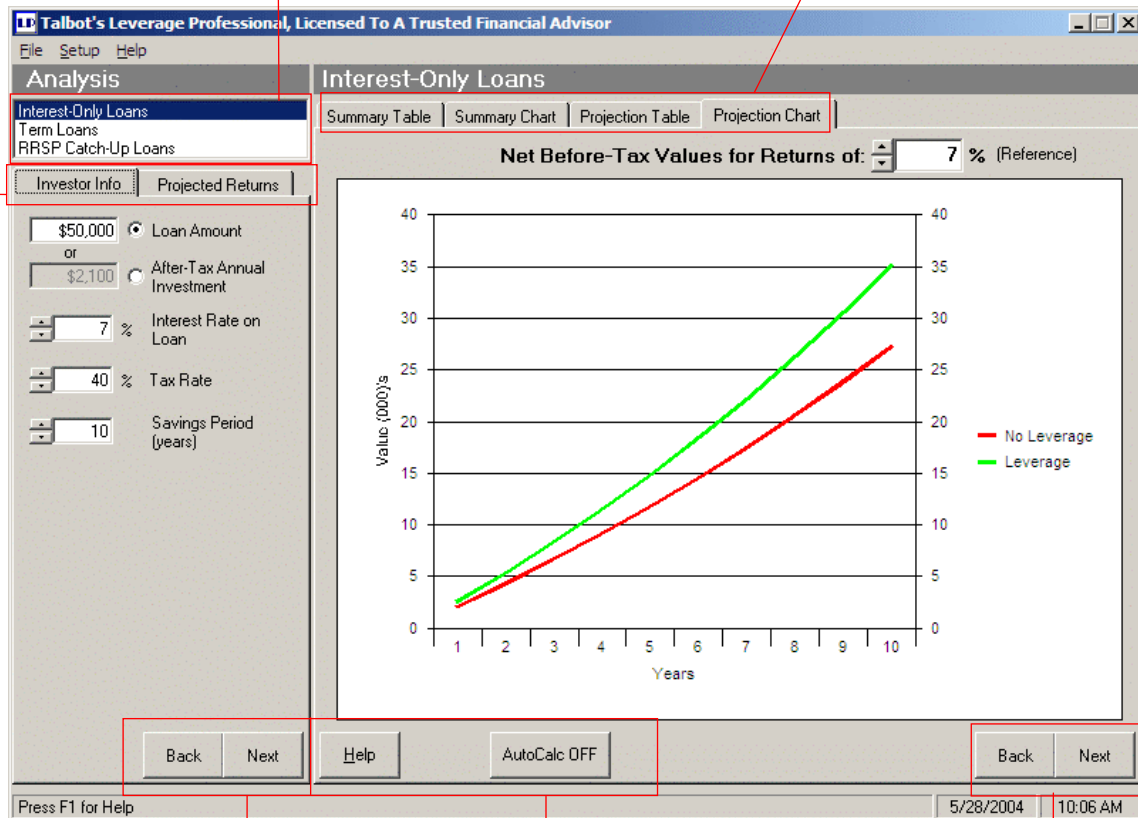
# BASICS

## SCREEN LAYOUT

Inputs are broken into two sections on panels (or tabs)

Select the Type of Results you want to see

Select the Type of Analysis



These Back/Next buttons cycle through the Inputs panels

These buttons apply to the Results views

These Back/Next buttons cycle through the Results views



## BASICS

### ADVANCED AND BASIC DETAILS

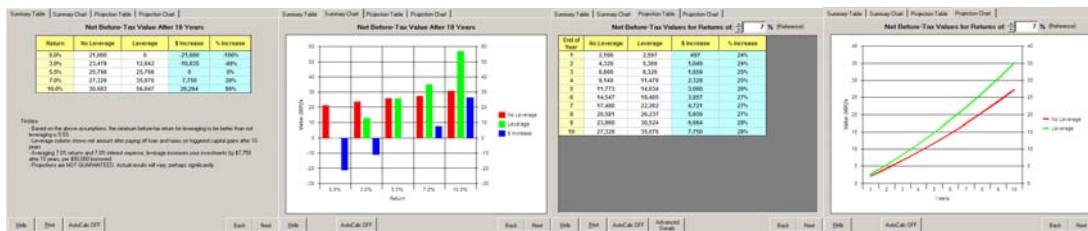
To make analysis simple for casual and advanced users, the inputs and Projection Tables have both Basic and Advanced Details modes.

By default, only the minimal details are shown on each panel. Advanced users can view and adjust additional parameters by clicking on the Advanced Details button at the bottom of the Investor Info and Projected Returns panels.

**Note:** To understand all of the input assumptions in detail, it is necessary to view the Advanced Details on all Investor Info and Projected Returns panels or print the Summary Table, which details the numerical value of all inputs used in any analysis.

### ANALYSIS RESULTS SCREENS

The Results screens are where the leverage projections are displayed. When the AutoCalc feature is enabled, the charts and tables automatically update when a change is made to the inputs. For convenience and ease of interpretation, four views are available for the user to select from. The four views are available for all types of analysis.



Summary Table

Summary Chart

Projection Table

Projection Chart

## LICENSE INFORMATION

To view licensing information, from the menus, click Setup then License. To update license details, click on the Change Info button.

Setup - Talbot's Leverage Professional

License | Taxes | Tax Deductibility | Language

License

Licensed To: A Trusted Financial Advisor

Company Name: ABC Financial Group

License Code: 3V58-UGF9-503P-ZJLL

Licensed Until: September 29, 2002

Change Info

OK Cancel Help

## TAX INFORMATION

Universal tax parameters that are not specific to an individual are set in the Setup, Taxes dialog box. The tax brackets are for reference only.

The “Capital gains inclusion rate” refers to the portion of capital gains that are taxable.

The “Portion of marginal tax rate that is federal tax” is needed where the federal and/or provincial tax deductibility of investment expenses is limited.

Setup - Talbot's Leverage Professional

License | Taxes | Tax Deductibility | Language

Tax Table

	Start of Bracket	Tax on Interest	Tax on Dividends
1st Tax Bracket	\$8,000	22.0 %	4.0 %
2nd Tax Bracket	\$35,000	30.0 %	15.5 %
3rd Tax Bracket	\$70,000	43.0 %	23.4 %
4th Tax Bracket	\$113,800	46.0 %	27.1 %

Misc Parameters

Capital Gains Inclusion Rate: 50.0 %

Portion of marginal tax rate that is federal tax: 52.0 %

OK Cancel Help

## BASICS

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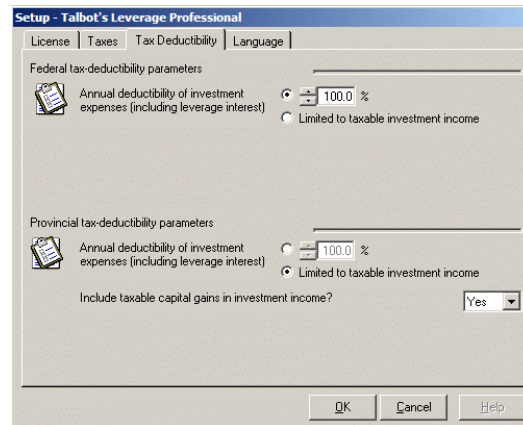
### TAX DEDUCTIBILITY

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The Tax Deductibility tab allows the user to specify the tax deductibility of investment expenses (including leverage interest), federally and provincially.

Annual tax deductibility can be limited to either a fixed percentage of the total expenses, or limited to taxable investment income. If deductibility is limited, additional inputs appear, as shown in the bottom of screen shot shown.

For more information, please see the section on Limited Deductibility.



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### LANGUAGE SELECTION

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To select a different language, open the Language panel in the Setup window. Here you will see a drop-down box allowing you to select the language you prefer. When a new language is selected, the software will minimize during the changeover and restore itself when the new language is in place.

# TYPES OF LOANS

There are 3 types of leveraging analyzed by Talbot's Leverage Professional Software: Interest-Only loans, Term loans, and RRSP Catch-Up loans.

## INTEREST-ONLY LOANS

### INVESTOR INFO

Inputs specific to the individual investor are shown on the first input tab.

After any input is changed and you move off of the input (using the mouse or pressing TAB), the Table or Chart results are automatically updated if AutoCalc is turned on.

Specify loan amount or the after-tax annual investment.

Specify the loan's interest rate and the tax rate that applies to distributions and tax deductions.

Length of leveraging period, before loan is paid off

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	21,000	0	-21,000	-100%
3.0%	23,478	12,642	-10,835	-46%
5.5%	25,798	25,798	0	0%
7.0%	27,326	35,076	7,750	28%
10.0%	30,683	56,947	26,264	86%

### LOAN AMOUNT OR AFTER-TAX ANNUAL INVESTMENT

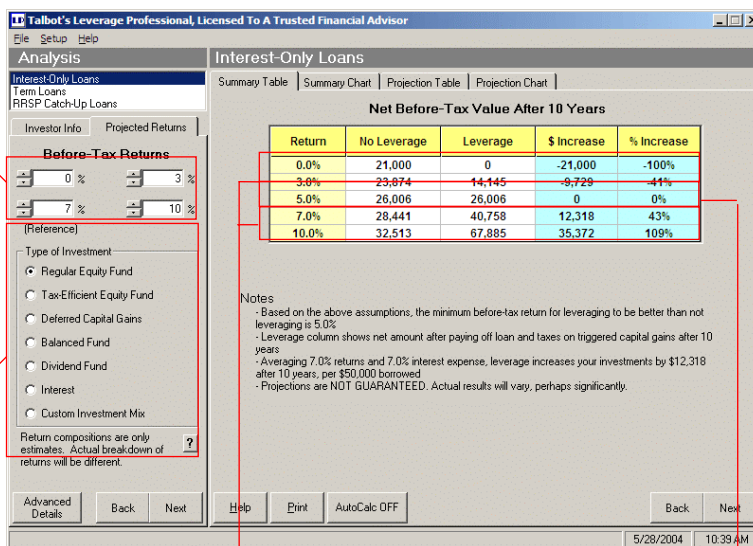
This feature allows the user to input the total amount borrowed, or the annual investment. Note that for Term Loans, the annual investment is a before-tax Annual Loan Payment, while for Interest-Only analysis, the After-Tax Annual Investment is specified. Also note that in cases of limited deductibility, the after-tax annual investment applies to the first year only, after which it changes.

INTEREST-ONLY LOANS

PROJECTED RETURNS

Projections are calculated for four **Before-Tax>Returns**. The fifth “Better Than” return is automatically calculated. The third input is the **reference return**, used on the Projection Table and Chart, and for the sample gains/losses shown in the Notes section of the Summary Table.

The user can specify one of six pre-defined investment types. “Regular” equity funds is the default, and represents an equity investment that is mostly (70%) deferred capital gains, with 30% of the gross returns distributed and taxable annually.

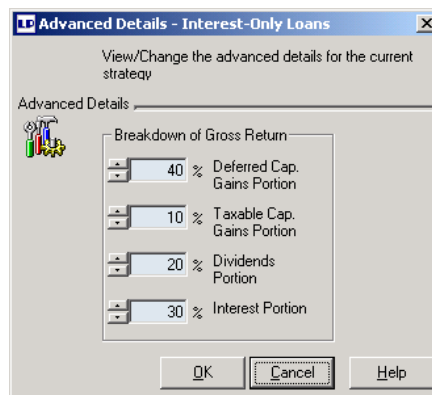


Projected Returns

“Better than” return rate, where leveraging starts to be better than not leveraging

Advanced Details

For Interest-Only and Term Loans analysis, users can click on the Advanced Details button to explicitly specify the breakdown of gross before-tax returns. Non-registered returns can have components that are Deferred Capital Gains, Taxable Capital Gains, Dividends, or Interest. These components must total 100% of the Gross Return.



# TYPES OF LOANS

## TERM LOANS

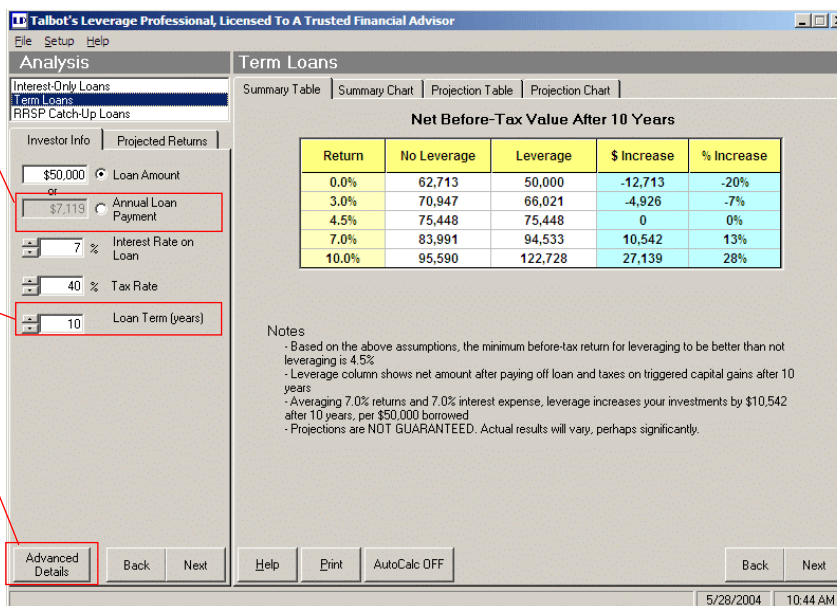
### INVESTOR INFO

The Investor Info panel for Term Loans is the same as for Interest-Only loans with three exceptions.

After-Tax Annual Investment has been replaced with Annual Loan Payment

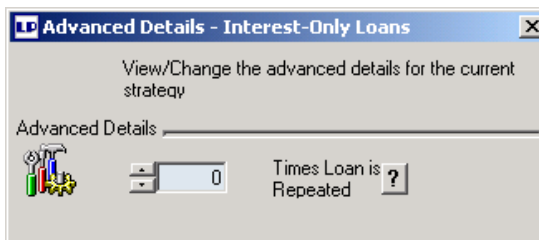
Savings Period (years) is now replaced with Loan Term (years)

Advanced Details are available



### INVESTOR INFO ADVANCED DETAILS

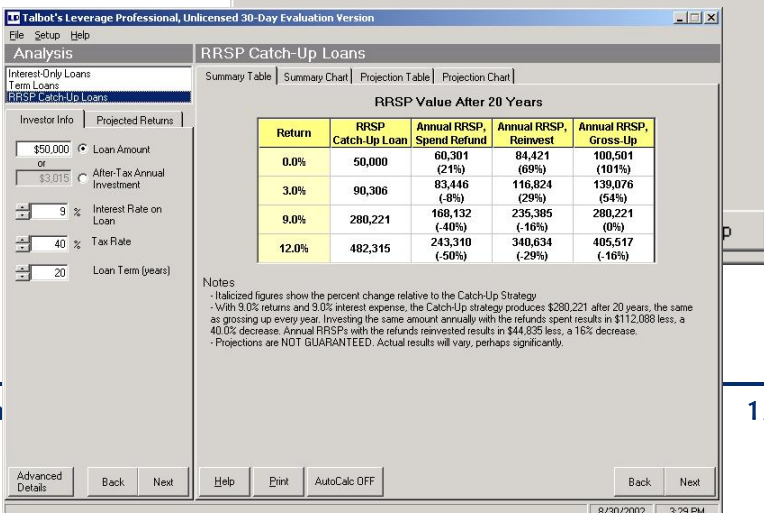
Sets the number of times the loan is repeated. For instance, a 5-year loan could be repeated once over a ten-year period. The number of years for the entire period must be no more than 80.



## RRSP CATCH-UP LOANS

### INVESTOR INFO

Analyzing RRSP Catch-



## TYPES OF LOANS

up Loans is very similar to Term Loans. Loans can be repeated by clicking on Advanced Details.

RRSP Catch-up loan results from a single lump-sum investment are compared against investing annually into RRSPs where the refund is either spent, reinvested, or “grossed-up”. See Talbot’s Summary of Dispelling the Myths of Borrowing to Invest for more details on the different RRSP refund strategies.

The Summary Table (shown above) shows the percent change relative to the Catch-up strategy in brackets. For example, at 9% returns, annual RRSP investing with 100% of the refund reinvested (second column from right) results in 16% less than the Catch-up strategy.

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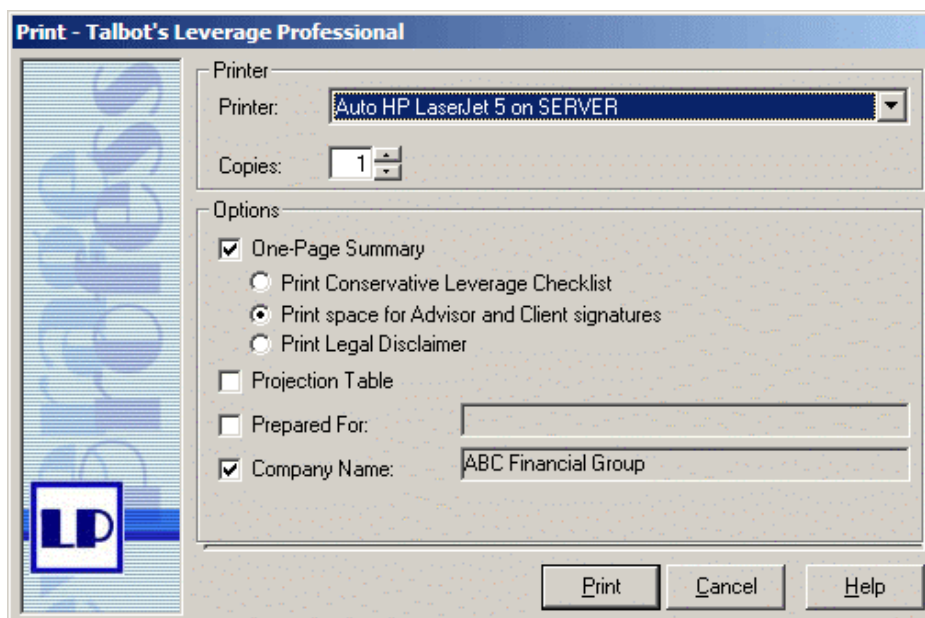
## PRINTING

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Open the printing dialog box by selecting File, Print or clicking the Print button. This will bring up a dialog box, which allows you to select the printer, number of copies, and multiple printing options. One-Page Summaries and/or Projection Tables can be printed. NOTE that charts cannot be printed.

The bottom section of One-Page Summaries can print either a legal disclaimer, space for client and advisor signatures, or Talbot's Conservative Leverage Checklist.

Additionally, the Company Name and/or "Prepared for" name can be included. These are automatically included and cannot be changed in an unlicensed version.



The following pages show sample printouts for each type of analysis.



## Leverage Analysis Summary: Interest-Only Loan

Prepared for John and Mary Smith  
 Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 interest-only loan, interest rate of 7.0%
- \$2,275 after-tax annual investment, \$3,500 before-tax annual payments
- 35.0% average marginal tax rate, 15.9% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- 100.0% of loan interest is tax deductible
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- Sufficient ongoing cashflow and discipline to complete this strategy

### Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	22,750	0	-22,750	-100%
3.0%	25,895	14,559	-11,335	-44%
5.2%	28,569	28,569	0	0%
7.0%	30,900	41,819	10,919	35%
10.0%	35,371	69,550	34,179	97%

### Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 5.2%
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- Averaging 7.0% returns and 7.0% interest expense, leverage increases your investments by \$10,919 after 10 years, per \$50,000 borrowed
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

\* \* \*

We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

\_\_\_\_\_  
 Client's signature

\_\_\_\_\_  
 Spouse's signature

\_\_\_\_\_  
 Date

\_\_\_\_\_  
 Advisor's signature

\_\_\_\_\_  
 Manager's signature

\_\_\_\_\_  
 Date

## Leverage Analysis Summary: Term Loan

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 loan paid off over 10 years, interest rate of 7.0%
- \$7,119 annual payments, after-tax amount is less and changes every year
- 35.0% average marginal tax rate, 15.9% dividend tax rate
- 100.0% of loan interest is tax deductible
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- 50.0% of capital gains are taxable, when realized
- Sufficient ongoing cashflow and discipline to complete this strategy

### Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	63,773	50,000	-13,773	-22%
3.0%	72,280	66,191	-6,089	-8%
4.8%	78,021	78,021	0	0%
7.0%	85,785	95,081	9,296	11%
10.0%	97,818	123,719	25,902	26%

### Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 4.8%
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- Averaging 7.0% returns and 7.0% interest expense, leverage increases your investments by \$9,296 after 10 years, per \$50,000 borrowed
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

\* \* \*

We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

\_\_\_\_\_  
Client's signature

\_\_\_\_\_  
Spouse's signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Advisor's signature

\_\_\_\_\_  
Manager's signature

\_\_\_\_\_  
Date

# RRSP Catch-Up Loan Analysis Summary

Prepared for John and Mary Smith  
 Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

## Assumptions

- Have at least \$4,325 of after-tax annual cashflow to invest over 10 years
- 35.0% average marginal tax rate and sufficient RRSP contribution room to deduct RRSP contribution produced by strategy
- All returns and interest expenses are effective compounded annual before-tax rates

### RRSP Catch-Up Loan

- Can borrow and invest \$50,000 in RRSP now
- Deep in 35% tax bracket, producing \$17,500 refund that immediately reduces loan to \$32,500, which is paid off over 10 years with annual payments of \$4,325, assuming 7.0% non-deductible loan interest

### Annual RRSP Spend Refund Strategy

- Invest \$4,325 at the start of each year into RRSPs and spend the refunds

### Annual RRSP Reinvest Refund Strategy

- Invest \$4,325 and the 35.0% refunds into RRSPs at the start of each year, for a total annual contribution of \$5,838

### Annual Gross-Up Refund Strategy

- Invest \$6,653 before-tax in RRSP at the start of each year; after-tax cost of \$4,325

## RRSP Value After 10 Years

RRSP Return	RRSP Catch-Up 7% Loan	Annual, Spend Refund	Annual, Reinvest Refund	Annual, Gross-Up Refund
0.0%	50,000	43,246 <i>(-14%)</i>	58,381 <i>(17%)</i>	66,532 <i>(33%)</i>
3.0%	67,196	51,063 <i>(-24%)</i>	68,936 <i>(3%)</i>	78,559 <i>(17%)</i>
7.0%	98,358	63,932 <i>(-35%)</i>	86,309 <i>(-12%)</i>	98,358 <i>(0%)</i>
10.0%	129,687	75,814 <i>(-42%)</i>	102,349 <i>(-21%)</i>	116,638 <i>(-10%)</i>

We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

\_\_\_\_\_  
 Client's signature

\_\_\_\_\_  
 Spouse's signature

\_\_\_\_\_  
 Date

\_\_\_\_\_  
 Advisor's signature

\_\_\_\_\_  
 Manager's signature

\_\_\_\_\_  
 Date

## Leverage Projection, Interest-Only Loans 7.0% Interest, 7.0% Returns

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 interest-only loan, interest rate of 7.0%
- \$2,275 after-tax annual investment, \$3,500 before-tax annual payments
- 35.0% average marginal tax rate, 100.0% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- 100.0% of loan interest is tax deductible
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest

### Annual Projections for Returns of 7.0%

End of Year	No Leverage			Leverage				Comparison	
	Before-Tax Balance	After-Tax Distribution	Adjusted Cost Base	Balance Incl. Loan	After-Tax Distribution	Net Balance After Pay Loan	ACB After Pay Loan	Net Balance \$ Increase	% Increase
1	2,275	0	2,275	53,319	869	2,914	2,780	639	28%
2	4,701	40	4,590	56,858	927	6,067	5,527	1,366	29%
3	7,288	82	6,946	60,633	988	9,474	8,247	2,186	30%
4	10,047	127	9,348	64,658	1,054	13,149	10,949	3,102	31%
5	12,989	175	11,798	68,950	1,124	17,109	13,638	4,120	32%
6	16,126	226	14,298	73,527	1,198	21,371	16,323	5,245	33%
7	19,471	280	16,854	78,407	1,278	25,952	19,012	6,481	33%
8	23,039	338	19,467	83,612	1,363	30,873	21,712	7,834	34%
9	26,843	400	22,142	89,162	1,453	36,155	24,433	9,311	35%
10	30,900	467	24,884	95,081	1,550	41,819	27,183	10,919	35%

### Notes

- 'Net Balance After Pay Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

## Leverage Projection, Term Loan 7.0% Interest, 7.0% Returns

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 loan paid off over 10 years, interest rate of 7.0%
- \$7,119 annual payments, after-tax amount is less and changes every year
- 35.0% average marginal tax rate, 100.0% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- 100.0% of loan interest is tax deductible
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest

### Annual Projections for Returns of 7.0%

End of Year	Leverage						After-Tax Cashflow	No Leverage		Comparison	
	Before-Tax Balance	Balance After Loan	ACB After Pay Loan	Loan Balance	Int. Part of Pmt	Loan Paydown		Before-Tax Balance	Adjusted Cost Base	Net Balance \$ Increase	% Increase
1	53,319	6,562	6,260	46,381	3,500	3,619	5,894	5,894	5,894	668	11%
2	56,858	13,677	12,459	42,509	3,247	3,872	5,983	12,268	11,979	1,409	11%
3	60,633	21,378	18,611	38,366	2,976	4,143	6,077	19,159	18,269	2,218	12%
4	64,658	29,702	24,731	33,932	2,686	4,433	6,179	26,610	24,781	3,091	12%
5	68,950	38,686	30,838	29,189	2,375	4,744	6,288	34,664	31,531	4,022	12%
6	73,527	48,374	36,948	24,113	2,043	5,076	6,404	43,369	38,538	5,005	12%
7	78,407	58,808	43,080	18,682	1,688	5,431	6,528	52,776	45,820	6,032	11%
8	83,612	70,036	49,253	12,871	1,308	5,811	6,661	62,940	53,398	7,096	11%
9	89,162	82,109	55,488	6,653	901	6,218	6,804	73,922	61,296	8,187	11%
10	95,081	95,081	61,804	0	466	6,653	6,956	85,785	69,536	9,296	11%

### Notes

- 'Balance After Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.



## RRSP Catch-Up Loan Projection 7.0% Interest, 7.0% Returns

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- Have at least \$4,325 of after-tax annual cashflow to invest over 10 years
- 35.0% average marginal tax rate and sufficient RRSP contribution room to deduct RRSP contribution produced by strategy
- All returns and interest expenses are effective compounded annual before-tax rates

#### RRSP Catch-Up Loan

- Can borrow and invest \$50,000 in RRSP now
- Deep in 35% tax bracket, producing \$17,500 refund that immediately reduces loan to \$32,500, which is paid off over 10 years with annual payments of \$4,325, assuming 7.0% non-deductible loan interest

#### Annual RRSP Spend Refund Strategy

- Invest \$4,325 at the start of each year into RRSPs and spend the refunds

#### Annual RRSP Reinvest Refund Strategy

- Invest \$4,325 and the 35.0% refunds into RRSPs at the start of each year, for a total annual contribution of \$5,838

#### Annual Gross-Up Refund Strategy

- Invest \$6,653 before-tax in RRSP at the start of each year; after-tax cost of \$4,325

### Annual Projections for Returns of 7.0%

End of Year	Catch-Up Loan		Annual, Spend Refund			Annual, Reinvest Refund			Annual, Gross-Up Refund		
	Contrib.	RRSP Val.	Contrib.	RRSP Val.	% Incr.	Contrib.	RRSP Val.	% Incr.	Contrib.	RRSP Val.	% Incr.
1	50,000	53,500	4,325	4,627	-91%	5,838	6,247	-88%	6,653	7,119	-87%
2	0	57,245	4,325	9,578	-83%	5,838	12,931	-77%	6,653	14,736	-74%
3	0	61,252	4,325	14,876	-76%	5,838	20,083	-67%	6,653	22,886	-63%
4	0	65,540	4,325	20,545	-69%	5,838	27,735	-58%	6,653	31,607	-52%
5	0	70,128	4,325	26,610	-62%	5,838	35,924	-49%	6,653	40,939	-42%
6	0	75,037	4,325	33,100	-56%	5,838	44,685	-40%	6,653	50,923	-32%
7	0	80,289	4,325	40,044	-50%	5,838	54,060	-33%	6,653	61,607	-23%
8	0	85,909	4,325	47,475	-45%	5,838	64,091	-25%	6,653	73,038	-15%
9	0	91,923	4,325	55,425	-40%	5,838	74,824	-19%	6,653	85,270	-7%
10	0	98,358	4,325	63,932	-35%	5,838	86,309	-12%	6,653	98,358	0%

# Leverage Analysis Summary: Interest-Only Loan

Prepared for John and Mary Smith  
 Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

## Assumptions

- \$50,000 interest-only loan, interest rate of 7.0%
- \$2,753 initial after-tax annual investment, \$3,500 before-tax annual payments. After-tax amount will change every year.
- 35.0% average tax rate, 52.0% of which is federal tax, 15.9% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- Federal: 100.0% of loan interest is tax deductible. Provincial: Expense deductibility is limited to investment income; taxable capital gains are included as income.
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- Investment Loan Type: 100%; Other Unleveraged Investments: \$0

## Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	28,630	0	-28,630	-100%
3.0%	31,979	15,356	-16,624	-52%
6.0%	35,666	35,666	0	0%
7.0%	36,921	43,436	6,516	18%
10.0%	40,953	71,634	30,681	75%

## Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 6.0%
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- Averaging 7.0% returns and 7.0% interest expense, leverage increases your investments by \$6,516 after 10 years, per \$50,000 borrowed
  - Undeducted expenses after pay off loan of \$0 (Federal), \$17,049 (Provincial)
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

\* \* \*

We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

Client's signature	Spouse's signature	Date
Advisor's signature	Manager's signature	Date

## Leverage Analysis Summary: Term Loan

Prepared for John and Mary Smith  
 Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 loan paid off over 10 years, interest rate of 7.0%
- \$7,119 annual payments, after-tax amount is less and changes every year
- 35.0% average tax rate, 52.0% of which is federal tax, 15.9% dividend tax rate
- Federal: 100.0% of loan interest is tax deductible. Provincial: Expense deductibility is limited to investment income.
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- 50.0% of capital gains are taxable, when realized
- Investment Loan Type: 100%; Other Unleveraged Investments: \$0

### Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	67,332	50,000	-17,332	-26%
3.0%	75,872	66,191	-9,681	-13%
5.7%	84,440	84,440	0	0%
7.0%	89,054	95,081	6,027	7%
10.0%	100,433	123,719	23,286	23%

### Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 5.7%
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- Averaging 7.0% returns and 7.0% interest expense, leverage increases your investments by \$6,027 after 10 years, per \$50,000 borrowed
  - Undeducted expenses after pay off loan of \$0 (Federal), \$12,275 (Provincial)
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

\* \* \*

We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

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 Spouse's signature

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 Date

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 Advisor's signature

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 Manager's signature

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 Date



## Leverage Projection, Interest-Only Loans 7.0% Interest, 7.0% Returns

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 interest-only loan, interest rate of 7.0%
- \$2,753 initial after-tax annual investment, \$3,500 before-tax annual payments. After-tax amount will change every year.
- 35.0% average tax rate, 52.0% of which is federal tax, 15.9% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- Federal: 100.0% of loan interest is tax deductible. Provincial: Expense deductibility is limited to investment income; taxable capital gains are included as income.
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- Investment Loan Type: 100%; Other Unleveraged Investments: \$0

### Annual Projections for Returns of 7.0%

End of Year	No Leverage			Leverage								
	Before-Tax Balance	After-Tax Distribution	Adjusted Cost Base	Balance Incl. Loan	After-Tax Distribution	Net Balance After Pay Loan	After-tax Investment	Inv. Expense Deducted (Fed.)	Inv. Expense Deducted (Prov.)	Tot. Undeducted Expenses (Fed.)	Tot. Undeducted Expenses (Prov.)	ACB After Pay Loan
1	2,753	0	2,753	53,319	869	3,109	2,753	3,500	656	0	2,844	2,966
2	5,681	48	5,546	56,858	927	6,450	2,745	3,500	700	0	5,644	5,876
3	8,796	99	8,382	60,633	988	10,037	2,738	3,500	746	0	8,398	8,738
4	12,109	153	11,265	64,658	1,054	13,884	2,729	3,500	796	0	11,102	11,561
5	15,633	210	14,195	68,950	1,124	18,009	2,720	3,500	849	0	13,753	14,356
6	19,382	272	17,178	73,527	1,198	22,428	2,711	3,500	905	0	16,348	17,131
7	23,369	337	20,216	78,407	1,278	27,160	2,701	3,500	965	0	18,883	19,896
8	27,611	406	23,312	83,612	1,363	32,224	2,690	3,500	1,029	0	21,354	22,662
9	32,122	480	26,471	89,162	1,453	37,642	2,679	3,500	1,097	0	23,757	25,438
10	36,921	558	29,695	95,081	1,550	43,436	2,666	3,500	1,170	0	26,086	28,234

### Notes

- 'Net Balance After Pay Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Undeducted expenses after pay off loan of \$0 (Federal), \$17,049 (Provincial)
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

## Leverage Projection, Term Loan 7.0% Interest, 7.0% Returns

Prepared for John and Mary Smith  
Prepared by A Trusted Financial Advisor, ABC Financial Group

June 16, 2004

### Assumptions

- \$50,000 loan paid off over 10 years, interest rate of 7.0%
- \$7,119 annual payments, after-tax amount is less and changes every year
- 35.0% average tax rate, 52.0% of which is federal tax, 15.9% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- Federal: 100.0% of loan interest is tax deductible. Provincial: Expense deductibility is limited to investment income; taxable capital gains are included as income.
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- Investment Loan Type: 100%; Other Unleveraged Investments: \$0

### Annual Projections for Returns of 7.0%

End of Year	Leverage										After-tax Investment	No Leverage	
	Balance Incl. Loan	Balance After Loan	ACB After Pay Loan	Loan Balance	Int. Part of Pmt	Loan Paydown	Inv. Expense Deducted (Fed.)	Inv. Expense Deducted (Prov.)	Tot. Undeducted Expenses (Fed.)	Tot. Undeducted Expenses (Prov.)		Before-Tax Balance	Adjusted Cost Base
1	53,319	6,743	6,433	46,381	3,500	3,619	3,500	656	0	2,844	6,372	6,372	6,372
2	56,858	14,002	12,755	42,509	3,247	3,872	3,247	700	0	5,391	6,410	13,205	12,893
3	60,633	21,810	18,987	38,366	2,976	4,143	2,976	746	0	7,620	6,452	20,533	19,574
4	64,658	30,200	25,147	33,932	2,686	4,433	2,686	796	0	9,510	6,496	28,393	26,428
5	68,950	39,212	31,257	29,189	2,375	4,744	2,375	849	0	11,036	6,544	36,822	33,465
6	73,527	48,884	37,338	24,113	2,043	5,076	2,043	905	0	12,175	6,595	45,861	40,700
7	78,407	59,259	43,411	18,682	1,688	5,431	1,688	965	0	12,898	6,650	55,555	48,147
8	83,612	70,384	49,498	12,871	1,308	5,811	1,308	1,029	0	13,176	6,708	65,951	55,820
9	89,162	82,307	55,621	6,653	901	6,218	901	1,097	0	12,980	6,771	77,099	63,737
10	95,081	95,081	61,804	0	466	6,653	466	1,170	0	12,275	6,838	89,054	71,915

### Notes

- 'Balance After Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Undeducted expenses after pay off loan of \$0 (Federal), \$12,275 (Provincial)
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

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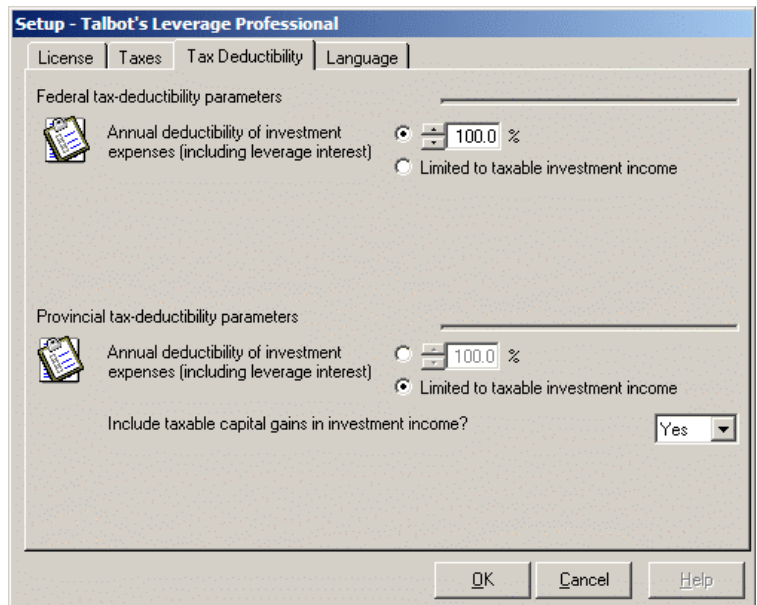
# LIMITED DEDUCTIBILITY

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New legislation passed in Quebec on March 30, 2004 limits the annual deductibility of investment expenses to taxable investment income. Unused deductions can be carried back three years or carried forward indefinitely to be deducted against future investment income.

## ADDITIONAL INPUTS

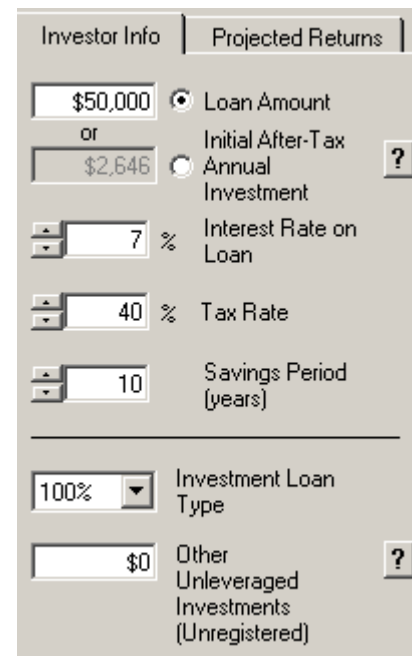
To model the new Quebec legislation and any possible federal changes that may follow, if investment expenses are limited, Leverage Professional allows the adjustment of whether or not capital gains are counted as taxable investment income



With limited deductibility, there are additional inputs on the "Investor Info" tab. Because the annual deductibility of investment expenses is limited to taxable investment income, it is necessary to know the total amount of unregistered investment income.

The Investment Loan Type can be 1:1, 2:1, 3:1, 4:1 or 100%. 100% financing means there is no additional collateral earning investment income. With a 1:1 loan, there is one dollar of collateral for every dollar loaned.

Any loan collateral and "Other Unleveraged Investments (Unregistered)" are assumed to be the same investment type as the leveraged investment, and thus generate similar taxable income.



## ADDITIONAL OUTPUTS

In Advanced Details mode, when deductibility is limited, additional columns are added to the Projection Table. These indicate the value of the expenses deducted that period, as well as the total undeducted expenses, both federally and provincially.

Also, the value of the undeducted expenses after the loan balance is paid off in the final period is shown below the table

Effet de levier	Effet de levier	Effet de levier	Effet de levier	E
Dépenses de placement déduites	Dépenses de placement déduites	Dépenses totales non déduites (fédéral)	Dépenses totales non déduites (provincial)	S
3,500	656	0	2,844	
3,500	699	0	5,644	
3,500	745	0	8,399	
3,500	794	0	11,105	
3,500	847	0	13,758	
3,500	902	0	16,355	
3,500	962	0	18,894	
3,500	1,025	0	21,369	
3,500	1,092	0	23,776	
3,500	1,164	0	26,112	

Dépenses non déduites après paiement du prêt: \$0 (Fédéral), \$17,005 (Provincial)

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## FREQUENTLY ASKED QUESTIONS

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### LICENSE.TXT FILE NOT FOUND IN THE CURRENT DIRECTORY

- ◆ This error is most frequently encountered while trying to install or run the Leverage Professional update. Please note that the update cannot be run off of the internet, and must be downloaded. To do this in Internet Explorer, right-click on the Download link, and select "Save target as..." and then save it to the Leverage Professional directory.
- ◆ In order for the update to work, it must be copied over the old LeveragePro.exe file and be in the same directory as your license. If you have it saved to your desktop or another location, it must be moved to the C:\Program Files\Leverage Pro\ directory.

### PROGRAM WON'T PRINT - PROGRAM CRASHES WITH ERROR MESSAGE.

- ◆ Please note that this program does not print the graphs, just the Summary and Projection Tables.
- ◆ One to print charts is to display the leverage results you want on the screen and capture the screen image and print it from a different program. To do this, start Talbot's Leverage Professional, display the results you want printed (e.g. Summary Chart), capture the screen image (by holding down the Alt key and pressing PrintScreen), paste the image into a word processing or image program like Word with a blank document (by pressing Ctrl-V). Now, you should be able to print the document containing the screen image of the leverage results you want.

### LICENSING ISSUES

- ◆ Most problems are related to getting the license to work. Once the program has been installed and you have been emailed your personal license file, you need to get the license file into the C:\Program Files\Leverage Pro directory.
- ◆ If you were emailed the license, use your email program to save the attached license file directly into the C:\Program Files\Leverage Pro directory. For example, using Outlook, you right-click on the license file attachment and choose "Save As..." and save the file to C:\Program Files\Leverage Pro

## FREQUENTLY ASKED QUESTIONS

### FOR NON-REGISTERED ANALYSIS (INTEREST-ONLY AND TERM LOANS), THE RESULTS REFERENCE THE NET BEFORE-TAX VALUE. WHAT DOES THIS MEAN, RECOGNIZING THAT THE SUMMARY TABLE NOTES STATE THAT “LEVERAGE SHOWS NET AMOUNT AFTER PAYING OFF LOAN AND TRIGGERED CAPITAL GAINS TAXES”?

- ◆ All non-registered analysis in Talbot’s Leverage Professional compares net before-tax values. This calculates the before-tax value that the investor is left with after cashing out enough funds to completely pay off the loan, and the capital gains taxes that are due whenever a non-registered investment is sold for more than the amount invested (the Adjusted Cost Base). This before-tax figure is what most investors think of, and is what they would see on an account statement.
- ◆ For example, if \$50,000 is leveraged and grows at 12% to \$145,500 after 10 years, the investor needs to cash out more than the \$50,000 borrowed. In this case, an investor in a 40% tax bracket needs to cash out about \$55,500 to end up with \$50,000 after paying capital gains taxes on the withdrawal. Thus, as the software shows, the net (before-tax) value from leveraging is about \$90,000 (\$145,500 - \$55,500), not \$95,500.
- ◆ If the software did not account for the extra funds needed to pay the taxes incurred in paying off the loan, the analysis would overstate the benefits of leveraging.

### DOES THE SOFTWARE ALLOW ANALYSIS OF 1:1, 2:1, AND 3:1 LEVERAGE LOANS?

- ◆ The requirement for collateral to secure an investment loan does not affect the merits of leveraging or the projected gains or losses. Leverage analysis deals solely with the investor’s cash flow, not collateral. Depending on the lender and type of loan program used, collateral may be required to secure an investment loan. Whether, for example, \$50,000 of investments is held where it is or with a lender has no impact on the projected leverage results. Analysis simply compares the net results achieved by investing a certain amount of cash flow without leveraging against using the same cash flow to finance an investment loan.
- ◆ To truly understand the merits of leveraging, it is necessary to separate the projected growth of collateral from the projected growth of using cash flow to finance an investment loan.

## FREQUENTLY ASKED QUESTIONS

- ◆ Combining these projections to illustrate a 2:1 investment loan distorts the true impact of leveraging.
- ◆ To summarize, collateral required for a 1:1, 2:1, or 3:1 loan is a condition of acquiring the loan and not a parameter in the analysis. How much an investor can borrow and invest is solely determined by their cash flow, the interest rate of the loan, and whether the loan is amortized and paid off or the investor makes interest-only payments.
- ◆ In cases of limited deductibility, the “Investor Info” panel allows the user to choose the investment type (100%, 1:1, 2:1, 3:1 and 4:1). This information is used only for the purposes of calculating taxable income, and not when performing actual leverage calculations.

### HOW DO I ANALYZE LEVERAGE WHERE THE INVESTOR MAKES AN INITIAL DEPOSIT AND USES THAT TO SECURE AN INVESTMENT LOAN SUCH AS 2:1, ETC.?

- ◆ See the answer to “Does the software allow analysis of 1:1, 2:1, and 3:1 leverage loans?”

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*WE ARE COMMITTED TO CONSTANTLY IMPROVING THE QUALITY AND VALUE OF OUR PRODUCTS. IF YOU HAVE ANY QUESTIONS OR SUGGESTIONS TO MAKE THIS SOFTWARE MORE VALUABLE, PLEASE FAX THEM TO (519) 663-1101, OR E-MAIL TO [INFO@TALBOTSTEVENS.COM](mailto:INFO@TALBOTSTEVENS.COM).*

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