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CINDERELLA AT THE STOCK MARKET

Let's imagine that Cinderella's fairy godmother did not clothe her in a beautiful jeweled gown and delicate glass slippers, did not turn a pumpkin into a golden carriage and mice into horses, and did not send her off to a fancy ball sponsored by a handsome prince in search of a wife. Instead, her fairy godmother gave her a sum of money and dispatched her to the stock market to build a portfolio, but with a warning to sell before the market tumbled, lest she revert to her previous penurious state.

The Cinderella of the fairy tale had a clock to warn her of the latest moment by which she must exit the ball. However, as Warren Buffet has noted, when it comes to investing there are no clocks on the wall, and investors persuade themselves that they still have time before the party ends.

History has taught us that market corrections periodically occur, that darling companies can suffer reversals, that a particular stock may be overbought and the current price not supported by the asset's underlying financial position, and, above all, that it is difficult to time these events. That is why most savvy investors take a long view, select a diversified portfolio, and periodically adjust it to adhere to asset-allocation and diversification goals.

Unfortunately, these adjustments can be costly because in Canada, 50 percent of the realized capital gain is taxable. That tax bite, even more than optimism about the market, leads some investors to cling to the status quo when a change would be advisable.

If you are deterred from adjusting your portfolio of listed securities because part of your profit would be taxed away, and if you would like to make a gift to our institution, consider one of these strategies:

- Make an outright gift with an appreciated stock that you might sell except for the tax you would incur. You will receive a donation receipt for the full fair market value, and you will not be taxed on the gain.

- Contribute the stock to a charitable remainder trust. This is a great way to reposition part of your portfolio and possibly increase your cash flow. Although 50 percent of the capital gain will still be subject to taxation, you will receive a significant donation receipt, and the resulting tax credit will normally exceed the tax owed, resulting in net tax savings. Then your trustee can reinvest the proceeds in other securities - for instance bonds or higher-dividend-paying stocks – that increase your income. You receive income from the trust for life or a term of years. When the trust terminates the remaining capital will be distributed to our institution and used for the purpose you have designated.

For Cinderella only a glass slipper was preserved, but with strategies like these you can ensure that all of your profit continues to serve your objectives, while strengthening your philanthropy.