A&Q Update

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The Economic Outlook

On September 11, 2001, the single largest terrorist attack in North American history was staged. Since that time, things both economic and otherwise have been volatile. Dealing with the loss of human life caused by this event is difficult. Indeed we wonder where this will lead and how our lives will change. Naturally, a general mood of uncertainty prevails.

This event has impacted the economy in two ways. Firstly, a very direct impact is being felt by airlines, the travel industry, the trucking industry, and by other sectors whose revenues have been directly decreased. Secondly, stock market decline has resulted from the uncertainty felt by the investment community. The stock price valuations of most companies has been depressed, while at the same time, the sound business fundamentals of many of these companies remain unchanged.

So where do we go from here? What can we expect going forward? As indicated in a piece we recently sent to all clients, a general trend exists in stock market reaction in the wake of a major negative event. Markets immediately decline, go through a period of volatility, and then recover over varying periods of time, often within six months.

Although things do not look rosy in the near future, we have no reason to believe that past history will not hold true, and that recov-

ery will not follow within a reasonable period of time. In the short term, battered consumer confidence, extensive sector specific layoffs and an already slowing American economy may well cause a period of very slow or negative economic growth.

On the bright side, business fundamentals in many industries remain very strong, and both Canadian and American governments are in a good position to stimulate their respective economies. Interest rates have been on a downward trend, with further rate cuts expected in October. In short, the news in not all bad.

So how should investors proceed given the decreased value of their portfolios and the uncertain nature of world economies?

Lessons of the past dictate that we should stay invested and ride-out the storm. Not only would pulling money from the market on a low crystallize what are currently 'paper' losses, it would ensure that the investor does not benefit from the eventual market recovery. In fact, the current period of low stock prices represents a buying opportunity for anyone emotionally prepared to put additional money into a sagging market.

As with so many things, the uncertain timeframe is the most difficult factor to deal with. ?

Inside this issue:

Worthwhile stops on the information highway...

www.mto.gov.on.ca

This is the Ontario Ministry of Transportation web site. Road reports and camera shots from some of the provinces key highways are displayed.

http://weather.ec.gc.ca

Environment Canada's weather report site. This site gives more detailed information than many other weather links.

www.bloodservices.ca

All the information you need to give the gift of life. As a result of September 11, inventories are finally at a good level. To maintain this, Canadian Blood Services needs ongoing donations.

Managed Futures – An Opportunity for Further Diversification

A futures contract is an agreement to buy and receive, or to sell and deliver, a specified amount of a certain commodity at a fixed price at a future date. When you invest in a managed futures program, you are contributing to a pool of money used by professional managers to trade in the global futures markets, as either buyers or sellers of real assets such as gold, silver, wheat , corn, crude oil, and natural gas, as well as financial assets such as government bonds and currencies. These managers trade future contracts with the objective of generating a profit for investors.

One of the primary things that makes this type of investing appealing is that futures trading has a very low correlation to stock and bond returns. In other words, investment performance of a managed futures program over any given period of time has little relation to the stock and bond markets over that same period.

Having a portion of your portfolio invested in managed futures therefore may help to cushion the overall portfolio in times when markets are volatile. Many large pension fund managers use managed futures for a portion of the money they manage, primarily to take advantage of this smoothing effect on portfolio returns.

Tricycle Asset Management offers a managed futures product for the individual investor. The product is principal guaranteed, meaning that the investor is guaranteed to receive at least their principal investment amount back as long as they hold the issue until maturity. Typically this is a period of 6 or 7 years. The guarantee is backed by The Business Development Bank of Canada (BDC), making the investment very secure as long as the investor is able to hold the investment to maturity.

Historical analysis of the period from 1980 to 2000 indicates that use of managed futures can indeed increase the rate of return on your overall portfolio, while at the same time reducing the level of investment risk. There are benefits from a tax perspective as well, as an increase in the value of the investment at maturity is treated as a capital gain, receiving a more favourable tax treatment than interest income.

Independent analysts like Towers Perrin have stated that investing 10% of your total portfolio in managed futures is a prudent strategy.

The Tricycle Managed Futures program is available for both open investment money and registered accounts (RRSPs and RRIFs). The most important thing to remember is that because of the maturity guarantee and the restrictions on redemptions (no redemptions are allowed in the first two years and a redemption penalty applies in years 3 and 4), these investments are only suitable for money that will be invested for at least seven years. A minimum purchase of $2,000 is required, putting the product well within the reach of most investors. ?

Retired Teachers Now Allowed 95 Days

Regulations governing retired teachers wishing to work in the education field after retirement changed recently.

The allowable number of teaching days has increased from 90 to 95 days per year and the count now commences at the time of retirement rather than at the beginning of the calendar year in which they retire. For teachers retiring mid-year, this greatly increases the number of days they can work immediately after retirement.

Changes have also been made in the allowable timing of re-

employment. Teachers can now resign, apply for their pension, and then become re-employed in education while waiting to receive their first pension cheque. Previously they had to wait until after the first pension cheque was received before becoming re-employed. If they did not, their pension start date would have been affected.

Please give John a call if you require further information. ?

Registered Education Savings Plans at a Glance

Many parents and grandparents are concerned about the impact of rising post-secondary education costs. More than ever before, it is imperative that a plan be in place to fund these costs.

Registered Education Savings Plans (RESPs) allow you to accumulate money for these costs in a tax-sheltered vehicle. Deposits to these accounts are not tax deductible, but the invested money grows tax-free inside the plan. The growth does not become taxable until it is withdrawn from the plan by the plan beneficiary. At that time, the growth is taxed in the hands of the child, who generally has little or no income and therefore pays little or no income tax on the investment growth.

In 1998 the Federal Government made the RESP more attractive by introducing the Canada Education Savings Grant (CESG). The following outlines some of the key things you need to know about RESPs:

- RESP withdrawals can be used to pay for tuition, books, lab fees, equipment and supplies, accommodation, and transportation.
- Maximum contribution of $4,000 per child per year.
- Cumulative maximum contribution of $42,000 per child.
- Grant is a maximum of $400 per child per year (20% of the first $2,000 contributed by the plan holder).
- In order to receive the grant, both the plan holder and the beneficiaries must be Canadian residents at the time of receiving the grant.

- Beneficiaries must have Social Insurance Numbers in order to receive the grant.
- No foreign content restriction on investments held in the plan.
- Both individual and family plans (plans with multiple beneficiaries) are available.
- Automatic monthly contributions are possible using a Pre-authorized Chequing Plan.
- Contributions can be made for up to 21 years, and all funds must be withdrawn from the plan by the end of the plan's 25th year.
- Special grant rules apply to children ages 16 or 17.
- Should the beneficiary decide not to pursue post secondary education and no other beneficiary is named, special rules apply to the withdrawal and taxation of the growth. In this case, all grant money must be refunded to the government
- Parental control is maintained over the money held in the RESP.

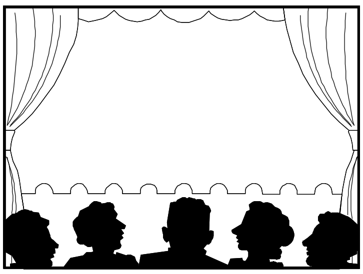
For further information on RESPs please give us a call. We would be happy to spend some time estimating what the education needs of your children may be and developing a strategy to fund these plans. Many of the mutual fund companies offer both individual and family RESPs. ?

Anyone for the Theatre?

In April of this year we hosted a client appreciation outing to downtown Toronto featuring dinner at The Filet of Sole Restaurant and an evening performance of the Lion King . The response from attendees was very positive.

Following that event, several clients indicated that one of the nicest things about the evening was that the arrangements and the driving were taken care of for them. They simply showed up at our offices at the appointed time.

It was suggested that we poll our clients to see if there was interest in going to another production, 'Mama Mia' at the Royal Alexandra Theatre. We would be happy to co-ordinate this if there is adequate interest. Unfortunately, the cost will be higher, as we only have the budget to subsidize one major event per year, but attendees will still have the benefit of group ticket prices, and a package trip with dinner and transportation.



The price for the show, dinner, and transportation would be approximately $180.00 per person (depending on the number of participants). If you are interested in this outing, please call Sharon Ogilvie at 576-5766 or e-mail sharono@a-q.com. Once we have established the level of interest, we can get more specific on the details. At this point it looks like it would be a Saturday evening performance in late

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"Providing Sound Financial Direction"

John Armstrong is a Certified Financial Planner. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

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Financial Fancy Footwork – An Alternative Investment Strategy

The following provides some food for thought in examining your investment alternatives. Because the strategy involves borrowing to invest (conservative leverage) with its inherent risks, and it is not suitable for all investors. If you feel however, that it is within your risk tolerance, it has some substantial benefits.

The strategy requires that the investor has an existing RRSP account with a substantial balance. Here are the steps involved:

1. If the strategy is deemed appropriate, the amount of the investment loan is determined.
2. The investor applies for an interest – only investment loan.
3. A monthly systematic withdrawal from the investors RRSP is initiated. The amount of this withdrawal is the same as the interest payment on the investment loan.
4. The proceeds of the investment loan are invested appropriately in tax-efficient international equities.

Note: The RRSP withdrawal amounts are considered income in the year they are withdrawn, but the investment loan interest is tax deductible as a carrying charge, offsetting this additional income and resulting in no additional tax payable.

There are a number of benefits offered by the strategy:

⇒ The investor takes advantage of the return magnifying benefits of leverage, potentially ending up with a larger retirement fund. (This is only a benefit of course if rates of return are positive and not negative.)

⇒ The investor gradually transfers money from their registered accounts into open investment accounts, allowing them to diversify by strategy. Some of their money would be open and some would be registered.

⇒ Foreign content regulations do not apply to non-registered investment accounts.

⇒ The income tax liability on investment assets is reduced.

The following is a numerical illustration of this strategy. As always, when working with leverage it is important to remain conservative in your assumptions. Having an 8 to 10 year time frame is critical.

Strategy Illustration

The investor secures an interest-only investment loan of $50,000 at an interest rate of 8% per annum. Each month they withdraw $333.00 from their RRSP to cover the monthly interest on the loan. Over the next ten years they achieve an 8% annual rate of return on their open investment money. How will their position change as compared to simply leaving the money inside the RRSP?

Tax Liability – The tax liability on their total investment assets (open and RRSP) will decreased by $6,467.
Investment Assets – Their investment assets will be $8,993.00 higher. ?