A&Q Update

John Armstrong, CFP

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A New Office Location Later This Year

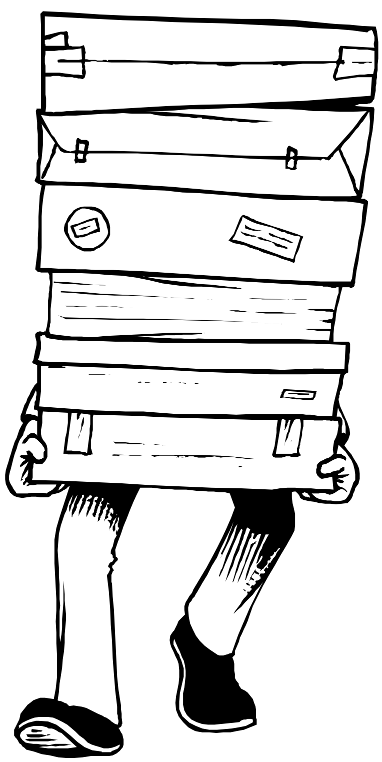
We are pleased to announce that we will be relocating our offices later this year. At the end of April we purchased the building formerly known as the Paragon Office Centre at 279 Weber St. N. in Waterloo. We have made a long-term commitment to the Kitchener-Waterloo area and feel that the stability that owning our own premises provides is in keeping with that commitment.

The building is located in a neighbourhood in Waterloo known as Glenbriar. Consistent with this tradition, we have renamed the building the Glenbriar Office Centre. The two-storey building is located on Weber Street just north of University Avenue, immediately adjacent to the Swiss Chalet Restaurant.

While we have enjoyed our time at our current Frederick Street offices, several factors have caused us to look elsewhere for more suitable space. Our new location offers ample parking immediately outside our offices. We expect this to meet with the unanimous approval of our clients, many of whom find the underground parking at our current premises confusing and less than convenient.

The new suite includes a meeting room for small groups as well as a boardroom for larger groups. We look forward to using the boardroom for client educational events.

As many clients are



aware, we have outgrown our current space. Over the last few years we have added several additional administrative staff to the branch. These staff members work for Armstrong & Quaile head office managing the organizations account database and providing software support to Armstrong & Quaile representatives across Canada. The new set-up will allow us to better organize our personnel.

Our new suite will have a brighter and more spacious waiting area. It will also have better facilities for providing coffee and refreshments for client meetings. We hope to make your visits to our office as pleasant as possible.

Although our new location may place us further away from some clients, we hope that the added conveniences provided by the new facilities will more than compensate for the slightly longer drive.

While some administrative staff have already located to the new space, John and his team are not expected to relocate until late August. We will send out confirmation of our new contact information just prior to our move. Our phone, fax and e-mail information will not change.

Plans are underway for an open house at our new location in the fall. Stay tuned for further details.

Inside this issue:

Worthwhile stops on the information highway...

www.pc.gc.ca

Parks Canada Website

Summer is a great time to travel in Canada! Whether you're heading east, west, or staying here in Ontario, this website is an excellent resource. Detailed information is provided on national parks and historic sites across this great land. Links from the main site take you to very detailed information on the various parks.

www.parisplainsconcerts.cjb.net

Paris Plains Church Concerts

Discover world-class musical entertainment in a unique setting. The Paris Plains Church is a cobblestone building circa 1845. It makes an excellent venue for acoustic music of all types. This concert series covers a wide variety of musical genres including: folk, blues, classical, and international.

Is the RSP Still the Best Place for Retirement Savings?

Recent media coverage has left many investors wondering if registered investments like Retirement Savings Plans are still the best place for their long-term retirement savings. Although non-registered accounts have become more attractive as a result of reductions in the capital gains inclusion rate, we believe that RSPs are still the best strategy for most Canadians. Let us start by reviewing the advantages that the RSP provides.

Firstly, RSPs offer tax deferral until the money is withdrawn. Regardless of the kind of investment held within the plan, no income tax is due until money is taken by the investor as income. The investment is allowed to grow tax free. An additional benefit is that the investor can switch from one investment to another with no tax implications.

Secondly, RSP contributions create a tax deduction in the current year. In most cases the investor is in a higher tax bracket at the time of contribution than they are at the time of drawing taxable retirement income from the plan.

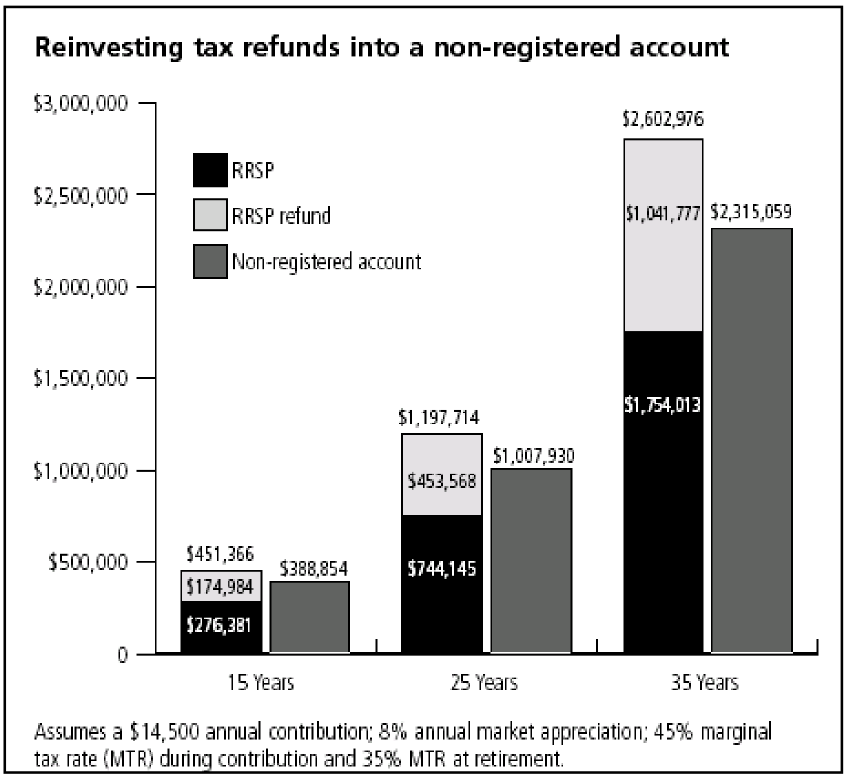
Thirdly, RSPs provide an opportunity for income splitting. Using a spousal RSP the spouse with the larger income can take the tax deduction while contributing to a plan which later provides retirement income to the lower income spouse. In order to minimize income taxes in retirement, the financial plan should target equal income for each spouse in retirement.

Fourthly, RSPs offer other unique opportunities. First time home buyers can use RSP savings to purchase a house through the Home Buyers Plan, and the Life Long Learning Plan allows people to use RSP savings to pursue fulltime education.

The RSP also has its disadvantages. There are restrictions on what investments can be held within the plan. Not all investments are eligible and foreign content is restricted to 30%.

No preferential tax treatment is given to capital gains earned within the plan. All money drawn from the plan is taxed as income in the year of withdrawal.

The following graph illustrates the after tax retirement income provided by an annual investment of $14,500.00 into an RSP account vs. after-tax investment into an open investment account which produces only capital gains income. The illustration assumes that the tax refund generated by the RSP contribution is invested into an open account. The annual growth on all plans is assumed to be 8%.



Assumes a $14,500 annual contribution; 8% annual market appreciation; 45% marginal tax rate (MTR) during contribution and 35% MTR at retirement.

It could be argued that because most investors spend their tax refunds rather than investing them, the open investment account illustration makes more sense. In considering this situation however, we must assume that the investor received some value for their income tax refund, whether they invested it for the long term as in this example, or they used it to improve their current quality of life. If real value was derived from it, then the RSP strategy is favourable.

Our conclusion is that generally the RSP is the best strategy. It is important to remember however, that each investor's situation must be considered on an individual basis.

There certainly are cases where RSP investing is not the best choice. For example, the benefits of RSP tax deferral decrease as the investor draws closer to taking income from the plan. Also, investors with substantial RSP savings may opt to put additional amounts into an open plan in order to provide some flexibility. Lump sums needed for particular expenditures can be withdrawn from the open plan with less impact on that year's income tax.

As mentioned previously, the investors tax bracket in retirement is a key consideration. If they are in a higher tax bracket in retirement than at the time of RSP contribution, RSP investment is probably not a good strategy.

One final consideration is the Old Age Security clawback. Investors with substantial retirement income must contemplate how drawing RSP income will impact the amount of the OAS benefit they receive starting at age 65. This is particularly relevant to investors with substantial pension income, as the OAS clawback incrementally decreases benefit entitlement for those with an annual income above $57,879 per year.

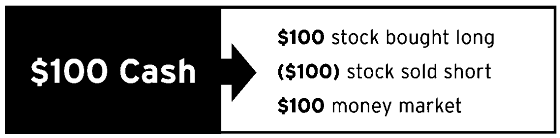
Graphic provided by AIM Trimark.

Alternative Investment Strategy Feature: Equity Market Neutral

Equity market neutral is just one of many strategies employed in the hedge fund arena. The objective of this strategy is to create an investment vehicle which provides returns that reflect the stock picking abilities of the manager, while not reflecting the general volatility of the equity markets. Because the impact of market volatility has been removed, equity market neutral funds can act as a strong diversifier for a traditional portfolio of equity and fixed income mutual funds.

Equity market neutral requires two tools not available to mutual fund mangers, short selling and leverage. Short selling gives the manager the ability to make money when a stock goes down in value, while leverage allows the manager to access borrowed funds to reduce the market exposure of the portfolio. This point requires some further explanation.

This graphic gives a basic illustration of the structure of a market neutral fund using 2:1 leverage. Stock is bought long in the expectation that it will go up in value. Stock is sold short in the expectation that it will go down in value. Borrowed capital is used to provide the manager with the ability to have offsetting long and short positions. Correctly selecting these offsetting positions is what allows equity market neutral managers to eliminate the impact of market volatility.



In its most simplistic terms, the long positions make money when the markets go up, and the short positions make money when the markets go down. Value is extracted from the market using superior stock picking skills. To produce a return for the investor, the manager attempts to buy stocks which go up more (or down less) than the stocks sold short.

Risk is controlled by carefully selecting the offsetting positions in the portfolio. In order to be truly market neutral, the portfolio must be free of all biases. For example, the portfolio should not favour one particular sector over another, or value stocks over growth stocks.

Market neutral managers usually hold large numbers of stock positions, half long and half short. Because huge sets of data must be analyzed to maintain the neutrality of the portfolio, they employ complex computer models to assess portfolio risk and to aid in stock picking. A good market neutral manager will focus on risk management first and stock selection second.

Historically, equity market neutral funds provide an attractive risk-adjusted return profile and excellent diversification potential. Manager selection is key as both risk management and return potential rely on manager skill.

Testamentary Trusts as an Income Splitting Tool

A trust can be viewed as a relationship. This relationship separates the legal ownership of an asset from the beneficial enjoyment of that asset. In other words, the beneficiary of the trust has access to the funds within the trust without actually having ownership of the assets. This is somewhat confusing, as legal matters often are, but please read on.

A testamentary trust is set up through an individual's will and does not come into being until the death of that individual. Although the trust is not a legal entity, it is treated as a separate individual for tax purposes. Here is where the estate planning opportunity lies.

When an individual dies, their assets transfer tax-free to their spouse via the spousal rollover provision. Once the assets are in the hands of the spouse however, all income produced by those assets is attributed to the surviving spouse. This means that future income earned by these assets is added to the surviving spouse's income and is taxed at the surviving spouse's top marginal tax rate.

If, on the other hand, a testamentary trust is used, the assets transfer to that trust at the time of death, and are taxed as a separate individual. The income earned by the assets of the trust benefit from our graduated tax system. The first $8,000 is earned tax free via the basic personal exemption, and the balance is taxed according to the various tax brackets. This situation is clearly favourable to having the entire amount taxed at the surviving spouse's top marginal rate.

The beneficiary of the trust, the surviving spouse, remains in control of the property of the trust, and can dissolve the trust at any time.

In order for this strategy to be worthwhile, the tax savings generated must more than offset the costs of maintaining the trust. Analysis of each investors situation will determine the value of the strategy. Generally, the larger the amount of the transferred assets, the more beneficial the strategy.

Due to the complex nature of trusts, it is recommended that a lawyer be consulted in setting up the will and the testamentary trust.

Armstrong & Quaile

ASSOCIATES INC.

"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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A Note on Retirement Allowances/Gratuities

Legislation specifies that qualifying retirement allowances can be transferred directly to an RSP within certain guidelines. As long as the guidelines are met, no RSP contribution room is required. Deferral of the income tax on this amount is very beneficial.

The employee is allowed a tax-free transfer of $2,000 for each year of service prior to 1995. Any amount over the allowable transfer is paid directly to the employee at the time of retirement, resulting in additional income, and additional tax due for that year.

For example, members of the Teacher's Pension Plan receive a gratuity to compensate for unused sick time. To this point, most retiring teachers have had the necessary number of years of service prior to 1995 to make a full transfer of the gratuity amount possible.

As we move further beyond 1995, some teachers will find that they do not have the number of years of service necessary to transfer the entire gratuity amount directly to the RSP. If no RSP contribution room is available for the portion that does not qualify as a retirement allowance, a portion of the gratuity amount will go into income in their retirement year.

RESPs: Canadian Education Savings Grant Carry-forward

As of 1998, any child that qualifies for the Canadian Education Savings Grant began to accumulate CESG eligibility. This eligibility is based on a maximum of $400 per year per child starting from the year of the child's birth or 1998, whichever is later.

RESP contributions up to $2,000 in any given year result in a grant equivalent to 20% of the contribution amount. In the case of a $2,000 contribution the grant would be $400. It is possible, however, to contribute up to a maximum of $4,000 in any given year. If eligibility from previous years is available, the

child will receive the 20% grant on the full $4,000. In the case of a $4,000 contribution the grant would be $800. This is twice the yearly maximum grant amount. In other words, each year that they contribute the full $4,000, they catch up one year of grant money from previous years in which no contribution was made.

Because the grant is one of the most attractive features of the RESP program, investors are strongly encouraged to maximize this benefit. Contributions can be made up to and including the year the child turns 17. In the case of a child born in 1998 or later, there is a maximum of $7,200 in grant money available over the life of the plan (18 years x $400 per year). Combine this with the fact that the money grows tax sheltered within the plan, and it makes the RESP very worthwhile.