

A&Q Update

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Our New Office

In late August we relocated our offices to 279 Weber Street North in Waterloo. While the move offered a number of logistical challenges, early feedback from clients indicates that the effort was worthwhile. In particular, they appreciate the accessibility of the new office space.

Parking is available immediately in front of our suite and visitors enter the

building directly into our reception area. No parking garage to navigate and no parking stubs to get validated!

The building has a parking area on either side of it. To access our suite, park on the lower side of the building; the side closest to University Avenue and immediately adjacent to the Swiss Chalet restaurant. Our location is well signed, with an Armstrong and Quaile awning

above the door. Our new office includes a small boardroom for meetings and a kitchen area for providing beverages and snacks.

Other than the change of address, all contact information remains the same. Please see the last page of this publication for a detailed map. Feel free to drop by for a visit when you're in the neighbourhood.

Rich is a State of Mind

Over the past month we have talked to a number of clients regarding a new book written by Robert Gignac and Michael Townsend. 'Rich is a State of Mind' attempts to provide the reader with an understanding of some key financial planning concepts, while never losing sight of the human issues surrounding money.

The information is conveyed to the reader in a narrative style and tells the story of a 'slightly dysfunctional'

Canadian family. Many of the concepts in the book are of particular value to clients still in the accumulation phase of their investing career. The authors are very good at providing clear illustrations of these financial planning concepts while not over-simplifying them.

This book is unique in that it spends time examining a successful client/advisor relationship and illustrates the benefits that can be provided by a financial planning professional.

Clients interested in receiving a complimentary copy of the book are invited to give our office a call. We feel that time spent reading this book is time well spent.



A Business Worth Raving About...

Have you had such a great experience with a certain business that you rave about it to friends? If you would like to pass a tip on to other newsletter readers, contact us with your recommendations.

The Terrace Restaurant,
Toronto Marriott Airport
901 Dixon Rd., Toronto
800-905-2811

This continental style restaurant offers a "to die for" buffet at a reasonable price. The dinner buffet is available Friday & Saturday nights. Go Friday if you're a fan of seafood chowder! The window tables offer a romantic view of the hotel grounds and incoming air traffic. Reservations are recommended.

Thanks to Jim & Dianne Blackwell for this recommendation!

Out of Country Medical Insurance Tips

When purchasing out of country medical insurance, make sure you are aware of the details of your coverage. Here are a few things to consider:

1. The insurance is designed to cover 'sudden & unexpected' medical situations. Existing conditions that the individual was aware of prior to travel are usually not covered. If a medical condition exists, the condition must have stabilized in order to be covered. A change in medication or dosage (up or down) is often considered an indication of instability. The time period that a medication
2. In some cases, second visits for medical attention may not be covered. The first visit may be deemed 'sudden & unexpected' but the follow-up visit may not.
3. Many policies give the coverage provider the right to bring you home to deal with a medical situation.
4. Many policies give the coverage provider the right to move you from one medical facility to another.

change must be in place prior to coverage varies from policy to policy.

5. The party providing the insurance usually has 'second payer' status, meaning that if you are in an accident and someone else is deemed to be at fault, the insurer may not have to pay. This can delay compensation for medical expenses.

Get a written copy of the policy and familiarize yourself with the specifics. Make sure you are comfortable with the coverage before you travel.



The Boom in Principal Protected Notes

Over the last year there has been a flurry of marketing activity in the investment industry surrounding 'Structured Note' investment products. Investment product manufacturers feel that volatility-weary investors may be looking for investments offering growth potential beyond that of GICs and bank accounts, but with limited downside risk.



Many clients are familiar with the note structure through their investment in alternative strategy products. For many investors, these products have provided the only way to add exposure to alternative strategies investments. Products from Tricycle, Abria, Arrow, and BluMont are a few examples of these alternative strategy structured notes.

Unlike the alternative strategy products, many of the notes now avail-

able are linked to the performance of traditional equity markets. They are positioned as a 'less risky' way to participate in equity-like returns, and as such do not offer the investor access to an otherwise unavailable asset class. If this is the case, is there any additional benefit provided by these investment vehicles?

The appropriateness of these investments depends entirely on the investment objective and the risk tolerance of the investor. In particular, the time-frame for the investment must be appropriate.

In general, structured notes provide principal protection and reflect the performance of an underlying investment over a specific period of time. Principle protection means that upon maturity of the note, the investor will receive at least the initial amount of their investment. If the note is not held to maturity, the investor may in fact receive less than the invested amount upon redemption.

Beyond these characteristics, the specifics of structured notes vary substantially. The time commitment will range from 5 years to 11 years. The note may also be 'callable' by the backing institution at a specified point in time. The note may be readily redeemable or quite illiquid.

In general terms, equity linked

structured notes may provide a good alternative to GIC investments.

- They have the potential to produce higher rates of return as a result of rising equity markets.
- Many of the notes provide easier access to the money than longer term GICs do.
- If the exiting of the investment is handled correctly, investment income from structured products may receive preferential tax treatment as capital gains income.

On the other hand, equity linked notes may be less appropriate as a substitute for direct involvement in financial markets for investors who have the time-frame and risk tolerance suitable for equity investments. Most of the notes have the ability to limit growth potential by being 'callable' after a specified period of time.

Structured notes are somewhat complex and must be dealt with in the context of investor objectives. They may be an appropriate vehicle if they are a good match with the needs of the investor, but they are not always a good fit. Investors should also be aware that structured note deposits are not guaranteed by the Canada Deposit Insurance Corporation as most GICs and bank deposits are.

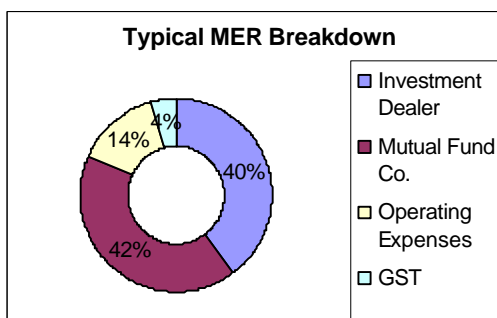
How Important Are Management Expense Ratios?

Some financial media commentators talk at length on management expense ratios (MERs) and their impact on mutual fund investments. Some go as far as saying that investors would be best served by investing in index funds and saving the fees charged by mutual funds for active management. This may leave some investors wondering what benefit they receive in exchange for these fees.

Let us start by defining what an MER is. Simply put, an MER is a built-in fee charged to mutual fund unit holders. This fee is made up of three things: a management fee, operating expenses, and GST. The MER will vary depending on the type of fund. For example, money market funds are considerably less costly to manage and administer than a foreign equity fund.

The management fee portion of the MER covers two things: the cost of active management in security selection by the fund company, and compensation paid to the financial advisor by way of the investment dealer. Operating expenses include things like record keeping and reporting to investors, administration and legal costs, and custodian fees. GST is paid on the management fee and certain operating costs.

The MER is charged to the unit holders of the fund prior to reporting of the funds performance. In other words, a fund with a 2.5% MER that is reporting a return of 10% had an actual return of 12.5% before expenses. Therefore, when we compare the return of two mutual funds based on their performance numbers, the MER has already been accounted for.



To return to the question at hand, what value is provided to the investor in exchange for the fees? In regards to active investment management versus passive investment in equity indices, past performance indicates that in general terms, actively managed funds tend to outperform their benchmark indices in falling markets and provide a lower level of volatility for a given level of return. Risk management strategies

are part of what the investor is paying for. Although few managers beat their benchmark indices every year, many do provide a superior rate of return over the long term at a lower level of volatility than the general market.

The investment dealer portion of the MER compensates the advisor for the administration of client accounts, account reporting, and assistance with investment selection and suitability issues. In the case of a financial planning practice like ours, it also helps cover the comprehensive financial and investment planning we provide our clients. Investment performance is important, but correctly identifying goals and developing strategies to meet these goals is critical. Appropriate asset allocation and attention to the tax implications of investments are major factors in determining financial success.

Fund selection based solely on shopping for the best MER does not ensure good fund performance. While MERs do impact a fund's rate of return, they are only one factor to consider in fund selection. In formulating our investment recommendations we evaluate MERs based on how they compare to competitive products and the value provided for the fee charged.

U.S. Election Results and the Stock Market

With the presidential race now decided, what impact will four more years of a Republican administration have on stock market performance in the United States? This is a complex issue, and a thorough discussion would address issues like the twin deficits in the U.S., American foreign policy, the price of oil, and the falling US dollar.

A recent study on elections and market trends done by the CFA Institute

distills the discussion down to a single point. Historically, the monetary policy of the US Federal Reserve is more important than who is residing in the White House. The institute claims that this is the first study to look at stock and bond trading patterns in regards to both monetary conditions and the political environment. Data as far back as 1926 was used in the study.

If the research holds true, then

the most powerful person in Washington may well be Alan Greenspan, chairman of the US Federal Reserve. To date he has received a high level of approval from the business community regarding his management of U.S. monetary policy.

While this is certainly not the only factor, investors must keep in mind that election results may not be nearly as important to stock markets as other economic factors like monetary policy.



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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.

Start with Setting the Goal

In financial planning there is a key principal that is often missed. Setting personal goals must precede all other steps in the process. This is important for a number of reasons.

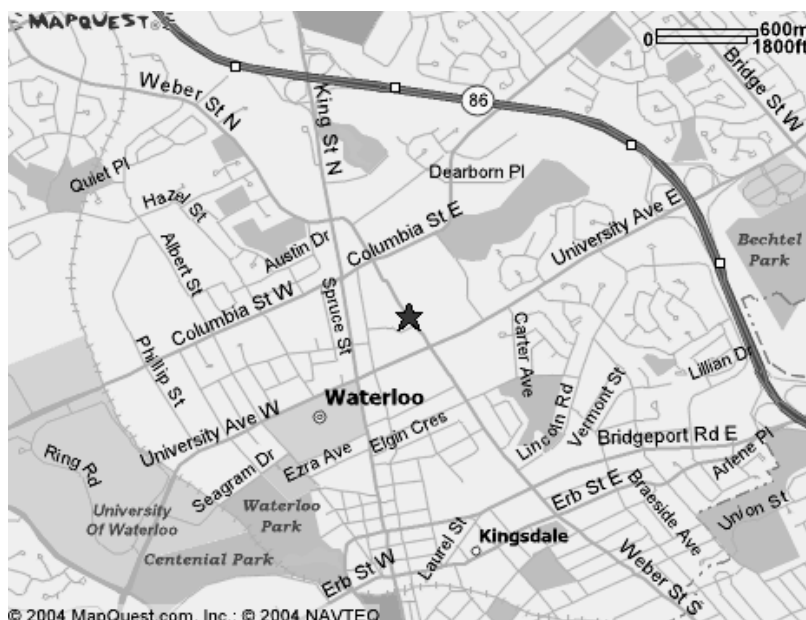
In order to attach meaning to savings targets, the money must provide the investor with a particular benefit. For example, the goal may be to retire at age 58, to maintain the current lifestyle in retirement, with an addi-

tional budget allowance for yearly vacation travel. Once the goal is set, work backwards in determining what must be done in order to achieve the goal.

Goal setting is a very powerful motivator. Once we have a firm vision of where we want to go and why, we are far more likely to do the things necessary to achieve the goal. For this reason, it is critical that our goals be specific and tangible. Saving for a vacation or a car

motivates us. Developing a vision for your long term financial goals can have a similar impact.

Goal setting specifies time-frames. A clear understanding of what actions need to be taken and when provides further understanding and motivation. Putting goal setting first helps the investor to avoid having their future lifestyle dictated by the money available.



Finding Our New Location:

279 Weber Street North
Lower, Suite 3
Waterloo

We are on the west side of
Weber Street just North of
University Avenue

Landmarks:

- Swiss Chalet is next door
- Office Depot is across the street

Note: Mutual funds are sold by simplified prospectus only. Before investing, obtain a copy of the prospectus and read it carefully. Unit values and investment returns for mutual funds will fluctuate. Funds are sold through Armstrong & Quaile Associates Inc.