A&Q Update

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The Currency Factor

The investment environment thus far in 2007 can be best described as turbulent. From the point of view of Canadian investors, there have been several factors contributing to this turbulence.

Appreciation of the Canadian dollar versus the US dollar has once again become a major story. Year to date the C$ has increased by about 19%, actually exceeding parity with the US$. While this has some significant benefits for Canadian consumers, particularly those who spend vacation time abroad, a strong C$ also has a downside.

Canadian manufacturers who rely heavily on US exports (about 75% of all Canadian exports go to the US) are immediately impacted by this change. If the goods they sell are priced in US$ their margins have taken a substantial hit. If their prices are quoted in C$ and converted to US$, they have become 19% more expensive to their US customers. Either way, their competitive position has been eroded.

Most Canadian investors have also felt this dramatic shift in currency valuations. A diversified investment portfolio will consist of both Canadian and international investments. International investments are valued in the local currency. In other words, when you purchase stock in a US company you are holding an asset in US dollars. Because the C$ has increased in value by 19% in the calendar year, the price of a US stock would need to appreciate by 19% in order for the Canadian investor to break-even in Canadian dollars.

While the most dramatic increase in C$ valuation has been against the US$, the C$ has increased against most other major world currencies over this same time period. Our Looney is up by 11% over the Euro and 14% over the British Pound since the beginning of the year. The impact of the currency shift really hits home when you look at the stock index returns for the various international markets in the local currency and then convert it to Canadian dollars.

Index	YTD in Local Currency	YTD in C$
Dow Jones (US)	12.9%	-5.0%
Nikkei 225 (Japan)	-0.9%	-15.2%
MSCI World	12.1%	-5.7%
As of October 5, 2007		

For Canadian investors this has been a hard pill to swallow. Over the last four years our dollar has appreciated about 65% against the US$. If investors only invested in Canadian securities over that period they would not have felt the impact of this. But, as most investors are aware, because Canada represents between 3 and 4% of the world economy, it is essential to diversify into other markets.

Shifts in currency are very hard to predict, particularly because market sentiment plays a role. In fact the Bank of Canada seems to get these predictions wrong as often as they get them right.

Commodity prices are one of the main factors in determining the value of the C$. A combination of high commodity prices and negative sentiment towards the US$ have produced this dramatic upward shift in the Looney.

While Canadian investors who invest internationally have suffered as a result in the dramatic currency movement, the trend is not expected to continue. Most of the good news regarding the Canadian economy has already been priced into the C$. Diversifying internationally remains very important.

Inside this issue:

Investor Budget Highlights

The federal budget released earlier this year had some significant implications for Canadian investors. We would like to highlight some of the key changes.

- **RRSP Age Limit Raised to 71**

Effective immediately, the age at which an RRSP account holder is required to convert their plan to a RRIF is changed from 69 to 71. This means that the investor can defer taking income from the plan for an additional 2 years. Not only can the investments be tax-sheltered longer, the investor can contribute to the RRSP for an additional two years if the contribution room exists.

Investors currently age 70 or 71 could convert their RRIF accounts back to RRSPs if they want to make further contributions. If they leave the accounts as RRIFs, no minimum withdrawals will be required until the year they turn 72.

- **Pension Income Splitting**

The 2007 tax year provides new opportunities for income splitting. Regardless of the pensioner's age, up to 50% of the income received from a Registered Pension Plan can be transferred to a spouse or common-law partner when filing their income tax return.

Those over the age of 65 have some additional income splitting opportunities. Income taken from registered income accounts (RRIFs, LRIFs, LIFs) can be split in the same manner as registered pension income. Income from RSP annuities and Deferred Profit Sharing annuities can also be split. Withdrawals from regular RSP accounts are not eligible to be split, even if the account holder is over the age of 65.

Keep in mind that this income splitting is accomplished on the tax return. Nothing is done to change the way in which the income is paid out.

- **Changes to RESPs**

The $4,000 per child annual RESP contribution limit has been eliminated and the lifetime contribution limit per child has been increased from $42,000 to $50,000. Although larger lump sums are now possible, only a portion of the contribution will qualify for the government grant.

Canada Education Savings Grant (CESG) rules have also changed. The maximum annual RESP contribution that will qualify for the 20% CESG will be increased to $2,500 from $2,000, resulting in an increased annual maximum grant of $500 per child. Previously this amount had been $400. It is still possible to pick up one year's unused grant by contributing $5,000 in a single year.

- **New Child Tax Credit**

The budget included a tax credit available to families with children under the age of 18. For 2007 the credit will be $310 per child. This amount will be indexed annually for inflation.

The credit can be claimed by either parent; any unused portion of the credit can be transferred by that parent to a spouse or common-law partner.

- **Registered Disability Savings Plan**

Starting in 2008, a program is to be put in place to assist families to save for the long-term financial security of children with disabilities. The program will have many similarities to the current RESP program. Grant money and tax sheltering will make these plans attractive to families that qualify. Please contact our office for additional details on the scope of these plans and the rules that apply.

Thanks to Dianne & Jim Blackwell for this summary!

Seniors Discount Listing

The Mandarin Buffet	20% off the buffet	65+ with ID
McDonalds	Beverage discounts –various %, depending on franchise	55+
Pharma Plus	20% off –last Tuesday of month. Exclusions apply e.g. prescriptions	65+
Shoppers Drug Mart	20% off non-sale items with an Optimum card –the last Thursday of the month. Exclusions apply e.g. prescriptions	55+
Shoppers Home Health Care	Same as Shoppers Drug Mart to a maximum of $1,000	55+
The Bay	15% off on the first Tuesday of the month– this includes sale items, but some exclusions may apply	60+
Zellers	10% off most items on the first Monday of the month– may be some exclusions	55+
Value Village	20% off most items every Tuesday	60+
GTO Car Wash	$1.00 off every Monday	55+

Volatility & the Sub-prime Lending Fall-out

Much of the year's market volatility is direct fall-out from the sub-prime lending catastrophe in the United States. Markets react unfavourably to uncertainty, and the credit crunch caused by large numbers of sub-prime loans going bad provided lots of uncertainty. So what happened down there and why did it create such turmoil in the markets?

Over the last number of years housing prices in the US have climbed dramatically, particularly in some regions of the country. In response to this, some rather creative mortgage products have proliferated. So called 'exotic mortgages' were made available in many different forms. Some mortgages were interest only, some required home owners to make payments representing less than the actual interest charges, and many mortgages were offered at very low introductory rates with steep rate increases a year or two into the term. In some cases very little financial documentation was required from the borrower, meaning that the credit risk carried with the mortgages was extremely high.

Groups of these mortgages were packaged together, securitized and marketed as investment units. They were sold to investors globally as 'asset backed securities' or 'commercial paper'. In most cases investors had little knowledge of what they had invested in or the credit risk that they were taking on. Exposure to these assets was spread in varying degrees across banks, pension funds, asset managers, hedge funds, and insurance companies.

The double whammy of falling house prices and higher mortgage rates after expiry of the introductory rate meant that many of these mortgages have started to default. This excessive number of defaults is expected to continue well into 2008.

The fall-out from this credit crunch is being felt globally. Central banks in many countries, including Canada, responded to the evaporation of this money by making additional funding available to capital markets. This allows the financial markets to access additional capital at reasonable rates in order to meet their obligations.

Financial institutions with direct involvement in these investments were obviously impacted by the massive loss in investment value, but global markets in general were also pushed downward by the increasing fear that this might lead to recession in the US. While many economists still peg the chance of impending recession in the US to be in the range of 30-40%, the overall strength of the global economy continues to be quite good. Growth in China & India continues to fuel the global economy, while growth rates in the western economies are lower.

We would expect markets to continue to experience an above average level of volatility until this situation runs its course.

Armstrong & Quaile Paperwork Update

Investment industry regulators require participants in the industry to maintain certain information on all clients. 'Know Your Client' information, as it is commonly known, is the data that regulators feel is essential to making suitable investment recommendations.

This 'Know Your Client' data includes information on the client's current financial situation as well as information pertaining to the objectives of their various investment accounts. In most cases our discussions with clients go well beyond this basic information; but documentation of this specific information in a very specific format is what regulators require.

In late 2006, several changes were made to the forms Armstrong & Quaile Associates uses to document this data. These changes were made in response to regulatory requirements. Since that time we have been updating paperwork during our account reviews with clients. Many clients now have the latest documents on file with us.

Our deadline for getting current documentation on file for all clients is December 1, 2007. For that reason we will be initiating a mailing contact program in October. Clients whose documentation requires updating will receive a package from our office. The package will contain the necessary forms, a letter explaining what needs to be completed, and a postage paid return envelope.

We very much appreciate the time and effort that clients take in assisting us with this project. Please be assured that all information is kept strictly confidential. In this age of identity theft we are extremely sensitive to your need for privacy. If you have any questions or concerns regarding this paperwork, please do not hesitate to contact our office.

As stated, many clients have current documentation on file. Only those whose paperwork requires updating will be receiving a package. The first packages are expected to be mailed in the middle of October.

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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Retirement Income Solutions

The investment industry has spent the last number of decades catering primarily to the accumulation phase of people's financial lives. Investment products have focused mainly on the need to build up assets intended to fund some future need, usually retirement income.

With demographics being what they are, and the bolus of baby boomers gradually moving through their prime earning years and into retirement, the focus for many investors needs to shift to the creation of income streams. Large numbers of people have done well accumulating their retirement nest egg and now need effective strategies for creating income streams which contemplate factors like investment volatility and the tax consequences of different sources of income.

Along with this transition to retirement comes a fundamental psychological shift. Starting to draw on those hard-earned savings is not easy for many people. This is where financial planning becomes critical. It provides the framework for making financial decisions confidently.

Creation and maintenance of a relevant financial plan provides the foundation of our client relationships. This becomes even more important during the investment income stage.

The A&Q Family Grew a Little Bit in August

Janice & Rich Weiler are very pleased to announce the arrival of their son Tristan. He was born on August 14th, delighting his parents by arriving on Rich's father's birthday.

Tristan weighed 8 lbs. 7 oz. and all went well with his arrival. Janice and Rich would like to extend a heartfelt thanks to Allison, Corey & Cathy of the Cambridge Midwives for their support during the entire process. They provide a level of care second to none, and the Weilers would not hesitate to recommend their services.

Consensus is that Tristan resembles both of his parents in different ways. Generally a happy fellow, he enjoys being outdoors; a very good thing considering the lifestyle of his folks.

While recent enhancements to the Canadian Education Savings Grant Program and the new Child Tax Credit are certainly not the reason that the Weilers finally took the plunge into parenthood, they do intend to take full advantage of the programs.

Thanks to all for the kind wishes!