A&Q Update

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Partly cloudy with a chance of showers

Spring has finally arrived, bringing a very long and snowy winter to a close. While the winter storms have given way to better days, the financial markets continue to face a number of challenges.

The factors outlined in our last publication continue to play a major role. Although the Canadian dollar has declined in value a bit since the beginning of the year, it still remains considerably higher than the level we are used to. The impact of this continues to be felt by Canadian manufacturers.

The global credit crunch caused by the US sub-prime lending fiasco is also still with us. Huge releases of capital by central banks have helped to stabilize things, but the story is still far from over. While many of the skeletons are out of the closet, in terms of what financial institutions have exposure to the sub-prime mortgages in question, we expect that additional stories will continue to emerge until at least the summer.

The slumping US economy also gives investors cause for concern. The question has shifted from whether or not the US is going into recession, to how long and how deep the recession will be. The Federal Reserve Board has been aggressively cutting their prime interest rate, but it is unlikely that this

alone will solve the more complex issues faced by the US economy. The US consumer, who has continued to buoy the economy over the last number of years, is tapped-out at this point and struggling with considerable amounts of debt.

So is there any good news on the horizon? We think that there is. Growth in less developed markets like China and India, although somewhat slower than recent years, is still expected to be brisk. This has some significant benefits for a resource rich country like Canada.

The economic fundamentals in Canada are still very strong. Fiscally we are still in a very good position. Although Ontario and Quebec will suffer somewhat as a result of a high Canadian dollar, the country will benefit from the demand for resources like energy and industrial materials.

In terms of the investment environment, the adjustment in stock prices has presented some very attractive valuations.

While downward volatility brings some pain, it almost always brings opportunity as well. Many of the money managers we are meeting with see much greater opportunity in the markets now than they did a year ago.

Canadian investors are left with what seems to be a mixed bag of factors. While we do not believe that any of these factors fundamentally change the approach investors should take, the timing of recovery is uncertain. At the time of writing, markets in April are up quite smartly, bringing the S&P TSX to a positive return year-to-date. Having said that, we think that the above-average level of volatility will continue.

Reviewing investment portfolios is always worthwhile; but in many cases the answer is to sit tight. This can be difficult given the fact that the media has a long history of favouring bad news over good news; giving a disproportionate amount of market coverage to big *down* days while often commenting little on the big *up* days.

Inside this issue:

The New Tax-Free Savings Account

The recent federal budget introduced the availability of Tax-Free Savings Accounts (TFSA) starting in 2009. This new account designation gives Canadians the ability to save money outside of their RSPs without having to pay income tax on investment growth.

Every Canadian aged 18 years and over will accumulate $5,000 in TFSA contribution room each calendar year. This dollar amount will be indexed to inflation in $500 increments over time.

Unlike RSPs, any money withdrawn from the TFSA can be replaced at a later date without requiring additional contribution room. The accounts also differ from RSPs in that contributions are made on an after-tax basis and are not deducted from income; accordingly, withdrawals are not added to the investors income in the year of that withdrawal.

It is expected that allowable investment types will be similar to that permitted in RSP accounts. TFSAs will provide a benefit for both short and long-term savings.

As a rule of thumb, it makes sense to have your least tax-efficient investments sheltered within the TFSA. Investors could consider using these accounts to shelter the interest earned on their short-term cash reserves. This money is usually held in investment vehicles which are interest-bearing and not very tax efficient (like high interest savings accounts or GICs). TFSAs also make sense for accumulating money for a specific purchase like a new vehicle or a vacation.

As TSFA contribution room accumulates over a period of years, the accounts can be used to hold longer-term investments as well. Again, the least tax-efficient investment vehicles should be put in these accounts first.

TFSAs also provide the opportunity for couples to income split. An individual can provide the money to fund a TFSA contribution for their spouse or common-law partner without attribution rules applying.

An additional benefit is that withdrawals from the TFSA have no impact on income-tested tax credits and cannot result in Guaranteed Income Supplement or Old Age Security clawback.

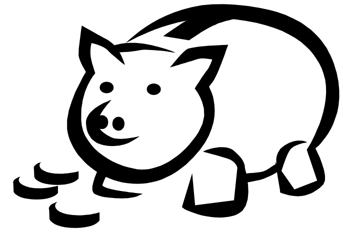
While the TFSA has many great features, it certainly will not replace the RSP as the primary retirement savings vehicle for Canadians. RSPs have the added benefit of the tax deductibility of contributions, allowing investors a tax break when they are in their prime earning years. Another factor in favour of the RSP is that for most people, their allowable RSP contribution amount will be higher than the amount they are able to contribute to their TFSA.

We are excited about these new accounts because they provide additional opportunities for decreasing the taxes paid by investors. They also provide us with another tool to help investors to improve their financial lives. Further details on this new account type, including how contributions are tracked and reported will become available as we move towards 2009.

A Review of Simple Investment Accumulation Strategies

Here is a reminder of some important strategies for investors still in the long-term asset accumulation phase. While these strategies are simple, their application requires discipline.

1. Create a financial plan which assigns dollar values and timeframes to the things you want to achieve. Assigning specific goals to your savings plans brings them to life and helps to raise their priority.
2. Consider long-term savings as a non-negotiable budget item like your mortgage payment or your hydro bill. The money must be saved at some point, and the earlier you start the easier it will be.
3. Invest on a regular basis rather than trying to come up with a lump sum payment. It makes the process much less painful, and may actually improve your investment returns as a result of *dollar-cost-averaging*.
4. Don’t allow short-term investment performance to influence your participation. As long as the investment plan is appropriate, you should remain committed to making your regular contributions. Investment growth is only one part of the equation; your ongoing participation is the other.
5. Re-invest the refund created by RSP investing. This really helps your long-term savings to snowball.
6. And finally...get started! Even if your eyes glaze over with the thought of taking on the whole financial planning process, start saving in some way, shape or form; even if that means making a small monthly commitment to a high interest savings account.



Ontario Locked-In Accounts Now More Flexible

In July of 2007, changes were made to the rules governing Ontario Locked-in Accounts. The changes took effect as of the beginning of the 2008 calendar year. The following is a summary of the changes. Please contact our office if you have any questions regarding your particular situation.

- A New Ontario LIF was introduced which provides more flexible payments and allows owners a time-limited opportunity to withdraw up to 25% of the money transferred into the New LIF. Amounts currently held in existing Ontario LIFs, LRIFs and LIRAs can be transferred to the New LIF.
- The 25% amount can be deregistered and taken as income for the year, or it can be transferred to a non-locked-in registered account such as an RSP or RIF (allowing for more flexible withdrawals at some point in the future).
- The New Ontario LIF maximum annual income formula is the same as the old LIF, but account holders have the added option of taking an amount equal to the investment returns of the previous calendar year if this amount is greater than the amount calculated by the formula.
- Each time money is transferred to a New LIF, the account holder has 60 days to exercise the 25% withdrawal option. There is no time limit as to when an investor must move to the New LIF from an existing locked-in account.

- Individuals age 55 and older whose locked-in accounts total less than 40% of the Year's Maximum Pensionable Earnings can transfer these accounts to a non-locked-in plan such as an RSP or RIF. This amount for 2008 is $17,960.
- The owner of a locked-in account who is a non-resident of Canada as determined by the Canada Revenue Agency may apply two years after departure from Canada to withdraw all the money in their account. This option can be exercised by account holders of any age.

Non-Registered Investment Tax Reporting

Every year at tax time we receive calls from clients regarding the reporting of tax matters specific to their non-registered investment accounts. Although we have covered this subject in past newsletters, we feel that it is worth revisiting.

There are two types of activity that result in a taxable event for investors holding mutual funds in non-registered accounts: distributions made to unit holders by the fund, and the sale of investment units by the investor.

The first of these two items is quite straightforward. Any distributions made to investors, whether paid out in cash or re-invested, are reported to the investor on an easily recognizable T3 or T5 slip. All of the pertinent details regarding the type of income and the amount will be included on the slip. The possible types of income are: interest income, capital gains income, dividend income, return of capital, and other income. Domestic and foreign dividend income are reported separately as are eligible and ineligible dividend income.

The not-so-obvious second taxable event is *not* included on any T slip. When an investor sells fund units it triggers a *deemed disposition;* in other words, the units have been sold and either a capital gain or capital loss on the investment has occurred. The deemed disposition of investment units happens as a result of three types of transactions: a lump sum sale of fund units, a switch of units from one mutual fund to another, and a regular sale of fund units through a systematic withdrawal plan. In these cases the information on the capital gain or loss will be reported on the year-end statement provided to the investor by the mutual fund company.

It is very important to capture both the gains and losses reported on these statements. Capital losses can be used to offset capital gains, and any losses the investor is not able to use in the current year can be carried forward to offset capital gains in future tax years. These carry-forward losses must be recorded on the tax return in the year in which they occur.

We encourage clients to call if they have any questions about what tax slips they can expect and what statements they will need to refer to.

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A S S O C I A T E S I N C .

"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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Join Us for an Evening of Economic and Investment Outlook!

Speakers: Beata Caranci, Senior Economist, TD Bank Financial Group
John Armstrong, CFP

Topics: What is the economic outlook for 2008?
What are the consequences of a higher/lower Canadian Dollar?
What are the new LIF rules?
How can I use pension income splitting?
What is a tax-free savings account?

Tuesday May 6th, 2008
Waterloo Inn, Strauss Salon A
7:00 PM
Admission Free
Dessert & Refreshments Served

Bring a friend or relative!

This event is sponsored in part by:
TD Mutual Funds