

A&Q Update

John Armstrong, CFP

December 2008

Volume 10, Issue 2



Interesting Times...

What can be said about the financial markets that has not already been said in 2008? The root causes of the current state of the global economy and global capital markets have been well documented in past client communication, so no need to belabour them here.

From an investor point of view, and even more so from a financial advisor's point of view, the fall of 2008 has been one of those times you're just happy to get through; one of those life events that must be endured with steely resolve and a stiff upper lip. While clients and advisors alike may question specific investment decisions, there has been no shelter from the storm.

So where do we go from here? Very few, ourselves included, are willing to speculate as to when markets will recover. There is a growing sense that capital markets may have established a bottom, but with the unprecedented things we have seen this fall, most feel that there is always the potential for another shoe to drop. Stock markets have already priced in a lot of very bad news, but

markets remain jittery and volatile.

We would suggest that investors keep two very simple things in mind. Firstly, the deeper markets fall the less likely they are to fall further. At current prices many stocks represent a terrific bargain, one that will be recognized by the market given time. Once this happens, demand will cause prices to rise.

Falling gasoline prices give us a good analogy. When we were paying \$1.40 per litre back in the summer no one was speculating that by December we would see the price fall to \$0.68 per litre. While we've seen the price of gas cut in half, most drivers would agree that the price of gas falling further becomes increasingly less likely the lower it goes; accordingly, drivers are not expecting the decrease to continue at the same pace with prices hitting \$0.34 in March.

If you transfer this thinking back to investment portfolios, markets have dropped dramatically, and while they still could fall further, large drops become increasingly less likely.

The second point we would like to make is that markets do not move in tandem with the economy. Capital markets are constantly trying to predict where the economy is going. For that reason, markets historically drop in advance of economic downturn and recover in advance of economic resurgence. Investment portfolios therefore start on the road to recovery while we are still in the depths of economic malaise.

So what message are we trying to get across? The best course of action for investors remains staying the course. History has shown that during times like these investors are handsomely rewarded for their patience. While investors may be tired of hearing it, we remain firm in this belief.

Inside this issue:

TFSA s	2
Phish Stories	2
Reduced RRIF Option for 2008	3
Sharing a Holiday Memory	3-4



Holiday Office Hours

December 24th	9am—12pm
December 25th & 26th	closed
December 29th & 30th	9am-2pm
December 31st	9am—12pm
January 1st	closed

Tax Free Savings Accounts Available January 1st

On January 1, 2009 the new Tax Free Savings Accounts (TFSA) will become available. We covered this in detail in our spring newsletter, but here is a quick summary of the details:

- Available to Canadians 18 years of age and older
- Annual Allowable Contribution of \$5,000 (this will increase over time)
- Investment growth is not taxable
- Contributions to the plan are not deductible (unlike RSPs)
- Withdrawals from the plan do not go into income (unlike RSPs)
- Contribution room is not lost by making withdrawals from the plan as withdrawn amounts can be re-contributed later
- Individual accounts only (no joint accounts)
- Because withdrawals are not considered income they do not impact participation in government programs like Old Age Security and Guaranteed Income Supplement
- All of the investment vehicles available for RSP accounts will be available for TFSAs (high interest savings accounts, GICs, mutual funds, stocks, bonds etc.)
- An individual can deposit money into their spouse's TFSA providing an opportunity for investment growth income splitting

TFSAs have many uses in investment planning, and these should be examined on an individual basis. At the very least they provide a good location for holding cash reserves. By using the TFSA for cash vehicles you place your least tax-efficient investments in an account which grows tax-free. We have a wide variety of investment vehicles available in no-fee TFSAs, including GICs, high interest savings accounts and mutual funds.

Phish Stories

Most of us have heard the horror stories about fraudulent activity taking place by e-mail and over the internet. Recently several members of our staff have had close calls with this kind of activity.

One of the most common occurrences of this type is something now referred to as 'phishing'. You receive an e-mail request from the bank you deal with asking that you click on a link to update the information they have on file for you. The e-mail looks quite legitimate and includes company logos etc. If you click on the link and then look closely at the URL, it has taken you to a location in no way related to the bank.

You are then asked to provide sensitive information such as bank card

number and access PIN. The information gathered is then used to get access to your accounts.

Please be aware that Canadian banks do not use e-mail requests for updating client information of this nature. If you receive an e-mail like this, ignore it, even if it looks convincing. It would also be a good idea to report it to your bank.

Another important thing we have had recent contact with is fraud involving debit cards. Apparatus can be installed on bank and cash machines with the purpose of gathering bank card and PIN numbers. This apparatus has even been installed on bank machines at bank branches after hours, and is picked up before the daily check of the machine by



the bank in the morning.

The best rule of thumb is to only use your debit card in trusted locations, and even if you trust the location, always cover the key pad when you enter your PIN.

In many cases it makes more sense to use your credit card rather than your debit card. Credit card companies usually take responsibility for fraudulent activity on customer accounts.

The Reduced RRIF Option for 2008

The Conservative government's ill-fated Economic Statement, the one that ultimately resulted in the proroguing of parliament, included a special provision for reducing RRIF minimums for the 2008 calendar year.

By reducing the amount for 2008, the government is hoping to provide relief to investors wanting to draw as little as possible while investment values are down.

The minimum amount that must be withdrawn from RRIFs will be reduced by 25% for 2008. For example, if the 2008 minimum amount was \$10,000, the reduced minimum amount would be \$7,500. The reduced amount only ap-

plies to the 2008 tax year and does not apply to future years.

Individuals who have already withdrawn more than the reduced 2008 minimum amount, based on the existing law, will be permitted to re-contribute to their RRIFs an amount up to the 25% proposed reduction. The re-contribution will be deductible for the 2008 taxation year.

Individuals who opt to make a re-contribution can do this up to March 1, 2009, or 30 days after the proposed legislative changes are enacted by Parliament, whichever is later.

In the past, Canada Revenue Agency (CRA) has allowed tax pay-

ers to act on proposed legislation before it is actually passed. We expect that this provision will be given the same treatment. The one caveat is that if the legislation is never passed, the re-contributed RRIF amount may have to be withdrawn.

Although the spirit of this proposed change is appreciated, it seems likely that many RRIF holders will not bother to re-contribute as the change permits. For many, the dollar value that the 25% represents is not large enough to warrant taking action on the change.

If you have any questions concerning the specifics of your situation, please give us a call.



Sharing a Holiday Memory

The following is a story as recounted to Tristan Weiler by his grandfather George Hall.

The Second Day of Christmas, also known as St. Stephen's day, was one of our favourite days of the year. We'd get up early, and still in darkness, we'd hurry through the milking and the other farm work. Our farmhouse in Northern Ireland was cold and damp on those winter mornings, but this was one day that my brothers and I had no problem rousing ourselves from a warm bed to head out to the byre. Our dogs too could sense our excitement and needed no coaxing to start the day.

Though the Second World War was raging not far away, it occupied little of our thoughts on a day such as this. This was a day for adventure, a day to pursue the simple pleasures of youth. As so many other generations of boys had done, we would spend the entire day out of doors in pursuit of the hunt.

Our hunt was a simple affair, no packs of hounds or galloping hooves, just a hardy group of farmer's sons and their faithful dogs. Our prey was not a stag or a fox but the lowly rabbit. Not lowly in

our minds though; a whole rabbit, still intact with no major damage from buckshot, would fetch 2 schillings and sixpence at the mart in town. At a time when there was very little money around this was nothing for a boy to sneeze at.

Once divided, this money would find its way into the tin box that each of us kept in the room we shared. Given time our savings might even accumulate to the princely sum needed to buy a bicycle. A very kind aunt had given us a bicycle, but one bike shared between three brothers left something to be desired, particularly since we lived several miles from town.

Our rabbit money also helped improve our social life, making visits to the Regal Cinema in Enniskillen possible on a Saturday evening. We weren't much on dancing or going to socials, but we did enjoy the comedy shows at the theatre. The music and comedy of George Formby had us in stitches, later to be recounted to the group of friends that gathered at 'the cross', the four corners close to our farm.

Yes, we were serious about our rabbit hunt. We had even gone so far as

to order ferrets by post from England. They could be used to stir the rabbits from the safety of their holes. Ferrets are not the easiest of animals to handle, particularly when they first arrive in their shipping boxes, voraciously hungry from a lack of food during their journey. We had our methods though. Before we even considered handling them we would get some food into them. This in combination with the use of heavy gloves allowed us to save our fingers while we snipped off the nastiest portion of their front teeth. Once this operation was done we had gained ourselves valuable partners in our quest for rabbits.

So, as was our tradition, we headed out with light hearts and a spring in our step on the Second Day of Christmas. Our pockets were stuffed with big lumps of Christmas cake and other goodies leftover from our modest celebrations of the previous day. Along with these, a flask of hot tea would help to keep out the cold. Off we headed with our dogs and ferrets in tow; off to the places we knew provided the best chance for success.

(continued on next page)



Armstrong & Quaile

ASSOCIATES INC.

"Providing Sound Financial Direction"

279 Weber St. N
Lower Suite 3
Waterloo, Ontario
N2J 3H8

Phone: 519-576-5766
Fax: 519-576-0192
Email: johna@a-q.com

Newsletter Editor : Rich Weiler

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.



Sharing a Holiday Memory (continued)

The warrens inhabited by rabbits can be complex things, and we knew that some of these were best avoided. You might send the ferrets in to have them never return. They would find the rabbits alright, but they would keep all the spoils for themselves, remaining in the tunnels long after we had given up and gone home. Better to stay with the banks that housed simpler set-ups. Secure all of the exits with nets or snares and then send in the wily ferrets.

This is how we spent those glorious days, and although we reveled in the thrill of the hunt, the best part of all was the camaraderie of friends and family. I remember neighbouring farmers who allowed us to hunt rabbits on their land coming to join in the festivities.

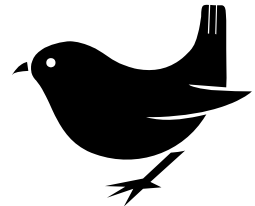
Men of my father's generation, not mine, who loved to share a story. That was a time when people knew how to tell a story. We could listen to the stories told by those farmers all day. I can still hear the laughter. Kinder people you will never meet. People like Freddie Brownlee who not only let us hunt on his land but also brought us refreshments and regaled us with stories while we were at it. There wasn't much money around in those days, but there was always lots of fun.

As the sun started to go down, we would head back to our respective farms, the barking of the dogs and the laughter of friends still ringing in our ears. Milking awaited, the cows didn't take holidays, and the dogs needed to be

bathed before they would be allowed in the house. We looked forward to the warmth of the fire, and no hot meal has ever tasted better than the one that ended that day.

The dogs bedded themselves down on sacks that were laid out on the hearth in front of the open fireplace. Exhausted from the activity of the day, they were asleep almost immediately. We could tell by the twitching legs and the occasional bark that they were dreaming of the day's events. They lay there for so long that you'd think that they would never move again; then as always, as soon as my father reached for the hand torch on the mantle to go and check the byre for the night, the dogs sprang to their feet and flew to the door, ready once again for the hunt.

The wren, the wren, the King of all birds, St. Stephen's Day was caught in the furze.
So up with the kettle and down with the pan, and give us a penny to bury the wren.
-Traditional Irish Verse



Merry Christmas and Happy New Year from our families to yours!

John

Rich

Sharon

Lindy

Joe

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.