A&Q Update

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August 2009

Volume 11, Issue 1

Things Are Looking a Bit Brighter

We hope that the summer has been an enjoyable one so far. The weather in Ontario has been less than ideal, but at least we have seen some improvement in investment performance.

In March of this year the S&P TSX Index fell to it's lowest point since the fall of 2004, giving up more than four years of gains. US and International indices were down even more dramatically. Negative economic news seemed to be everywhere, and the markets were taking it badly.

Since that time markets appear considerably more optimistic. While job losses and the global economic slow-down are still very real concerns, not all of the news is bad. Some companies have surprised analysts with positive earnings reports, and interestingly, some of these reports have come from the recently ravaged financial sector. While there is rarely a consensus on issues of this nature, the majority of industry analysts seem to believe that we are through the worst of the economic upheaval. There are of course those who believe that there is still another shoe to drop. Commercial real estate defaults in the

US for example still have the potential to add another chapter to the US mortgage story. Mounting job losses in the US have also not yet had their full impact on consumer spending. There is no question that the current economic situation remains far from stable.

As one might expect, the sectors that were hit the hardest during the fall/winter period have been the ones that have rebounded the most since. Financials, resources, small caps, emerging markets, and high yield bonds, to mention a few, have rebounded dramatically*. In early March, investor appetite for risk was at an extremely low ebb, and securities were priced accordingly. As investor sentiment has improved, many of the bargain-basement valuations have been recognized and snapped up. With an increase in demand, prices go up accordingly.

As always, the question then begs, what should investors expect as we move through the remaining months of 2009 and into 2010? One thing that we are willing to predict is that the level of volatility in the investment markets will continue at a higher than average rate. The way we see it, there are two main factors that will contribute to this volatility.

Firstly, the global economic crisis is far from being resolved. The situation is still emotion-charged and investors remain skittish. Secondly, there is a speculative nature to some of the investing currently taking place. Markets will rise and fall with shifts in this speculative money.

Even with the recent jump in capital markets, valuations are still well below the peaks reached in 2007. While another pullback in the markets in the near future is very possible, based on historical patterns, the medium to long term should offer a good period of growth. Investors who have remained focused on the longer term have been rewarded since March for their patience. We believe that this patience will continue to be rewarded.

* per Morningstar Research July 31, 2009

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How Safe is My Money Anyway?

News stories like the recent one involving Earl Jones and the alleged Ponzi scheme in Montreal are particularly upsetting to independent financial planners like ourselves. Incidents such as this cause clients to look suspiciously at the whole financial services industry, particularly the independent advisor.

One point that must be made clear is that the individual alleged to be at the centre of the Ponzi scheme that cost so many people their savings, was in fact not a licensed advisor at all. He was not registered as an approved person with any securities regulator. This may be cold comfort for those investors who lost money in the scheme, but it would have been considerably more difficult to carry out these 'investing' shenanigans had he been under the watchful eye of some kind of regulation.

After seeing a story like this one, we certainly can't blame investors for being concerned about the security of their own savings. We thought it would benefit clients to see a summary of some of the things that are in place to ensure that their savings are not at risk to this type of fraudulent activity. We also would like to detail the client safeguards that exist should the sponsoring investment dealer, Armstrong & Quaile Associates Inc., become financially insolvent.

- Armstrong & Quaile Associates Inc. (A&Q) is not the trustee for any of the investments purchased through our firm. All money is held by the product suppliers (mutual fund companies, segregated fund companies, GIC providers, banking product providers). All of these providers are subject to strict regulation and an ongoing auditing process.
- Third party confirmations are provided for all investment purchases. Investment purchases may flow through the A&Q trust account, but a confirmation that an investment purchase has been made will come directly from the investment product provider.
- The Armstrong & Quaile trust account is a temporary holding place for money that will go to the mutual fund companies via electronic funds transfer. Money held in the account remains the property of the client. The institution holding the money is a major chartered Canadian bank and is responsible for the security of this money while it is in the account. Generally, client money remains in our trust account for only one day. The operation of this trust account is under the scrutiny of auditors on an annual basis.
- The deposit products that we offer such as high interest savings accounts and GICs receive coverage from the Canada Deposit Insurance Corporation (CDIC). This coverage insures deposits up to a maximum amount of $100,000 per individual per institution. For this reason we are careful to ensure that the amount held with an institution does not substantially exceed the insurable amount. In most cases, cheques written to purchase deposit products are made payable to the institution providing the product.
- Armstrong & Quaile Associates Inc. is a member of the Mutual Fund Dealers Association (MFDA), a self-regulatory body for mutual fund dealers. As such, A&Q clients may benefit from coverage by MFDA Investor Protection Corporation (MFDA IPC) should the dealer become insolvent. MFDA member regulations do not permit us to detail the coverage in this newsletter, but a client brochure on the coverage is available at:

  www.mfda.ca/ipc/ipc.html.

  We would also be happy to provide a hard copy of the brochure upon request.
- Armstrong & Quaile Associates also has a complaints procedure in place. If the complaint is not resolved to the satisfaction of the client after addressing it with the advisor, the Branch Manager, or the dealership head office, a complaint may be lodged with the MFDA. A copy of our complaints procedure is provided to all new clients, and it is available to anyone upon request.
- All Armstrong & Quaile advisors are required to carry Errors & Omissions Insurance. In certain circumstances this coverage may provide restitution to clients that have experienced a loss as a result of advisor error or negligence.

Operating within the regulatory framework required by the investments industry takes a substantial amount of time, money, and effort. The necessity of this becomes obvious when you see the kind of abuses that are possible. We hope that the points listed above provide some peace of mind. Please do not hesitate to contact us should you have any questions regarding the security of your accounts.

Consider Taking Advantage of the Home Renovation Tax Credit

Earlier this year the Home Renovation Tax Credit (HRTC) was announced as a part of the 2009 Federal Budget. This tax credit is one of the components of the government's economic stimulus package, and is intended to encourage economic activity in order to help the country to climb out of the recession. It will only be available for the 2009 income tax year and will apply only to work performed or goods acquired after January 27, 2009 and before February 1, 2010.

The HRTC is a non-refundable tax credit of 15% of eligible expenses of more than $1,000 but not more than $10,000. The tax credit is offered on a family basis, and has a maximum amount of $1,350 ($10,000 - $1,000 x 15%).

As indicated on the Canada Revenue Agency website, "The expenses are eligible when they are incurred in relation to renovations or alterations to an eligible dwelling (or the land that forms part of the eligible dwelling) and are permanent in nature. As a general rule, if the item you purchase will not become a permanent part of your home or property, it is not eligible."

The credit can be claimed on expenses relating to either your home or your cottage, as long as a member of the family has inhabited the dwelling for a period of time during the allowable period. Expenses from both house and cottage can be combined for the credit, but the family maximum of $1,350 still applies.

Renovation costs relating to dwellings owned in order to generate rental income do not qualify. In cases where a portion of the dwelling is rented for income purposes, only expenses relating to the personal use portion of the dwelling qualify.

The tax credit is claimed when completing your 2009 tax return. A new line and an additional schedule will be added to the return forms to accommodate the HRTC. Claimants of the credit do not need to attach documentation of the expenses, but they will need to make them available in case of an audit. The CRA website states that, "Documentation, such as agreements, invoices, and receipts, must clearly identify the type and quantity of goods purchased or services provided…".

For more detailed information on eligibility and a listing of qualifying expenses, visit the CRA website at:

www.cra-arc.gc.ca/tx/ndvdls/sgmnts/hmwnr/hrtc

Canada Offering Global Leadership

Canada has fared much better than most nations during the recent economic turmoil. The following commentary comes from a February 16, 2009 article in the American magazine, Newsweek. Firstly, the author comments on why Canadian banks are in such good shape compared to their US and European counterparts:

> "So what accounts for the genius of the Canadians? Common sense. Over the past 15 years, as the United States and Europe loosened regulations on their financial industries, the Canadians refused to follow suit, seeing the old rules as useful shock absorbers. Canadian banks are typically leveraged at 18 to 1—compared with U.S. banks at 26 to 1 and European banks at a frightening 61 to 1. Partly this reflects Canada's more risk-averse business culture, but it is also a product of old-fashioned rules on banking."

Further commentary is made on why the real estate and mortgage blow-up in the US did not also happen here:

> "Canada has also been shielded from the worst aspects of this crisis because its housing prices have not fluctuated as wildly as those in the United States. Home prices are down 25 percent in the United States, but only half as much in Canada. Why? Well, the Canadian tax code does not provide the massive incentive for overconsumption that the U.S. code does: interest on your mortgage isn't deductible up north. In addition, home loans in the United States are "non-recourse," which basically means that if you go belly up on a bad mortgage, it's mostly the bank's problem. In Canada, it's yours. Ah, but you've heard American politicians wax eloquent on the need for these expensive programs—interest deductibility alone costs the federal government $100 billion a year—because they allow the average Joe to fulfill the American Dream of owning a home. Sixty-eight percent of Americans own their own homes. And the rate of Canadian homeownership? It's 68.4 percent."

These are things we can feel good about. Canada is being held up as model in discussions pertaining to the hard lessons learned during the financial crisis.

Armstrong & Quaile

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"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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Tax Free Savings Account Reminder

Since January 1st when TFSAs first became available, we have opened many new accounts for clients. The rules surrounding these accounts has been covered in past newsletters, and most people are familiar with them at this point, but there is a common misconception held by some investors. Because of the 'Savings Account' reference in the name, some people are under the impression that they can only be used as a cash savings vehicle, like a high interest savings account for example, and that they are only available through banks.

In actual fact, TFSAs are simply a new registered account designation capable of, and appropriate for, holding a very wide variety of investment types. They are also available from many different providers, including independent advisors like ourselves. This means that the TFSA can be used for any savings strategy which benefits from tax free growth, whether that is long term growth-oriented investing or short-term saving with an emphasis on capital preservation.

Every Canadian aged 18 and older started to accumulate TFSA contribution room at a rate of $5,000 per year starting in 2009. If you have non-registered savings, there is no reason not to have one of these accounts.

We would be happy to discuss how a TFSA can fit into your financial plan and to provide information on the many investment options that are available. By introducing the TFSA, the government is offering a way to reduce the amount of income tax we pay on our savings. There are very few things offered to help reduce taxes– so we suggest taking full advantage of the ones that are. The $5,000 amount may initially appear small, but the steady increase in contribution room over time will be very beneficial.

Congratulations Joe & Rebecca!

The Armstrong & Quaile Waterloo family would like to congratulate Branch Compliance Manager Joe Shumka & his wife Rebecca on the birth of their daughter. Gracie Shumka was born on June 11, 2009 at Grand River Hospital, and the whole family is doing very well. We look forward to frequent visits from Rebecca & Gracie here at the branch!