A&Q Update

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Finding the Perfect Investment

What is the perfect investment? Is it gold, oil and gas, other commodities, real estate …? We would like to clarify this discussion.

In our experience, the perfect investment is a *plan* rather than a specific investment vehicle. To try to identify individual investments as perfect is timing dependant, risky and usually based on past performance. We would suggest that a *mandatory* contribution pension plan is really the perfect investment. Here is why:

You must contribute – you have no choice. This will require you to do the single most important thing – to live within your means. You cannot touch the money you have deposited, and you never know the value of your investment, only the benefit that it will eventually provide in the form of an income stream in retirement, and that value never changes.

Another important element is the simplicity of the reporting to the plan member. It indicates how many years they have contributed, "last year you had 15 years of contribution, this year you have 16, and next year you will have 17". There is no detailed information about how much money the plan contains. This is irrelevant to the pension plan, because it is assumed that the plan member will want a retirement income stream. From the 'years of contribution' figure, the plan member can then estimate the income stream they will receive when they retire; for example 2% of your annual income at retirement per year of contribution. The fact that there is no investment value reporting also insulates members from the investment market volatility which can lead to emotional investment decision making.

Generally, money in the pension plans is well managed in order to reduce risk and to deliver the promised benefit. Can this go off the rails? Yes. We have recent experience with a few pension plans that were faced with the perfect storm. Investment values fell dramatically, creating a deficit position for the pension, and requiring the employer to come up with the cash to cover the deficit. The bad economic times that hurt the investments also forced the company out of business or into bankruptcy, and the shortfall amount was never replaced, resulting in reduced benefits for plan members. Several high profile cases such as Nortel, shone a light on this pension plan exposure, however, for the vast majority of pension plans and pension beneficiaries this is a remote possibility.

So how can you get close to the perfect investment on your own without the benefit of a large pension plan? First, commit to a savings plan and stick to it. Learn to live without the money. Consider your ongoing participation in the plan to be mandatory, and non-negotiable.

Second, delegate the money management to a professional money management. Many great pension-style investment vehicles are available. Well diversified vehicles with a moderate level of volatility are usually appropriate.

Third, and most important, understand the benefit that your savings plan will provide when it is turned into some form of income. In other words, you need an income model to articulate what you will get from the money you have saved. If you have this, you are able to understand the effects that various stresses place on the savings plan. For example: What happens if you do not contribute? What happens if markets reduce the value of the savings plan? What happens if you retire early or take money out?

Pension plans clearly lay this out. It is equally critical to know this about your own savings plans, whether they are your main source of your retirement income, or a supplementary source. If you have an income model that provides you with this information, and you select an appropriate and well managed investment vehicle, you are getting as close as you can to the perfect investment.

TFSA Annual Contribution Increase Announced

November 26th the Federal Government announced that the annual contribution limit for Tax Free Savings accounts will be increased by $500 to $5,500, effective January 2013. When the plan was introduced for commencement in 2009, it was indicated that the amount would increase in $500 increments in order to keep up with inflation. This is the first of those increases.

Since 2009 Canadians over the age of 18 have been able to contribute a total of $20,000 to their TFSAs. With the addition of the 2013 amount of $5,500, this brings the total allowable contributions to $25,500. This is a substantial amount of money to have sheltered from taxation. There really is no reason not to have one of these plans.

As a refresher, here are the highlights of the TFSA program:

- Any interest, dividends and capital gains earned in a TFSA are not subject to tax;
- A TFSA allows you to invest in a number of types of investments: savings accounts, mutual funds, guaranteed investment certificates, listed securities, or other types of qualified investment products;
- You can hold more than one TFSA, but the total contribution amounts must be within the guideline;
- Unused TFSA contribution room is carried forward and accumulates for future years;
- Funds available in your TFSA can be withdrawn tax-free at any time for any purpose. You can re-contribute withdrawn amounts in the same year only if you have unused TFSA contribution room. Otherwise, you have to wait until the following year;
- Neither income earned in a TFSA nor amounts withdrawn from a TFSA affect your eligibility for federal income-tested benefits and credits; and
- Contributions to a spouse's or common-law partner's TFSA are allowed.

Keep in mind that a TFSA is a good place for the higher growth portion of your savings, because they stand to benefit the most from the tax sheltering.

Year End Reminders

√ **Registered Education Savings Plan (RESP)** contribution deadline is December 31, 2012. This is particularly important if the beneficiary turned 17 years of age during 2012 (with this being the last year that they can receive CESG grant).

√ **Charitable Contributions** deadline for the 2012 tax year is December 31st. Remember that annual cumulative donation amounts over $200 receive a tax credit of 40%. Family contributions can be grouped in order to maximize the amount over $200.

√ 2012 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is March 1, 2013.

√ **Tax Free Savings Account** contribution room increases by $5,500 for Canadians over the age of 18 as of January 1, 2013. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSA in 2012.

√ For **non-registered investment accounts**, check your year end fund company statements for capital gains or losses triggered by redemptions or switches made during the calendar year. The 'T' slips issued by the fund companies do not reflect the tax consequences of investor activity; they reflect only the details of fund distributions paid out in cash or reinvested in the fund. We are happy to provide additional details upon request for any gains or losses triggered during the year.

Holiday Office Hours

December 24th—26th	closed
December 27th & 28th	9am—2pm
December 31—January 1st	closed

Changes to Joint Account Reporting

Due to regulatory requirements, changes have been made to the way we report information on accounts held jointly by more than one person. This is true of both the quarterly statements sent to clients by Armstrong & Quaile head office (either by mail or by electronic notification) and the account information as provided by client account access through the Armstrong & Quaile Associates Inc. secure website.

In the past, joint plans were reported inconsistently. Some plans appeared among the plans listed for an individual client with the plan clearly identified as joint property and including the names of the all joint parties. Other joint plans were listed under a separate joint client which included the names of the joint parties. So what will reporting look like under the new guideline?

Let's take the example of our friends Fred & Wilma Flintstone. Each has an individual RSP account, and they jointly hold a non-registered account. The Flintstones will receive two statements. Fred will receive a statement which details both his RSP account and the joint account he holds with Wilma. Wilma will receive a statement which includes both her RSP account and the joint accounts she holds with Fred.

Consistent with this, when Fred looks at his Armstrong & Quaile accounts using the secure website, he will see both his RSP and the joint non-registered plan. Wilma will see her RSP and the joint plan through her on-line access.

Here are the key things that joint account holders will need to be aware of:

- A statement of joint plans will be provided to each of the joint parties. If the investor holds both joint and individual plans, all plans will be listed on their statement. As a result of this, joint plans will be listed on more than one statement. Please bear this duplication of information in mind when collectively looking at family assets.
- A single client log-in and password will be required for an individual to gain secure on-line access to their account information. In the past, some clients required an additional log-in to get information to their joint plans.

These changes will be apparent in statements you receive for the quarter ending December 31, 2012. The changes to the on-line access protocol have already been implemented.

MRS Trust—B2B Bank Transition

In late 2011, B2B Trust acquired MRS Trust. These two firms represented our two primary choices for the administration of self-directed registered plans, with the majority of our self-directed plans being with MRS.

Gradually over the past year the operations of the two firms have been combined. Unfortunately the process has not always been smooth, and communication from B2B has not always been good. To further complicate things, B2B Trust transitioned from trust company status to Schedule I Canadian Bank status in July 2012, thereby changing its name to B2B Bank.

MRS had the superior account management system, including their client statement platform, and this is one of the key reasons that B2B was interested in acquiring them. As a result of this, the operational change has actually been more apparent to B2B account holders, as the quarterly statements provided evolve to the MRS reporting platform.

The range of deposit and loan products offered by the two firms was quite similar, so most clients will have been impacted very little by the transition. For most account holders the most noticeable change will be the change of name on the statements and tax reporting slips they receive.

Although the transition has been less than perfect, we continue to believe that B2B Bank will be a good choice for those clients that benefit from the features offered by a self-directed plan.

Because a large number of our client accounts are held directly with our mutual fund providers, many clients have not been impacted by this change in any way. For those clients that have questions concerning this change or any communication that they have received, please do not hesitate to get in touch with us. We appreciate your patience during the transition.

Armstrong & Quaile

ASSOCIATES INC.

"Providing Sound Financial Direction"

John Armstrong holds the CERTIFIED FINANCIAL PLANNER ® designation. 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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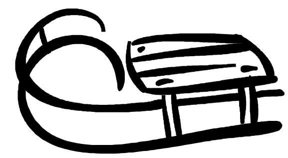

Equity Diversification Working—Finally

We have always relied on diversification to smooth our client's investment returns. This takes a number of different forms. The proportions of cash, bonds and stocks within the portfolio is the single most important element in determining investment volatility. This has been very effective over time. Holding bonds and cash during periods of negative stock market performance has greatly cushioned portfolios.

Another form this takes is geographic equity diversification; in other words, holding stocks of US and other nations alongside your Canadian stocks. Over most of the last decade this type of diversification has not been beneficial. The Canadian market has outperformed, and in hindsight, it would have been better in a broad sense to hold only Canadian stocks. The key word in the last statement is of course 'hindsight'. It is not possible to know in advance which equity market will provide the best growth; this is the reason for diversification. We continue to believe that it is prudent to invest in other equity markets.

	2011	**2012***
S&P TSX	-11.1%	1.7%
Dow Jones (in Cdn$)	8.0%	4.2%

*as of December 7, 2012 Source: Bloomberg Finance L.P.

2011 and 2012 have presented us with a period in which investors benefitted by diversifying their stock allocation by holding US stocks. During this period, US stocks have outperformed significantly. This fact is often lost because discussions pertaining to the US tend to focus on the debt and deficit situation of the US government. We continue to believe in this kind of diversification, and felt that this fact was worth pointing out.

We hope that this is a truly wonderful time for you and your family. May you experience the peace and joy that is the true spirit of the season!

Merry Christmas & Happy New Year from our families to yours.

John Rich Sharon Cindy Joe