MUTUAL GAINS™

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Without money, possibilities are limited...... without personal relationships, life is barren.... without balance, happiness and fulfillment are just a dream.

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Better Value Found Globally

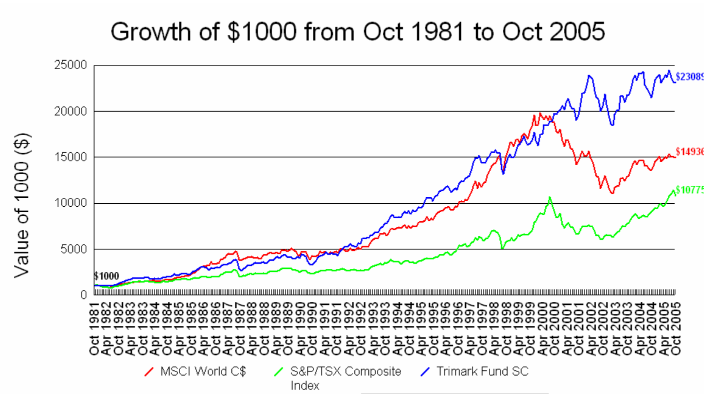
Global investments, over a longer period of time, have shown to provide superior returns to Canadian investments (see chart below). There are however times where the truth of that fact is questioned or simply considered to be outright wrong, particularly when we have seen Canadian investment perform so well over the short term. This is the case today, creating an anomaly where there is a wide discrepancy between the price of Canadian investments and comparable international investments.

Richard Jenkins, a highly skilled investment manager at AIM Trimark Investments can name a long list of global industry leaders that trade at substantial discounts to their Canadian counterparts. One of those is his top holding in Reed Elsevier PLC, a leading publisher of professional and educational materials. Jenkins says this long-time investment favourite of his trades at a 40% discount to Canada's Thomson Corp. Similarly, Jenkins says there are many U.S. and European banks that boast stronger growth and profitability than Canada's big five banks, but trade at a 25% lower share price. Stronger growth and profitability for a cheaper price means higher potential long term returns with LESS RISK.

Now is not the time to switch out of international investments to buy Canadian investments. If anything, the opposite tact should be taken.

Portfolio Management And Investment Management Are Very Different

Yes, there are significant differences between a Portfolio and an Investment. Investment management is about buying individual investments without any thought about how the investment fits with the rest of the portfolio. It is similar to buying bread, a light bulb and a pack of gum. They don't work well together to make a sandwich. In fact, combining them is downright dangerous. Buying bread and ham slices, although closer to a sandwich also don't make a complete sandwich. Add some butter, lettuce and cheese and you have a much better one. Unfortunately many



investors buy the equivalent of a loaf of bread and a box of dishwasher detergent because the relationship between the 2 elements never crosses their mind. Even more dangerous is many investors just go out and buy a lot of bread because there is a fresh bread smell all through the neighbourhood and everyone is loading up on it.

Portfolio Management on the other hand is putting complimentary investments together. I call it, when 1 zigs the other zags. Harry Markowitz, the winner of the 1990 Nobel Prize in Economics calls it Modern Portfolio Theory. Putting Portfolio Management into play acknowledges that investments don't work in isolation. They can work more efficiently, by producing higher returns with lower risk when combined in a portfolio. Portfolio Management is a properly constructed portfolio of individual investments creating synergies through which the output of the combination is greater than the sum of its parts.

A portfolio is an intelligently assembled group of investments. Rather than holding a "collection of investments", portfolios are constructed within the context of how well new investments fit with the existing investments with the goal of increasing returns AND reducing overall risk.

A Charitable Fund In YOUR Name

In early 2006, a major Canadian financial company will be launching an innovative new product that promises to change the charitable landscape in Canada. This "Charitable Giving Fund**"** will give you a simple and convenient mechanism to take advantage of the many benefits of philanthropy.

This new Charitable Giving Fund enables investors to set up the equivalent of a private foundation without the traditional hassle or cost. This is not a mutual fund or particular investment, but rather a vehicle or holding pool to support charitable giving.

When you set up an account (with the help of your Financial Planner) and make a contribution, you will receive an immediate tax receipt for the funds donated. Much like a private foundation, you will be able to name the account ("The ___________ Charitable Fund"), decide on the investments within the fund, and recommend which registered charities will receive money (grants). The fund even enables clients to leave a charitable legacy as giving decisions can be passed down to future generations. Grants can be made in perpetuity to the charities that you select.

Leaving Your 2nd Property To the Kids

Any property that has appreciated in value, aside from your principal residence, will trigger capital gains when you die. For the average person, like you and me, summer homes or 2nd properties are the main culprits for the biggest part of the tax bill when an estate is settled upon death. There is a way you can minimize this tax.

How about selling your 2nd property to the kids now? If you sell the property to your children today instead of getting it at your death, your tax liability is capped and any future capital gains will be deferred until your kids decide to unload it which could be to your grandkids. This also reduces probate fees on your estate.

Don't like the idea of paying a tax on the capital gain now from that idea? You can sell it to them and take back a mortgage with a long amortization. This would spread the capital gains tax over the next 5 years. If you are feeling particularly generous you can make the mortgage interest free and forgive the remaining balance owing in your will.

While you may be tempted to "sell" your 2nd property to your adult children for a cheap price to reduce the capital gains tax you will have to pay, I would like to warn you that CRA will calculate the capital gain based on the "fair market value".

Reduce Your Educational Costs By 20%

If you plan on paying for your kids education in the future you can either:

1) Pay 80% now OR 2) Pay 100% later.

With "1" you put money into an RESP for your child. The government tops it up with an additional 20%.

With 2 you pay 100% of your child's education costs as the bills come in. You get nothing from the government.

The math, and your decision whether or not to contribute to an RESP is that simple.

If future education is on your mind for your kids and you are wondering how you are going to cover that cost since you don't have the money you may want to consider this. Get an RESP loan NOW with a 5 year term. Use the proceeds to contribute to an RESP. For every $80 you borrow the government is going to add $20 to your RESP account to a maximum of $800 / year if you haven't contributed fully to an RESP in the past. All of this money can be used to pay for you child's education in the future.

With an RESP loan you only have to borrow for 80% of the expected education costs. Since you are saving 20% why not add 20% to that same loan put that money into an RRSP for yourself. You can do this with the same loan.

Notes: This must be done before you child turns 16 to receive the CESG.

Flexibility Is The RESP's Middle Name

I have often had conversations with people about RESP's. Often I find there is a bit of hesitation about the RESP's flexibility in the context of, "what if ___________ doesn't go to school after high school?"

Money can be paid out of an RESP for all kinds of post secondary education including college and trade school. Also, the RESP can be switched to a sibling. What if none of those work? Well, here is the breakdown of how money can come out of the RESP.

1st Option – The original money you put in plus all money your investment earns can be transferred into your own RRSP or a Spousal RRSP provided you have the RRSP contribution room. The 20% (CESG) which was contributed by the government into the RESP would go back to the government.

2nd Option – You can take out the original capital you invested without any implications. The earnings will be withdrawn but you will pay tax at your regular tax rate plus an additional 20%. Like the 1st Option, the 20% (CESG) would go back to the government. The plan must have been in existence for 10 years or longer and your child must be 21 or over.

In my opinion there is no better way to save for potential education expenses than an RESP because you potentially get 20% free money AND it is highly flexible when money needs to be withdrawn.

Applying for CPP? You May Want to Split It

You're married, retired and starting to apply for your Canada Pension Plan benefits. One of you may be receiving a company pension, while the other may not. It that is you, read on.

A useful tool provided by the federal government involves "assigning" benefits. Assignment of CPP benefits is something spouses do voluntarily to share their pension payments. This should be done in almost all circumstances where there is a discrepancy between the retirement incomes of each spouse (ie 1 has taxable income of $40,000 while the other has taxable income of $15,000). It is most advantageous when the higher-income spouse has taxable income of more than $56,968 per year, which is the point where Old Age Security (OAS) begins to be "clawed back".

If one of you were to die, the pension amount the survivor would receive would return to the pre-assignment amount. Assignment of CPP can create significant tax savings, but given how simple the application is, even small savings can make the strategy worth considering.

OAS & GIS Clawback Remedies

If your OAS or GIS is being clawed back the culprit may be your bank deposits or investments which are increasing your taxable income. There is a fix however.

First, to understand the true cost of clawbacks consider this example. Frank lives in Ontario and receives the Guaranteed Income Supplement. To improve his financial situation, he worked for the Census in 2001, earning $1,384. As a result he had to pay $542 in income tax; his OAS and GIS benefits went down $601, and his social housing costs went up $216. Tallying this up, Frank finds that his extra income of $1,384 has cost him $1,359, for a net benefit of $25. Essentially he has been taxed at a rate of 98%. Would you work for 2 cents on the dollar?

In Frank's case the choice is easy. Why bother trying to earn any extra income. However, if that extra income comes from your bank deposits or investments your only choice it seems would be to put your money under your mattress. Being the prudent individual you are, I'm sure you would find it a waste to mattress your money. If you are having your OAS or GIS clawed back your mattress is almost as good a place as a bank deposit. It doesn't have to be. Here is an idea that I have used for people in your situation.

All investment income you earn outside of an RRSP, RRIF or life insurance contract are added to your income every year. Principal Protected Notes however offer gains or income that can be deferred until the end of the term of the investment. These are generically called "Principal Protected Notes" and come in a wide range of investment choices. Many offer deferred tax opportunities and will help in minimizing OAS or GIS clawbacks. All the Principal Protected Notes that have come across my desk offer principal protection. Nice.

Who Is Going To Take Care Of You If You Are Single?

Many people I know have been slowly transitioned into the overseeing of their parents well being. This has come in the form of their parents or often, a widowed parent, living in the same home together. The value of this care cannot be replicated however, what if you don’t have adult children in your life? What do you, the single person, do in this case?

Unlike a married or common law couple, if you are single and you suffer from a severe illness or accident, then you can’t just assume there will be someone capable of caring for you when you need it. There is insurance coverage you can acquire, while younger and still healthy, to ensure any needed care, as you age, or potentially earlier than you expect, is provided for you when you need it. Long-term care insurance pays a monthly amount so that payment can be made for your extended care.

This kind of insurance is best set up when you are in your late 30’s to early 50’s however you may want to consider bringing up this issue with your parents, and how THEY will be cared for in the future..

HHHhhhhmmmm……….

Many U.S. and European banks have much stronger growth and profitability than Canada's big five banks, but trade at a 25% lower share price (Richard Jenkins, AIM Trimark)

European company prices are at 10 year lows based on P/E ratios. (Franklin Templeton Investments)

Successful investors are willing to look wrong in the short term to be right in the long run.

Canadian residential real estate prices from 1963-2003 on average returned 0.2% per year above inflation. Vancouver real estate had a negative “real return” (after inflation) of -0.7% per year (Clayton Research based on data from Statistics Canada and CHMC)

The hottest real estate market in North America from Sept. 2004 to Sept. 2005 was Phoenix at +55.2%. There were 24 centres that had +20% 1 year price gains. Several were in Florida, 2 were in Oregon. (USA Today)

Vancouver is the only major city in Canada where the costs of owning a typical townhome are significantly more expensive than renting the same property. This is one of many stats that puts Vancouver real estate (and Victoria pushed by American buyers) on TD Bank’s “irrational exuberance” list.

Extrapolation example: In 1960, there were 216 Elvis impersonators. In 1970 there were 2,400. In 1980 approximately 6,300. In 1992 the number was 14,000. If this trend continues, by the year 2010 one of every four people will be Elvis impersonators. An unlikely outcome just as extrapolating investment outcomes are.

The majority of Guaranteed Income Supplement (GIS) recipients are older women who never worked outside the home and did not contribute to, and consequently, are not entitled to benefits from the Canada Pension Plan (CPP). About 43 per cent of older women depend on OAS and GIS.

In 2004 4,008 motorcycle riders were killed in highway accidents, up 7.9% from 2003 and 89% higher than in 1997. Meanwhile, passenger car deaths dropped 3.2% to 19,091 last year. (U.S. National Highway Traffic Safety Administration)

On New Years Day 2006 the first Baby Boomers turn 60.

Carey

Chartered Financial Planner