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GET THE FACTS, THEN MAKE DECISIONS

2007 didn't end like most years and 2008 did not start out like most years. The norm for both the end of an old year and start of a new year people are generally feeling up-beat about the prospects of the near and long term. But, as was brought home in a conference call I had on January 25th with 2 investment management teams I use for clients (who in total manage over $9 billion in assets), the masses act before really checking the facts. I would like to bring to you some of those facts:

To be a successful investment manager you need to be "emotionally counterintuitive" when making investment decisions. In other words when the masses feel optimistic you can generally only find new investments that are expensive. That was the case for the first part of last year when valuations were high…. "we had to turn over a lot of rocks" and could find very few investment opportunities. Today the exact opposite is true. We are discovering lots of value, particularly in financials.

Bear markets (20% drops or more) are not very common. There have been only 9 in the past 50 years. The last one, 2000 through 2002 was minus 49%. The only other drop that significant in 50 years was 1973 through '74. In both cases the fall was from when "valuations were extreme", which was 24 to 29X earnings. This past October valuations were 16.6X earnings. Today valuations on average are at 14.5X earnings. In other words, prices are 50% off of what they were in the last 2 significant bear markets.

So what do you do now? As the world renowned investor and philanthropist Shelby Davis once said: "You make most of your money in a bear market. You just don't realize it at the time."

TAX UPDATES & DEVELOPMENTS

If you and your spouse have widely different retirement incomes, this tax filing season will mean a big tax saving year because of the new pension splitting rules, which allows the splitting of up to 50% of your "pension" (includes RRIF income) with your spouse. Not only will you benefit from the using of Canada's graduated or "progressive" tax rates to your advantage, you will also be able to use the $2,000 pension credit for both of you rather than just one. If your retirement income is over $65,000 you reduce and possibly eliminate any OAS clawbacks that you may have been experiencing in the past.

Credit proofing of all RRSP's has passed Royal Assent however it is not yet in effect. There are still discussions going on about some of the imbalances in the new rules. These relate to issues like getting an RRSP loan prior to bankruptcy and not having to pay the loan yet still being able to keep your RRSP. You have always been able to do that with an insurance company RRSP so frankly there always has been this loop hole. Whether they want to make it bigger by expanding creditor protection to all RRSP assets is yet to be set in stone.

Donation Tax Shelters, as I have warned before, will be attacked by CCRA. In the past these donation schemes used to deal with art primarily. Now most of them relate to the buying and donation of pharmaceuticals or learning aids such as books. International Charities Association Network (iCAN) has become the largest charitable organization in Canada because of these schemes with a whopping $400 million of donations in 2006 (in past years they had donations of only $600,000 / year. The Canadian government has

Tax Updates & Developments (continued)

recently suspended the charitable status of ICAN. This is just the most recent fallout in these highly flawed donation tax shelter schemes. You can read the CCRA notice here... www.cra-arc.gc.ca/newsroom/releases/2007/nov/nr071129-e.html

Being able to deduct interest costs for investment purposes has always been allowed. A recent case called "Lipson", depending on how it plays out, could however restrict the deductibility of interest costs in a certain series of events. The restriction could apply if you sell investments you currently own, pay down your non-deductible debt (ie mortgage) and then buy back the same investments or make new ones. If you were considering such a series of transactions I suggest waiting for the outcome of this case.

The Registered Disability Savings Plan is something that was introduced in the last budget but frankly no financial institution is set up to accept investments into such a plan yet. There is two primary reasons for this. First, there remains some tax uncertainty in some provinces about if the receiving of monies from a RDSP reduces other government benefits. Second, financial institutions face significant complexity in putting together the forms and systems to set up any newly introduced national plan.

In the run up to the last election the Conservatives said they would introduce new rules to eliminate capital gains tax if an investment was sold and another was purchased within 6 months. There have been no changes on the tax treatment of capital gains so far however it is suspected that some capital gains tax relief should be coming, particularly with a federal election on the horizon.

The Federal government has not, and it looks like, will not, renew the Federal 15 % "Super Flow-Through Tax Credit" beyond March 31, 2008. This means the lucrative 140 % equivalent tax deduction on a Super Flow-Through investment is not expected to be available after March. At that time it will be down to a 100% equivalent tax deduction. If you want maximum tax deductions outside of your RRSP contribution or donate $4,000 or more annually to a charity or church this is something you should look at taking advantage of. I am.

DELAYING YOUR RRSP "DEDUCTIONS" CAN MAKE SENSE

Seldom does putting something off make any sense, however when it comes to deducting RRSP contributions from your taxable income, procrastinating can make sense. The delay could save you hundreds even thousands of tax dollars. To clarify, I'm talking about delaying the RRSP "deduction". Your RRSP contribution should still be made ASAP.

Many people will be making RRSP contributions before this year's, RRSP deadline of Feb 29th. You may be one of them. The act and decision of making the RRSP contribution is a separate decision to deducting that RRSP contribution on your tax return. Unlike most other "tax deductions", which have to be deducted in the year they were incurred, RRSP deductions can be put off until any year in the future. It may seem counterintuitive but it can make sense. Here's why.

2007 Taxable Income	Tax Rates
Up to $9,000	0%
First $34,397	21.20%
Over $34,397 up to $37,178	24.15%
Over $37,178 up to $68,794	30.65%
Over $68,794 up to $74,357	33.10%
Over $74,357 up to $78,984	37.10%
Over $78,984 up to $95,909	39.00%
Over $95,909 up to $120,887	40.70%
Over $120,887	43.70%

As you know, the more income you make the higher proportion of your income goes to pay income tax. This is because we have "progressive" tax system. Details of that are in the table to the left. This doesn't mean that if, for an example, you earn $80,000 all of your income is taxed at 33.10%. It means that only the dollars you earn between $78,984 and $80,000 are taxed at 39%. The income you earn between $74,358 and $78,994 is taxed at 37.10% and so on down the tax table. What you end up with is an average / combined tax rate that is much lower than your top tax rate.

Let's assume you have sizeable RRSP contribution room and have decided to get a RRSP loan for $50,000 before February 29th which you will pay off over the next 5 years. Based on your $80,000 income example, if you deduct the full $50,000 for the 2007 tax year you will save $15,244.17 in taxes.

If, on the other hand, 1) you still get the RRSP loan, 2) you make the RRSP contribution but instead 3) claim the tax deductions over the next 5 years you will save a total of $17,775.15. You could also decide to only spread it over 2 years. In this case you will save a total of $16,364.14.

The argument may be that if you deduct it all in 1 year you will have the use of all of the tax savings right away. In other words, you have the time value of money on your side. That may be true, however you would need to earn a guaranteed return of over 15% to make it worthwhile. I say guaranteed because tax savings are guaranteed.

Do you want to run some numbers? Either use a pen and paper with the tax table above or you can go to the calculators page of our website www.careyvandenberg.com/calculators.php and click on the "Income Tax Calculator".

IF YOU LEAVE CANADA, LEAVE YOUR RRSP IN PLACE

If you will be spending most or all of your time outside of Canada when you are retired be sure to leave your RRSP intact when you go. When you do decide to take an income from your RRSP (ie convert it to a RRIF), you will be better off taking that income after you've given up Canadian residency, not before. There are three steps you should consider:

Step 1. Leave your RRSP in place. If you were to collapse your RRSP before leaving Canada, you'd face a significant tax hit because that withdrawal would be fully taxable in the year the withdrawals were made.

If you wait until you're a resident of your new home (or old home country, depending on if Canada is your original or adopted home), the only tax you'll pay to Canada Revenue Agency (CRA) will be a 25% withholding tax on any withdrawals from your RRSP. The tax rate will only be 15% if you convert your RRSP to a RRIF or something similar, something which pays out periodic income as opposed to adhoc withdrawals. This is dependent on Canada having a tax treaty with your new country of residence.

Step 2: Step-up the cost base. If you've taken up residency in the US, any withdrawals from your RRSP will be taxed by the U.S. (on top of the Canadian withholding tax), however you can fix it so that virtually none of your withdrawals are taxed by Uncle Sam. He always you to withdraw from your plan, tax-free, the cost base of your RRSP investments as calculated on the day you took up residency in the U.S. So, if you can maximize that cost base, you'll be entitled to greater tax-free withdrawals in the U.S. This can simply be done by selling and re-buying the investments you currently have.

Step 3: Give up residency properly by cutting your ties completely. If CRA considers you to still be a resident of Canada, even after you've left the country, you'll face tax on your RRSP withdrawals at full Canadian tax rates, not the lower withholding tax rates.

Other Important Notes: CRA will consider a few things to determine if you are still a Canadian resident for their purposes. These include:

- The purpose and permanence of your move abroad. If you return to Canada to live, CRA may presume that you were a resident of Canada the whole time unless you can convincingly demonstrate otherwise.

- Your residential ties within Canada. This includes your home, spouse and dependents, personal property and social ties.

- Your residential ties elsewhere. The courts have said that you must be a resident somewhere. Also, you can be resident in more than one country at the same time. So, just because you are considered a resident of your other country doesn't mean Canada can't deem you to be a resident here (see 2).

- The regularity and length of your visits to Canada after you've left.

YOUR MORTGAGE LIFE INSURANCE MAY NOT PAYOUT AS YOU HOPE

I've always been critical about life insurance sold in conjunction or linked with a mortgage application. Mortgage insurance is actually even worse than I originally thought. On top of it being quite expensive, particularly if you pay down your mortgage faster than the scheduled 25 years or more, a much larger flaw was recently revealed on CBC's "Marketplace". It shows why mortgage life insurance may quite possibly not payout upon the death of you or your spouse. Even though you have been paying monthly premiums faithfully your insurance may not actually be collectible by you.

Regular life insurance requires that all medical checks be done before a policy is issued. This way, both you and the insurance company no exactly where both of you stand. Should you die during the term of the coverage the life insurance company is obligated to payout the amount insured. This is not the case in life insurance applied for with a mortgage. Mortgage life insurance is underwritten after you die (Post Mortem underwriting). This means they will check your past medical records to find any way possible not to pay you. Post Mortem U.R. is so flawed it is illegal in the U.S. www.careyvandenberg.com/mortgagelifeinsurance.php

WEB GEMS

In the course of a day or week, I come across a wide range of websites or information pieces which I find are great resource pieces for various parts of life. Many of them don't necessarily deal with money. Website reviews were a regular part of mutual gains several years ago but somehow, over the course of time, faded out of these pages. I will again include them on a regular basis and ask that should you come across a site you find to be particularly useful and valuable in your life I'd love to hear about it. The best ones will be categorized and listed on www.careyvandenberg.com for future reference in our "Resource" section.

AUTOMOBILE PURCHASE IN THE U.S. – I'm sure you have heard how car, truck and motorcycle purchases are significantly cheaper in the U.S compared to Canada. Why give $5,000, $10,000, or even $20,000 more for the exact same car just because you bought it in Canada? You can quite easily buy it from a U.S. dealer an hour or two drive away. If you expect to buy a car in the next couple of months (or a year or two), you should go through some of the resources that are on www.ucanimport.com. They even have a list of Canadian friendly dealers who will help make buying your next car from a U.S. dealer clean and simple.

ELDER CARE – issues dealing with our aging grandparents, parents, spouse, siblings and yes, you and me, will be something that creeps up on us. Aging issues can come up without notice or warning. Things like forgetfulness, anger, sleeplessness etc. The best time to be getting yourself informed on elder issues is before you have to deal with them. This way the emotional toll on you and your family will be minimized. To do that you can get "Elder Voice", the regular email communication written by Peter Silin of Diamond Geriatrics… www.diamondgeriatrics.com/newsletter/newsletter-directory.html

TIMESHARES – If you don't want to subject yourself to the high pressure time share sales tactics and high mark ups normally associated with buying a time share, you should definitely visit www.holidaygroup.com. Holiday Group, based in Seattle, sells time shares which they buy from their network of banks, developers and finance companies. These have been reclaimed often due to non payment. They are re-sold efficiently and at nice discounts to what you normally would pay. Email blee@holidaygroup.com.

Hhhhhmmmmm......

In the US, the typical recession lasts less than a year and, from their lows, equities rally an average of 36% over the ensuing nine months. Dixon Mitchell Investment Counsel

"Smart investors choose their portfolios based on their long-term investment goals and their sensitivity to volatility. Then they stick with them, as long as those two factors don't change. Moving money in and out of assets based on predictions about what will happen over the six months makes little sense as those predictions are as likely to be wrong as right."
Nikolas Lanyi, successor to the late Mr. Rukeyser, Wall Street Week

For the 20 years ending in 2006 the S&P 500 Index posted an impressive annual return of 11.8%. American's actively managing their own portfolios eked out just 4.3% which barely beat the 3% average for inflation. The ease by which we can buy and sell equity investments is the downfall for most investors.

The Chinese economy is growing at a torrid 11.3%. Inflation is running at 6.5 per cent however take food out of the calculation and inflation is only 1.1%. (The Fleet Street Letter)

Between 1985 and 1995, the U.S. dollar fell by over 55% against the Deutschmark, even more than it has recently fallen against the euro this time. Everyone prophesied that the U.S. trade deficit was unsustainable and that U.S. economic power had ended. What happened since then? The U.S. took off on its strongest period of growth in 35 years.

7 years ago, Nortel Networks was a $40 billion company whose shares were trading at $124. Today it's a $7 billion company whose shares are trading at about a buck and a half (pre-consolidation price).

Research in Motion, which debuted in 1997, now rivals Royal Bank of Canada as the largest publicly traded company in Canada.

A cheaper U.S. dollar is a significant benefit to U.S. based companies who have significant sales worldwide.

Approximately 90 million boomers have driven up housing demand in North America over the past 40 years. That trend will reverse itself when boomers are 65 to 75 at which time there will be three sellers for each buyer (USA Today, January 2008)

According to Statistics Canada, our country's population is growing by one "unit**"** every minute and 36 seconds.

When taken at age 65, CPP benefits are intended to replace 25% of our average lifetime earnings up to a maximum of Canada's average industrial wage, which is currently $44,900. For a single person with average annual pre-retirement income of $50,000, CPP and OAS combined will replace approximately 1/3rd their pre-retirement income. For couples with the same level of pre-retirement income, these public benefits will replace approximately 65% of pre-retirement income. At the other end of the income scale, singles with annual pre-retirement income of $200,000 can expect combined CPP/OAS benefits to replace only 5% of pre-retirement income while couples in the same situation can expect a 14% replacement rate.

Chartered Financial Planner

PS. A call came into me while I was preparing this. It was Shirley, one of my clients who was originally referred to me by her son 10 years ago, when she was going through a job change and the finalization of a marriage breakdown. She said I had been on her mind quite a bit over the past few weeks and felt compelled to call just to tell me that she really appreciated what I have and continue to do for her.

Why am I telling you that? If you find yourself talking to someone who seems a bit nervous about their financial situation, is going through a change in their life, or who just simply needs someone to partner with, to help make their life a bit easier, I am here to help. I would be honoured to serve ANYONE who is important to you.