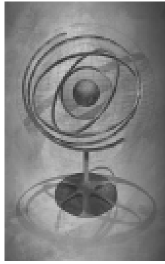
INVESTMENT
Focus

Personal Newsletter for the Clients of Fabien Ouellette

Winter 2009



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Unprecedented Volatility
Continuing Turmoil

There is an old saying that financial markets are dominated by fear or greed. Today, fear remains the driving force.

The reasons are well documented: the paralysis of global credit markets and the onset of a global recession which now shows signs of becoming a deeper threat than a usual cyclical downturn.

We are witnessing extraordinary events. Resource prices, particularly the price of oil, have plummeted. Consumer demand has dried up in many sectors. Real estate prices continue to fall. Political manoeuvres in Ottawa add to the uncertainty. Volatility in stock markets sees daily price changes of 5 per cent or more for quality individual stocks on a regular basis.

In the U.S., hitherto the champion of free enterprise and capitalism, the government has taken control of several corporations as it grapples with the challenges. Some household names have disappeared entirely from the financial sector as independent entities. As this is written, the domestic auto industry is pleading for government assistance to survive. Other hard-hit industries may be doing the same in the near future.

Where all this will eventually settle out remains to be seen, though a major restructuring of the commercial and industrial landscape seems to be underway. Quite understandably, equity investors have fled the scene, preferring to wait on the sidelines while the uncertainty is high.

When will we see the turn to more positive markets? Some people may prefer to wait until the economic statistics confirm that a rebound is under way before resuming their investment programs. But just as markets started to turn down when conditions seemed benign, upturns will start during the most difficult times, well before any recovery is apparent in the economy. Moreover, runups can be rapid, with much of the gain occurring in the early stages. It pays to be invested during such periods.

Respected investment managers point out that there are an increasing number of high-quality investment opportunities emerging as this market malaise goes on. Better times will ensue. In preparation, a disciplined approach emphasizing quality, patience, and a plan will serve investors well over the longer term.

Inside ...

- *Start a Tax-Free Savings Account*
- *Select Your Executor Carefully*
- *Perspectives on Bull/Bear Markets*
- *Maximize Your RRSP*

Available Now

Start a Tax-Free Savings Account

The tax-free savings account (TFSA) introduced in the 2008 budget is now a reality. Available at most financial institutions, they are highly recommended for virtually every qualifying individual.

In concept, TFSAs are somewhat of a mirror image of RRSPs — no immediate tax deduction but no taxes on withdrawals. They offer ultimate flexibility with no apparent disadvantages.

The basic features:

- Up to $5,000 per year may be contributed. This limit will be indexed in future.
- TFSAs are available to all Canadian residents aged 18 and over. There is no upper age limit or maturity date.
- While contributions are not tax-deductible, there will never be a tax on investment returns within the plan, nor any taxes payable on withdrawals.
- Annual contribution entitlements are never lost; they carry forward indefinitely into the future.
- Contributions can be made to a qualifying spouse's TFSA. Assets may be transferred to the spouse upon death.
- TFSA funds can be invested in a broad range of securities, similar to those qualifying for RRSPs.
- Withdrawals can be made at any time without penalty. Withdrawals will result in new contribution room of a like amount in the following tax year.
- TFSA contributions or returns do not affect means-tested income plans such as Old-Age Security (OAS) or the Guaranteed Income Supplement (GIS). This point is in contrast to RRSP rules, which is often cited as a disincentive to RRSP use by taxpayers with modest incomes.

Tax-free savings accounts promise to become a major element of financial planning for most individuals as time goes on. If the annual permitted contributions seem modest, consider that the TFSA program will allow a couple to save $10,000 per year on a tax-free basis. Over ten years, this amounts to $100,000 in savings, before considering any investment return.

Estate Planning

Select Your Executor Carefully

Do you have a will? Now that it is a new year, perhaps a quick review would be in order. This review should ensure that the terms of the will continue to reflect today's realities and objectives with regard to your personal affairs.

Another aspect to review is your choice of executor, that person named to carry out the instructions of the will.

The passage of time may mean that he or she is no longer in a position to act as your executor. In extreme cases, you may have forgotten that the named individual has predeceased you, or moved far away and, for practical purposes, is no longer available to assist your estate.

Not everyone will be suited for the role of executor. Consider that:

• It is a time-consuming job. Some of the duties can include looking after funeral arrangements, finding and listing the assets of the deceased, notifying financial institutions of the death, looking after the assets, which might include real estate properties and securities, until distribution, ensuring taxes and other obligations are looked after, and more.

• It's a big responsibility. In the matter of taxes, the executor will be held personally liable if tax obligations are not looked after before other distributions are made. Even the task of finding and listing all the assets may be a big challenge if there are no close survivors such as a spouse or children to offer guidance.

• Numerous skills may be required from various disciplines. These might include legal, accounting and financial management expertise.

• Family conflicts can flare up, even in previously most harmonious families. Jealousies may become apparent, or problems arise in allocating assets to various heirs. Executors must be diplomats while ensuring that the terms of the will are strictly carried out.

Lawyers say that most people name their spouses or a close relative as their executors. This is entirely appropriate, provided the persons named recognize their limitations and enlist professional expertise to help them. A competent lawyer, accountant or trust company will be most helpful to ensure all aspects of the distribution are properly looked after.

Potential executors should be asked if they are willing to serve. (It doesn't always happen!) If possible, they should also be provided at least with locations of documents that will help them initially in their duties.

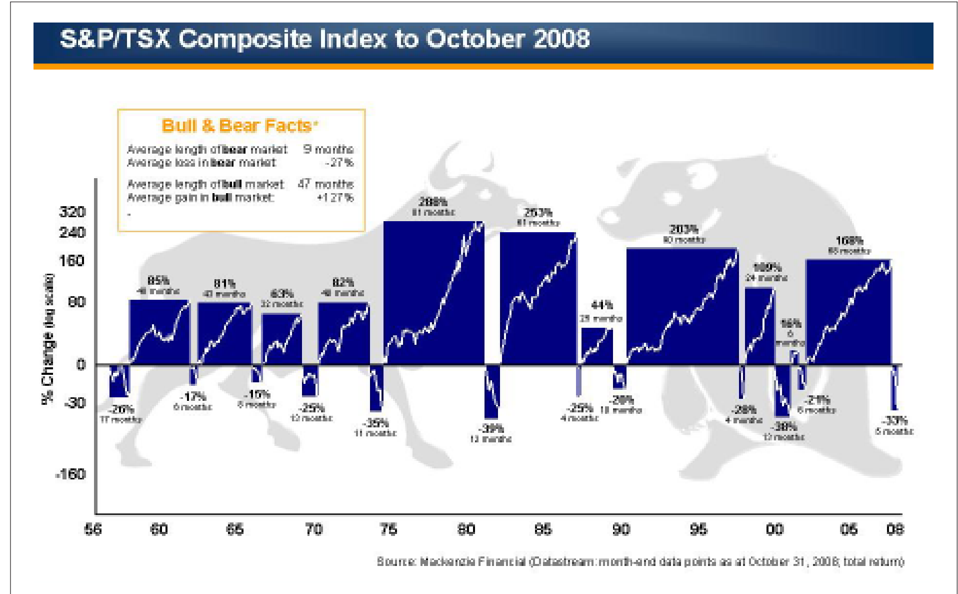
Staying Focused

Two Perspectives on Bull and Bear Markets

Here are two interesting perspectives that crossed our desk recently.

The first, courtesy of Mackenzie Financial Corporation, looks at bull and bear markets since 1950, using data to October 2008. The main point made is that bull markets last longer and are more powerful than bear markets during this period.

The current decline has proven to be more vicious than all the others, and could prove to be longer lasting. However, we shouldn't lose sight of the longer term potential and the possibility of strong recovery out the other side of the valley.



The second presentation, courtesy of Invesco Trimark Funds, looks at annual returns of the S&P/TSX Composite Index or predecessor indices from 1920 to 2005.

The commentary notes that the index had posted positive annual returns in 57 years, registering almost twice as many up years as down years. In addition, investors enjoyed double-digit returns in 38 out of 86 years, and returns greater than 20% in 24 of the 86 years.

In the 29 bad years, the market averaged -12.33% (compared to the 57 good years, when the average was +17.12%). The market had back-to-back negative returns only four times since the end of World War II.

The conclusion? Over time, the positives outweighed the negatives. While past performance cannot guarantee comparable future results, investors should focus on long-term goals, and not on the bumps in the road.

S&P/TSX —The Good Years

More than 30% gain		20%-29.9% gain		10%-19.99% gain		0%-9.99% gain	
1983	30.35%	2005	21.91%	2004	12.48%	2000	6.18%
1979	38.41	2003	24.29	1997	13.03	1991	7.85
1954	32.24	1999	29.72	1995	11.86	1988	7.28
1950	39.91	1996	25.74	1989	17.10	1987	3.06
1945	35.81	1993	28.98	1975	12.91	1986	5.71
1933	46.79	1985	20.84	1968	18.20	1982	0.20
1927	38.99	1980	25.12	1967	13.89	1977	4.75
		1978	23.63	1963	11.72	1976	6.08
		1972	23.83	1951	17.79	1971	4.54
		1964	21.46	1949	14.59	1965	3.23
		1961	28.66	1944	12.42	1959	1.35
		1958	26.75	1943	18.55	1956	5.31
		1955	22.63	1926	16.80	1948	5.90
		1936	26.46	1922	15.15	1946	0.40
		1935	22.55			1942	6.45
		1928	27.50			1939	1.97
		1925	22.68			1938	4.58
						1924	6.01
						1923	3.19

S&P/TSX —The Bad Years

0%-4.99% loss		5%-9.99% loss		10%-24.99% loss		More than 25% loss	
1998	-3.19%	1984	-5.96%	2002	-13.97%	1974	-29.25%
1994	-2.50	1970	-7.08	2001	-13.94	1937	-26.38
1992	-4.61	1952	-5.63	1990	-17.96	1931	-37.15
1973	-2.69	1941	-8.25	1981	-13.86	1930	-34.12
1969	-4.06	1921	-5.43	1966	-10.40		
1960	-1.86			1962	-10.25		
1953	-3.12			1957	-23.52		
1947	-4.61			1940	-20.90		
1934	-0.74			1932	-20.83		
				1929	-14.76		
				1920	-10.60		

Source: Invesco Trimark Funds, by permission.

Keep Your RRSP in Order

These are difficult days for investors, especially for those who have been used to an independent course of action and have built up their resources primarily in vehicles such as the Registered Retirement Savings Plan (RRSP).

If, as with most individuals, a portion of your RRSP has been invested in equities, 2008 was a most difficult experience. Even the highest quality names in virtually all portfolios suffered declines in value.

Unpleasant as market setbacks are, we know that periodic ups and downs are both part of the investment cycle. RRSPs are generally geared to the long term, with the goal of maximizing our future retirement income stream. Over any extended time frame, sound investment plans have done well.

Keep your sights on the long term as well. To the extent possible, maintain the contribution programs that you may have established for your RRSP. An ideal solution is an automatic monthly contribution plan which, depending on arrangements, may allow for dollar cost averaging. The latter will be particularly useful during this period of sharply discounted security prices.

If you haven't been using such a plan and need to contribute for 2008, check the accompanying box for your contribution limits.

RRSP Season: 2009

- ***Deadline for 2008 Tax Benefits:*** Monday, March 2, 2009.
- ***Contribution Limit for 2008 Tax Benefits:*** 18% of 2007 earned income, less any Pension Adjustment (PA) resulting from contributions to a registered pension plan or deferred profit sharing plan, to an overall limit of $20,000. Check your latest tax assessment notice from Canada Revenue Agency for your exact limit.
- ***Contribution Limit for 2009 Tax Benefits:*** 18% of 2008 earned income, less any PA as above, to a maximum limit of $21,000. Contributions can be made from now until March 1, 2010.
- ***Carryforwards:*** Unused contribution room may be carried forward indefinitely. Contribution room from past years can reduce 2008 taxes if contributions are made by March 2, 2009.

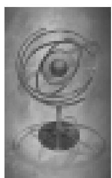
Spousal RRSPs Still Make Sense

Those taxpayers with non-working spouses should not forget the potential benefit of spousal RRSPs for income splitting.

Briefly, a spousal plan is a plan registered in the name of the spouse. Contributions can be made by either partner, with the amounts based on each partner's own earned income. Tax deductions belong to the contributor. Assets belong to the named spouse (in the case of a spousal contribution, there is a three-year waiting period or any assets withdrawn from the plan will be attributed back to the donor).

Spousal RRSPs continue to have merit for at least two reasons. First, the income splitting rules permit only 50 per cent of pension income to be split. A spousal RRSP will permit virtually all the remaining RRSP-related income to be transferred to a spouse if desired. Three years following the last spousal contribution, the spouse may also take RRSP money into income, with no restriction or attribution.

Second, if your spouse is much younger than you, you have the potential to contribute to the spousal plan (and receive the accompanying tax deduction) well beyond age 71, when normal contributions to your own plan must cease. This assumes, of course, that you continue to have earned income at that time.



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