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Money Wise!

CAQ Financial's Quarterly Newsletter

Quadrus Investment Services Ltd.

Compliments of: Rick Irwin, CFP, CLU
Investment Representative

Special points of interest:

- **Recently passed private members bill to make RESP contributions tax deductible?**
- **Government finally announces new Tax Free Savings Account**
- **Commentary on recent market volatility**
- **Why you should talk to a tax preparer if you're drawing a pension this year**

Inside this issue:

Markets at a glance

We hope this issue finds you well. After a long and tiring winter, the recent batch of warm weather is most welcome. On the investment front, the only thing more depressing than the weather had been the performance of stock markets in the first two months of the year.

Stock markets worldwide have been rocked by a "made in the USA" financial crisis that originated with low-interest-rate mortgages being given to individuals with shaky credit history. The interest rates were low due to the US Central Bank's effort to boost the economy by slashing interest rates following 9/11 as well as increased competition between lenders. As housing prices soared, Americans increasingly tapped into the equity in their homes to finance their spending. All of this came to a head when these low rate mortgages renewed at much higher interest rates. Housing affordability plunged, mortgage defaults soared and housing prices began to slide. In the meantime, the banks that issued these "subprime" mortgages sold off the debt (i.e. the risk) to other financial institutions through fancy financial restructuring. The credit rating agencies rated these pools of debt as investment grade, and banks, hedge funds and other institutions gobbled them up for the higher interest rates they paid over conventional debt instruments. Investors are now anxious to see the extent to which companies are vulnerable.

At times like these, it is important to keep a long term perspective. While the US has historically been one of the main drivers of global growth, increasingly, it has been the emerging economies of Asia, Central America and Eastern Europe that have driven the lion's share of global growth. Globally economic growth is still very strong. Until there are signs of a synchronized global economic downturn, we should remain patient. Most Canadian mutual funds have little exposure to US financial institutions fund managers are always tweaking their portfolios to manage the current environment as well as to position them for the long term. The key to success for the world's best investors has always been to be fearful when the general consensus is overly optimistic and to be positive when the consensus is negative It's never easy to have this patient long term view, but the rewards are there for those who can. Keep your eye on the end goal and try to avoid the day to day noise. Recently, the markets have been rebounding significantly....but don't expect to hear that on the evening news!

Housekeeping items

If your account was recently moved over to Quadrus Investment Services Ltd, you may have received a confirmation for a small purchase into a Money Market fund. If so, you're likely wondering where this money came from! This represents the cash account balance from your account at Manulife. The money in your cash account represents the interest that was paid during the time it took trades to settle.

So, while an $8 purchase into a Money Market fund doesn't have a material impact on your net worth, it is nice to know that you are getting all that you are entitled to from your Manulife account.

On another note, we recently received notice that as of 2009, Manulife will be increasing the threshold at which Nominee Name accounts are charged an Annual Trustee Fee. Currently, fees apply to accounts less than $60,000, but starting in 2009, fees will be charged to all plans less than $150,000 . As well, the fee is increasing to $125 a plan. Combined, these moves would have meant hundreds more of our client accounts would be subject to fees, and in total our clients would have been paying tens of thousands of dollars more for the same service. As a reminder, Quadrus does not charge fees on their Nominee Accounts! :)

Notice concerning transfer of accounts from Manulife to Quadrus

I wanted to provide a short update on the transferring of accounts from Manulife to Quadrus. At present, over three-quarters of all mutual fund accounts have been moved and we will be taking steps to move the remainder over the next month or so. If you haven't received paperwork to move your account, you will shortly.

I also wanted to address any concerns you may have regarding the transferring of your investment account from Manulife to Quadrus. The transfer has taken longer than expected and I apologize for any service interruptions experienced along the way. We are now nearing completion of the transfer process and I would again like to express my thanks for your patience during this transition period.

I have recently fielded a lot of calls pertaining to the transferring of accounts. This is to be expected. The following should serve to answer a lot of these questions, and if not do not hesitate to call and I will respond at my earliest convenience.

<u>Will it cost me anything to move my account(s) out of Manulife</u>? No. Quadrus has provided an allowance to cover the cost of moving our clients' accounts. This allowance will cover the majority of the cost and I am making up any shortfall personally, so it will not cost you anything to transfer out of Manulife.

<u>Why is my first statement from Quadrus showing a smaller account balance than my most recent Manulife statement?</u> Most likely, your account was transferred from Manulife during the month of January. The markets fell, quite significantly, during the month of January. Therefore the value transferred in to Quadrus mid-January was, in many cases, quite a bit less than the amount showing on your Manulife statement for the beginning of the month.
Note: You are in invested in the same funds as before and there were no charges incurred to move from Manulife so the difference in values is simply due to the fluctuation of the market in this time frame and would have been the same result whether your account had been transferred or not.

<u>What is the cost to move my account?</u>
Manulife is levying a transfer-out fee of $150 (plus HST) per account, in addition to charging a $100 Annual Trustee Fee, where applicable, on registered accounts that were not moved by Dec 31, 2007. Manulife charges this Trustee Fee to offset the cost of providing a single account consolidated between multiple fund companies. **As a reminder, Quadrus does not charge an annual fee on their Consolidated Accounts.** The total cost to transfer a typical account would be between $171 & $285, depending on whether a 2008 Trustee Fee is applied in addition to the transfer out fee. **Regardless of the total cost, it will not cost you anything.**

<u>Why am I showing a fee on my statement?</u>
Manulife required that Quadrus paid the Transfer-Out Fee before they would release your account, rather than billing them after the transfer was done which is normally the case. In many cases, Quadrus paid Manulife the fee in 2007, when the HST was 14% so the transfer out fee, including tax, was $171, even though the account was not transferred until 2008, when the HST was 13% so the actual fee levied was $169.50, tax included. The $171 payment made by Quadrus to Manulife showed as a deposit into your cash account ("a fee deposit was made"). If you do not see this deposit on your January month-end statement from Manulife, you can (and should) verify that the fee deposit was made into your account on the previous statement: in this case the December 2007 year-end statement. The fee deposit will show up under "your cash account transactions in this plan."

For further clarity: unless your account was transferred out of Manulife in December 2007, your cash account balance showing at the beginning of the Jan 2008 Manulife statement should be a minimum of $171. Since you did not make a deposit to the cash account of your plan recently, this cash balance is a result of Quadrus' fee deposit in December. If you cannot reconcile the fee deposit & withdrawal between statements (as in most cases they occurred in two different months), please let us know.

<u>Why am I not showing all my accounts on the new online viewing system?</u> In some cases, perhaps one or more of your funds haven't yet transferred over. The transfer process can take several weeks and we are following up to ensure accurate and complete transferring of all accounts. Another issue pertains to Joint Non Registered accounts. **You will need a separate userid & password to view these accounts.** Please contact us to request this access if it is applicable.

In closing, all parties involved are working very hard to ensure the timely and accurate transfer of your account. An interruption of a monthly deposit to, or withdrawal from, your bank account is to be expected during the changeover. **If your monthly deposit or withdrawal is more than one month behind, please contact us immediately** so that we can work to get things back on track as quickly as possible.

If you have any other questions about your account, the transfer process or the markets in general, do not hesitate to contact our office. The recent office move, coinciding with the normally very busy RRSP season, did push us a little behind in terms of response time. But I want to stress that you are my #1 priority and I am never too busy to fulfill that responsibility.

Tax Free Savings Account

Without a doubt, the biggest gift for investors in the 2008 budget was the long-awaited introduction of a new savings vehicle that will allow Canadians to save money, not just for retirement but for any purpose on a tax-exempt basis. Starting in 2009, assuming the budget passes, Canadians will be able to make contributions to a new Tax Free Savings Account (TFSA).

What is the advantage of this new savings vehicle and how is it different from an RRSP?

Unlike RRSPs, contributions to the plan are *not* tax deductible but any income or gains within a TFSA won't be taxed either when inside the plan **or upon ultimate withdrawal.** This is similar to programs in the US and UK. . This is an enormous tax advantage for Canadian investors. Anyone who is of the age of majority can open a plan and t**here is no maximum age.**

How much can I contribute?

Like RRSPs, the amount you can contribute to a TFSA will be based on your cumulative contribution room. Starting in 2009, all Canadian residents aged 18 and older, and who have a Social Insurance Number, will begin to accumulate $5,000 (to be indexed annually and bumped up in increments of $500). Unused TFSA contribution room will also be carried forward indefinitely to future years. However, unlike RRSPs, the amount of any withdrawals from a TFSA are automatically added to your TFSA contribution room for the following year, allowing individuals who withdraw their TFSA funds to re-contribute an equal amount in a future year

Planning opportunities

One of the biggest criticisms of the current RRSP system is when the funds are withdrawn, not only are they taxed at the retiree's personal marginal tax rate, but in many cases they affect the retiree's eligibility for income-tested government benefits, such as Old Age Security (OAS) or the Guaranteed Income Supplement.

The government announced that withdrawals from the TFSA, since they are not considered to be "income", will have no impact on government credits or benefits.

For someone with modest RRSP assets, it may make sense to cash out their taxable accounts early (before age 65) and convert this money into tax-free savings accounts so that they qualify for the maximum GIS benefit. Doing so will involve paying tax on

Number crunching is definitely involved before embarking on this strategy. If you are in an income level where you would be the recipient of Income Supplement benefits *without* your RRSP income, you should try to eliminate your RRSPs before age 65 so you will qualify for this benefit. Otherwise, you will face an effective 74% tax rate in retirement: 24% being the lowest tax bracket and the other 50% being the 50 cents on the dollar lost in income supplement benefits due to your RRSP income. If you-or anyone you know-has combined household RRSP assets of less than $100,000 and has several years of retirement before age 65, they should consider this option!

For clients with Non Registered portfolios currently, it will no doubt be very tax-advantageous to start converting these plans into TFSA's starting in 2009. (At the rate of $10,000 per year per couple). There would be some tax to pay to move the existing investments into TFSA's but to gain the future benefit of tax-free growth and tax-free withdrawals, it should be worth it!

Recent proposed changes to RESP contributions

You may have heard in the news recently that a Liberal private-members bill was passed that would make contributions to RESPs (Registered Education Savings Plans) tax deductible, if passed into law, giving contributions to these plans much the same tax advantage as contributions to RRSPs.

Currently, investments in RESPs are made with after tax dollars. The federal government provides a 20, 30 or 40 percent grant (dependent on family net income) on the first $500 contributed and a 20% grant on the next $2,000 via the Canada Education Savings Grant Program. The Grant provides a greater incentive to lower-income families.

Some families have not participated in the current RESP program due to potential negative tax consequences for the parents upon withdrawal of funds from the plan, as well as limits on what the funds can be used for.

The ability to deduct RESP contributions from income tax suddenly makes RESPs extremely attractive, particularly if the tax deduction is combined with a 20% grant on the money being invested! Under the new rules, a $2,500 contribution to an RESP would generate approximately $1,200 in government money: $800 in immediate tax relief for the contributor (at the 2nd tax bracket) and $400 in grant room added to the investments for the beneficiary.

In this environment, there would quite likely be many grandparents willing to set up RESPs to reap the personal tax benefits (particularly those unable to contribute to RRSPs).

It's unlikely, however, that both incentives (tax deductible contributions & the Canada Savings Grant) will remain in place. I hope they will!!!

Time will tell what, if any, additional tax relief families will receive to help with their education savings goals but at least it puts the issue front and centre.

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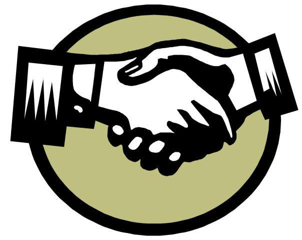

A referral is the best compliment that a client can give. Many thanks to all our clients who have referred us over the past year!

Remember pension income splitting when filing this year's taxes!

For many retirees, this year's income tax return is likely to leave you with a smile on your face if one spouse currently receives a large pension and the other does not. In October 2006, when the government effectively disallowed the tax advantages of income trusts, they introduced something much more value to many retirees: pension income splitting. Anyone drawing a pension can now split up to half of this income with their spouse and Canadians 65 or older can share income from their Registered investments as well. If one spouse is in a Higher tax bracket than the other, pension income splitting can reduce the overall tax burden, possibly significantly. If you-or anyone you know-may be affected by this change, you'd probably be doing them-or yourself-a favour by suggesting they have their return done by a professional this year. The potential tax savings are too valuable to miss!

Reasons to love market volatility

No doubt about it, equity markets have been volatile lately. But is that a reason to sell your stock portfolio and stash your cash under the mattress?

Absolutely not. As painful as market volatility can be, there are some very good reasons to love it. Yes, that's right: love it. Contrary to popular belief, not everything about market volatility is bad. Allow us to explain:

1. Bear markets are big sales

If you're like most Canadians, you're probably not in the habit of going to the store and asking to see the most expensive items. More likely you read the weekly flyer and look for the bargains. That's not a whole lot different from the way you should approach investing. During periods of market volatility, opportunities can arise to purchase strong, well-managed companies with a bright future at artificially low prices. Although speculation is not a wise thing, especially for the amateur investor, an opportunity for long-term value investing can be very worthwhile.

2. You're probably not finished buying equities yet

Even if you're retired and you rely on your portfolio for income, you may still need a portion of your portfolio invested in equities to keep growing your assets and make them last longer. So, if you know you'll be investing in equities for several years to come, the little 'valleys' that come with normal volatility represent important buying opportunities for you. In fact, buying good companies at their most reasonable prices is a strategy used by many mutual fund managers. That's why a good mutual fund may be a wise purchase after a market correction (as opposed to the onset of recession or other major downward trend in the economic cycle).

3. Market volatility reminds investors about risk

Whenever the stock market experiences a long-running bull market, some investors can lose their perspective on risk. However painful it may be, market volatility helps remind investors about the importance of understanding one's risk tolerance. Market volatility is a natural pause button for your portfolio, allowing you to analyze your current mix of investments and compare it to your ideal mix. Rarely is it a good idea to sell an investment as a knee-jerk reaction to a downturn, but rebalancing a portfolio according to plan can improve risk-adjusted returns in the long run.

4. Bear markets help us focus on what really matters

Perhaps most important, market volatility forces us to think about what we're really doing when we invest. The end goal of investing isn't swinging for the fences. Instead, we save and invest to accomplish significant life goals: higher education for our children, secure retirement for ourselves, and good care in our final years. These goals never change, regardless of what the market does in the next three, six, or even twelve months. Market volatility makes it a little easier to temper our ambition. And that's a good thing.