

Great news for savings

It doesn't rival the RRSP yet, but the newly proposed Tax Free Savings Account might be just as important an investment vehicle down the road for working families, experts say.



The 2008 Federal Budget, proposes that starting in 2009, Canadian investors will be able to put in \$5,000 a year in a TFSA. Contributions to the TFSA will not be tax-deductible as they are for an RRSP, but investment income, including capital gains will not be taxed as income. In addition, investors can withdraw money from the TFSA at any time — tax-free — without reducing their contribution room. For example, they withdraw \$5,000, and that \$5,000 can be put back into the plan later.

Larry Chapman, a tax specialist and spokesperson for the Canadian Institute of Chartered Accountants, says once the contribution room on the plans has had time to grow, the TFSA will be very valuable. He notes the TFSA's ability to turn any RRSP-eligible investment's growth into tax-free income gives it a huge flexibility in how it can be used and what can be invested in.

For young investors the benefits are obvious: tax-free compounding over their lifetime. A 25-year-old investor in 2009 will have more than \$150,000 contribution room by the time they are

55. Because the contribution room accumulates and can't be removed, it will still be valuable to older investors, who may be in their 40s and have missed contributions.

Lower-income earners won't be deterred from investing in the TFSP, because they won't have to worry about having their government benefits being rolled back in retirement if they take out investment income. There aren't the usual restrictions you have with RRSPs. There is no requirement to take the contributions out at age 71 so flexibility is key.

RESP now extended



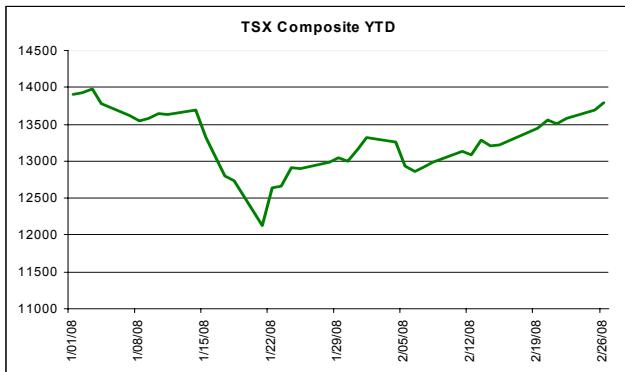
The children of those contributing to Registered Education Savings Plans could have an additional 10 years to make use of the

accumulated assets — proposed changes increase the amount of time an RESP may remain open from 25 years to 35 years. The proposal also extends the maximum contribution period by 10 years. Changes to plan termination limits and the maximum contribution period would apply to all existing and future RESPs, effective January 1, 2008.

The markets are behaving like markets!

We can sometimes get caught up in the short-term news and lose focus of the big picture. From the reaction of the talking heads on TV

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or the newspaper, you would think that some sort of disaster of unprecedented proportion is in full swing. But how short is short-term?

Above is a chart showing the TSX Composite Index for 2008 (as at 26 Feb).

We see that the market is almost back at the opening figure for the year. The market did fall over 12% but the closing market percentage as at the chart is 0.8% below the opening of the year. That is only 38 trading days! Surely our time horizon is longer than 38 trading days. In fact if you were fortunate enough to purchase on January 22, you would have seen over 13% rate of return in just 25 trading days.

The object lesson from this chart is that we regularly need to reflect on what our long-term goals and objective are and as such keep focused on the "target" and not the "distractions" that may divert our attention from our "target".

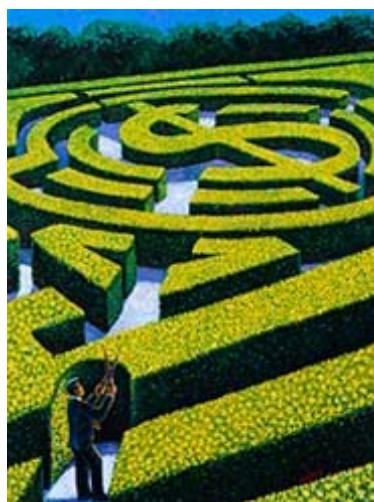
Pension style management

Many of you who have been in our office recently have had the discussion regarding our intention to migrate many of your portfolios to "pension style" management. Just what is "pension style" anyway?

Pension plans are not "one person shows" or portfolios built around a star individual. They are managed by a team of experts who are

allocated a portion of the assets to administer according to their area of expertise. They are then usually monitored by a committee or outside pension consultant who has the ability to question their reasoning and decisions and if warranted, to replace the management to reflect the actual mandate of the portfolio. Some firms use an "in house" committee and others use outside independent pension consultants to administer the asset management.

In Ontario, we only need to look at the Ontario Teacher's Pension Plan to see how asset mix can be achieved efficiently through pension style. But it is also key to the returns experienced by the Canada Pension Plan. These plans formerly had only fixed income instruments to deliver the returns but with the impact of inflation eroding the pension plan (along with a declining deposit base), it has become necessary for them to include other assets into the portfolio to improve performance.



This kind of investment structure was very costly to administer but by pooling our resources with other investors, we are now able to take advantage of the same process as most pension plans.

One added advantage is the excellent reporting with these products. Once your portfolio has been completely transitioned to the pension management system, you will consistently be able to see your personal rate of return and compare it to that of "benchmark" returns such as the bond index or the equity indexes.