Wealth Matters – Winter 2007

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In this Issue:

Working Longer – Views from Sherry Cooper, Economic Strategist
Investment Markets – 2007 in Review
Our Office is Moving in March 2008
Income Tax Tips for 2007

Working Longer

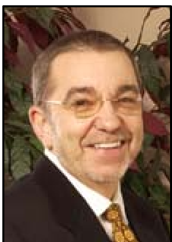
Sherry Cooper is an Executive VP and economic strategist with BMO Financial Group. She is often quoted in the media and was recently promoting her new book "The New Retirement".

BMO surveys "consistently find about 80% of pre-retiree boomers … want to work in retirement." Perhaps surprisingly, this desire is driven the least by money, and mostly because boomers want to have a sense of purpose, to help others, and to maintain a social network. Cooper notes that the number of workers in most age groups is shrinking, but as boomers in their 40s and 60s decide to work longer, the workforce in the 55-65 group is the only one still growing. While money is not a primary reason for working longer, the economic reality of funding retirement income could be a contributing factor to the decision. Cooper says, "The rule of thumb is for every dollar earned pre-tax in retirement you'll need 20-25 dollars in saving. Or, if you want pre-tax income of $50,000 over and above your pension, you will need to save at least a million dollars."

But, she believes that boomers generally understand the challenge. "Though these numbers are large, I believe in Canada that most boomers who are affluent have some sense of the magnitude of the savings required," she says. "And most boomers will look for other opportunities to work flexibly well into what we used to consider old-age." And while a general sense of the financial challenge is a good thing, she believes many will underestimate the actual size of the target for their own goals. She also challenges the idea of living on home equity, saying that most people find it very difficult to successfully downsize. "Space is relatively cheap per square-foot in single family homes, and relatively expensive in condominiums."

Cooper says that Canadians with lower incomes will be the most secure in retirement, mainly because of our universal health care system and the value of mandatory Canada Pension Plan and Old Age Security programs. "The household that earns less than median income ($58,000 annually) can expect to see replacement of about 89% of their income in retirement," she explains. But because government pensions have maximums, those earning six-figure salaries can only expect these to replace about 30% of their income.

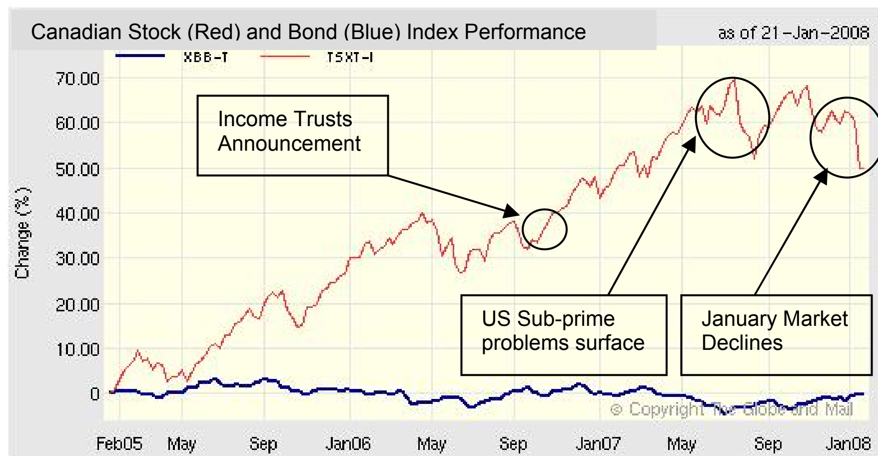
Cooper is convinced that retirees should be holding onto their equities for longer. She notes that bond and GIC yields are very low, and that inflation has a greater effect on the prices of goods and services that seniors tend to purchase, compared with published overall inflation figures. She says that the stock market is the only investment vehicle where significant gains can be made at a tax-preferred rate.



Investment Markets

The big news in the last quarter of 2007 was the fallout from the US subprime mortgage problems and its impact on Asset-Backed Commercial Paper and credit markets in general. Our Fall newsletter reviewed the sources and impacts of these issues in both debt and equity markets. Let us know if you would like a copy.

At the time of this writing in early January, declines in equity markets are making headlines. While these declines are large, a look at the 3 year history in the graph below shows that this most recent decline brings the market just below where it was in October 2007 as the sub-prime debt issues depressed the market. The 5 year average in the Canadian market to the end of 2007 was still 18.3% per year, and even after the 2008 decline of 9%, the 5 year average is still well over 15% per year.



The Canadian Equity market had a mixed year in 2007 overall. The S&P/TSX – the most commonly reported index reflecting this market, was up 9.83% in 2007, but the gains came mainly from oil and gas and mineral as commodity prices on world markets increased with demand from the rapid growth of developing economies. The recent declines in commodity prices from their 2007 highs has caused the market prices of commodity producing companies to give up some of their 2007 gains. The peculiar thing about the Canadian Equity market is that it is concentrated in just a few business sectors – primarily Mining, petroleum, forestry and financial services - underrepresenting a number of important sectors. In the past few years, the sectors Canada is heavy in have performed well, but what of the future? A prudent investor would diversify across the sectors more in line with how the global average is.

The chart below shows each of the last 10 years prior to 2007, and ranks the relative performance of various investment markets. It is rare to see any one market leading in more than two consecutive years.

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
US Equity 39.2%	Emerging Markets 57.2%	Canadian Bonds 10.2%	US Small Cap 8.9%	Canadian Bonds 8.7%	Canadian Small Cap 50.2%	Emerging Markets 16.8%	Emerging Markets 31.2%	Emerging Markets 32.1%	Emerging Markets 19.5%
Global Equity 27.8%	Canadian Equity 31.7%	Canadian Equity 7.4%	Canadian Bonds 8.1%	Canadian Small Cap -4.9%	Emerging Markets 27.8%	Canadian Equity 14.5%	Canadian Equity 24.1%	Foreign Equity 25.9%	Canadian Equity 9.8%
Foreign Equity 28.8%	Foreign Equity 20.0%	US Small Cap 0.4%	Emerging Markets 3.8%	Emerging Markets -7.0%	Canadian Equity 26.7%	Foreign Equity 11.5%	Canadian Small Cap 14.3%	Global Equity 19.6%	Canadian Bonds 3.7%
Canadian Bonds 9.2%	Global Equity 18.1%	Canadian Small Cap 0.4%	Canadian Small Cap 1.1%	Canadian Equity -12.4%	US Small Cap 20.5%	US Small Cap 9.7%	Foreign Equity 10.7%	US Small Cap 17.9%	Canadian Small Cap -3.1%
US Small Cap 4.6%	Canadian Small Cap 17.4%	US Equity -5.9%	US Equity -6.4%	Foreign Equity -16.8%	Foreign Equity 13.4%	Canadian Small Cap 7.4%	Global Equity 6.7%	Canadian Small Cap 17.6%	Foreign Equity -5.2%
Canadian Equity -1.6%	US Small Cap 4.6%	Global Equity -10.2%	Global Equity -11.6%	Global Equity -20.7%	Global Equity 8.9%	Canadian Bonds 7.1%	Canadian Bonds 6.5%	Canadian Equity 17.4%	Global Equity -7.0%
Canadian Small Cap -19.0%	US Equity 14.4%	Foreign Equity -11.2%	Canadian Equity -12.6%	US Small Cap -21.3%	Canadian Bonds 6.6%	Global Equity 6.4%	US Equity 2.4%	US Equity 15.4%	US Equity -10.4%
Emerging Markets -19.9%	Canadian Bonds -1.1%	Emerging Markets -28.2%	Foreign Equity -16.5%	US Equity -22.9%	US Equity 5.3%	US Equity 2.8%	US Small Cap 1.9%	Canadian Bonds 3.8%	US Small Cap -15.8%

Even the best analysts won't agree on which market or sector holds the best potential in the future. This underlines the importance of diversifying a portfolio across a number of different markets and sectors, to control overall risk while maintaining the potential for growth.

When, as now, all equity markets seem to be dropping at the same time, the temptation is very strong to sell all equities and park the money in cash or bonds or GICs. In practice, this does not usually work well for the investor for the following reasons:

- The alternatives aren't attractive in the long run. As Sherry Cooper says, you need some equities to protect you against inflation. Cash accounts only pay 4% interest and taxes reduce this by up to half. Inflation usually exceeds what you have left. GICs don't pay much more, and rates are falling.
- Hindsight can blind you! We don't see that a decline is a major one until after it has happened. In the same way, we won't see the recovery until much of it has already happened. Selling after a decline thereby dooms us to sell low and buy high – just the opposite of what we're supposed to do.
- "I'll get back in cheaper once it falls farther." This rarely works, for the reasons mentioned above. Very few professional market traders can consistently time the market correctly on both the sell and the buy.
- Retreats are Normal. We expect them. But they are temporary. This is the 'volatility' that equity investors are rewarded for enduring. Recovery after a setback is usually extraordinary – double the average growth rate. You don't want to miss this.
- Why sell your good holdings just because it's down? A professional portfolio manager, and their team of analysts, will ensure what you are holding is an appropriate balance of defensive and offensive positions within each asset class. Regular re-balancing back to target proportions will discipline you to avoid the emotion to sell out, and will force the 'buy low sell high' discipline.

So how is an investor to react to these market events? Investors with a written plan already know in advance how they will handle things using five key ingredients:

1) A Principled Approach
Before they even start to invest, successful investors have given a lot of thought to the investment process. They've established clear, practical principles to guide their investment decisions and portfolio strategies. Establishing these principles before constructing the portfolio makes it easier to achieve the desired risk/return profile and avoid financial mistakes.

2) A Disciplined Mindset
Successful investors don't pay a lot of attention to the market. Certainly they're aware of long-term trends. But they don't obsess about short-term market volatility. Instead, they stay focused on their plan and apply their investment principles to every financial decision. This discipline helps them remain calm no matter what the markets are doing.

3) An Emphasis on Reason Rather than Emotion
Without doubt, investing can be an emotional process. But successful investors have found a way to take emotion out of investing. They consider both opportunities and risks on a regular basis with a calm, clear mind, and maintain a balanced perspective in times of market euphoria and in times of market panic.

4) A Desire for Independence
Successful investors are independent thinkers. Instead of following the crowd, they base investment decisions on a reasoned, rational analysis of relevant information. They aren't afraid to go against conventional wisdom when they feel it's the right thing to do. That way, they can avoid the media investment hype and evaluate each opportunity on its own merits.

5) A Team Approach
No matter how proficient they may be, successful investors realize they can benefit from the knowledge and experience of professionals such as investment advisors, accountants and bankers. Instead of trying to learn everything themselves, they view the investment process as a partnership. They often find a trusted, knowledgeable advisor, and work with that advisor to attain a well-defined goal.

A solid well-designed portfolio does not need to be taken apart and rebuilt each time there are changes in the market. A strategic long-term asset allocation and regular rebalancing will see you through. We would be glad to help you develop your own Investment Policy and target Asset Allocation for your specific situation.

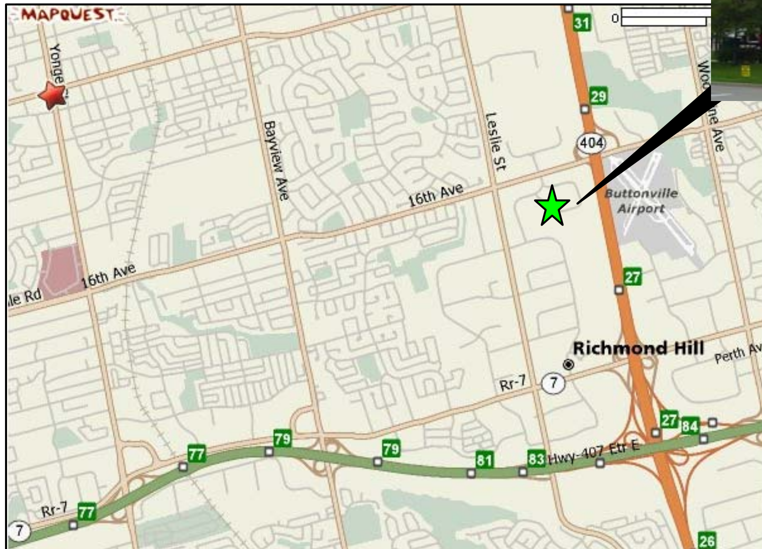
If you would like to discuss your situation with us in confidence,
please call us to arrange your own Initial Assessment and Evaluation meeting.

Financial Planning services provided by Page and Associates Ltd. This is not an offer to sell any product.

Our New Home in Richmond Hill

Sometime in March, we will be moving our operation to a new location in Richmond Hill.

Our new offices will be located in the professional building at 95 Mural Street, just south of 16th Avenue between Leslie Street and Highway 404.



The new location is only 2 major blocks east of our current office, and one block south. Access is easy off 16th Avenue as you are driving toward Highway 404, or off Highway 404 either north- or southbound.

The building offers plenty of surface parking, as well as some covered parking areas at the rear.

Our primary telephone number 905-884-5563 will remain the same as before, and any mail you send to our current address will be forwarded, so there should be no interruption in our service.

Tax Time

Tax rules have been changing more rapidly than ever. Now that Ontario tax is a separate calculation from the Federal tax, two sets of rules change each year, and some announcements have been made at unusual times.

One of the biggest changes for 2007 is the ability to split certain pension income amounts up to 50% with your spouse. This strategy can save a typical retired couple up to $4000 of tax. A recent article in Advisors Edge magazine reported that three of the most popular tax preparation software packages **do not** include a function to determine the 'ideal' amount to split in order to minimize taxes. The calculation can be complex, and if you don't enjoy math problems, you might consider using a tax preparer this year. Let me know if you need help.

Important Dates:

- February 28th – Tax reporting slips for 2007 are mailed out by this date for most income sources and deductible amounts. *Flow-through share tax slips are not mailed until late March as the issuers need to assemble information they may not receive until Feb 28th, so if you will be claiming the Canadian Exploration Expense deduction on shares purchased in 2007, you will need to wait for these slips.
- February 29th – Deadline for RRSP contributions that can still be deducted against 2007 income.
- March 31st – T5013 slips for 2007 Flow Through Share purchases are mailed about this date.
- April 30th – Deadline for filing 2007 tax returns and making payments if you still owe an amount.

Feedback

We hope you've enjoyed this newsletter. Your comments are important, and they are very valuable to us. Please let us know any ideas you may have for improving the newsletter, or topics you'd like to see in future issues!

Did you know? – you can receive this newsletter by email? We'd gladly give our environment a break by sending you the next newsletter electronically. Please email contact@askpage.com with your full name, and we'll switch you to the email version next time. *Thanks!*