Wealth Matters - Spring 2008

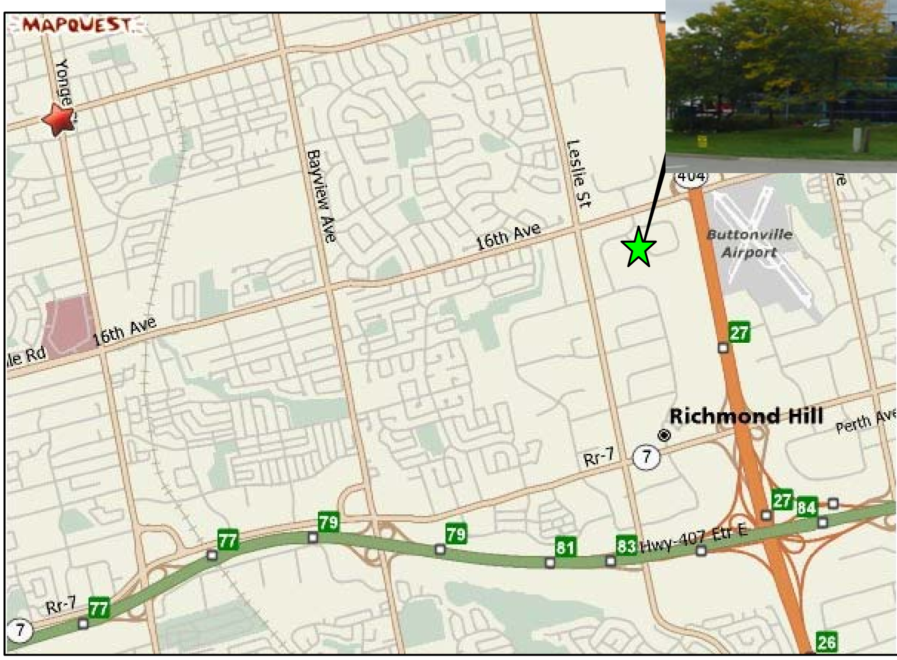
95 Mural St., Suite 405,
Richmond Hill, ON. L4B 3G2
905-884-5563
www.askpage.com

In this Issue:

Our New Home in Richmond Hill

On the weekend of March 29th, we moved our operation to a new location in Richmond Hill.

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

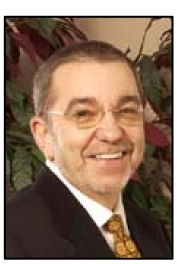


The new location is only 2 major blocks east, and one block south of our old location. Access is easy off 16th Avenue as you are driving toward Highway 404, or off Highway 404 either north- or southbound.

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

The complete new address is in the header of this newsletter.

Our telephone number 905-884-5563 will remain the same as before, as will our fax numbers and email addresses. Any mail you send to our old address will be forwarded to the new office by Canada Post. If you're trying to reach me directly, please use our "back door" number 905-508-8220, and just enter my extension number.







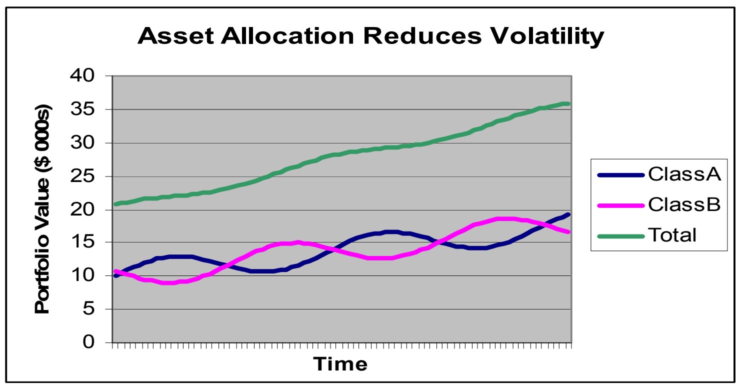

Investment Markets

At the time of this writing in mid-March 2008, headlines are dominated by the following themes: economic slowdown in the USA; continued writedowns from the sub-prime mortgage issue; rising crude oil, gasoline and gold prices; declining interest rates. What should we do as portfolio custodians to deal with these issues?

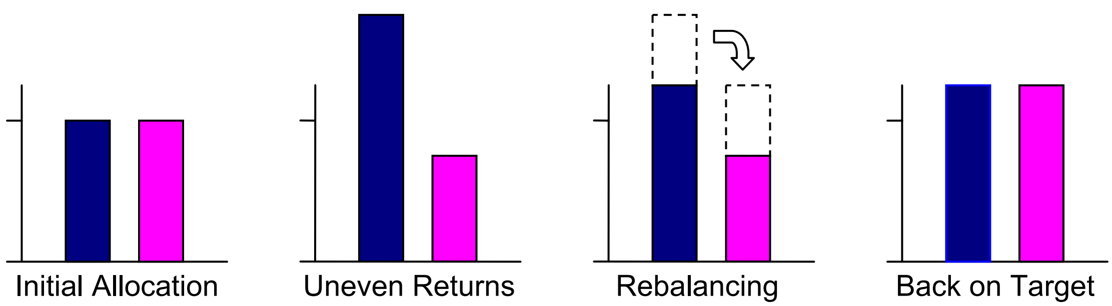
The flowchart on the next page outlines the best practices of portfolio design. In our last newsletter we explored **Diversification** across markets to avoid being over-exposed to declines in any one market, and ensuring that we always have exposure to some winning markets (let me know if you'd like a reprint of this). But how do we decide the percentage of assets to keep in each of a number of asset classes? This decision is called **Asset Allocation**, and we explain below some best principles on how to achieve an effective allocation.

Long term, all markets have positive rates of return. The likelihood of an entire asset class becoming worthless is pretty much zero. When we talk about risk, we refer to how often there is a downturn and how severe it usually is when it does happen. Together, these two factors describe **volatility**. If we have a long time horizon, and the emotional ability to tolerate sizeable downturns, we could afford to hold the most volatile asset classes, which have also experienced the highest total rates of return in the long run.

Since asset classes do not always move in the same direction at the same time, we can combine classes that tend not to move together, thereby offsetting losses in one class with gains in another, as shown in the graph to the right. Surprisingly, *adding a volatile class to a portfolio can actually reduce total volatility.* Computer modelling can suggest the optimal balance between classes to either maximize return or minimize risk, depending on the goals of each investor.



From time to time, a particular class will exceed its target allocation, while another will be underweighted relative to its target. Research shows that every year or two **re-balancing** the portfolio back to its targets can capture the gains made in the classes that grew, while forcing us to buy more of the other classes while they are relatively cheap. This practice is shown to enhance the overall return of the portfolio over time. A number of Asset Management Services can perform this function for us automatically, or we can advise you when it is appropriate to do so, and execute it for you.

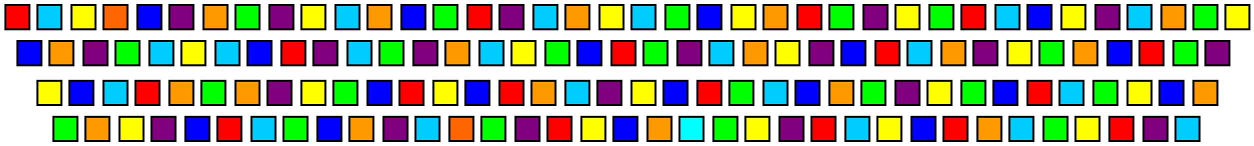


Sticking closely to a target allocation over time is called **strategic asset allocation** and is typical of large pension funds and conservative portfolios. Some investors and their advisors prefer to alter the target allocation over time in response to economic factors. This is called **tactical asset allocation** and requires some educated guesswork and predictions about the future direction of classes. This process does add an element of risk, and for this reason we draw from the experience of highly-regarded market strategists and economists for ideas when helping our clients implement a more tactical approach, or we delegate it to an Asset Management Service. Having said this, most of our clients choose the strategic approach to control risk.

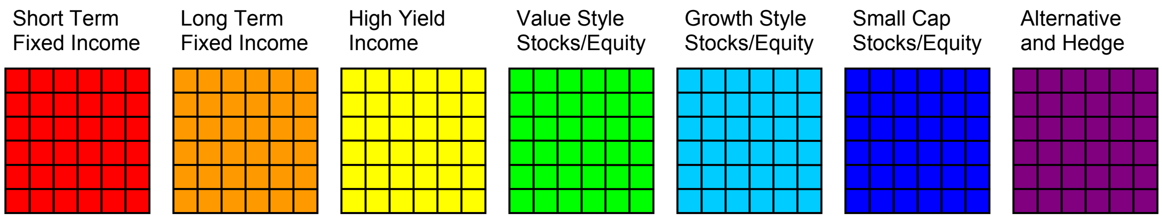
Decisions about asset allocation strategy are quite personal and therefore vary between individuals.
We would be glad to develop an Investment Policy and target Asset Allocation for your specific situation.

Portfolio Construction Best Practices

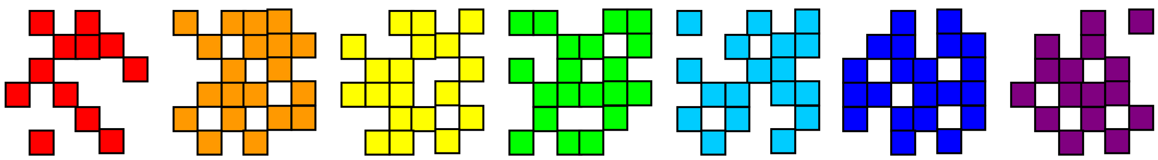
All Securities: Thousands of GICs, bonds, stocks, and other instruments.



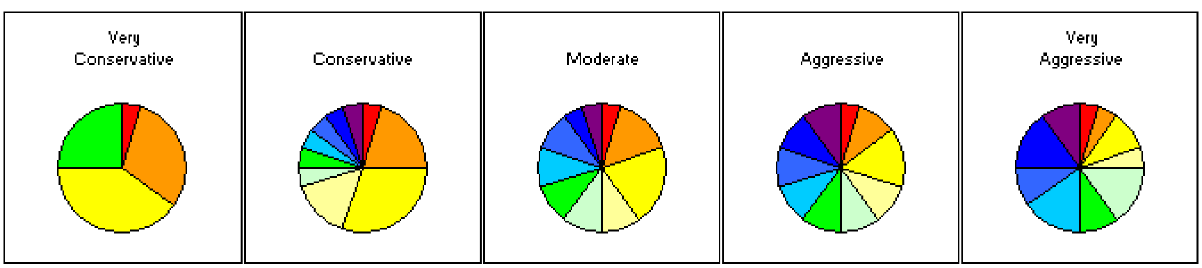
Asset Classes: Securities are grouped into Asset Classes based on one of several classification systems. Securities within a class tend to move up and down together more than with securities in other classes.



Security Selection: Professional Asset Class Managers apply extensive research and their unique talents to select individual securities from each asset class, and manage them in funds or pools. Managers are selected based on experience and historical performance in both up and down markets.



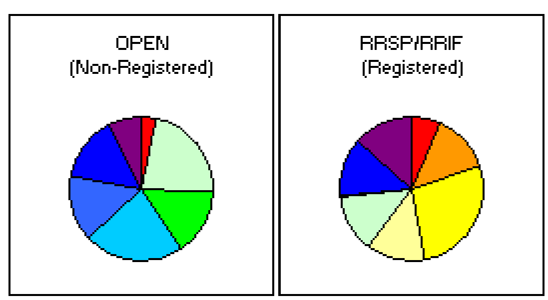
Asset Allocation: Combining asset classes reduces risk because declines in one class are offset by gains in another. Depending on each investor's objectives and risk tolerance, computer models can help allocate the portfolio across classes to control risk and maximize potential returns.



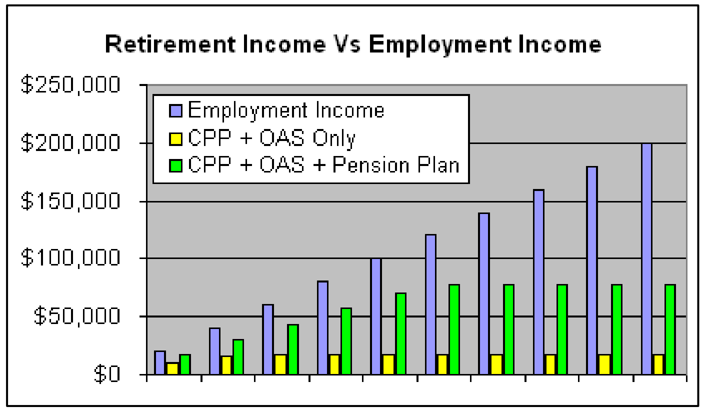
Tax Allocation: Because equities produce dividends eligible for a tax credit, and capital gains which are only 50% taxable, they should be held outside RRSPs and RRIFs wherever possible. Fixed Income investments such as GICs and Bonds produce fully taxable interest income, and should be held inside RRSPs and RRIFs if you have these plans. While this can result in RRSP/RRIF and OPEN accounts having quite different asset allocations and risk levels, it is a more tax-efficient way to hold the same overall asset allocation.

Return Type	Return*	Tax**	Net
Interest	5.00%	40%	3.00%
Dividends	5.00%	14%	4.30%
Capital Gains	5.00%	20%	4.00%
Any type as RSP withdrawal	5.00%	40%	3.00%

* Returns is an example shown for illustration purposes only.
**Marginal tax rates at $75,000 taxable income, rounded.



Financial Planning – New Study



A new Statistics Canada study shows that higher income earners are at more risk of serious income drop at retirement. The graph shows that as income rises, workers can expect a lower percentage of that income to be replaced by government pensions. That's because CPP and OAS have maximum benefit amounts and as income rises, the benefits stop getting larger. Even those with a typical employer pension plan will eventually hit the limits of that plan. Studies show that a drop of more than 20% of income from working to retirement years can be difficult to adjust to.
A carefully developed financial plan can help structure savings, investments and withdrawal strategies to ensure your retirement income meets your planned lifestyle expenditures.

2008 Federal Budget

The 2008 Federal Budget was tabled in early March with only a few changes that will affect the average taxpayer. The highlight of the budget was the introduction in 2009 of a new Tax-Free Savings Account. While some details are still vague, the essential elements are the following: each taxpayer will be allowed to contribute $5000 per year to a TFSA; contributions are not tax-deductible; unused contribution room can be used in a later year; all investment income in the plan accumulates tax-free; withdrawals of both contributions and earnings are tax-free; and withdrawals of original capital can be re-contributed. This new vehicle will be especially useful in three financial planning scenarios:
1) Younger people with lower earnings, and for whom RRSP deductions at low tax brackets are too small to make up for expected higher tax rates at time of withdrawal. The TFSA is a great alternative to RRSPs. TSFA balances can be transferred to RRSPs in later years when the RRSP tax deductions are higher.
2) People in their prime earning years, but who have limited RRSP contribution room available because they are members of a pension plan. The TFSA can allow additional tax-sheltered savings.
3) People already retired with substantial RRSP/RRIF balances. These balances should be reduced over time to prevent a large remaining taxable balance at death. Withdrawals above the level needed to support retirement lifestyle can be transferred to a TFSA to maintain the tax-free growth and eliminate estate taxes.

Please let me know if you would like to explore how this new vehicle might help you achieve your goals. If you have a financial planning service agreement with us, we will incorporate this advice in your next update.

2007 Tax Return Filing

Important Dates:

- By now you should have T3, T4, T5 or T5008 slips for all investment income received in 2007
- 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.

We maintain a network of independent professional income tax preparers. Please let me know if you are looking for someone to help you complete your 2007 returns.

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!*