

The Francis Forum



YOUR PARTNER IN WEALTH CREATION



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Your behavior today determines your history tomorrow **MONEY MATTERS**

Happy New Year and best wishes for a great 2006 - even if we had to wait a leap second longer for it! A leap second was inserted in the world's clocks just before midnight. Leap seconds are needed occasionally because modern atomic clocks measure time with great accuracy, while the rotation of the Earth can be inconsistent. The rotation of the Earth has been slowing down, so leap seconds keep the clocks and the Earth from getting out of synch with one another. Talk about detail!



Taxation

Moving on to more familiar grounds, it has been an eventful year in financial planning, and I'd like to take a moment to recap a few of the highlights.

- The rules governing Registered Retirement Savings Plans (RRSPs) have changed. The foreign content limit was scrapped and the maximum annual contribution ceiling was increased to \$18,000 for higher income earners without a pension plan.
- The Dividend Tax Credit was enhanced making dividend income less taxing and leveling the playing field with Income Trusts. You may recall the Finance Department was messing with proposed changes to Income Trust taxation when they faced uproar from

Canadians. Before you could say "election coming" the uncertainty over the taxation of trusts was seemingly settled by the government's decision to cut dividend taxes rather than raising them on trusts. The Canadian income trust market responded by reaching record highs in mid-December. Note that the increased "gross-up" on dividend income may adversely affect those receiving OAS or age credits.

- RRSP investment eligibility rules have loosened and now allow gold within your RRSP. And foreign investment rules were dropped meaning you can now invest as much as you like outside of Canada. It also meant the demise of RRSP foreign clone funds that saved you some money in management fees.

Financial

The rise in oil & gas prices pushed the global energy sector up by 26% in Canadian dollars and was an important force propelling both the Canadian dollar and the S&P/TSX Composite Index. Keep in mind that resource stocks are cyclical in nature and need to be closely monitored. This was the third year in a row that gains in November and December helped boost the TSX to double-digit growth for the year as Canadian equities (especially energy and mineral – trusts or otherwise) continued their strong run of out-performance. Our dollar continued to rise by about 4% against the U.S. dollar, by 17% against the euro and 22% against the yen.



However, this was the fourth straight year that the TSX outpaced its rivals – something never achieved in history – definitely putting Canada’s performance in uncharted territory. A high dollar, rising interest rates may slow things down – especially in the manufacturing sector. An inverted yield curve is darn close (when short term rates exceed long term rates) and is historically followed by a recession – which is why economists are in a lather. Taking excessive profits from Canadian investments and redeploying to the foreign component is wise sector management – keeping in mind Canada only reflects about 3% of the world’s stock market.

If you set a target of say 15% in Income Trusts and they swell to 25%, then it makes sense to give this sector a trim – or at least add new money to a different area. This philosophy of Sector Management trims profits and redeploys same to the underperformer of the day while it is out of favor – and quality seldom stays out of favor for long. Another rule worth noting is not to bet the farm on any one asset class or sector -resource or trusts included - often being one in the same these past few years. There is value and opportunity out there and all returns revert to the mean with time meaning excessive returns will moderate and those underperforming likely rise.



Key’s to investment success:

- Focus on quality and diversify geographically and by asset class
- Understand your tolerance for risk (peak to trough temporary declines)
- Have the proper time horizon to endure temporary declines
- Rebalance the allocated holdings on a regular basis.
- Strategically structure the portfolio to compliment your tax situation.

Japan is finally showing real signs of recovery after 15 years of tough times and new products focus on the growing momentum in Brazil, Russia, India and China. As for owners of US stocks, working against the rising Cdn dollar has been a grind. US money managers have had a 35% move in currency against them in recent years, so even static or low returns here mean they have done a great job in protecting your assets. The US has its share of challenges (debt, conflicts, low savings rate, rising interest rates and a falling greenback) but with nearly 50% of global market capitalization – they are hard to ignore and have a history of re-inventing themselves.

Of course no commentary on financial matters would be complete without mentioning the importance of debt reduction and increased savings – especially during times of uncertainty over interest rates and economic conditions at home.

We will be sending out more market commentaries this year and articles or research on specific holdings/offerings. Berkshire Capital Markets Group is out of the gate early with a number of new issues that will be of value to many of you. Interest in Tax Deductible Flow Through Limited Partnerships, new issues – both equity and income based has been met with enthusiasm over the past

few years. While not appropriate for all clients, this is a growing area of interest when considering asset allocation in investment portfolios. However, if you are considering getting a piece of Tim Hortons – best move to the USA! Unfortunately, Canadians will be given used coffee grinds on this offering when Wendy’s spins off Tim’s later this spring. Funny how the vast majority of the restaurants are in Canada but the vast majority of the shares will be allocated to US firms for the initial offering. It will of course trade publicly out of the gate – but if you want in ahead of time it will be tough to do so.

Upcoming Events

Keep your ears open as I will be pleased to bring Michael Lee-Chin, owner of the Berkshire Group of Companies, to speak to you in the upcoming months. In 2006 we will be again having our seminar series which will run each quarter with the first one being in February. As well for all of the card players in our midst we will be having our Euchre tournament again this year so enter early as spots are limited. Finally, The 2nd Annual Herman Hansen Memorial Golf Tournament was held at the Emerald Links Golf and Country Club in Greely, Ontario in June 2005. A total of just over \$10 000, was fundraised through this event to support the Ottawa Regional Cancer Centre. Funds raised will provide assistance to the Regional Cancer Centre so that they may deliver high quality service and care to cancer patients of all ages, in our community. Teams traveled from throughout Ottawa and Eastern Ontario to participate in the golf. Our two year total is just over \$17 000. Thank you everyone for all you help and participa-

tion. We look forward to seeing many of you in June this year.

Thank You

I'd like to conclude by saying how much I value your business and the trust that comes with it. I also extend a special thanks to anyone who introduced a friend, relative or colleague to our team over the last twelve months. This is the greatest compliment I can receive, and I appreciate it very much when I am able to meet someone new who shares your belief in me.

I, along with Janet, Irveen and Phil look forward to seeing you in the months ahead. Best wishes for a happy, healthy and prosperous New Year!

The opinions expressed are those of the author and may not necessarily reflect those of Berkshire Securities Inc. and Berkshire Insurance Services Inc.



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Due to demand from both clients (excess paperwork) and company's (excess costs), regulatory changes took place regarding the mailing of monthly "official statements" to clients. What was at heart here was what constituted "activity" in an account. Therefore as of September 2005, a monthly statement will only be generated if account activity is from something significant such as buys, sells or additional deposits/withdrawals. In the past, simple interest or other small "re-investments" triggered a month end statement, which was deemed to be excessive. In addition, regulators agreed that on-line access and the mailing of quarterly statements met the needs of clients. Any transaction made in an account will continue to produce a trade confirmation slip, which will of course be sent to you.

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