MUTUAL GAINS™

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Without money, possibilities are limited...... without personal relationships, life is barren.... without balance, happiness and fulfillment are just a dream.

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It's Boring But That's OK

Mid-year statements are rolling into your mailbox. Should you have any questions, whether or not the investments are under my administration, I would be happy to answer them.

Canadian equities continue to move onward and upward. Equities in the developed markets continue to show much strength. Bonds as a whole are showing resilience despite increasing short-term interest rates. U.S. equities on the other hand are in a holding pattern because most of us hold them in Canadian dollar accounts (ie. an RRSP). The fall in the U.S. dollar has been having a negative effect on this part of a portfolio.

> **Value Investing Is.....**
> **"What a rational person would pay for the entire company".**
> **Ed Loeb, Partner and Portfolio Manager – Harris Associates LLP, Chicago**

Most investment managers are holding larger cash positions than normal, as it is a challenge to find attractive equity investments that meet their strict investment criteria, particularly in Canada. Now, more than ever, it's important to be VERY SELECTIVE choosing investments for your portfolio.

Making Money On Falling Investments

A new trend is emerging. It is the ability for investment management firms to use "short selling" within the mutual funds they manage for investors like you.

Short selling is a strategy in which portfolio managers select investments whose share prices they believe will fall in value. The fund then borrows the shares and sells them on the open market. The fund must repurchase the shares at a later date in order to give them back to the lender. If the value of the shares falls during that time, the fund will profit from the difference in the price, minus any interest or fees the fund has to pay the lender.

Like an investment made in the expectation of a rise in its value (a long investment), "shorting" an investment carries a risk of it not doing what you think it will do. If, for example, the shares rise in price, the fund would have to pay more than they sold them for in order to buy them back. They would then return the shares to the lender, thus creating a loss.

Short selling is nothing new, and is commonly used in hedge funds and other alternative investments. What it potentially does is give the investment manager, in a limited manner (often max. 10% of the fund or 2% of any 1 holding), another way to make money for your portfolio.

Oil Prices Are Way Above The Fundamentals of Supply and Demand

So, why then are oil prices at record highs near $60 per barrel?

Most of the controversy lies in arguing whether supply will be able to keep up with demand. The current chatter and excitement around oil prices conjures up images of cars running out of gas, the lights going off, and people freezing in their homes because there simply isn't enough energy to meet demand. Financial speculators are arguing people will keep outbidding each other rather than use less (although data on U.S. large SUV sales show a significant drop).

The fact is today there is no shortage of primary oil. Oil inventories are at their highest levels since 1999 and are higher than they were in 1998-9 when oil prices traded at less than $20 per barrel or 1/3 of current prices.

You can read a recently published view of the well-respected Cambridge Energy Research Associates to get a fundamentally based insight into what we can expect for oil prices - www20.cera.com/home.

Supply above demand will always push prices lower…. eventually.

It's Not Impossible – It's A Choice

I have all sorts of clients. The income levels, lifestyles, housing, spending habits, and "needs" are as varied as their finger prints. Some are older, some still quite young. Some earn more in a year than others would earn in 10. Some drive very expensive cars. Some drive Kia's. Some own them, some lease them. Some have large RRSP's others much smaller ones. Some maximize contributions, some don't. Some own their homes, some rent. Many have children, some don't. Some golf, some fish. Some dine out often, some never. Some drink wine and some just water.

Some of these are related to the path you have chosen. Some are from outside influences beyond your control. Most however are based on choice and your acknowledgement that you have power to determine how your life evolves.

I'm sure you like me, have heard someone say they can't do something because they don't have the money or they only earn X dollars per year. An associate of mine once received an e-mail from someone saying that he (my associate) was a complete idiot if he thought that anyone who made $50,000 per year could save $9,000 (maximum RRSP contribution). The e-mailer wasn't saying that it was unlikely or that very few people did, but that it was simply impossible to save that much.

This kind of argument is a perfect example of surrendering responsibility for what you can control. The belief that it can't be done is obviously incorrect because if it were true no one earning less than $43,800 ($50,000 - $9,000 RRSP contribution + $2,800 tax savings) would be able to survive.

I have clients who make $50,000 per year and make $9,000 per year in RRSP contributions. They have done so because they believe saving a portion of their income to be important. The other spending choices they make are set based on their saving goal.

The argument that a proven, achievable goal is impossible is setting ones self up for a life of helplessness.

Low Interest Rates, Low Inflation = Breaking Even On Bank Deposits

One of the big draws to wanting to invest in a bank deposit is security. You get back the amount of money you invest plus interest. That simple fact has a powerful emotional draw however investing like this can leave you losing money. It FEELS good so it must BE good? Hhhmmmm……

Many of us remember the high interest days of the early 80's. In 1981, at the peak of interest rates in Canada, a 1 year GIC would give you 17.18%. In isolation, that number sounds absolutely fantastic. However, like with any investment we need to ALWAYS determine what inflation is running at. In other words, how much the price of gas, clothing, food etc. is increasing.

In 1981 inflation was running at 12.40%. Subtract the rate at what inflation or and you have a "REAL" Return of 4.78%. Again, that was at the peak of interest rates.

3 years later, interest rates had fallen substantially. In 1984 you could get 11.18% on a 1 year GIC. Doesn't sound nearly as attractive as the 17%, however you were making more money earning 11.18%. Why? Simply because inflation had cratered to 4.3%. This interest rate, inflation rate combination gave you a "REAL" Return of 6.88%.

Fast forward to today. If you do a lot of digging or work with a Financial Advisor you will find a 1-year GIC for 2.8% (the major banks and VanCity will only give you 1.4%). With inflation running at 1.7% you have a "REAL" Return of 1.1%.

That isn't the end of the equation. The final variable is YOUR PERSONAL TAX RATE. That figure, which is determined largely by your personal income, will determine what you actually are left with at the end of the year.

In the above example of a 2.8% interest rate, and subtracting a modest tax rate of 31% (income $36 - $66,000) along with 1.7% inflation will squeak you out a positive return of 0.23%.

Since the big drawing card for the GIC is the security, alternatives to look at should have that feature principal protection feature. I understand that sleeping well is important to you. There are many "Principal Protected" notes available which give you just that, security of your principal through a major bank. Unlike a GIC however, you can be taxed at much lower rates and potentially get a much better "REAL" Return in the end. In other words, you can sleep well and make money at the same time. Nice.

There are many Principal Protected Note investments that I continually get on my desk. Each one carries it's own merits and features and some are much more attractive than others when weighing everything out. They are excellent investments for those responsible for a Trust.

Not All Business Expenses Are Tax Deductible

You are travelling on business in your car for the day. Your first meeting is downtown. You are running a tad late so the pedal is closer to the metal than it should be. In short order you find yourself frozen on the side of the road with lights flashing in your rearview. A few words are exchanged, you sign your name and are handed a prize you don't want. Let's hope this isn't a sign of what the day will turn out like.

Finally downtown, you find a place to park on the street. You drop a few coins into the meter – you have 57 minutes. In the boardroom you glance at your watch. "That time ALREADY?!?! Huffing back to your car you see the "flag" on your windshield. Another prize you didn't want.

"This is starting to be an expensive day. Well, at least it's tax deductible".

Is it? According to the last Federal Budget fines and penalties businesses incur are no longer tax deductible. They used to tax deductible but now they aren't. Yes, I know, you incurred these expenses while trying to generate revenue but that doesn't matter to CCRA. Sorry. I hope the rest of your day is better.

Tax Deductible Dental Expenses For The Business Owner

I just put dental in the title just to keep it short. Business owners can in fact deduct dental, medical, prescriptions, chiropractic, massage, plastic surgery, acupuncture etc. etc. The one requirement is that you need to set up a Private Health Services Plan (PHSP).

Here is an example of how it works:

Mr. & Mrs. Me own "Big Money Enterprises Ltd". They split income from the business - $50,000 each. They spend $2,500 per year on various medical expenses for them and their 2 kids.

Mr. & Mrs. Me pay the medical expenses ($2,500) and save the original receipts, later giving them to the bookkeeper of Big Money.

Big Money sends the receipts, along with a company cheque in the amount of $2,500, plus a 10% admin. fee ($2,750) to the Administrator of their PHSP.

The Administrator issues a TAX FREE reimbursement cheque directly to Mr. & Mrs. You for $2,500. At the year end of Big Money the Administrator prepares a "Statement of Expenses" for Big Money. These expenses are tax deductible.

For every $100 of health or dental expenses you incur you save from $20 to $45 based on your tax bracket. The higher your income, the higher your savings. I believe a PHSP is a must for virtually any small business.

Need To Make A Change On Your Already Submitted Tax Return?

Did you find you missed a deduction or credit? Did you uncover some income slips that you should have been included on your tax return? Not to worry.

If you haven't received your Notice of Assessment yet you can simply complete a T1-ADJ (Adjustment Request). Using this form you describe the change that you need to make, the affected tax return line item and the amount to be changed. Any receipts, statements or other relevant info. must be included to support the changes you are requesting to be made. This is all sent to the same tax office you sent your original tax return to.

If you have received your Notice of Assessment you can make changes to your tax return electronically using CCRA's new "My Account Services" system. www.cra-arc.gc.ca/eservices/tax/individuals/myaccount/menu-e.html

Generally, adjustments will be accepted going as far back as 1995 provided the change was due to an error or omission on your part.

Lessen Your Risk With These POA Ideas

So we are all clear, a Power of Attorney (POA) is a notarized document where you are giving the power to someone else to act on your behalf in certain circumstances. Individual POA'a can cover a lot (all of your financial affairs) or 1 specific task (selling a piece of property).

It's quite obvious that allowing another person to act on your behalf can involve putting yourself at great risk as you are leaving it up to 1 person other than yourself to make decisions for you. In order to reduce that risk you may want to:

1) Name 2 "attorneys" who must act jointly. No 1 person can make decisions.
2) Have a trusted 3rd party hold the POA with written instructions when it is to be released i.e. from a doctors note stating that you are no longer able to manage your financial affairs.
3) Restricting the POA to specific dates or tasks i.e. completing tax returns on your behalf.
4) Limiting the number of POA's that you can have outstanding (yes, you can have more than 1 POA).
5) Keep a copy of current POA's with all other financial documents.
6) Making sure that your expectations are laid out in detail to those who you are giving POA to.

HHHhhhhmmmm……….

$67-billion will leave the country over two years as a direct result of the elimination of the foreign content limits according to the Federal Finance Departments "Secret" report as reported in the Globe & Mail June 20th 2005

Canadian stocks as a whole have become too pricey relative to other opportunities in the world. The run-up in the Loonie has made Canadian stocks look more pricey for foreign buyers. "We can find cheaper stocks elsewhere". George Morgan, Lead Portfolio Manager for the Templeton Growth Fund in Nassau, Bahamas.

A recent report by RE/MAX Canada entitled "Decade In Review" 1995 – 2005, shows Montreal and Calgary have reported the highest average price appreciation rates of any other major city in Canada – in excess of 80% over the past 10 years, or 8% annually. See report at www.remax-oa.com/roafiles/marketreports/decade_rpt.pdf

38% of Canadian women and 44% of Canadian men will get cancer within their lifetimes (Cdn Cancer Society)

39% of women and 56% of men are an unhealthy weight. (Cdn Cancer Society)

U.S. citizens, regardless of where they live, must file tax returns in the U.S. (KPMG)

Carey

Chartered Financial Planner