



BLACKMONT
CAPITAL™

OUR VIEW

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THINKING OUTSIDE THE BOX

Here is an old puzzle that you might enjoy. Can you connect the nine dots with no more than four straight lines, without lifting your pencil from the page? As with most puzzles in life, once you know the key, it's relatively easy. In this case, the secret is to think outside the box. It's surprising how often we may set artificial barriers in what we do, making it harder for us to achieve what may be important to us. Thinking outside the box can open our minds to many more possibilities and opportunities.

Consider personal savings, for example, and the phrase: "I can't save any money because..." Most of us will find it easy to complete the sentence with dozens of reasons — some legitimate, many illogical.

But, let's turn the phrase around to: "I can save money if..." This will help us to think outside the artificial box we may have built around ourselves with regard to our financial situation. With a little effort, most of us can find ways to alter our behaviour to release discretionary income.

The same holds true in the investment arena. There are many notional boxes which constrain our thinking and may influence our investment behaviour.

One notable area that is endlessly debated is the world oil situation. There is no doubt that the supply of conventional oil is finite and this can be cause for major-league worries. It does not follow that our society will disappear because of high oil prices or shortages.

Change? Of course. In the 1800s, historians tell us that the world worried about running out of whale oil; then someone discovered oil in the ground. Today, the figurative equivalent may be the tentative moves toward hybrid auto engines, green electric power sources and agripower fuels that are opening new investment vistas.

As we digest the daily news, it may seem that there are myriad negatives facing investors today, be they economic, political, currency-based or whatever. Keep in mind, however, that there is usually a bright side for every event. All it may take is "out-of-the-box" thinking to turn discouraging news to your advantage.

Stay confident. Invest with your own goals in mind.

FEDERAL ELECTION AFTERMATH TAX UNCERTAINTIES REMAIN

The election of a new government in Ottawa has resulted in a general mood of optimism regarding future tax changes, though the uncertainties remain. Not the least of these is the fact that the Conservatives head another minority government, and it is unclear how many of their many election promises can be introduced into law.

Among the myriad Conservative proposals during the campaign were the following affecting investors:

- Dividends — implement the reduction in dividend tax rates as proposed by the Liberals in November.
- Income Trusts — no new taxes, as proposed in November.
- Pension Income Credit — maximum amount of pension income eligible for this credit to double to \$2,000 immediately, and rise to \$2,500 over the next five years.
- Small Business Tax — to be reduced to 11% from 12% with the top income limit increased to \$400,000 from \$300,000.
- Charitable Donations — eliminate capital gains taxes on donations of listed securities.
- Capital Gains Taxes — eliminate such tax if the proceeds of an asset sale are reinvested within six months.

A Balancing Act

As we all know, election promises and legislative action are entirely different matters. The prime minister faces a delicate balancing act due to the government's minority status.

How many of the above measures (and others such as the proposed GST reduction) are implemented remains to be seen.

The exceptions may be the reduction in dividend taxes which were introduced by the (now) opposition and which the Canada Revenue Agency is already assuming is law for its purposes.

Still, the general thrust towards additional tax relief will be welcomed by most investors.

Implementation — Complex

Many questions remain about some of the proposals. The reduction in GST by 1% will create headaches for all businesses, even just in reprogramming costs for computers.

We have noted earlier that the changes to dividend taxes would need parallel action by the provinces to be as effective as advertised. Most provinces have been silent on this front with the exception of Quebec, whose finance minister says that province has no intention of going along.

The proposal to eliminate capital gains tax if the proceeds are reinvested is intriguing. But, as examples, what happens to the "deemed disposition" rules on death, as in the case of a cottage owner who wants the cottage to stay in the family? And will the rules allow a long-held position in, say, BCE Inc. to be sold, the proceeds reinvested immediately in Telus and then disposed of a week later, all in a tax-free manner? Unlikely, but we'll need to see more details.

Additional Possibilities

TPSPs — No mention was made of tax-prepaid savings plans by any party. Such plans have proven popular in the U.S. and Great Britain as an additional vehicle for saving and investment by individuals.

Pension Income Splitting — Some observers have called for seniors to be able to split general pension income for tax purposes, as is already the case with Canada Pension Plan payments.

Perhaps we will see some of these measures with future budgets or governments.

AGING POPULATIONS

Country after country is grappling with the phenomenon of a rapidly aging population. The growing proportion of seniors in Japan, North America and Europe is precipitating new thinking on a number of fronts. Labour force shortages, shifts in corporate pension plans, new attitudes to retirement and seniors' lifestyles, and changes to mandatory retirement rules have been some of the results. Governments are also wrestling with the effects on social programs such as old-age income plans or health care. Here are some interesting statistics recently published by Forbes magazine.*

Life Expectancy of 65 Year-Olds

Age	80	85	90	95	100
Female	69%	50%	29%	12%	3.4%
Male	56%	36%	18%	6%	1.3%

* Source: Forbes, Dec. 12/05 issue

If you are female, aged 65 today, the numbers say you have a 50% chance of living beyond 85, and a 3.4% chance of celebrating your 100th birthday! The numbers apply to the U.S., but will likely be similar for Canada.

From a personal planning perspective, have you thought about celebrating your 100th birthday? It could happen. Are you financially prepared?

LAYING THE FOUNDATION

TRAINING YOUR TEENS TO INVEST

Sometimes, the most difficult tasks can be the most rewarding. In the case of getting young people to think about saving or investing, it can be worthwhile for both the student and the teacher.

As parents, we know how important it is to start early with a savings or RRSP plan; the trick is to impart this importance in a way our audience will understand and embrace.

Seeing the magic of compound interest can be one way, for younger people, perhaps through a child's bank account, available at most local branches. Encouraging regular manageable contributions or just birthday or Christmas cash may plant the required seeds of interest as the kids see their money grow.

Income tax filings are another "attention getter," particularly for RRSPs. Separate tax returns can be filed for any child who has tax slips from after-school or summer jobs, for example. Those who operate small family businesses have an excellent opportunity to pay their children for legitimate work done around the business and introduce them to investment finance at the same time.

MINIMIZING TAXES

ON NAMING RRSP BENEFICIARIES

When someone dies, registered plans such as RRSPs or RRIFs are deemed to be wound up and the assets become taxable in the year of death. To minimize taxes, couples should, as a general rule, name their spouses as their beneficiaries on the plan application forms.

The surviving spouse can then arrange a tax-deferring rollover by transferring the assets into his or her own plan. In addition, no probate fees will be payable on the plan's assets as the transfer is made directly to the beneficiary. (Probate fees continue to be relatively expensive in Ontario and British Columbia.)

Any taxes can also be offset by naming a qualifying dependent child or a registered charity on the forms as beneficiary. With a charitable donation, the estate will receive a donation receipt that will offset the taxes on the RRSP assets.

In some cases, however, it may be better to name the estate as the beneficiary. While this will not bypass probate fees, there could be other advantages.

An oft-cited example: A widow intends to leave her estate equally to her two children. Her RRSP is worth about \$500,000 and the rest of her estate about the same.

Accordingly, she names Andrew as beneficiary for her RRSP, with the rest of her estate to go to Bill. Andrew will receive the RRSP assets intact, but Bill's bequest will be saddled with the taxes on the whole estate, including the RRSP.

According to tax expert Tim Cestnick writing for The Globe and Mail, naming an estate as the RRSP beneficiary makes sense where: "You want an unequal distribution of your plan among beneficiaries, there are

All this earned income will result in a buildup of RRSP contribution room, regardless of age. No immediate contributions need to be made to an RRSP (although there is no minimum age to start a plan), but the contribution room will come in very handy to reduce taxes later on.

Perhaps a dramatic example can spark interest. Opening an RRSP at age 19, depositing \$2,000 per year for 23 years (and then stopping) will result in a pool of money at 65 of over \$400,000.

Starting at age 42, one needs to deposit over \$7,000 per year every year to get to the same place.

Finally, try steering your teens toward relevant websites. One good one provides a financial planning tool kit for those aged 15 to 25. Entitled Focus on Your Finances, it is available online at www.cfp-ca.org/public/public_focusonyourfinances.asp. Another could be Mackenzie Financial's Burn Rate Calculator at www.burnrate.ca.

conditions or contingencies you want met before a beneficiary has a right to a plan's assets, the plan's assets are to be held in trust for the beneficiary, or where specific bequests could become a problem."

A point of caution: Complications can arise from divorces, marriage or remarriage and other situations. If the name of a beneficiary in a will differs from that named on the RRSP application form, it is important to notify the plan administrator. Otherwise, the assets could be paid out to the wrong party.

Finally, keep in mind that provincial laws with regard to succession are constantly changing. Individuals should always consult a lawyer with expertise in wills and estate planning for guidance, particularly where their situations are complex.



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RRSP INVESTMENT STRATEGIES

YOU'VE MADE THE CONTRIBUTION. NOW, HOW WILL YOU INVEST IT?

You may think this is a peculiar time to be writing about RRSPs. After all, the RRSP "season" is long behind us for this year. However, many individuals have yet to invest the money they contributed to their plans. For others, changes in the rules mean a review may be in order.

All investors should consider whether the new tax rules alter how their RRSP (or RRIF) fits with their overall investment plans. Should the investment approach be modified? The two major changes that may affect RRSP investors are the sharp (expected) drop in the tax rates for dividends from qualifying corporations and the repeal of foreign content rules.

Contribute As Much as You Can

Depending on their time horizon, it still makes sense for most taxable investors to maximize their annual contributions. Contribute as much as you can, as soon as you can. The benefits of current deductions and ongoing tax-deferred compounding would appear to far outweigh the tax rates to be endured on future payouts, even if dividend and capital gains taxes are lower.

The exception may be for those with more modest incomes for whom questions of eligibility for income-support plans comes into play. In this regard, an important step may be to set up an automatic deduction plan, to make it easy to contribute and to eliminate the annual "season."

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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FREAKONOMICS —

HOW THE WORLD REALLY WORKS.

A book has been on many of Canada's best-seller lists for several months now, with the unusual title: *Freakonomics — A rogue economist explores the hidden side of everything**.

If you can muster the interest to pick it up, odds are that you won't be able to put it down until you finish it. Along the way, you will gain new insights into what you might have previously assumed as fact.

For example, what caused the abrupt turnaround of the rising tide of crime in the big cities of America in the early 1990s? In New York City, was Rudolph Giuliani really the key, or were broader factors at work?

What do schoolteachers and sumo wrestlers have in common? How do incentive programs really work, and how can they backfire?

Dr. Steven D. Levitt is an economics professor at the University of Chicago, while Stephen Dubner is on staff at the New York Times. Together, they explore a wide range of subjects, proving along the way that economists' techniques can often prove "conventional wisdom" to be wrong. You will enjoy this book.

* Authors: Steven D. Levitt, Stephen J. Dubner, HarperCollins Publishers Inc., New York, 2005.