



THE BOTTOM LINE

JUNE 2007

The Opening Bell

As the memory of our very harsh winter and spring fade into the warmth and sun of summer, I am reminded of how very short our collective memories really are, what with the world stock markets charging along with nary a care. Seemingly, no amount of bad news or questionable financial results can knock this freight train off its rails, the TSX up over 9% year-to-date, similar numbers in the US and gains of that magnitude or higher in other parts of the world (although the rise in the C\$ essentially wipes out the gains to be had outside of Canada).

Those of us with memories that extend beyond last weekend look at two or three very important trends that have emerged in the past number of months that would indicate the current ebullient state of affairs is unlikely to continue unabated too much further into the future. First, and most importantly, it appears that we have seen the end of low/stable interest rates as the spectre of rising inflation has spurred the Bank of Canada to raise the overnight rate by .25%, the first rise in interest rates in over a year. Rising interest rates have several ramifications—not many of them good—that we observe. Most obvious is that it costs more to borrow money whether to buy a car, house, big screen TV or complete that Reno on your basement. Ultimately (at least theoretically) this means people will do less of these things which in turn means that companies make less money because they are selling fewer goods and services which results in lower stock prices. That is the impact on consumer spending.

The second trend we have seen is that the stock markets have been feasting on the prospects of “private equity” firms buying businesses with unfettered abandon which has helped drive stock markets around the world to new highs. Why does this happen? Private equity firms come into the market and buy existing, listed, public companies typically at a premium to the current market pricing. Speculation that a private equity firm is going to buy other businesses pushes the stock price up in anticipation of such a bid from the private equity guys, propelling the stock and possibly the index to new highs. But what does this have to do with interest rates, you ask? In most cases private equity firms borrow the money to buy the listed company, effectively exchanging equity (ownership) for debt. As more and more of these private equity deals come onto the market, the increased demand for money increases the cost of money in the form of higher interest rates. Higher interest rates mean fewer deals can be made economically viable, fewer deals means less speculation, less speculation means lower stock prices. As an aside, it could be argued, that the recent rise in the Canadian dollar can be attributed, at least to some extent, to the latest spate of private equity deals, since these purchases create increased demand for the C\$ in order to close the deal, the price (of the dollar) rises.

Further, the rise in interest rates affects those that currently owe money that is either variable rate debt or coming due in the months and years ahead into a higher interest environment. Much has been made of the sub-prime debt market in the news recently, and exactly what impact rising rates will have on this type of debt is unclear. In a nutshell, the sub-prime debt market is comprised of loans to poor credit risk individuals primarily in the form of mortgages. The loans are then “securitized”, packaged up into pools and sold to other investors looking for “attractive” yields, the idea being that diversifying the pools among many low risk mortgages reduces the overall risk (i.e. “well, the mortgages can’t all be bad!”). The problem is that many of the mortgages are a) variable and b) offer fixed repayment features regardless of the underlying interest rate. This unpaid interest is “capitalized” against the original debt amount. Very scary! While this is primarily a US debt problem, Canadian banks have participated in these loans and pools as well, but have yet to fully disclose their exposure. The amount of bad debt resulting from these loans is not known, but it is safe to say that overall profits are likely to be negatively impacted ergo stock prices. Arguably, so will housing prices, which we have referred to in past editions of this letter. Neither of these scenarios will encourage economic or stock market growth. What to do? Probably nothing. Economies and stock markets go in cycles and the trick to creating wealth over the long term is not to make bad decisions at bad times. As you know, we are dedicated to proper asset allocation and proper asset allocation, while it does not eliminate the short term ups and downs that will occur, does smooth them out.

"I think it would be a good idea."

- Mahatma Gandhi, when asked what he thought of Western civilization

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Winning Takes Discipline

A recent commentary in AIM Trimark's advisor magazine, "Insight", featured an interesting review of the Trimark Fund, which a good number of our readers own. Many of you have owned it for several years and some of you will have purchased it in late 2005 or in 2006 when we were recommending increased foreign content exposure for our clients. Following is an excerpt from Patrick Farmer's remarks:

"I wonder if all advisors and investors have shown the same discipline. I ask because I've noticed the makings of a disturbing trend. As I write this article in early May, AIM Trimark is around \$1 billion in net sales, year-to-date, while for the same period in 2006, we were close to negative \$2 billion. For all of 2007 we might reach roughly \$2 billion in net sales, compared with negative \$3 billion in 2006. This year is shaping up to be positive, but read on to see the trend I'm referring to."

Reasons for our Success

What led to our turnaround? Did we hire new portfolio managers or chase hot markets to boost short-term numbers? Did we triple advisor compensation? No, none of the above. What we did was deliver strong absolute and relative performance in 2006, and inflows followed. Our net sales were weak in 2006 because several funds underperformed in 2005. See the trend? Some advisors and/or investors are caught up the short-term thinking instead of staying the course.

Here's another proof point. Trimark Fund was redeemed heavily in 2006 because of its weak relative numbers in 2005. In 2006, the fund ranked third in its category. It appears many people jumped ship and missed a great rebound in 2006. What amazes me is that, to have outperformed Trimark Fund, you would've had to have picked one of the top two of all funds in the category. How many people can make that claim? It's impossible to time the market, let alone time a mutual fund.

Trimark Fund has had its ups and downs, but if you had held it from the start, you would've earned almost 30 times your money by the Fund's 25th anniversary in September 2006. I've been invested in the Fund for 14 years and I am very pleased with the performance"

Individual Pension Plans

A growing number of Canadians are using Individual Pension Plans (IPPs) to catch up on and supplement their retirement savings. An IPP is a defined benefit registered pension plan that is established for the benefit of a single employee.

The primary candidates for IPPs are small business owners, company executives and incorporated professionals who are over 40 and have annual incomes over \$100,000.

The most significant benefit of an IPP is the allowable contribution limit, which generally is higher than limits available under Registered Retirement Savings Plans (RRSPs) and allows the plan beneficiary to accumulate a larger pool of capital for retirement.

The allowable contribution limits depend on the individual's age, income and length of service with the company. At age 65, the current contribution level is more than \$32,000.

To qualify for an IPP, the beneficiary must be employed by a company that is incorporated. Contributions can be made based on past employment service dating back to 1991 when IPPs were established and contributions can be made to make up any investment losses that might occur in the IPP.

Although the advantages of an IPP are significant, there are some disadvantages. Unlike an RRSP, the funds are locked in and can't be accessed until retirement in most provinces in Canada. It's not possible to split retirement income by making a contribution to a spousal plan, as you can do

with a spousal RRSP. However, the recent Federal Budget introduced income splitting with a spouse in retirement which will take the edge off this restriction.

IPPs have extensive financial disclosure requirements and require an actuarial valuation when they are set up and every three years after that. Depending on the actuarial firm used, initial set up costs can range from \$1,000 to \$5,000. The annual fees for administration and filing financial reports to the Canada Revenue Agency and provincial pension authorities can range from \$500 to \$1,500 and the three-year actuarial review can cost between \$900 and \$2,000. (source: Talbot Boggs)

IPPs are not for everyone but in certain circumstances they may offer executives and owners significant advantages. If you think you might be a good candidate for an IPP please feel free to call us for more information.

Team Forman Expands Again!

In our on-going effort to provide our clients with the highest level of service possible, we are pleased to announce that, effective July 3, 2007, Peter Graham has joined Granville West Group/Chris Forman Consulting Ltd. Some of you may know Peter from working with him as a Client Relationship Executive at Sun Life Financial here in Vancouver. For those who do not know Peter, you will find him knowledgeable, efficient and responsive. In addition to his recent experience at Sun Life, Peter has earned a Bachelor of Commerce degree from Queen's University; he has completed the Certified Financial Planner designation (CFP) and is a Retirement Plan Associate (RPA). Peter will be working with our Group RRSP and group pension clients on all aspects of group retirement plans, including plan member communication, governance, plan design consulting and administrative support. Please join Mark, June and me in welcoming Peter to our team!

BOX SCORES**GIC Interest Rates 2007 (%)****

	Apr	May	June
1YR	2.83	2.98	3.13
3YR	2.93	3.13	3.33
5YR	2.98	3.38	3.58

Annualized Rates of Return to June 30 2007 (%)***

All Cdn \$	1YR	2YR	3YR
TSX	22.73	21.18	20.12
S&P 500	15.35	6.66	3.39
SCMU Bond	4.75	2.01	5.23
EAFE*	21.48	18.15	13.17

*Europe, Australia & Far East Index

**source: Bank of Canada web site.

***AIM Trimark