



State of the Union for the year 2006

The year that was.

The “tech wreck” of the early 2000’s looks to be but a distant memory as stock markets around the world roared upward with nary a care. Here in Canada, the S&P/TSX finished the year at 12,908, a very handsome 14.5% gain on the year (the fourth year of double digit returns in a row) and somewhat surprisingly (at least in my mind), the Dow Jones Industrial Average managed to generate a gain of about 16.3% in its own right. The good news this year was that Canadian investors in the US actually saw the gain on their statement since the Canadian dollar did not wipe out the gains as it had in the previous few years.

Gold and other precious metals (and base metals for that matter) were the primary drivers of the gain in Canada this year, supplanting energy as the goose that laid the golden eggs. While metals and mining were the big gainers, just about all sectors contributed to what was an excellent year from a stock market point of view. Income trusts were notably down year over year and while Jim Flaherty has taken an enormous amount of flak over his government’s policy flip flop, at the end of the day, he really did not have any choice in the matter, the Globe and Mail’s incessant bleating aside.

Looking ahead, many media experts are calling for continued good stock markets through 2007 and while we hope they are correct, when we hear calls of this nature we are inclined to run for cover! We do know that stock markets move in cycles and all cycles come to an end. As you know, we are proponents of asset allocation and at this time we are meeting clients with a view to rebalance their asset allocations, which typically suggests selling off some equity exposure and buying fixed income with the proceeds.

Thankfully, 2006 seemed to avoid most of the political and natural calamities we experienced during the first half of the decade. Among the stories that captivated the world were the war in Iraq, which many fear is beginning to look a lot like another Vietnam, the 12 cartoons depicting the Prophet Mohammad in satirical situations, Iran’s quest for a nuclear bomb, North Korea’s quest for a nuclear bomb and the alleged murder

of a former KGB agent. A relatively quiet year compared to 2005, in particular, although humankind still seems to struggle to get it right. Why can't we all just get along!?!?

As always it is fun to look back on quotes, miss-quotes and severe cases of "foot in mouth disease" and this past year did nothing to dissuade us from rehashing some beauties:

"This fellow over here with the yellow shirt — Macaca or whatever his name is — he's with my opponent. He's following us around everywhere." —Sen. George Allen in August referring to a 20-year-old University of Virginia student of Indian descent, who worked for congressional challenger Jim Webb. A Macaca is a monkey.

"The devil [diablo] came here yesterday. He came here talking as if he were the owner of the world. In this very spot it smells like sulfur still." —Venezuelan President Hugo Chavez on Sept. 20 talking about President Bush before the United Nations.

"I'm the guy who pulled the trigger and shot my friend. And I say that's a day I'll never forget." —Vice President Dick Cheney after shooting Harry Whittington on an ill-fated February quail-hunting trip.

And in response..... "My family and I are deeply sorry for everything Vice President Cheney and his family have had to deal with" - Harry Whittington.....huh?

"You know, one of the hardest parts of my job is to connect Iraq to the war on terror." — George Bush in an interview with CBS News' Katie Couric, Sept. 6, 2006

"I think -- tide turning -- see, as I remember -- I was raised in the desert, but tides kind of -- it's easy to see a tide turn -- did I say those words?" -George W. Bush's response when asked if the tide was turning in Iraq, Washington, D.C., June 14, 2006

"The only way we can win is to leave before the job is done." --George W. Bush, Greeley, Colo., Nov. 4, 2006

Thank you, Mr. President.

It seems that 2006 was a year in which we lost an inordinate number of stars, newsmakers and prominent celebrities. The long list includes, in no particular order, Lou Rawls, 72; Shelley Winters, 85; Peter Benchley; 65, Don Knotts, 81; Bernie "Boom Boom" Geoffrion, 75; Slobodan Milosevic, 64; John Kenneth Galbraith, 97; Aaron Spelling, 83; Kenneth Lay, 64; Steve Irwin, 44, television's irrepressible "Crocodile Hunter"; Byron Nelson, 94; Milton Friedman, 94; Gen. Augusto Pinochet, 91; actor Peter Boyle, 71; the Godfather of soul, James Brown, 73; former US president Gerald Ford, 93 and finally the Butcher of Bagdad; Saddam Hussein.

Another name, not so familiar, can be added to the list, Eugene H. Forman, my dad, a great man in his own right, who is missed by all those who knew him.

In sports, we saw Canada win its second consecutive World Junior gold medal right here in Vancouver, with a 5-0 victory over a highly touted Russian squad featuring future super-star Evgeni Malkin. Things did not go so well for the men at the Olympics in Turin, however, where the Canadian Men's Hockey team could not manage to score (looking a lot like the 2006-07 edition of the Canucks, as it happens) and lost in the quarter finals to Russia, 2-0. Their motto in 2002 – “Going for Gold”, in 2006 “Going for a Goal!” This prompted several media types to implore the men to “play like girls”; of course the women won their second consecutive gold medal defeating the Swedes 4-1. The Super Bowl went to the unheralded Pittsburgh Steelers, (their 5th title, tying them with the 49ers and Dallas) over the luckless Seattle Seahawks. Stanley's Mug went to the Carolina Hurricanes in a great 7 game series against a plucky Edmonton Oilers team that surely won the hearts of all Canadians with their improbable run for the coveted cup. Tiger Woods continued his utter domination of golf, winning the AP Athlete of the Year (again) as well as 6 tournaments in a row, along with the 2 majors he managed to win; the PGA Championship and the British. Simply amazing. The St. Louis Cardinals won the World Series-unfortunately just one year after Larry Walker retired from the team. Justin Morneau was named the AL MVP following in the footsteps of the aforementioned Larry Walker as the second Canadian to win the Most Valuable Player award in America's pastime. Fellow Canadian, Steve Nash won the NBA MVP for the second year in row beating out the ever graceful Kobe Bryant, among others. In keeping with the Canadian trend, Joe Thornton of the San Jose Sharks picked up the Hart Trophy (again, right here in Vancouver) for the NHL's Most Valuable Player, making it three for four for Canadians in major league sports (Shaun Alexander of the Seahawks was named NFL MVP).

The theatrical box office might be under siege, but it fought back and actually gained some ground in 2006. The total national tally is headed toward an estimated \$9.42 billion, which would represent an increase of nearly 5% compared with 2005's \$8.99 billion.

In one of the most stunning upsets in Oscar history, "Crash", Paul Haggis' multi-character tale of modern angst in Los Angeles, won best picture at the 78th Academy Awards, beating out the odds-on favorite, Brokeback Mountain. The rest of the awards were less controversial. Philip Seymour Hoffman for his portrayal of Capote, Reese Witherspoon as Johnny Cash's love interest, June Carter-Cash, in Walk the Line (another excellent soundtrack, by the way) George Clooney and Rachel Weisz round out the slate taking the supporting role Oscars for their characters in Syrianna and The Constant Gardener respectively.

Some housekeeping details to relate to you; the maximum contribution to an RRSP for 2007 is 18% of your 2006 income to a maximum of \$19,000 (less your PA, if applicable). The RRSP contribution deadline is March 1, 2007 for deductions against your 2006 income. The maximum withdrawal from LIF in 2007 is the same as it was in 2006, depending on your age it is about 6.5% of the account value on January 1, 2007 or the portfolio rate of return, whichever is higher.

Those of you with young children and those of you over 65 years old should notice some significant tax changes this coming year. Starting in January, parents will be eligible for the Children's Fitness Tax Credit for up to \$500 in eligible fees. Kids under 16 who participate in eligible fitness programs qualify. This is in addition to the new Universal Child Care Benefit.

For those over 65 there is a terrific opportunity to help offset the sting from the income trust changes; income splitting. This change will now allow the higher income earning spouse the ability to report up to one half of their income on a spouse's income tax return. This is huge! Now both spouses will be able to maximize their income at the lowest tax levels (which by the way are very low, compared to even just 5 years ago) and potentially avoid the OAS clawback at the same time! This is in addition to the increase in the pension tax credit from \$1,000 to \$2,000! We will be happy to assist you with calculating the optimum amount, if any, you should allocate to your spouse in 2007.

In office news, June Woodward joined Mark and me earlier this year and is beginning to come into her own after her baptism by fire. Mark continues his MBA studies and expects to complete the program later this year. All three of us are here to assist you in any way that we can so please feel free to call us with any questions you may have regarding any aspect of your finances. If we do not deal in the particular area you call us about, there is a good chance we will be able to direct you to someone who is competent and capable of assisting you.

We are often asked to describe the full scope of what we do here and we thought the following recap might be useful. In our practice we specialize in group savings plans, retirement income planning and financial investment services for individuals and businesses.

As Investment Advisors with Berkshire Securities Inc., we are able to help clients achieve their investment objectives through a wide range of investment products including stocks, bonds, and mutual funds. Incidentally, many people do not realize that we can assist you with consolidating all your investments, whether they are with a bank, credit union, mutual fund company or other securities firm, without selling the investment you own at the other institution. This is known as an "in-kind" transfer. The advantage to you is that you keep your investment but now your statements are consolidated into one and we can provide you with advice about all your assets. If you need more information about this process please feel free to contact any of us here.

We consider our true strength our ability to stay focused on long-term objectives and achieve this through the use of long-term asset allocation strategies consistent with our clients' risk tolerance and retirement/investment expectations.

We assist individuals and group plan members in achieving their investment goals with a consistent message.

We have established a very well-regarded practice in the area of “Retirement Income Planning” and for years we have helped clients convert their accumulated savings into income streams. Most advisors focus on the accumulation of assets but are not very experienced in managing the payout process. We have over 22 years of knowledge and experience that we draw on when assisting clients in structuring their retirement income streams.

On the group/corporate side of our business, we believe most members of today's workforce look for working environments that provide security, financial rewards and a path for personal growth. One of the most effective programs to help achieve these goals is a group pension and/or retirement plan. Not only does it provide security and piece of mind for plan members, it also offers members a tax effective way to save.

Our role as a broker is to reduce the workload on our clients' desk, as well as reduce any potential liability plan sponsors may face.

Our approach to meeting our group client's retirement plan needs is centered around outstanding service, local support and providing independent investment advice backed by more than 30 years of combined financial experience.

Our goal for 2007 is to continue to improve our service level for all our clients and any suggestions you have to help us to accomplish that goal are appreciated.

We thank you for your business and we want you to know that we appreciate and value the trust you have placed in us to help reach your goals.

Have a safe, healthy and prosperous 2007 from Mark, June and me!!

Yours truly,

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