

THE BOTTOM LINE

JUNE 30, 2008

Two hydrogen atoms meet. One says "I've lost my electron." The other says, "Are you sure?" The first replies, "Yes, I'm positive."

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Market Update

As of June 30th, the financial markets are not doing well. There are only two major indices (home bias in classing Canada as major) that are up over 1 year: Hang Seng and the S&P/TSX in Canada.

For the Canadian market, the TSX/S&P Composite was up 3.8% year to date and 3.2% over the past year for the period ending June 30th. But these marginally positive numbers are misleading as overall 8 of the 13 sectors declined, and of the five positive sectors, two were only slightly positive. You can appreciate the magnitude of the declines in the losing sectors as the roaring energy and gold sectors could just barely compensate the losses.

World Markets June 30/08	
Index	1 Year Return
Winners	
S&P/TSX Composite	3.20%
Hang Seng	1.20%
Losers	
NASDAQ	-11.00%
Wilshire 5000	-14.00%
S&P 500	-15.00%
DJIA	-15.40%
Russell 2000	-16.30%
DJ United Kingdom	-17.30%
S&P/TSX Venture	-18.30%
DJ Germany	-21.70%
Nikkei (Japan)	-25.30%

TSX Composite Sectors June 30/08	
Sector	1 Year Return
Winners	
Materials	43.10%
Gold	31.10%
Energy	22.30%
Utilities	5.10%
Metals/Mining	2.70%
Losers	
Info Tech	-6.90%
Industrials	-7.30%
Consumer Staples	-7.80%
Telecom	-16.30%
Financials	-18.10%
Real Estate	-21.60%
Health Care	-27.70%
Consumer Discretionary	-28.90%

For the S&P/TSX 60, for the year ending June 30th, there were 24 stocks that had a positive return, and 36 stocks that had a negative return. The stocks that were up were as follows:

Agnico-Eagle	Fording Coal	Shoppers Drug Mart
Agrium	Goldcorp	SNC-Lavalin
Barrick	Husky Energy	Suncor
Bombardier	Imperial Oil	TransAlta
Canadian Natural Resources	Kinross Gold	Teck Cominco
Canadian Oil Sands Trust	Nexen	Talisman Energy
EnCana	Potash	TransCanada
Enbridge	RIM	Yamana Gold

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Market Update (contributed by Mark Richards) continued

For the other 36 stocks that went down, the average 1 year return on these 36 stocks was -25.61%. That is a tough headwind for a diversified portfolio not concentrated in the three sectors and the 24 winning stocks.

This type of market is a good example of why a balanced portfolio with fixed income is beneficial. As the markets have moved up and down we have been able to avoid selling out of quality positions that have declined in value. These quality positions are securities that we feel over the long term are strong investments that we want to hold. Any income needed by our clients is generated from the fixed income component of their portfolio. This strategy gives us the flexibility to weather negative market volatility without being forced to realize a loss on a quality holding.

Boy it's a good thing the weather is nice!

Tax Free Savings Accounts

Undoubtedly, the biggest treat for investors in this year's federal budget was the introduction of a new savings vehicle that will allow Canadians to save money, not just for retirement but for any purpose, on a completely tax-exempt basis.

Starting next year (2009), Canadians will be able to contribute to a tax-free savings account (TFSA).

According to the government, the TFSA is a "flexible, registered general-purpose account that will allow Canadians to earn tax-free investment income."

The amount you can contribute to a TFSA will be based on your "TFSA contribution room." Starting in 2009, everyone who is at least 18 years old will begin to accumulate \$5,000 of TFSA contribution room. This TFSA contribution room will be cumulative and will be carried forward indefinitely to future years.

Perhaps the most interesting twist in these rules is that, unlike the RRSP system, any amounts withdrawn from your TFSA in a particular year will be automatically added to your TFSA contribution room for the following year, allowing individuals who withdraw TFSA funds to recontribute an equivalent amount in a future year. This a tremendous advantage over RRSP's and very valuable for those with large RRSP balances who are approaching retirement or young savers looking to invest their funds in an interest bearing account in order to purchase a home.

Unlike RRSPs, but similar to RESPs and the new Registered Disability Savings Plan (RDSPs), contributions to a TFSA are meant to come from after-tax funds (hence "tax prepaid") and therefore will not be tax deductible from income. The big advantage is that any income and gains on investments held within a TFSA won't be taxed either while inside the TFSA or upon ultimate withdrawal. This provides great flexibility when it comes to estate planning.

Source: Jamie Golombek, CA, CPA, CFP, CLU, TEP

BOX SCORES

GIC Interest Rates**2008 (%)

	Apr	May	June
1YR	1.93	1.93	2.13
3YR	2.43	2.43	2.73
5YR	2.88	2.88	3.08

Annualized Rates of Return to June 30 2008 (%) ***

All Cdn \$	1YR	2YR	5YR
TSX	6.8	14.5	18.2
S&P 500	-16.8	-2.2	1.6
TSX DEX	6.8	5.8	5.2
*EAFE	-14.3	2.2	10.5

*Europe, Australia & Far East Index

**source: Bank of Canada web site.

***Morningstar

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