

# The Bottom Line

Volume X11 Number 1

February 2003

*“What luck for rulers that men do not think”*

Adolf Hitler 1889 - 1945

## *The Year in Review*

Well isn't this getting a bit tedious? After two questionable years of investment performance in 2000 and 2001, it was reasonable to expect things might pick up in 2002 and my lord, didn't that turn out to be misguided optimism! So what is going on here and is there any relief in sight? The answer requires that we examine how we got into this pickle in the first place.

Lets go back to late 1998 when the world's economies were chugging along at a brisk pace, the price of oil was around \$11.00 /bbl, (the Economist Sept. 3,1998), inflation was low, interest rates were pretty low, the specter of Y2K was looming and probably most importantly, internet usage was exploding.

Those two factors, the internet explosion and Y2K, triggered a spending and investment spree the likes of which the world had never seen. Individuals and companies alike bought new computer equipment and the software to go along with it to ensure they were Y2K compatible. To facilitate the growing demand for internet access, the telcos and broadband manufacturers invested billions and billions of dollars on internet and wireless infrastructure. This spending created high revenue growth and commensurately high profitably growth for many technology and telecommunications companies (not to mention the huge number of job opportunities) which in turn, fueled the stock prices of these companies. The increasing stock market produced a phenomenon known as the wealth effect (people who experience rapid growth in savings feel wealthy) which spurred consumer spending which in turn, made other sectors of the economy more profitable and therefore pushed all stocks higher. Layered atop of all this was the dotcom boom which simply added to the hysteria or, to quote Alan Greenspan, the “irrational exuberance”.

In the meantime two other factors were quietly working against the growth cycle - rising interest rates and rising oil prices. Both of these have the effect of slowing economic growth eventually. In this case the economic slowdown occurred in late 2000. The stock markets fell precipitously in the fourth quarter of 2000 to finish the year in negative territory.

As we entered into the year 2001 most pundits felt the worst was over and the economy would rebound in the middle of the year. Greenspan had begun to aggressively cut interest rates and

the price of oil began to stabilize. As it happens, the US economy continued to deteriorate and actually fell into a recession in the second quarter of 2001. Then September 11th hit. At the time, 9/11 was blamed for the economic malaise but the economy was faltering well before then. In fact, post 9/11 after George W. Bush told the American people it was their patriotic duty to go shopping, there was a spending boom which, on the short term at least, pulled the economy out of the doldrums and the stock market responded positively for the balance of the year. However, a strong fourth quarter rally notwithstanding, the stock markets finished the year down again for the second year in a row.

The year 2002 came in with a whimper but most prognosticators (ourselves included) felt that low interest rates and significant tax cuts would fuel an economic recovery and the stock markets would react similarly to finish the year in positive territory. That scenario did not play out for a couple unforeseen reasons. First, the accounting scandals that came to light in the first quarter of 2002 rocked the stock markets as one of the two pillars of a free enterprise system (one being that a contract is legally binding, two being that accounting data is reliable and true) was shaken to the core.

Then close on the heels of the accounting debacle, came George Bush's war on the “axis of evil” which threw the already skittish market



(not to mention the consumer) into a tizzy. So, once again the markets fell throughout the year and not just a little - S&P 500 down 24%, Dow down 15%, TSX down 13%, Japan down 34% (again!)- even after a rather robust fourth quarter stock market rally that saw most markets move up 10 -12% from their October lows. That made it three consecutive years of negative stock markets, not an unprecedented occurrence, but extremely rare from a historical perspective.

That brings us to today. As this is written we are waiting to see if the US will try to win over the UN Security Council or decide to go it alone into Iraq. Obviously, the uncertainty surrounding the whole Iraq issue is making everyone a bit nervous.

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Investors and consumers alike are keeping their hands in their pockets. This, of course, has had a continued negative impact on both the stock markets and the economy.

We are often asked whether a war will be good for the economy and in this case we believe the answer is essentially **no**. Historically wars created an enormous amount of spending on “the war effort” which translated into jobs and incomes which when it was filtered through the system, increased economic activity and consumer spending which resulted in strong economic growth.

While the spending on the “guns and bullets” in this war is consistent with past patterns, the fundamental difference, in this case, is geography. In the past there has been very little or no threat of war-like activity on the home turf, as it were. At this point, we believe the prospect for a litany of terrorist retribution on North American soil is very high. If that happens people will begin to “cocoon”, meaning they will stay home in droves and watch CNN. No traveling to Disneyland, no business travel, no new cars, no jewelry for Valentine’s Day. This reduction in spending will mean company revenues may drop and coincidentally so could their profitability. Stock markets do not respond well to falling profitability. Translation: we feel there is good chance the world’s stock markets will fall for a fourth year.

Consequently, for this year’s RRSP contributions we suggest a very conservative approach – bonds, mortgage funds, preferred shares or possibly income trusts. Please call us for more information.



## Personnel Update

In some of our recent correspondence we introduced Kathy Berg to you as Ann’s replacement and we had hoped that Kathy could be able to adequately fill Ann’s rather large shoes. As it happens, she has since left us to pursue a more suitable career in the mortgage administration business. On the short term (and possibly the longer term) Kelly Riggs has stepped in to help us temporarily and she has very capably taken the “bull by the horns”. We will keep you updated with the status of this support role as we go forward from here.

## RRSP / RPP Contribution Limits

Finally some good news for those in a position to take advantage of higher contribution limits. After almost a decade of frozen RRSP and RPP contribution limits, we will begin to see these numbers rise. Effective in 2003 the maximum contribution to a RPP will be 18% of the current years income to a maximum of \$14,500 (up from a max of \$13,500). In 2004 the RRSP limit will increase to 18% of the **prior** years income to a max of \$14,500. Both limits will then increase by \$1,000 per year until they both reach \$18,000. After that the limits will be indexed to average wage growth. This measure brings the Canadian tax assisted retirement savings structure more into line with other OECD nations.



## BOX SCORES

### GIC Interest Rates 2002 (%)

	Oct.	Nov.	Dec.
1 Year	2.75	2.9	3.8
3 Year	3.65	3.5	3.5
5 Year	4.3	4.2	4.25

### Average Trust Company Rates

### Annualized Rates of Return to December 31, 2002 (%)

	1 Year	3 Year	5 Year
TSX	-12.4	-6.3	1.3
S & P 500	-22.8(Cdn)	-12.0	1.4
SCMU Bond	8.7	9.0	6.9
EAFE *	-16.6(Cdn)	-14.7	-0.9

\* Europe, Australia, & Far East Index

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Information in this newsletter is of a general nature and should not be acted upon without the appropriate professional advice.

For mutual funds, consult a fund prospectus. Mutual funds are not guaranteed, values change frequently and past performance may not be repeated.

Investors will pay management fees, commissions and may experience gain or loss.

# The Bottom Line

Volume XII Number 1

April 2003

*“Life is short, wear your party pants!”*

*Loretta La Roche*

## *Of Wars, SARS, Cars and Pars*

With the “War on Iraq” seemingly winding down amid an American victory, optimism surrounding the economy is beginning to emerge and none to soon, some would say. The prospect of the war erased any and all of the modest late year rally that most of the world’s stock markets experienced. However, the expectation that the serious fighting is now over has led to some respectable upward movement in stocks. In fact, as of this writing most markets are flat or up slightly from the beginning of the year. This is quite a reversal of fortunes given the malaise that gripped the markets just six or eight weeks previously. The big question is one of strength - can the new found optimism translate into sustainable economic growth?

There is some cause for hope. The price of oil did not skyrocket and has actually fallen over the course of the conflict to settle in at around \$25 a barrel. OPEC leaders recently lamented that there may be glut of oil on the market which could see prices drop even further on the short term. At its March policy meeting the US Fed decided not to cut interest rates sensing that with the war out of the way the economy is poised for renewed growth (by contrast, Bank of Canada officials saw fit to raise interest rates a quarter point).

The bad news is that the world economy was extremely weak when the Iraq war started. The US manufacturing index showed its largest drop since November 2001, shedding another 108,000 jobs in March after eliminating 357,000 in February (source; The Economist April 12 2003). To further compound already shaky economic prospects is the SARS outbreak. The effect in Hong Kong and Singapore is already dramatic. Retail Sales fell by 50% in March and tourism is expected to fall by 60%. Airlines are also dropping like flies, including Air Canada. As various countries warn against travel to Toronto due to the disease, conferences and tourism in the city have been decimated and if the outbreak continues to find legs in Vancouver there may be a similar decline in tourism here as well. While it is difficult to anticipate the economic costs of SARS, it is safe to say that it is not contributing to growth.

After years of growth as a result of heavy incentives, the American auto makers are beginning to see their growth curves flatten considerably. Couple this with huge pension and post retirement benefit liabilities and the potential for a disaster is quite real. If house prices were to wobble, the already tapped out American consumer will no longer have mortgage refinancing as an answer to their troubles and spending on vehicles could falter sending the economy tumbling for a time yet.



Offsetting the gloom, is the fact that the US Fed will do more if need be and the fiscal stimulus created by both lower taxes and extra spending should add significantly to the year end GDP numbers. Further, many analysts feel stock markets are significantly undervalued when compared to bond yields and after tax corporate profits.

In all of this the Canadian economy continues to defy logic and grow at a fairly robust rate. So much so that Bank of Canada has just announced its second interest rate hike in as many months. Interestingly, even as the US stumbles the Canadian economy seems to be able create jobs at an alarming rate and for the first time in some years the Canadian dollar closed over 69 cents US! Eventually we would expect this somewhat remarkable divergence from the US experience would translate into some positive stock market activity but as yet there has been no such response.

At the end of day we continue to maintain a very cautious outlook for both the economy and the stock markets in North America.



What with all this prattle about economies and stock markets we sometimes lose sight of the really important news items and the best bit of news this week was obviously, that after a truly magnificent regular season, the Canucks overcame a 3 -1 deficit to defeat the St. Louis Blues in 7 games. As you read this the “blue” Blues are teeing up (you were all wondering how pars was coming into this, weren’t you?). GO CANUCKS GO!

## *Perigee Funds*

In several of our past newsletters we have talked about Perigee funds offered through Group retirement plans administered by Clarica/ Sun Life. After our most recent meeting with Lloyd Atkinson of Perigee it is our view that members who are invested in Perigee Canadian Equity, Perigee North American Equity, Perigee Diversifund and Perigee Symmetry Balanced fund consider reducing their exposure to these funds. Based on the March 31, 2003 Mercer Investment Consulting survey, Perigee’s relative performance still lags in comparison to similarly managed funds.

Using the criteria we use to assess balanced funds, we feel the financial market outlook Perigee is using, results in them being significantly overweighted in stocks vis-à-vis other balanced fund managers. This means if we have another poor year in the stock market, Perigee funds will once again under-perform. Obviously, if they are correct in their forecast then investors should benefit quite handsomely, however it becomes a question of risk/reward trade off and we simply feel it is not worth the risk to stay fully invested

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in Perigee funds. If members wish to maintain the same growth style that Perigee funds employ, they may consider moving one half of their Perigee funds to a similarly managed fund offered by a different fund manager. Please call Chris or Mark to discuss your particular circumstances.

## Federal Budget

Lost in all the international news over the first quarter was the fact that the Federal Government introduced its budget on February 18. It was Finance Minister John Manley's first go at this budget thing and it is quite evident that John is a Liberal in the truest sense. The increases in proposed government spending have not been seen since the Trudeau era.

The most significant personal tax changes that were proposed center around savings and investment. You will recall in our last newsletter we advised that RRSP contribution limits would be rising in 2004 however that timetable has now been advanced by a year. Maximum contributions to a RRSP in 2003 will be 18% of earned income to a maximum of \$14,500, up from \$1,000. In 2004 the limit will increase to \$15,500 and so on to \$18,000 in 2006. Members of pension plans will see their limit increase to \$15,500 in 2003.

Overall the budget reflects the governments focus on health care, learning, security and savings.

## Welcome



We are delighted to have Kelly Riggs join our team effective April 1, 2003. Kelly had been very capably helping us out on a temporary basis for the past several months and she agreed to join us in a full time role. Kelly brings to us many of the same characteristics that made Ann successful and she is eager to learn. I have asked Kelly to try to give everyone a call in the months ahead and introduce herself to you. Kelly can be reached at 604-484-4558 or via email at kriggs@twcsecurities.ca.

## Clarica/Sunlife Merger Update

For all administrators and members of Clarica Group retirement plans, please note that in the months ahead your plan will be converted from the Clarica administration platform to the Sun Life administration system. While this is mainly a "behind the scenes" transaction everyone should be aware of the following details:

- 1) All account access will be frozen for 2-3 days during the actual conversion. This means members cannot access their accounts over the Internet or via the 1 800 line, nor can contributions be made. All monies remain invested for the conversion period.
- 2) Members will NOT have to re-enrol.
- 3) All investment options will remain the same although the names of some funds will change. In particular the name Clarica will be dropped from all funds.
- 4) **Plan Administrators:** Once the conversion is complete, to **submit your plan contributions** go to [www.Sunlife.ca](http://www.Sunlife.ca) and follow the sponsor link. You will sign in using your existing ID number and password (you may be prompted to change your password at this point). You should find a prefilled contribution form already on-line. There are some changes to transaction times. Note that your pre-authorized withdrawal will take place the same day that you remit your contribution, not the following day as is currently the case.
- 5) All existing forms continue to be usable until supplies run out.
- 6) Members will be able to access their accounts over the Internet by going to [www.Sunlife.ca](http://www.Sunlife.ca) and following the member prompts. Members should be able access their accounts using existing IDs and passwords.
- 7) All other sponsor access features and many more are still available to plan sponsors and members alike using existing IDs and passwords.

If you have any questions regarding your plan's actual conversion please feel free to call us.

## BOX SCORES

### GIC Interest Rates 2003 (%)

	Jan	Feb	Mar
1 Year	2.70	2.70	3.10
3 Year	3.45	3.45	3.70
5 Year	4.10	4.10	4.20

### Average Trust Company Rates

### Annualized Rates of Return to Mar 31, 2003 (%)

	1 Year	3 Year	5 Year
TSX	-17.6	11.1	1.9
S & P 500	-30.7	-15.7	- 3.1
SCMU Bond	9.1	7.6	6.2
EAFE *	-29.3	-19.2	-6.5

\* Europe, Australia, & Far East Index

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For mutual funds, consult a fund prospectus. Mutual funds are not guaranteed, values change frequently and past performance may not be repeated.

Investors will pay management fees, commissions and may experience gain or loss.

## THE BOTTOM LINE

JULY 2003

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Well finally there appears to be some good news to share with our readers as during the second quarter world stock markets rebounded from a plethora of bad news to post some healthy gains. After shaking off the ill effects of the war, SARS and mad cow during the first three months of the year, investors seemed to say enough is enough and poured money into the stock markets, despite less than stellar economic and profit data, pushing them up significantly.

In Canada the TSX has moved up 8% so far this year as compared to 9.6% for the Dow Jones Industrial Average, 11.8% for Japan, 1.7% in Britain and a whopping 25.7% for the NASDAQ. The gains are even more impressive when compared to the March 2003 lows that most indexes hit just prior to the Iraqi conflict. On the face of it, all appears to be rosy as we enter the third quarter; however there is one significant need: profits. They have yet to move commensurate with the markets. This means that simple valuation models indicate that stock markets are very expensive. Some argue that better times are in the offing and

all will be well in just a few short months. We are not so sure.

These are clearly challenging times for predicting economic trends. The Bank of Canada has changed its economic outlook more than once so far this year and not only due to SARS and mad cow. The appreciation of the Canadian dollar (up 16% to the end of June), the less than expected recovery in the US along with the above mentioned SARS and mad cow has produced a fairly weak backdrop for the Canadian economy, at least in the short run.

The US economy has plainly been unable to kick-start itself since the equity bubble burst several years ago notwithstanding Federal tax cuts, a devalued currency and a Federal fund rate of 1%. The consensus of most economists is that the slowdown in the US is more about excess capacity in the global economy, than demand. This excess capacity is occurring despite the fact that consumers, particularly in North America, have maintained spending throughout the slowdown. Obviously, at the core of any improvement in the Canadian economy over the next year is an improve-

ment in the US economy over the same time frame. The recovery however, will only occur when the excess capacity is used up and that may not happen for a few quarters yet.

In the meantime the media continually raises the spectre of deflation and while we have not devoted a lot of time to this issue in these pages, the possibility clearly does exist. Deflation is a very bad act and the US Fed has taken the risk very seriously as evidenced by the devaluation of the dollar and the relentless reduction of interest rates. We feel that the risk of deflation has subsided considerably in the past few months, but it will still leave a pall over the economy for a while yet.

So at the end of the day what does all this mean? We are taking this opportunity to rebalance accounts by selling into the strength of the markets. We continue to believe a conservative asset mix is the way to go. If you have any questions regarding your mix please feel free to call Chris or Mark to discuss further.

## CONGRATULATIONS

WHISTLER &amp;

VANCOUVER

HOME OF THE 2010

OLYMPICS!



## MERGER MANIA

On the heels of the Sun Life/ Clarica takeover, Great West Life (GWL) announced its intention to buy Canada Life. That deal was closed early in July and transition teams are working overtime to bring the two companies together. While we do not know exactly what the end result will be, we do have some early comments from Great West to pass on to those who have a Group RRSP or an Individual RRSP with Canada Life. All things being equal if you have a plan with Great West you will not be affected by any of this. In a recent memo from GWL the following comments were made:

- We're pleased to have the opportunity to join with a company of Canada Life's caliber.
- Canada Life will retain its identity as a company, as a subsidiary of Great-West. Its head office remains in Toronto.
- Canada Life will be part of a much larger financial services group, which includes not only Great-West and London Life, but also Investors Group and Mackenzie Financial Corporation, and the other members of the Power Financial Corporation group of companies.
- Great-West's head office is in Winnipeg, London Life's head office is in London, Ont. and Canada Life's head office is in Toronto, and there will be significant operations in each location. Additionally, the companies will have significant operations in Regina, Montreal and Halifax, in addition to a broad network of sales and service offices across Canada.

It would appear from the context of this memo that Canada Life will continue to operate under its existing brand and with relative autonomy. This would be consistent with other business units owned by Power Financial Corporation.

We will keep you up-to-date as more information becomes available, but at this point there does not seem to be any major upheaval in the works.

## THE BOTTOM LINE

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HOW MUCH YOU'D BE WORTH IF YOU  
LOST ALL OF YOUR MONEY.  
- ANONYMOUS



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## BOX SCORES

## GIC Interest Rates

## 2003 (%)

	April	May	June
1YR	2.80	2.65	2.75
3YR	3.40	2.85	2.85
5YR	3.90	3.55	3.65

Annualized Rates of  
Return to June 30 2003 (%)

All Cdn\$	1YR	3YR	5YR
TSX	-0.3	-10.4	0.5
S&P 500	-10.5	-13.8	-3.2
SCMU Bond	11.3	8.8	6.9
EAFE*	-16.5	-16.1	-5.6

\*Europe, Australia &amp; Far East Index

## NOT SO GREAT EXPECTATIONS?

In recent weeks we have witnessed a slight change in investor sentiment from "Whew! I'm glad I haven't lost 25% or 30% of my investment" to "OK, it's been three years now I haven't had any rate of return. I could have put my money under my mattress and been as well off. When am I going to start to make some money again?" So how do we respond to this question? The fact is there no definitive answer to this question. As we remarked above we feel there are still significant risks in the economy which we believe will continue to dampen expected rates of return going forward. Obviously there are those that disagree with our assessment. The raging bulls feel that US tax cuts, lower interest rates and the lower US dollar will all combine to fuel a surge in both consumer spending and business investment that will pull the economy out of its current state of despair. The increase in spending will generate an increase in profits and the markets will respond with a large upward swing.

We prefer to err on the side of conservatism. We continue to recommend increased allocations to fixed income vehi-

cles such as preferred share, bonds and in some circumstances income trusts. Given our view of the world we feel that overall expected portfolio returns will need to be revised downwards in the years ahead as the post bubble reconciliation works its way through the system. Based on our modeling, a well diversified portfolio of stocks and bonds where 40% of the assets are in fixed income (bonds) and 60% in stocks, may be expected to generate long-term rate of return in the order of 6% per year. This is down from 9.2% that a similar portfolio would have achieved over the course the past 50 years (source: Andex Associates).

Based on this, if your similarly diversified portfolio has grown by 3% on a year to date basis, this is consistent with our expectations. Obviously individual experiences will vary. If you have any questions regarding your personal rates of return or asset allocation strategy please feel free to call Mark or me.

## BRIAR FOREST UPDATE

In our most recent meeting with Les Pioch of Graoch, he indicated that there would be a letter forthcoming around the end of June outlining the exit strategy for Briar Forest. As yet we still have not seen the letter (surprise, surprise) however I did have a chance to speak with Les about the disposal of the project. Les said that there are two "parts" to the deal and they each have different mortgage renewal dates. (To recap the mortgages have to be free of any interest penalties in order to make the sale of the properties possible since they were written during a period of higher interest rates and therefore unattractive to prospective purchasers who would have had to assume them.)

The first part of the project becomes interest penalty free in late October, early November. According Graoch, they have had significant discussions with a potential buyer and it is likely to be sold at that

time. The sale of this portion should generate "return of capital" cheques to all investors prior to the end of the year. We estimate (and I stress estimate) this payment will be around 25% of your invested capital. The rest of project is slated to sell in the New Year, likely near the end of February.

At this point the transaction becomes final in the eyes of the taxman and all taxes are due at this time. Recall that investors have received about 60% of invested capital over the years and there has been no income tax payable on the income received to date. Therefore there is a deferred tax liability that is payable at this time. So in nutshell the IRS takes 40% of the sale price right off the top. Based on our very rudimentary calculations we expect that a couple of months after the sale of the second part of the deal you will receive a second cheque for a further 15%-20% of your invested

capital.

At this point the process gets bogged down a bit as investors are required to file tax returns in both Canada and the US and due to differences in timing, the whole thing really won't wend its way through the system until late in 2004. At this time we expect that with refunds and refilings and all, you will end up with **after tax** cash equal to your invested U.S. capital plus 8% in addition to the cash flow received over the years. Remember since the tax burden on this investment is back-end loaded the returns don't look as handsome as they actually are. In this case we estimate the **before tax** rate of return to be around 20% per year. The **after tax** return should work out to be in the order of 12% per year, depending on your own personal tax rates. All in we are happy with the expected outcome given the slightly bumpy road over the past couple of years.

## THANK YOU

Mark, Kelly and I wish to thank you for using our services. We recognize that the past three years have been somewhat trying and while we feel that our clients have come through this tumultuous time relatively unscathed, your continued support indicates that you believe this as well.

Let us know what you think of the newsletter face-lift.



## THE BOTTOM LINE

SEPTEMBER 30, 2003 - SPECIAL GOVERNANCE ISSUE

## JOINT FORUM OF MARKET REGULATORS

There is such an important convergence of elements in the employer sponsored retirement plan industry, that we have produced a special edition of the Bottom Line to discuss how these changes are going to affect the plan sponsor and the plan member. There are so many things going on, it's difficult to know where to begin!

Let's start with a little background. In the early 80's, company sponsored pension plans were predominately defined benefit plans (DB). Defined benefit plans promised a pension to members, payable at retirement, based on years of service and income. Investment returns did not affect a member's pension one way or the other. As interest rates soared during this time, plan members wanted to get a "piece of the action" and began to lobby employers to convert from a traditional DB plan to defined contribution plans (DC). Employers were only too happy to transfer the long-term investment risk into the hands of the investment savvy baby boomer.

As historically high interest rates gave way to historically low stock market valuations, the transition from DB to DC really gathered momentum in the 90's. Members simply moved their investment focus from GIC products to mutual funds. As conversions increased, provincial pension legislation became more onerous. Plan sponsors, began to establish the virtually unregulated company sponsored group RRSP plan, in lieu of a registered pension plan. The insurance companies fuelled the

conversion fire by establishing investment alliance partnerships with any manner of investment firms and the members loved the additional choices they now had. As fund options expanded, so did the need to educate employees. As the requirement to educate increased so did the risk of litigation from plan members.

It is against this backdrop we introduce the proposed Capital Accumulation Plan (CAP) Guidelines. Three years ago the Joint Forum of Market Regulators was established and charged with coordinating insurance, securities and pension regulations.

It is safe to say that when regulators meet they meet to write regulations, not the other way around, and so it is with the Joint Forum. The group's first task was to describe the rights and responsibilities of CAP sponsors, service providers and members. Since the first draft of the guidelines was published in April 2002 there has been, and continues to be, extensive and thorough discussions with all industry stakeholders in an effort to ensure that the guidelines in their final form are fair, cost efficient and reasonable. In sum, they are likely to represent current best practices when all is said and done.

The CAP Guidelines will apply to any investment or savings plan established by an employer, union or association for the benefit of its employees or members, that permits employees or members to make investment decisions. At this point in time it appears that the guidelines are meant to include Single Option Plans and Group Self Directed RRSP plans. The guidelines cover six aspects of a savings plan.

1) Plan Design: The guidelines require that the plan sponsor define the purpose of the plan and then ensure the design of the plan is consistent with the purpose. The purpose of the plan must be articulated to the plan member.

2) Investment Options. The guidelines propose that:

\*Investments be prudently selected and offer potential for investment diversification.

\*Investment performance and the managers themselves must be monitored.

\*An appropriate action must be taken where the performance of an option is deemed to be unsatisfactory. The guidelines do not name a specific action but it can include removal or replacing of the option.

3) Member Communication and Investment Decisions, the guidelines provide:

\*Investment information and decision making tools are available to all members and the members are aware that they are available to them.

\*The plan sponsor either selects a service provider who will provide the members with advice or instructs members to seek advice on their own.

\*All fees, expenses and penalties are communicated to the members.

4) Service Providers.

\*Service providers (i.e. the insurance company administrator, the plan advisor and others such as the actuary) must be monitored

by the plan sponsor.

\*Plan sponsors and service providers need to clearly identify each other's responsibilities and detail those in writing.

5) Fiduciary Duty. While the guidelines do not specifically address the duty of plan sponsors, the requirement to monitor implies a duty of care at the minimum.

6) Coverage. The guidelines apply to Group RRSPs, deferred profit sharing plans (DPSP), Defined Contribution pension plans (DC) and other savings plans.

At this point it is not intended that these guidelines become law. It is more likely they will serve as a benchmark for a standard of care when operating a CAP.

It is important to note that most of our clients are currently substantially compliant with these proposed guidelines. We do feel that there are a couple of processes that could be added to the overall governance regimen for most plan sponsors.

In the months ahead we will begin to prepare a dossier for each of our group clients which will include investment fund reviews, carrier selection spreadsheets (for those we have on file), a checklist of duties and any other relevant information we can gather.

Note that the final version of the guidelines have yet to be written therefore we have time before any new processes will need to be implemented.

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## COMING SOON...PRIVACY LAWS

The Personal Information and Electronic Documents Act (PIPEDA) is designed to help protect the privacy of consumers in Canada. It does this by setting limits on, and rules for, the collection, use and disclosure of personal information collected in the course of commercial activities. PIPEDA will apply to all commercial enterprises that collect and disclose personal information of Canadians, effective January 1 2004, except in provinces that adopt "substantially similar" legislation.

PIPEDA simply states that every organization that collects information must comply with the ten Fair Information Practices set out in the Canadian Standards Association's Model Code.

The model code addresses:

- 1) The way an organization collects, uses and discloses personal information
- 2) The right of individuals to access their own information
- 3) The right of individuals to have that information corrected, if it's in error.

In a nutshell this means that consumer information must be:

- \* Gathered with their consent
- \* Collected for a reasonable purpose
- \* Used for limited purposes for which it was gathered
- \* Accurate
- \* Open for their inspection and correction
- \* Stored securely

The implementation of PIPEDA is likely to have a fairly dramatic impact on our relationship with you, our client.

For example we currently are able to access individual plan member account information in order to assist members with their investment decisions. This access may stop effective January 1, 2004 unless we have explicit consent from each plan member.

### Our Privacy Policy

We are committed to respecting our clients' privacy. This includes clients we serve on an individual basis, those covered under a group arrangement through their employer or any potential clients. When clients choose Granville West Group / Chris Forman Consulting as a product or service provider, we treat all information with care and respect.

### Our Key Principles

In order to offer the products and services our clients expect we need to collect, use and store their personal information. As well we sometimes need to disclose this information to other parties who help us in providing products and services or complement those we provide.

1) We collect information necessary to establish and service client accounts. This includes personal information such as social insurance numbers, which are required for tax reporting. It may include marital status information as required under some legislation or to ensure clients are eligible to participate in a program or take advantage of a service.

2) We obtain the client's consent before collecting, using or dis-

closing personal information. Permission may be implied or explicit. Permission may be made verbally, in writing or electronically and can be provided through an authorized representative. Permission can be withdrawn at any time.

3) We keep information for only as long as we need it to service accounts or meet regulatory requirements.

4) Access to information is restricted to individuals who need the information to do their jobs.

5) Clients have the right to request an update or correction to their information.

As we move forward with our privacy initiatives we must seek to balance the needs of the individual client and the group member's privacy protection with the demands and needs of our businesses.

Over the next month we will be evaluating a form of consent that will allow the sharing of information needed to provide advisory services. We will let you know if there are any changes to our processes.

While the above may seem somewhat overwhelming, we see the pending changes as an opportunity to solidify our client relationships and a way to differentiate ourselves from the competition by assisting our clients in developing and maintaining quality CAP plans and privacy principles.

If you have any questions or know of other companies that may have some questions regarding these items please feel free to give us a call.