



# THE BOTTOM LINE

JUNE 30, 2006

## The Opening Bell

March 31, 2006: **12,110**. June 14, 2006: **10,960** -9.5%. June 30, 2006: **11,612** -4.1%. What do these numbers mean? Well, the first is the closing value of the S&P/TSX stock market index as of March 31, 2006 and the second is the same index as at June 14, 2006 and the percentage drop from March 31 (-9.5%). The last is the index as at June 30, a mere two weeks later and the percentage decrease in value in the three month period (-4.1%). After a couple of good years and a couple of really good months, the stock markets around the world gave back some ground in May and June. Not unexpectedly, I might add.

What is unexpected is the level of shock investors are exhibiting in the face of this downturn. We have read in the papers and heard on the street that people are surprised that the markets have pulled back a bit and are genuinely shocked that this happened to them. The precipitous drops of the early 2000's seem a distant memory to these folks which to me, is equally shocking.

As the lessons of the past 10 years have shown us, markets do go up and down. Trying to time in and out (actually, getting out seems to be fairly easy to predict; it's getting back in that is hard and that's the trick to being a successful timer) is so very difficult that the best strategy is simply to grin and bear it, dollar cost average when possible and make sure your overall asset allocation is correct. Simply look at the market movements in the last two weeks of June: a 6% upward move in 10 days. That's a very powerful move, but who would have bought in on June 14<sup>th</sup>?

So what has happened? Well, let's take a look: from its peak at the end of April, the Canadian stock market dropped 12% during the month of May and into mid-June. Oil and gold stocks have been the most volatile on the Canadian market but nothing has escaped unscathed with blue chips and financials down anywhere from 3% to 10% (all the banks are off over 11% from their highs two months ago). Foreign markets did not fare as badly as their Canadian counterpart, but still were in negative territory. With rising interest rates even bonds fell in value a little bit in the quarter, although not to any extent that should cause worry. At the end of the day, it's all just the ebb and flow of investment markets and there is really no cause for alarm at all for the long term investor.

## A Large Buffett\*

Some weeks back, the Sage of Omaha, Warren Buffett, the world's second richest man, gave his fortune to the richest. Wry as ever, the 75 year old Buffett quipped he thought it best to act before reaching an age where he might sign a letter that started "Dear Anna Nicole Smith."

With a stroke of a pen, Mr. Buffett donated more than \$30 billion (yes that's a B) to the Gates Foundation, the world's largest charitable foundation with assets currently in the \$30 billion range - before this latest gift. Not coincidentally, Bill Gates recently announced a "semi-retirement" of sorts in order that he may concentrate on taking a more active role in running the Bill & Melinda Gates Foundation, which operates under the guiding principle that "all lives - no matter where they are being led - have equal value." Much has been written and will be written about the impact such a gift will have on fighting diseases, philanthropy, education and the impoverished children of the world. The wisdom shown in this act will not likely receive the same attention. These two men, whose renown has come from their ability to make money, have now established a model for other rich people in dealing with their wealth when they die. In fact, it could be argued they are teaching the rich how to be wise with their money while they are still alive.

At the core of Buffett's decision to leave his wealth to charity was the belief that passing such an immense fortune on to future generations "flies in the face of a meritocratic society." One of his sayings is: you leave your kids enough to do anything but not enough to do nothing. Sage advice.

It's stories like these that allow us to keep faith in humankind amidst all the nonsense.

\*Berkshire Securities Inc. is in no way associated with Berkshire Hathaway Inc. or Warren Buffett.

### CONTACT US

#### CHRIS FORMAN

Phone: 604.687.4587

cforman@berkshire.ca

#### MARK RICHARDS

Phone: 604.484.4559

mrichards@berkshire.ca

#### JUNE WOODWARD

Phone: 604-484-4558

jwoodward@berkshire.ca

### COME AND VISIT US ON THE WEB!

[www.financialforman.com](http://www.financialforman.com)

OR

[www.berkshire.ca](http://www.berkshire.ca)

## THE BOTTOM LINE

## The Cardiologist's Diet: If it tastes good, spit it out. - unknown

## Federal Budget

On Tuesday May 2, 2006 Finance Minister Jim Flaherty delivered the first budget of the new conservative government. The budget contains a wide range of tax cuts for individuals and businesses. Of particular interest are:

- A one percent reduction in the GST effective July 1, 2006
- Reduction on taxes paid on dividends
- The elimination of capital gains tax on publicly traded shares donated to charity
- Increase in the amount of the pension tax credit to \$2,000
- Increase in the basic personal amount income exemption to \$8,839 for 2006
- Introduction of the Universal Child Care benefit
- Introduction of the public transit tax credit

Further, the federal government is projecting a surplus of \$8 billion for the 2005-2006 fiscal year and intends to devote \$3 billion in each of the next two years to reducing the federal debt. All in all, a little something for everyone!

## Charitable Giving

While on the topic of charitable giving, one of the mutual fund companies, Mackenzie, has come up with a neat tool for those who wish to make giving a regular part of their overall financial plan. It's really simple: you irrevocably donate to an independent registered foundation and receive a tax receipt for the value of the donation. You can name the account anything you like, for example the John Smith Charitable Fund. Pick your investments and then each year Mackenzie will notify the donor of the amount the foundation has available to grant (subject to a minimum donation as per the income tax act) and the funds are donated to the Canadian registered charity of your choice.

The structure can allow you to donate over time, therefore you can create a legacy by naming successors and consolidate your charitable giving. I think it's a very interesting concept. If you would like to explore the idea further, just give us a call and we can walk through it with you in more detail.

## BOX SCORES

## GIC Interest Rates 2006 (%)\*\*

	Apr.	May	June
1YR	2.63	3.08	3.08
3YR	2.88	3.28	3.28
5YR	3.13	3.43	3.43

## Annualized Rates of Return to June 30, 2006 (%)\*\*\*

All Cdn \$	1YR	2YR	3YR
TSX	19.64	20.69	10.48
S&P 500	-1.36	4.04	-3.68
SCMU Bond	-0.66	4.74	6.87
*EAFE	14.91	15.94	3.39

\*Europe, Australia & Far East Index

\*\*source: Bank of Canada

\*\*\*source: AIM Trimark



**THE BOTTOM LINE**

SEPTEMBER 30, 2006

**CONTACT US****CHRIS FORMAN**

Phone: 604.687.4587

cforman@berkshire.ca

**MARK RICHARDS**

Phone: 604.484.4559

mrichards@berkshire.ca

**JUNE WOODWARD**

Phone: 604-484-4558

jwoodward@berkshire.ca

**COME AND VISIT US  
ON THE WEB!**[www.financialforman.com](http://www.financialforman.com)

OR

[www.berkshire.ca](http://www.berkshire.ca)**Update**

As one of the most beautiful summers I can remember comes to a close, it is easy to see why the Lower Mainland is such a sought-after place to live. If this is what we can expect from global warming, it is really hard to worry about climate change as much as perhaps we should! We hope you and your families were able to take advantage of the wonderful weather and enjoy some quality time together over the past few months. As August gave way to September, we began to notice that everyone was making their way back to work and it now seems that the final quarter will be one of our very busiest ever.

The same can be said for the Canadian stock markets. After drifting upward in July and August, it seemed everyone started paying attention again in September and the results are a little unsettling. In the month of September, the TSX Composite Index had shed about 600 points from its summer peak of about 12,200, while oil, gold, precious metals and natural gas receded from their respective peaks. In our March edition, you may remember, we talked about the impact natural resources have had on the Canadian stock market and you may also recall we expressed our view that if gold and oil stopped moving up, so would the stock market. To some extent, this is exactly what we have seen happen over the past four weeks. Oil peaked at \$78.40/bbl and recently closed at \$61.50; gold closed over \$700 in July and has since fallen back to around \$600. Natural gas dropped 65% in four weeks. Most other commodities and precious metals have had similar volatility over the course of the past few months. As a result, the Canadian market has followed suit. It has been a busy fall so far indeed!

From a book of business point of view, we have very little exposure to any commodities, so it is unlikely that your account has had the same volatility as the market has experienced. This was a very conscious decision on our part and consistent with our long term view of investing; we tend not to allocate funds to specific sectors or geographic regions. It can be said we fall into the fabled "Tortoise and the Hare" camp of investment advice; slow and steady wins the race.

**Rent vs. Buy**

In this current real estate market where all semblance of rational thinking has evaporated, we are often asked what the long-term consequences of renting are vis-à-vis owning a home. Of course, so many different elements come into the long-term growth expectation of real estate (none more than location) that it is hard to compare it to other assets, but I came across an interesting illustration the other day.

Assume the average cost of a house in Canada was \$135,000 on January 1, 1982.\* By the end of 2005, that investment would have appreciated to \$242,941.\* If you had invested the same amount in a 5 year GIC over the same time frame, you would have accumulated \$792,280\*\* (before taxes) and a similar investment in a well-managed international equity fund would have generated a value of \$1,771,133.\*\*\* It just goes to show that a good investment doesn't always have a backyard and a white picket fence!

\*Source: New Housing Price Index (NHPI)

\*\*Source: Globe Hysales

## Structuring a Retirement Income

As many of you know, a very large part of our practice is assisting people with structuring their retirement incomes—take note, those of you turning 69 this year!! Following is a brief recap of the process. How many people have decided to retire after scrimping and saving for Lord knows how many years, only to be faced with any number of decisions regarding LIF's, RRIF's, annuities, CHIPS, joint and survivor pension waivers, CANSIM rates, minimums and maximums?!

### Where does one start?

The very first thing potential retirees need to do is determine how much money they require to live. Naturally, the next thing that needs to be done is to evaluate from where this income will originate.

At this point, most people need to make a fundamental shift in their thinking process. When you evaluate your income sources and needs, it becomes very important to think in terms of **after tax** incomes. In the world of retirement income, gross income is, to some extent, irrelevant information.

In a nutshell, here are the tax implications of the various types of income:

1) Registered Funds (LIF's, RRIF's, LIRA's, RRSP's, Pension income): fully taxable

2) Non-Registered Funds:

Interest: Fully taxable

Dividend income: very favorably taxed: 66.67% taxed

Capital Gains: 50% inclusion rate: most favorably taxed income

3) Government benefits: fully taxable and some income tested (OAS)

**The next step** is going to be attempting to calculate whether or not you have enough money to last you for the rest of your life, once you know how much you want to take out each year. This is very often the point at which people begin to recognize the need for a retirement planner; however, if you wish to press on by yourself, please proceed.

Remember, to live comfortably you really only need to replace about 50% of your pre-retirement, gross income. Armed with this information, you can now begin to assess what your after-tax income is and then establish strategies to make up for any shortfall.

There are several preliminary steps that you need to follow before you actually structure your income. Following is a brief checklist:

1) Identify what type of retiree you are (Snowbird, Home-body or somewhere in the middle)

- 2) Fully value all assets/pensions for each spouse, including CPP and OAS.
- 3) Calculate the value of each spouse's "pot" of money.
- 4) Evaluate all debts.
- 5) Consider housing needs.
- 6) Identify any foreign pensions, such as Social Security or British pensions.

Once you've gathered all the above information, you are ready to consider which income vehicle is best for you: RRIF, LIF or annuity. In most cases, the income flexibility and estate value of a LIF or RRIF make these the best choice.

So now you've gone to the bank and you've told the young man behind the counter you want a RRIF. Twenty minutes later you find yourself out on the sidewalk with an armload of mutual fund brochures and a headache!

### What is an effective strategy for structuring an income?

We find the best practice is to first consolidate all plans into one Self-directed RRIF. Next, establish an asset mix model that takes into account both your risk tolerance level and your required rate of return—two numbers that very often oppose one another. To help make the asset mix decision more comforting, consider taking 5-8 years of projected income and buying a "laddered portfolio" of GIC's or bonds with maturity dates 1 through 5-8 years out. This strategy guarantees you 5-8 years of income without having to sell any equity-based investments for several years, allowing them time to grow. This allows you to be more dynamic with the equity portion of your portfolio since you know you have a long-term investment horizon with all of your market-based assets.

Over time you will need to rebalance your portfolio so you do not overweight into equities. As well, as you move toward your 80's, you may wish to consider purchasing an annuity to eliminate the mortality risk and possibly to lock in a higher rate of return over the balance of your lifetime.

The above overview does not begin to fully encompass all aspects of the retirement planning process, however, it is our hope that we have identified some of the key areas, as well as the scope of the job at hand. For more information, please contact us.

## BOX SCORES

### GIC Interest Rates\*\*2006 (%)

	July	Aug	Sept
1YR	3.08	2.93	2.88
3YR	3.28	3.13	3.03
5YR	3.43	3.23	3.13

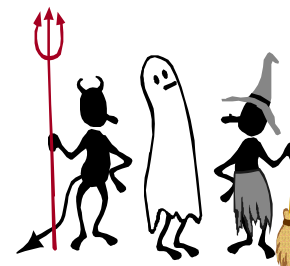
### Annualized Rates\*\*\*of Return to September 30 2006 (%)

All Cdn \$	1YR	3YR	5YR
TSX	9.2	18.9	13.6
S&P 500	6.5	5.4	-0.2
SCMU Bond	4.0	6.0	6.9
*EAFE	14.6	14.8	6.6

\*Europe, Australia & Far East Index

\*\*source: Bank of Canada web site.

\*\*\*source: AIM Trimark





**BERKSHIRE**  
SECURITIES INC.

**Christopher Forman CEBS, CFP**  
**Financial Advisor**

---

### **State of the Union for the year 2005**

Well, only four years to go before the world comes to our fair city to take in the 2010 winter Olympics! Lord knows if the next four years go as fast as the last four, we'll be cheering on our best in no time! In the meantime we wish all Canadian athletes the very best of luck in Turin in 2006!

Regarding 2005, if the rest of the 21<sup>st</sup> century turns out to be as distressing as the first the first five years we could be in for a tough slog. 2005 opened with the aftermath of the massive tsunami that caused the death of more than 200,000 people, followed by earthquakes and hurricanes that made for a rather ornery looking mother nature. Otherwise, it was just the same dismal blend of war, famine, terrorism, disease and incompetence surrounded by a quiet panic ratcheted up every time a chicken sneezed.

Down there in America, the land that common sense abandoned, those in charge forgot how the rule of law works. Secret prisons, violations of the Geneva Conventions, illegal trade practices not to mention more mundane crimes, like lying to the populace all fly in the face of the ideals the founding fathers of this nation foresaw.

It can all be summed up by the following quote from President George W. Bush when trying to explain to an audience in Tampa his plans to revamp social security... *"There's a series of parts of the formula that are being considered. And when you couple that, those different cost drivers, affecting those- changing those with personal accounts, the idea is to get what has been promised more likely to be – or closer delivered to what has been promised. Does that make any sense to you? It's kind of muddled."* Say what??? I feel much more comfortable knowing the free world is in the hands of this man.

As in all years, the world lost several of its notable newsmakers including Pope John Paul II, Rosa Parks , Peter Jennings, Richard Pryor, Long John Baldry, Chuck Cadman, Anne Bancroft, Scottie ( James Doohan), gonzo journalist Hunter S. Thompson, who took his own life and of course the imitable Johnny Carson.

In the tumultuous world of sports for the first time in 80 some odd years there was no winner of the Stanley Cup. Sadly the lockout that began in the fall of 2004 ultimately wiped out the entire season and any hope of awarding the coveted cup went down with it. As reported last year on

these pages, the World Junior tourney did go ahead and a hockey starved nation watched with utter delight as the Canadians won Gold in North Dakota by obliterating their long time rival, the pesky Ruskies, 6-1. There is little doubt that the talent fielded in the 2005 tournament was the best ever, due to the NHL lockout, and further, the team Canada iced in this event was probably the most powerful junior squad ever assembled. The New England Patriots won the Super Bowl for the third time in four years, and very clearly have established themselves as one of the all time great dynasties! Tiger Woods and his newly retooled swing once again was named PGA Player of the Year after his dismal performance in 2004 when he won only \$5.3 million dollars and slipped to 4<sup>th</sup> on the money list. Woods won PGA Tour Player of the Year seven times since his first full season in 1997. Hats off to Steve Nash (don't we wish he'd wear a hat- he of the really bad hair cut) who took the NBA's MVP award. Nash is only the second international player to be named as the league's MVP, Nigeria's Hakeem Olajuwon being the first in 1993. After the Bosox won the World Series in 2004, their first in 100 years, the Chicago White Sox whose record of futility was almost as long as Boston's, won the 2005 title in a four game sweep over the Roger Clemens lead Houston Astros. Crotchety as he is, I was pulling for the Astros to win for the hometown boy Roger, in what is likely his last season on the mound but sadly there was Hollywood finish to his career this time.

Speaking of Hollywood, 2005 was not kind to movie makers. Total revenues dropped about 5% from 2004 the largest year over year decline since 1984-85. Not that I am a big movie goer but it occurs to me if you are continually rehashing old storylines ala fun with dick and Jane, King Kong, yours mine ours you have to expect people to tune out at some point. Dismal gates notwithstanding, the Oscars were handed out in April with Clint Eastwood directed Million Dollar Baby taking home the statue for best picture, Hillary Swank taking best actress for her role in the same movie and Morgan Freeman walks away with best supporting actor working in Hillary's corner. Jamie Foxx took his first Best Actor Oscar for his portrayal of the ever so talented Ray Charles in Ray (what a great soundtrack that is, by the way) while Cate Blanchett was named best supporting actress for her work in the Howard Hughes biopic, the Aviator. Harry Potter and the Goblet of Fire, the fourth in the seven part series, opened in November and generated over \$100 million in revenues in the first weekend – the fourth highest weekend gross ever. The astounding success of this franchise has made J.K. Rowling richer than the Queen. Not too shabby for an unemployed, single Mom scribbling down plot lines on a napkin in coffee shop!

In the world of finance, we saw a mixed bag of results from stock and bond markets around the world. In Canada, where the economy is seemingly running on all eight cylinders, the TSX index romped ahead on the strength of resource stocks, in particular oil stocks, as the TSX finished the year at or near all time highs. Further, the Canadian dollar continued its remarkable run for the fourth consecutive year, finishing up about 5% against the US dollar. Historically, the general consensus was that the lower Canadian dollar helped our trade numbers and we would be unable to compete with the US if our dollar rose relative to the US. However, in 2005 the trade numbers held up very well and current account balance continues to remain very positive in spite of the strength of the dollar. It appears that the world views the Canadian dollar (and economy, for that matter) as a “petro - currency” meaning that as the price of oil and gas go, so goes the Canadian dollar. This can be interpreted as a mixed blessing, although with the price of oil hovering around \$63 we should enjoy it while we can!

In the US the news is a little less rosy, with the Dow Jones Industrial Average falling slightly on the year while the S&P 500 managed to eke out a very small 3% gain in 2005. When converted back into Canadian dollars both indexes reflect a loss for the year, again for the fourth year in row. A similar story exists in other major markets around the world- London markets up 15% in

local currency but fairly flat in Canadian dollars, same with the Euro area. The exception being Japan where finally it appears the Japanese economy is on the mend. Although we have been hopeful about Japan's recovery in the past it does seem that some of the much needed reform that have been implemented are taking hold and the Japanese consumer is once again ready to spend some money. Retail sales, while growing modestly, are growing and this good news indeed. The Japanese economy is expected to grow around 2.4 % in 2005 and forecasters are calling for a similar growth rate in 2006. The hope is that with Japan moving again the world economy can withhold a drop in US consumer spending without spinning into a global recession.

How does this affect your portfolio? Well, as you know we are quite conservative in our portfolio construction practices and therefore when we look ahead to what may be, we are pretty comfy with our client portfolio composition. The one thing we are assessing, as the RRSP top up season begins, is whether your foreign content is at the right level. In general we aim for about 20%-25% exposure to foreign assets and the growth in the Canadian stock markets over the past few years may have put portfolios out of balance. We feel that with the strength of the Canadian dollar and the growth in Canadian assets that it may be a good time to capitalize some of the gains you have experienced in Canada and redirect those proceeds into the some international assets. We can buy foreign asset now cheaper than we have been able to for years and further many of those foreign investments have underperformed Canada and therefore may represent good value.

Note that the RRSP contribution limit has been raised for this year (2005) to 18% of your 2004 income to a maximum of \$16,500 (less your PA, if applicable), so if you had an automatic contribution set up you may need to make a small top up contribution to ensure you maximize the tax deductibility of your RRSP contribution. The RRSP deadline date for deduction against 2005 income is March 1 2006.

If you are holding a LIF (Locked –in retirement income plan) the maximum withdrawal percentage for the year 2006 is the same as it was for 2005.

Mark Richards CFP, to whom many of you have chatted with over the past year or two, continues to satisfy his thirst for knowledge as he wends his way through the Dalhousie University MBA program. It is tough slog but we know he will be successful in the end. Mark is always available to assist you with any aspect of your portfolio, whether it relates to asset allocation or specific investment holdings. Please feel free to tap into Mark's extensive knowledge with any questions you have.

Kelly continues to assist us with the (not insignificant) administrative requirements of our business and judging from the compliments I receive from many clients, she is fulfilling that role admirably. Kelly continues to increase her knowledge base as well, and we would be remiss if we did not congratulate Kelly on the completion her Canadian Securities course earlier this year. Congrats Kelly!

Personally, I successfully satisfied the requirements for the Certified Financial Planner (CFP) designation as part of my ongoing commitment to education, as well.

One of the things we wish to improve upon in 2006 will be our quarterly newsletter. For a bunch of reasons, none of them probably very good, we did not produce a newsletter for every quarter last year and we will endeavour to get that back on track in the year ahead ( we assume you agree that this will be a good thing- are we being presumptuous?).

My guess is this is the first yearly recap you gave read that did not touch the booming real estate market in BC or the falling of the 38<sup>th</sup> parliament and the upcoming election on January 23, 2006. Everything goes in cycles except Liberal governments in Canada- and that's enough said on that!

As always, we thank you for continuing to allow us to assist you with achieving your investment and retirement goals whether corporately or personally. We want you to know that we shoulder this responsibility with care and a commitment to do our very best for you.

Yours truly,

Christopher M. Forman CEBS, CFP

*This publication contains opinions of the writer and may not reflect opinions of Berkshire Securities Inc. The information contained herein was obtained from sources believed to be reliable, but no representation, or warranty, express or implied, is made by the writer or Berkshire Securities Inc. or any other person as to its accuracy, completeness or correctness. This publication is not an offer to sell or a solicitation of an offer to buy any of the securities.*