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NetWorth

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In this issue

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Financial guidance providing peace of mind for a well-deserved retirement

Know someone who could benefit from the kind of relationship we have? Client referrals are welcome. Thank you.

"Investment return is far more dependent on investor behaviour than on fund performance." (DALBAR, QAIB, 2006)

Based in Boston, DALBAR specializes in studying market performance and the returns earned by the average investor. In their 2006 Quantitative Analysis of Investor Behavior (QAIB), the well-known firm concluded that, for the period of 20 years covering the years 1986 to 2005, the average investor had earned a meager 3.9% return per year, little more than the inflation rate of 3% per year, and significantly less that the annual compound return of 11.9% generated by the S&P 500 index.

Now there is a disappointing finding if ever there was one, as the markets have enjoyed good performance over the past 20 years. And yet, the average American investor has only gotten a taste of this performance.

DALBAR has concluded that the average investor buys and sells on a regular basis, more often than not, motivated by "greed and fear" and not governed by "proven investment practices."

What lessons can we learn from this? Probably several, but allow me to suggest a few leads, what I would call my "ABC's of investing."

A) Respecting your investor profile.

A profile is the allocation of the various types of investment - cash, fixed income securities, equities - selected by the investor. Determining one's profile is the most difficult task for any investor, and many factors must be considered: The individual's age, investment horizon, knowledge of the markets and risk tolerance level are among the main ones. As you know, determining an appropriate profile can only encourage a rational behavior in the investor, a behavior where greed and fear no longer rule, preventing the investor from destroying his plan by continuously entering and exiting the market.

B) Having a plan.

I have often mentioned just how essential it is to analyze your retirement requirements in order to draw up a plan - a roadmap that will lead you towards achieving your goals. Through our investments, we all want to build the nest egg that will allow us to enjoy a comfortable, peaceful and well-deserved retirement. Using such a tool can only encourage you to follow your investment plan and ensure the path you are on is the right one.

C) Conquering involvement, discipline, knowledge and rationalization of emotions.

Many words, perhaps, but each has its own importance. Take discipline. How can you succeed at anything if you do not have the discipline to reach your goals? But to be disciplined requires consistency. And, of course, consistently following a plan requires a minimum level of involvement. Really, who can claim success without focusing on his goals? And to free yourself from emotion, arguably the worst enemy of any investor, you need to demystify things, to better understand them, to get the basic knowledge that will help push destructive emotions out of the way. Statistics clearly show that investors abandon their plans at the worst possible moment - when markets are dropping. You must equip yourself with the tools you need to avoid such behaviors that undermine financial success.

Personally, I have always believed that an investor who attempts to always better understand the dynamics of investing and his decisions - seeing the big picture, not necessarily every little detail - will become the master of his financial future and will achieve much greater peace of mind through greater knowledge.

Albert Einstein once said: "Life is like riding a bicycle. To keep your balance, you must keep moving."

I thank you for giving me the opportunity to help you keep moving forward and, most of all, I thank you for your ongoing confidence and support.

Sincerely,

M. Vaillancourt

BMO Nesbitt Burns®

How to Instil Money Sense in Your Children

One of the most important factors in helping kids become responsible and independent individuals – money management skills. According to experts, it's never too early for parents to teach their kids the finer points of responsible money management. Whether your child is a toddler or entering first year of university, the following tips can help parents instil financial independence onto their children.

Start young

Ideally, children should learn about money through a reasonable allowance as soon as they are old enough to count to 50 (around age 5-6). Allowances provide children with an understanding of saving and spending. Once a family allowance is established, have your children set a goal towards a specific purchase, such as a new toy, and have them save a portion of their allowance for the purpose of eventually buying the item.

Don't give into guilt

When it comes to getting what they want, children can be very persuasive. If Tommy's mother got him that cool pair of $200.00 jeans, it doesn't mean you need to get it too. Children must learn the value of consumer goods and parents must understand it's OK to just say no.

Set Financial Boundaries

Encourage your teenagers to find a part-time job to help save for future items such as schooling or a car. By earning money through a part-time job, teenagers will value the fruits of their labour. This will also help clarify the differences between purchases that are needs, wants and wishes and which type of purchase takes priority.

Budgeting & Consequences

Through budgeting, teenagers will learn a very import financial lesson – consequence. If your daughter chooses to spend her allowance or part-time paycheque on several frivolous items such as CDs and make-up, she will learn that the consequence of her spending habits have left her with not enough money to purchase something she really wants.

Practice what you preach

Children are observant by nature and in order to have financially responsible children it's important for parents to be financially responsible as well.

Money sense is learned and it's every parent's responsibility to teach their children to be financially responsible. Passing on financial wisdom is one of the best gifts parents can share with their children.

2007 Federal Budget
"Family Friendly"-A Summary of Key Personal Tax Proposals

The recent federal budget delivered by Finance Minister Jim Flaherty on March 19, 2007 proposes a number of personal tax measures, directed primarily to families and retirees. Many of these proposals are effective for 2007 upon receiving Royal Assent. The more significant proposals are briefly outlined below:

Age Limit for Maturing Retirement Plans:

RRSP plan holders will now have until age 71, instead of age 69, to convert their Registered Retirement Savings Plans to either a Registered Retirement Income Fund (RRIF) or an annuity. Not only does this mean an additional two years of RRSP contributions, but it means any unneeded RRIF income can be deferred for two years. Transitional rules are provided for those individuals currently aged 69 to 71 affected by these changes.

Lifetime Capital Gains Exemption:

The government has also proposed to increase the lifetime capital gains exemption for qualified small businesses and qualified farm or fishing properties from $500,000 to $750,000.

0% Capital Gains on Donations:

Paralleling the incentives for qualifying donations to public charities introduced in the 2006 federal budget, those who wish to donate publicly-traded securities to a private foundation will also be able to avoid the associated capital gains tax.

Registered Education Savings Plan (RESP) Enhancements:

The budget proposes to eliminate or reduce some of the restrictions on RESP contributions. Specifically, the $4,000 annual limit on RESP contributions will be eliminated while the lifetime contribution limit will increase from $42,000 to $50,000. The budget also proposes to increase the amount of annual contributions eligible for the 20% Canada Education Savings Grant (CESG) from $2,000 to $2,500, thereby increasing the maximum annual CESG per beneficiary from $400 to $500.

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Registered Disability Savings Plan (RDSP):

The budget also proposes to introduce a new Registered Disability Savings Plan broadly modelled after the RESP system to help provide for the financial futures of individuals with severe disabilities. Starting in 2008, an RDSP can be established for an individual who qualifies for the disability tax credit. Unrestricted annual contributions up to a $200,000 lifetime limit can be made, with an opportunity to receive government savings grants up to certain limits.

New Child Tax Credit:

As a form of broader-based tax relief, a new $2,000 child tax credit was proposed to provide up to $310 of federal tax relief per child under 18, beginning in 2007, with the option to transfer unused credits between spouses.

Pension Income Splitting:

Although first introduced in October 2006, the proposal to allow the splitting of pension income amongst spouses was also highlighted. The proposals are intended to take effect in 2007 and will allow a Canadian resident who receives qualifying pension income to allocate up to 50% of this income to be taxed to their spouse or common-law partner.

If you'd like to discuss these and other federal budget initiatives and how they affect your financial plan, please contact your BMO Nesbitt Burns Investment Advisor.

Going Global (*as at May 3, 2007)

It has been a remarkable five years for Canadian stocks. However, the strong performance over this time period masks various risks facing the Canadian equity market.

One such risk is the potential volatility due to the market's high concentration in two cyclical sectors: energy and materials. This results in the earnings for the Canadian equity market being more cyclical than those of countries with more diversified stock markets. With roughly 44% of the S&P/TSX Composite Index in energy and materials, its performance will be influenced by the outlook for the global economy and by extension, commodities.

We believe the swings in the Canadian equity market over the course of the past few years serve as a reminder of the importance of international diversification within portfolios. Not only to help control the effect of being exposed to weakness in the domestic market but also to provide exposure to greater breadth and/or a different mix of industries than is available domestically. Consider the health care, information technology, and consumer staples sectors. While our domestic equity market has exposure to these areas of the market, they tend to be narrow, providing limited choice for investors.

Historically, Canadians have tended to favour domestic investments. The relative outperformance of the Canadian equity market and the strength of the Canadian dollar in recent years have further fueled this home country bias with many investors increasing domestic holdings.

The dramatic rise in the Canadian dollar between 2002 and 2006 significantly reduced returns on foreign holdings. This clearly highlights one of the most significant risks associated with foreign investments: currency risk. The strong loonie presents investors with an opportunity to acquire foreign investments. We believe the Canadian dollar is likely to trade on average at US$ 0.87 for the balance of 2007.

Weighing both the risk and reward associated with foreign investments, we believe that for most investors, even a modest allocation to foreign markets is appropriate to help ensure their investment portfolio is well diversified. I can help you determine an appropriate level of foreign exposure for your portfolio based on your unique set of investment objectives and risk tolerance.

Asset Mix Recommendations (May 2007)

	Income Investor	Balanced Investor	Growth Investor
	Asset Mix	**Asset Mix**	**Asset Mix**
Cash	10	5	5
Fixed Income	55	30	10
Equity	35	65	85
Canadian Equity	15	25	35
Foreign Equity	20	40	50

Contributors this issue: "Retirement at 60? Think Again" by BMO Nesbitt Burns Marketing Department; "How to Instil Money Sense in Your Children" by BMO Nesbitt Burns Marketing Department; "2007 Federal Budget" by John Waters; ""Family Friendly"-A Summary of Key Personal Tax Proposals"; and "Gains Ahead" by Martha Hill, CFA.