

Per\$pective

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ARCA
FINANCIAL GROUP

Investment Leverage – When Does This Make Sense?

Leverage involves using borrowed funds to purchase an investment. When does this make sense? Does it make sense for you? How can a leverage program be structured to increase the probability of a successful outcome?

Leverage is not for everyone. For some people, all available cash is used for RRSP and RESP investments, or to pay off a loan or mortgage. Others don't have the risk tolerance for this strategy. However, for the right individual, leverage can be an effective strategy to make money for future spending needs.

We generally look for the following before presenting a leverage approach to a client:

- individuals who have maximized RRSP and RESP contributions
- individuals with low debt levels or minimal debt
- individuals with income taxed at higher rates
- individuals with strong cash flow
- individuals with the risk tolerance to ride out the tough times in the market and who are willing to adopt a 10 year timeframe for the program
- individuals who understand what they're doing when they adopt this approach

We call our approach 'conservative' leverage because of the way we set up the program to increase the probability of a successful outcome.

Here's how we advocate implementing a leverage strategy for our clients:

1. Reduce the cost of borrowing - using certain products, the borrowing can be done at prime rates. As well, Manulife Bank offers a leverage program up to \$100,000 at prime plus 1.25%¹ with minimal underwriting. The key here is to minimize the cost of the borrowing.
2. No margin calls due to market fluctuations - markets go up and down. It is important not only to have the risk tolerance to ride out the tough times but you don't want the program interrupted by the lender. Using Manulife Bank's leverage program there are no margin calls due to market fluctuations.
3. Value and 'deep-value' funds - value managers buy stocks that they estimate to be trading at less than 80% of the intrinsic value of the company. This provides a cushion for the fund in tough markets. Few value and deep-value funds have lost money over a 10 year period of time.²
4. Diversity of managers - we usually build a portfolio using a variety of fund managers from various fund companies. Some managers find value in large companies and others find value in smaller companies. Some managers find value in stocks in North America and others find value in stocks outside of North America. Using between three and five managers reduces the risk that one manager may under-perform.
5. Deductibility of fees - by using Manulife Securities' Premier Program for accounts greater than \$100,000, it is possible to charge the advisor fee as a separate fee (rather than including the fee in the fees charged by the fund). Manulife Securities provides direction regarding when CRA allows these fees to be deducted by a taxpayer against other income. If the fee is deductible, the cost of the leverage program is reduced and the probability of a successful outcome is increased.
6. Income types - investing in funds that generate dividend income and capital gains income will increase after-tax returns as dividend income and capital gains income are both taxed at lower rates than interest income.

7. Tax efficiency³ - most fund companies offer corporate-class structures that are close to 100% tax-efficient. We use these funds in our leverage program to reduce the taxes payable annually on investment income from the investment portfolio. When the leverage program is liquidated, investment gains are taxed at capital gain rates.

8. Liquidity - for larger leverage programs, we may invest the funds on a no-load basis. This solution provides maximum flexibility to the investor in case tax rules change (regarding deductibility of interest and fees) or if circumstances change and the investor wishes to un-wind the leverage program.

If an investor borrows at 6% (the current prime rate) most people think that the investments also need to generate a 6% return to 'break even'. This is not the case. In fact, the break even investment return can be lower than 4% depending on the tax-efficiency of the funds and the marginal tax rate of the investor.⁴ We can run an illustration tailored to your situation so that you can see what the numbers could look like if you adopt this solution.

For the right individual, leverage can make sense. If you're interested in getting more information on this program talk to your Arca advisor.

*Contributor: Bill Vollmer, CA, FLMI, CFP
Principal and Financial Advisor*



¹As at August 28th, 2006, Manulife Bank's Prime Rate is 6.00%, which is the Annual Percentage Rate (APR) for the Quick Loan Program based on a one year term. Rates are variable and subject to change.

²Commissions, trailing commission, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual fund securities are not guaranteed, their values change frequently and past performance may not be repeated.

³Tax deductibility of loan interest depends on a number of factors, with the Income Tax Act providing the framework for determining tax deductibility. Tax laws are subject to change.

⁴This illustration assumes that a specific percentage of loan interest is tax deductible, however treatment of illustrated figures cannot be guaranteed. Readers should consult their own tax and legal advisors with respect to their particular circumstance. Borrowing to invest is not suitable for everyone, and will only be recommended if you are willing to take on some additional risk, since losses as well as gains may be magnified. You must be financially able to meet your loan payment obligations and pay taxes on any gains. The value of your investments will vary and is not guaranteed. Quick loans are offered through Manulife Bank. Manulife and the block design are trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Bank of Canada.

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Arca Family Announcements



Congratulations to Mark Healy! Mark and his wife Heather welcomed their first child, Erin Linda Healy, born June 6th weighing 6lbs and 14oz. Best wishes to the Healy family!



Congratulations to Kelly Watson! Kelly will wed Brock Smith in the spring of 2007. Best wishes to Kelly and Brock for a long and happy life together!



Mirka Petro



Tammi Nelles

Welcome Mirka and Tammi! Mirka Petro and Tammi Nelles both joined the Arca team in July as Insurance Associates and are currently in the process of completing their Life License Qualification Programs. Welcome to Arca ladies and good luck on your exams!

Contributor: Debbie Hohl

MARKET COMMENTARY

Weekly Financial Markets Review

August 28 to September 1, 2006

Canadian Market Review

Canadian Markets nudged slightly ahead for the week. Its main drivers so far this year have been Energy and Materials but both failed to spark further buying interest as their underlying commodities declined. Crude oil suffered a large decline bringing its year-to-date rise down to 13.35% and nearly US\$10 off its historic high of US\$78.40 reached in July. Crude fell partly in response to the much weaker-than-expected tropical storm Ernesto. Traders recalling the harm Katrina caused the gulf region last year at this time heavily bid up the price of crude in anticipation of the hurricane season. As producers and refiners have been untouched by nature so far this year some of that

"fear" premium is coming out of the market. However, with Iran's defiant stand to continue development of its nuclear program, traders will be loathe to sell crude short given that sanctions against the Iranian regime could result in as much as five percent of the world's oil export being taken out of the market. The Energy sector was the only negative on the week finishing 1.9% lower.

Article sourced by Lori Struk. The above information is part of an article in the Manulife Financial Weekly Financial Markets Review, August 28 to September 1, 2006.

TAX AND ESTATE PLANNING CORNER

Gifts of Publicly Listed Securities – A Bigger Benefit Than You May Realize

Many of the provisions from the May 2, 2006 Federal Budget have now been passed into legislation. One of the new provisions to keep in mind relates to donating publicly traded shares, including mutual funds and segregated funds, to a registered Canadian charity or public foundation.

Typically when you donate shares to a charity you also have a disposition that results in a capital gain. Capital gains are generally 50% taxable, however several years ago the taxable portion was reduced to 25% for gifts of publicly traded shares. The latest change now totally eliminates the taxable capital gain on the disposition where the gift is made after May 1, 2006.

Consider the following example. You own a mutual fund with a fair market value (FMV) of \$100,000 and a cost base (ACB) of \$40,000 and want to donate it to a charity. You can either sell the fund and donate the cash, or donate the fund directly to the charity.

| | Donate Cash | Donate Mutual Fund |
|--------------------------|-------------|--------------------|
| FMV | 100,000 | 100,000 |
| ACB | 40,000 | 40,000 |
| Capital Gain | 60,000 | 60,000 |
| Taxable (50% vs 0%) | 30,000 | 0 |
| Tax @ 46% (a) | 13,800 | 0 |
| Donation Credit @46% (b) | 46,000 | 46,000 |
| Net tax benefit (b-a) | 32,200 | 46,000 |

Typically it is more advantageous to donate appreciated securities rather than cash. In this case you would be ahead by \$13,800.

Mutual fund companies, such as Mackenzie Financial Corporation, are implementing donor-advised funds. These funds provide a cost-effective charitable vehicle that combine immediate tax benefits with the ability to support your favourite charities now and in the future without the administrative responsibilities and expenses of setting up your own private foundation.

Call us for more details on how to create your legacy!

Contributor: Christine Black,
B.Math, CA, CFP, TEP
Arca's Tax and Estate Planning
Consultant



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COMMUNITY BUSINESS PROFILE

Win-Leader Corp.

Together with his wife and daughter, Doug Fisher opened his distribution company Win-Leader Corp. in May 1988, right from his own front door. Using his garage as a showroom and with his fax machine in the basement, Doug and his family began their business, literally from the bottom up.

Now, more than 18 years later, the independent owners of Win-Leader Corp. attribute their formidable success to continually staying focused on customer service and consistently keeping their unique customer base satisfied! Win-Leader Corp. is one of the last Canadian wholesale distributors in the consumer electronic industry and while they are not open to the general public, their diverse clientele ranges from small electronic retailers to the much larger University and College market. Win-Leader Corp. is a national distributor of a number of innovative, high quality products, including: small appliances, furniture, education and promotion materials, sports memorabilia and autographed prints. This company has the ability to single handedly meet the needs of both mainstream audio and video retailers and golf tournament organizers alike. Having relocated from its home-based roots, Win-Leader Corp. now utilizes its company website, expanded showroom and mail-out flyer to keep its more than 1600 customers abreast of what is available through the company.

Today Doug is in the process of transitioning the day-to-day operation of his business into the hands of his daughter and son-in-law. He continues to see a very bright future for Win-Leader Corp. in the consumer electronics industry



and firmly believes that when you love what you do – success just seems to find you!

For more information on the services offered at Win-Leader Corp. visit them online at www.winleader.com.

Contributor: Connie Barnett

In order to offer networking opportunities to our clients and business partners, we will be featuring one such business in each newsletter.

If you would like your business to be profiled, please contact Debbie Hohl at 519-745-8500 Ext:221 or by email dhohl@arcafinancial.com

GROUP BENEFITS FUNDAMENTALS

Helping You Create a Healthy Workplace

Creating a healthy workplace environment for your employees can inspire the kind of loyalty and commitment you can count on to remain competitive in your industry. By adding an Employee Assistance Program (EAP) to your group benefits plan you will have a cost-effective way of showing your support for those individuals that are working for you. It reinforces the message that you believe that your employees are your company's most important asset and that their physical and mental health is important.

An EAP focuses on prevention, and ultimately the avoidance of, health costs before they begin. An Employee Assistance Program plays an important role in helping target personal, social and stress-related issues that can often lead to illness and absence.

The benefits of an EAP are:

- a cost-effective way to attract and retain employees by providing affordable benefits that are comparable to larger employers
- professional counseling through multiple formats including: a face to face consultation, a 24/7 Call Centre or a web-based inquiry
- resources and referrals for information on issues such as child and elder care and work-life balance

- helps employees deal with stress by giving them the tools they need, even in the most challenging circumstances
- allows managers to manage and provides assistance in dealing with performance problems, diversity and harassment issues, spotting and helping troubled employees and reducing the risk of violence in the workplace
- expertise and resources to help address organizational issues
- critical incident services by specially qualified trauma counselors
- cost-effective approach, providing savings or reduced absenteeism, increased productivity, reduced disability benefits and Worker's Compensation costs



For more information on introducing an Employee Assistance Program into your Group Benefits package please contact myself or your Arca advisor.

*Contributor: Paul Struck, CLU
Arca's Group Benefits Consultant*

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Spotlight

Charity BBQ

Join us Saturday September 30th to help support the Grand River Hospital Foundation's Breast Assessment Unit. Enjoy food and drinks, dunking your favourite advisor in a dunk tank, jumpy castle, balloons and more! The fun begins at 11am in our backyard. See you there!

Typo Contest Winner

Congratulations to Richard Steinmann! For finding a typo in our last newsletter Richard won two tickets to see a performance of Cats, the musical, at the St. Jacobs Country Playhouse Theatre. Congratulations to Richard and thanks to all those who entered the contest.

Arca Holiday Gala

Watch for more details in the coming months for our second annual Holiday Gala event, when we celebrate our appreciation of you, our clients!

Office Hours

As of September 5th Arca has resumed regular business hours – Monday through Friday 8:30am to 5:00pm.

Contributor: Debbie Hohl

INSIDE ARCA

Manulife Bike and Hike for Heart



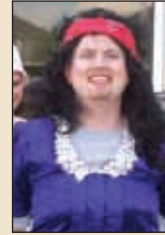
On Sunday June 4th a few members of the Arca Staff participated in Manulife's annual 'Bike and Hike for Heart' event. After a nourishing breakfast at the Arca office, staff either walked or biked the route which finished at RIM Park in Waterloo. Arca's employee participants and sponsors donated over \$1,000 towards the event which raised in total over \$200,000 for the St. Mary's Cardiac Care Centre, beating its goal of \$180,000.

Arca's Summer Olympics

On July 19th we held our second annual 'Arca Summer Olympics' event. Arca's Fun Factory divided our group into five teams. The afternoon began with a round of mini-golf, followed by some fun, games and a BBQ in Arca's own backyard. Congratulations are extended to the winning team, Boss Hog and the Hot Lips (team photo below), and to Mark Healy who won the Arca's Next Top Model contest.



(from left - Bill Vollmer, Megan Kemp, Sue Langdon, Heather Phillips, Debb Hohl)



(Mark Healy, aka, Arca's Next Top Model)

We would also like to thank our AIM Trimark representative, Duane Ledgister and our Manulife Quality Underwriting representative, Prakash Joseph for providing the prizes for our winning team. It was a fun filled afternoon and a great time was had by all!

Contributor: Lori Struk

LIFESTYLE TIPS

How Sweet Is It?

Although on-going controversy surrounds the use of artificial sweeteners, they are still a popular choice for many people, especially those on diets, who rely on them to curb their caloric intake. There are many individuals and consumer groups who are resistant to their use yet the FDA continue to stand behind the safety of these products despite claims of such side effects as headaches, cancer and multiple sclerosis. The American Heart Association and the American Diabetes Association both continue to approve the use of artificial sweeteners for weight control.

Artificial sweeteners are made up of compounds which provide a sweet taste very similar to sugar. Although there have been claims that these products are made directly from sugar, in the manufacturing process the molecules are changed to such an extent that they no longer maintain any of their original characteristics. Sweetener products can range anywhere from 50 to 200 times more sweet than sugar yet they have fewer or no calories.

Today, there are four main artificial sweeteners on the market. They are identifiable under various brand names: Saccharin, Aspartame (Equal, NutraSweet), Acesulfame (Sweet One, Sunett), and Sucralose (Splenda). Artificial sweeteners are used in literally thousands of products from yogurt and dessert mixes to chewing gum and vitamins.

The original artificial sweetener, Saccharin, was discovered accidentally in 1879 by a chemist attempting to create new chemical dyes from coal tar derivatives. Forgetting to wash his hands before dinner, he licked his fingers and found them to taste sweet. It is amazing how many things we use daily that have been discovered by chance.

Limited space prevents going into a detailed description of each artificial sweetener, however there are a number of websites you can visit if you would like more information or have any concerns. A good website to check out is www.howstuffworks.com which contains facts about the composition, processing, and controversy surrounding many of the artificial sweeteners. In addition, this site will also provide some insight into the new sweeteners available on the market today, which are now derived from such ingredients as bioflavonoids of citrus fruits and licorice root. There are many options out there to satisfy your sweet tooth! It helps to know the facts.

Contributor: Connie Barnett

Information contained in this article was found on www.howstuffworks.com



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"Reputation is what people think you are. Character is who you really are. Take care of your character and your reputation will take care of itself."

Anonymous



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