

Per\$pective

People who care, Plans that perform



Investing Without Borders

Most Canadians are aware that funds invested to their RRSP, LIRA, RRIF or LIF account have been subject to a maximum 30% foreign content rule.

Not all Canadians are aware that this rule was eliminated in 2005. The change is generally viewed as a good one for Canadians. While our stock markets are hot right now, that won't always be the case. As we all know, market performance is cyclical.

Canadians tend to be reluctant to invest outside of their own country, and currently have only 20% of their investments outside the Canadian borders. This tendency exists in other countries of the world too. It's called 'home country bias'. Two main reasons cited for this bias are:

1. Currency - when investments are made into countries other than Canada, currency risk becomes another factor affecting returns. In some years currency fluctuations will help returns; in other years, they will hinder performance. However, most experts agree that the impact of having various currencies in a portfolio will be neutral over a ten-year period.
2. Investment familiarity – people like to invest in companies that they can feel and touch; they “know” companies like TD Bank, Manulife, etc. They are less comfortable investing in a European bank or a Japanese telecommunications company.

Because neither of these biases are legitimate reasons not to invest outside of Canada, it begs the question of how much foreign content does make sense for Canadian investors? There have been two general responses to the elimination of the foreign content legislation:

Response#1: The old rule was 30%. Over time, one strategy is to increase the foreign content exposure to 40%-50%.

Response#2: Since Canada now represents 3% of the total market capitalization in the world, another response includes building a portfolio with Canada at 3%, and then over- or under-weighting Canada based on the relative attractiveness of companies in Canada.

In determining our approach at Arca, we considered the fact that because the Canadian markets have done so well over the past five years, there are a number of companies outside our country that are more diversified, growing faster and paying higher dividends (relative to Canadian companies) at prices that in some cases are 30% - 40% cheaper than comparable Canadian companies. These represent good investment opportunities. While response #2 above has some merit, if a fund manager must restrict their search to only 3% of the world, they may not be able to find as many investment opportunities as if they were able to look anywhere in the world without restriction.

We have therefore formulated a strategy for foreign investments that includes investing most of the fixed income component of a portfolio to fixed income choices available within Canada. We see little value added to investing outside of Canada for the fixed income component of a portfolio. We will also invest 50% - 70% of the equity component of a portfolio into US and Global funds, with the portion allocated to Canadian companies being 30% - 50%.

Wayne Gretzky was asked how he scores so many goals. He responded by saying that he goes where he thinks the puck will be next. Applying this principle to the investment markets, we believe that while gains can still be made in the Canadian marketplace, we're prepared to capitalize on some of the gains made here over the past five years and re-distribute these funds to investment opportunities elsewhere in the world.

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Our Mutual fund dealer is
Manulife Securities

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MARKET COMMENTARY

Weekly Financial Markets Review

January 2, 2006 – January 6, 2006

“In dwelling,
live close to the
ground.

In thinking, keep
to the simple.

In conflict, be
fair & generous.

In governing,
don't try to
control.

In work, do what
you enjoy.

In family life, be
completely
present.”

~ Tao Le Ching



Newsletter Editor:
Kelly Wagner

US Market Review: U.S stocks rallied last week as anticipation that the Federal Reserve may soon halt its series of interest rate increases lifted stocks to their highest levels in four years. Technology stocks led the advance as Google surged to another big gain on the back of several analyst upgrades. The popular search engine climbed 12% to another record close. The tech heavy Nasdaq, which gets 45% of its value from computer related shares, was the top performing major index with a 3.2% gain. The Dow Jones Industrial Average was up 2.3% marking its best week since May. The biggest gainer in the Dow was General Motors, posting a 7.1% gain followed by Pfizer, which gained 6.6%. Both companies were among the worst performing Dow components in 2005 with GM losing half of its value last year. There were only three detractors in the Dow last week with Wal-mart registering the steepest decline of two percent. The S&P 500 managed a three-percent gain and was also led by technology stocks like Yahoo!, which climbed 10%. The Information Technology sector posted an impressive 5.7% gain

but was beaten by the Energy sector, which was up 6.1% on the rising price of oil.
Euro-Asia Market Review: Asian stocks started 2006 with their biggest weekly gains in almost five months. The MSCI Asia-Pacific index enjoyed its biggest weekly gain since August, adding 3.7% to its tallies. The biggest factor was the Information Technology sector, which was up 5.4%, to its highest level in more than five-years. Japanese based Samsung Electronics led most Asian technology companies over the week. In Tokyo the Nikkei 225 was up 2.0% on the week, hitting a new 5-year high on Friday. Meanwhile South Korea's Kospi extended its winning streak to 10 weeks. In Europe it was much the same story as technology stocks were the biggest gainers.

Article sourced by Lori Struk.

The above information is part of an article in the *Manulife Financial Weekly Financial Markets Review*, January 2, 2006 to January 6, 2006

TAX & ESTATE PLANNING CORNER

Dividend Proposals – Do They Impact Your Business?

You may have heard about the proposed changes to the taxation of dividends, but did you realize that they may impact your decision about bonusing out the profits of your CCPC (Canadian- controlled private corporation)?

The November 23, 2005 announcement proposes to reduce income tax rates on “eligible dividends” in an effort to level the playing field between corporations and income trusts. The intent is to ensure that the overall tax burden is the same whether a corporation earns the income and distributes the after-tax amount as dividends to the Canadian shareholder, or whether the shareholder earns the income directly as a unitholder of an income trust.

Eligible dividends will also include dividends paid after 2005 by a CCPC, to the extent that the income (other than investment income) is subject to the general corporate tax rate. In the past, a common tax strategy

was to pay a bonus to reduce the CCPC's income down to the \$300,000 small business income limit. Under the proposals, this excess income can now be distributed as an eligible dividend.

There are many other issues to consider with these proposals and tax planning for private corporations may become even more complex. We'll have to wait until the dust settles from the Federal election and the Department of Finance provides more details.



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COMMUNITY BUSINESS PROFILE

Artal's Laser Engraving

Artal's Laser Engraving was started over ten years ago as a hand-engraving glass company that has grown to be a provider of laser and rotary engraving, awards, plaques, acrylics, glass, gift baskets and unique one-of-a-kind items. Three years ago, when the owner of Lee Craft decided to retire, Artal's partnered with Lee Craft and expanded their services to include in-house laser engraving, in an effort to ensure that the needs of area customers were met. Today, the proud owners, Dan and Jenn Givlin, are pleased to offer the on-site equipment and talent to meet their clients' needs, budgets and timelines. Their clients include individuals, schools and school boards, real estate companies, financial service companies, local industries, charities and a variety of sports leagues.

In January 2006, Artal's moved to a brand new location with a new showroom at 891 Guelph Street, Unit A211, Kitchener (just off Lancaster St. near Wellington). Their showroom will carry an expanded product line and will include personalized gift baskets, crystal and glassware, executive gifts and albums, along with their acrylic awards, resin trophies, signs, name tags and so much more.

Real service is Artal's goal. They understand that acknowledgement and recognition are key elements

in human growth and development. Their goal is to provide real service and assist individuals, groups and companies in finding creative ways to express appreciation for a job well done with creative and dynamic promotional and recognition items.

This is a very exciting time for Artal's! Building on their past success, it is a time for growth. Artal's is expanding online with the increased success of their online store at www.artals.com. Their new location on Guelph Street also has a more defined showroom to showcase their corporate, home and sports awards and gift lines that will give their clients a greater opportunity to view more products.

For more information on the products offered at Artal's Laser Engraving, call the store at (519) 744-5946, or visit them online at www.artals.com.

Contributor: Debbie Hohl

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



Spotlight

"Name Our Newsletter" Contest Winner

Congratulations to Janine Holtom! For submitting suggestions for the 'Name Our Newsletter' contest by Nov. 30/05, Janine has won two movie passes. Congratulations and thanks to all those who contributed ideas.

RRSP Contribution Deadline

Just a reminder that the **deadline for contributions for the 2005 tax year is March 1/06**. Please call us at (519) 745-8500 if you'd like to make a contribution, top-up your account or book an appointment with your advisor.

Drop Box for After Hours

Watch early this New Year for the installation of a drop box at Arca, which will allow our clients the flexibility of being able to drop off cheques and paperwork after-hours into a secure location.

Moved Recently?

Please remember to give us a call at (519) 745-8500 when you move so that we may change your address on all of your investment and insurance contracts for you.

Visit Us Online

Looking for information about Arca Financial or any of the products and services we offer? Need directions to our office? Need to contact us? Visit us online anytime at www.arcafinancial.com.

Contributor: Debbie Hohl

GROUP BENEFITS FUNDAMENTALS

80/20 Rule – Does it apply to prescription drug claims? Just about.

According to ESI Canada, in 2004, 80 percent of total drug claim costs came from 28 percent of plan members ("high users").

Who are the high users? Typically:

- Cardholders with family coverage – the claims are generated primarily by the employee and the spouse, rather than dependants, since people tend to use more prescriptions as they get older;
- Plan members with more generous plans (coinsurance of 90 to 100 percent); and
- Plan members receiving treatment for high cholesterol, ulcers/reflux, depression, high blood pressure or arthritis.

How can you manage your company's Group Benefits costs more effectively?

- **Education** – Educate your plan members on healthy lifestyles and how to effectively manage their conditions (e.g. eating healthy to decrease cholesterol may decrease the need for drugs).

- **Prior authorization** – Make it a requirement for plan members to provide medical information to support their need for certain drugs.
- **Managed formularies** – Provide coverage for a specified list of clinically effective, yet cost-effective drugs.
- **Plan design** – Talk to your agent about cost control measures for drug claims.



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INSIDE ARCA

Anniversary Celebration

Arca Financial Group celebrated its 6th year anniversary on October 1, 2005



Turkey Donations for the Food Bank

Arca participated in a fundraiser chaired by Barry Abelson, whereby cash donations are used to purchase turkeys for families in need. The turkeys are distributed with food hampers by the House of Friendship for Christmas

Thanksgiving Food Drive

In October, we held a friendly food drive competition. As a whole, we collected 1098 lbs of food onsite, as well as enough cash to enable the Food Bank to buy an additional 1505 lbs, for a total of 2603 lbs of food! The team that gathered the most food enjoyed a Thanksgiving feast that was prepared by the other team. A great time was had by all for a wonderful cause!



The staff donated enough food to fill Michelle Nelles' pickup truck!

LIFESTYLE TIPS

Healthy Start to 2006!

Low-calorie, low-carb, low-fat diets are always a hot topic, especially after the holidays when New Year's resolutions abound! Wouldn't it be wonderful if we could just take that "magic" pill and maintain our desired weight? Experience points to the fact that "fad" diets and pills usually do not work in the long run, at least not without some serious dietary deficiencies.

The USDA has revamped its Food Guide, (now called MyPyramid) in 2005 to emphasize more carbohydrates. It may come as a surprise, but it appears that carbohydrates are the cornerstone of a well-balanced diet! Both the Canadian and US Food Guides encourage the combination and VARIETY of all food groups. Eliminating any of them deprives our systems of many vitamins, minerals and nutrients that are necessary for maintaining optimum health.

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Arca Children's Christmas Party



Kelly Wagner, Santa's helper, and all of the children of the Arca staff.

On December 11, 2005 we held our annual Children's Christmas Party for the children of our staff. We enjoyed some cosmic bowling, and afterward gathered in the party room for pizza, ice cream cake, and the delivery of presents from Santa for the kids.

Staff Christmas Party

December 16, 2005 was our annual staff Christmas party, which was held at Caesar Martini's restaurant in Waterloo. The staff delivered a surprise entertaining presentation for the advisors, and we also held our first "Arcademy Awards" ceremony where we recognized some of the special achievements our staff and advisors had accomplished in 2005. Congratulations to the recipients of these awards!

Holiday Gala Open House

This event, held on December 20, 2005 was a huge success. We had 200 clients attend the Gala to relax and enjoy some appetizers and drinks. Thanks to everyone who placed their "fundraiser ornaments" on our Charity Tree; together with the extra donations made by clients that evening, we were able to raise \$250 to donate to Family and Children's Services of Waterloo Region! Also thanks to AIC Group of Funds for making an additional contribution.

Contributor: Lori Struk

Physical activity is now an integral part of both Food Guides. A minimum of 30 minutes per day is recommended – more if possible – to help increase your metabolic rate, lift your spirits and give you more energy. The statistics for developing CHD (Coronary Heart Disease) are increased 1.5 to 2.5 times due to inactivity according to the Canadian & the American Heart Associations - comparable to the most widely known health risks such as smoking, high blood pressure and high cholesterol levels! Having this knowledge may encourage us to keep moving.

The most prevalent message is that variety, moderation, daily activity and balance are the keys.

The information contained in this article can be found on several websites. To find out more details check out: www.mypyramid.gov/index.html, www.healthypeople.gov/document/html, www.americanheart.org, www.cdc.gov/nutrition (Centre for Disease Control and Prevention)

Contributor: Rose Katrina Frim



Arca Family Announcements

Welcome Jeri-Gay MacDonald! Jeri-Gay is the newest member of Arca and she joined the Lunz Team as Client Service Associate in January.

Congratulations to Lori Struk! In addition to her role as Associate for Mark Leech, Lori is also functioning as our Mutual Fund Branch Manager (MFBM).

Congratulations to Debbie Hohl! Debb passed her Investment Funds Institute of Canada (IFIC) exam in November 2005.

Congratulations to Mark Leech! Mark passed his Mutual Fund Branch Manager's exam in October, and will serve as backup MFBM with Lori Struk.

Congratulations to Michelle Nelles, Lori Struk and Aisling Dennett! Michelle, Lori and Aisling all passed their Life License Qualification Program (LLQP) exams in October 2005.

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