

# Per\$pective

People who care, Plans that perform



**ARCA**  
FINANCIAL GROUP

## Different Approaches for Dealing with Difficult Markets

**A**t Arca Financial, we take a planning approach with clients. We take the time to understand your financial situation and goals early in the client relationship.

So the markets are down and you received another statement showing a loss for the quarter? Market corrections are a normal part of being invested in the capital markets. It has been about four years since there was a significant correction in the markets. There have been many corrections in the stock market over the last 100 years; the markets always recover. Some corrections are shorter; others are longer.

You may think that it is your advisor's responsibility to know the timing of the next market correction and to get you out of the market before the correction occurs. Many clients think this and some actually tell us this. In short, it is not possible to do. Many smart people have tried, sometimes with some success once or twice only to get it wrong the next time.

Let's assume we could predict the timing of a market correction and we move out of the market to the safety of a money market fund. What if the market doesn't go down? Do you buy back into the market at higher prices? Let's assume it does go down, are you prepared to buy back into the market when markets are down and overall sentiment is negative? People who are worried about a market correction and get out of the market, usually don't have the stomach to get back into the markets when things are negative; usually, these people wait until the market outlook is rosy and end up buying back into the market when a recovery has already occurred and the markets have already recovered.

So if you can't successfully time the market, what should you do?

The best recipe is a well-diversified portfolio of stocks, bonds and cash. Almost all of our suppliers have pension-like portfolios that diversify a client in many ways - by asset type (stocks, bonds and cash), by geographical region (Canada, US, Europe), by manager style (value vs. growth), and by market capitalization (large companies, small companies). For example, Templeton's Quotential Balanced Growth portfolio has averaged 8.55% per year for the last five years (to 31Mar08); this program was down 0.2% in 2007 and is down 0.89% this year to 25Apr08. Your advisor can

also build a portfolio for you using specific funds for each part of the portfolio (Canadian equities, US Equities, etc).

Of course, there are GIC's for clients that cannot handle any volatility. If you are willing to accept returns in the 4% or so range, this solution does provide you with the 'sleep at night' factor. If you are a very conservative client, buying GIC's can make sense but only in a registered account like an RRSP or RRIF. Any income generated in a registered account is taxed as interest income when it is withdrawn from the account. In most situations, it does not make sense to buy a GIC in a non-registered account; a return of 4% is taxable every year so the return net of tax is usually less than inflation.

Segregated funds are very popular for clients that want guarantees but also the potential upside of the market. Manulife's GIF Select Income Plus is a common choice. There are many advantages to segregated funds; in most situations, the fees are also higher.

Linked notes have also become very popular. Clients receive a 100% capital guarantee over short periods like 6-7 years compared to 75% capital guarantees for segregated funds. There are many different notes in the market place. Similar to segregated funds, the appeal is down-side protection with participation in the upside of the markets. The negative - the structures can be complex and fees are generally higher.

All of the above are simply products that we can use with our clients. There are pros and cons to each product, and your experience during difficult markets will be different depending on the type of product that you own. Talk to your advisor if you want to discuss your portfolio or if you want information on some of the above products that are available in the market place.



*Contributor: Bill Vollmer,  
CA, FLMI, CFP  
Financial Representative*

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"Success is not defined by obtaining everything you want, but by appreciating everything you have."

- Unknown



Newsletter Editor:  
Rose Katrina Frim

**Regular Office Hours:**

Monday to Friday  
8:30 am to 5:00 pm.

**237 Labrador Dr  
Waterloo ON  
N2K 4M8**

**T: (519) 745-8500  
F: (519) 745-8283  
Toll Free:  
(877) 745-8500**

www.arcafinancial.com

## MARKET COMMENTARY

### Interest Rate Lows Reflect Economic Woes

The Bank of Canada (BoC) reduced its overnight interest rate by 0.50% on April 22, meeting market expectations. It was the second 0.50% cut in two months and brought the rate to 3.00%, the lowest it has been since December 2005.

The BoC cited its increasing concerns for a "deeper and more protracted slowdown in the U.S. economy" and reduced expectations for Canadian GDP in 2008 and 2009 as justification for the change. If there are risks to the economy, as the BoC is indicating, then lower rates could be a form of insurance against a potential recession in the U.S. and the resultant spillover into Canada.

The BoC faces a challenging task. It is trying to balance strong growth in western Canada, and the concurrent rise in wages that results, with slower growth from the manufacturing sector that dominates the east. Overall the

BoC still expects "domestic demand to remain strong" and inflation to remain below the mid-point of its 1% to 3% target band until 2010.

These expectations give the BoC the flexibility to let interest rates move somewhat lower.

The BoC has indicated that there may be further cuts to come. The statement that accompanied the interest rate cut said that "some further monetary stimulus will likely be required", preparing financial markets for an interest rate move below 3% at the next BoC meeting June 10. However, the statement also left the BoC with enough flexibility to pause in its interest rate easing cycle if market conditions warrant. Allowing for the move on June 10, the BoC also left the impression that it is near the end of the latest round of interest rate cuts.

*Article sourced from CIBC Asset Management by Mark Healy*

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## TAX AND ESTATE PLANNING CORNER

### The New Tax-Free Savings Account

To encourage Canadians to save, the Federal Government introduced the tax-free savings account (TFSA) in its February 26, 2008 budget. The TFSA is a registered account that allows taxpayers to earn investment income tax-free inside the account. Contributions to the account are not tax deductible and withdrawals of contributions and earnings from the account are not taxable.

Starting in 2009, individuals 18 years of age and older who are residents in Canada may contribute a maximum of \$5,000 to a TFSA. The annual maximum will be indexed to inflation. Unused contribution room from previous years can be carried forward to future years, and any withdrawals made in the previous year will also be added to the current year's contribution room. For example (assuming no indexing), if you contribute \$2,000 to a TFSA in 2009, your contribution room for 2010 will increase to \$8,000 (\$5,000 in 2010 plus \$3,000 carried forward from 2009). If you withdraw \$35,000 in 2016 for a new car, you will then be able to contribute the \$35,000 back to a TFSA.

A TFSA will generally be permitted to hold the same investments as an RRSP, including mutual funds, segregated funds, publicly traded securities, GICs, bonds and certain shares of small business corporations.

Interest on money borrowed to invest in a TFSA will not be deductible for tax purposes, and there will be penalties for contributions exceeding the annual limit. There are no restrictions on how withdrawals from a TFSA can be used.

Individuals may contribute to their own TFSA with funds provided by their spouse without the spouse's annual contribution room being affected and without application of the attribution rules.

The TFSA is another saving strategy that you should consider along with your RRSP and RESP investments. If you have any questions about this new account, please contact your Arca advisor.

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



# COMMUNITY BUSINESS PROFILE

## The Daily Grill Restaurant:

When the Fregos family first opened the door to the Daily Grill Restaurant in July of 1997, they brought with them three decades of experience and high standards which have made their location a popular family dining spot in the Waterloo community.

Greg Fregos, together with his wife Louisa, and their children Chris and Elpe, know that the key to success in their industry is having a solid combination of excellent service, home made menu items prepared with only the freshest ingredients, and an inviting atmosphere. Located in Waterloo at the corner of Northfield Drive and Davenport Road, the restaurant is open 7 days a week and serves up an excellent variety of home made menu choices. Some of which are still their original recipes.

In addition to the Daily Grill Restaurant, the Fregos family business also includes the Three Bridges Banquet Hall, located at 635 Hawkesville Road in St. Jacobs. Offering a wonderful list of options for your special occasion, you can host your special event inside the hall or outside in their garden. The staff at the Three Bridges Banquet Hall is ready

to help you choose an event package that is sure to make your special day a memorable one. You can also stop by and enjoy one of their special occasion brunches or visit them on the web at [www.3bridges.ca](http://www.3bridges.ca).

Whether it's a weekend breakfast, lunch with friends or a gathering for a special event, the Fregos family welcomes you and the opportunity to help you with your family dining and special occasion needs.

*Contributor: Shari-Lyn Wilton*

*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 Rose Frim at 519-745-8500 ext. 265 or by email [rfrim@arcfinancial.com](mailto:rfrim@arcfinancial.com).*

## GROUP BENEFITS FUNDAMENTALS

### Group Benefit Renewals

Canadian Healthcare programs are facing rising costs due to an aging population and services that are now standard in benefit programs that were not there a few years ago. Companies are challenged more each year with how to minimize those costs and at the same time, realize the best benefits for their employees.

Legislative issues are more prevalent now than ever before. Questions such as, "Do I have to keep employees older than 65 on my benefit plan?" or, "What are the implications as a result of covering older employees on the plan?" are heard more frequently. Some firms now find it necessary to offer more in a benefit package to attract uniquely qualified and experienced employees. Do they need to extend that benefit package to all employees or can it be tailored to a few?

Your group advisor does more than present a plan to you. They negotiate renewals for you based on knowledge specific to your firm and your firm's experience. They should be able to advise you on legislative issues as they relate to the aging work force. And they should be able to present you with a number of custom options to modify your coverage based on the experience of your firm for drugs, massage therapy,

physiotherapy etc. They should be able to help you structure your plan to provide optimum benefit to your employees while minimizing costs.

When you are not sure you are optimizing your benefit plan for the right price, and you're looking for solutions, contact the Group Department at Arca, where the advisors have the knowledge, the resources and the solutions to meet your individual needs.



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



## Spotlight

What would you like to see in our next issue? Let us know at [inquiries@arcfinancial.com](mailto:inquiries@arcfinancial.com)!

**Please note our office will be closed on:**

Monday, May 19th  
(for Victoria Day)

Tuesday, July 1st  
(for Canada Day)

Monday, August 4th  
(for the Civic Holiday)

Monday, September 1st  
(for Labour Day)

### Summer Hours:

Please note from Monday, June 30th (or Wednesday, July 2nd) until Friday, August 29th we will have the following office hours:

Monday to Thursday  
– 8:00 am to 5:00 pm  
Friday  
– 8:00 am to 12:30 pm

### 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.arcfinancial.com](http://www.arcfinancial.com).

*Now that our seemingly long winter has ended, we wish everyone a very safe and happy summer. Enjoy!*

*Contributor: Sue Langdon*

# INSIDE ARCA

## Arca's Staff Summer Fun Event – The Arcatel Cup!

### End of RRSP Season Party

Each year at the end of RRSP season the advisors and staff of Arca celebrate their hard work over the past months with an evening of fun at Morty's Pub in Waterloo. This year we celebrated on March 25, 2008 in the midst of one of our final snowstorms of the season. The snow didn't dampen our spirits though - we all enjoyed the delicious munchies and good company. We would like to say a special thank you to Scott Trimm of Franklin Templeton, who generously sponsored our evening.

## LIFESTYLE TIPS

### Plastics Awareness

Plastics are extremely versatile. Beyond food/beverage containers, plastic can be molded, mixed and modified to make: polyester and rayon fabrics, nylons, plumbing pipes, appliances, film, rope, carpeting, toys... the list seems endless. Although they have provided us with many conveniences and innovations, there is a negative impact taking a serious toll on the environment.

Plastic takes 100 years or more to "degrade". Plastic bags – 1000 years! No amount of sunlight, oxygen or anything else in nature can break it down. Plastic actually "photo degrades" into small pieces like dust, winding up in soil and in the air. It collects in landfills and of particular concern is the enormous quantity of plastic trash found in the ocean. Nearly 90% of floating marine litter is plastic. The North Pacific Gyre, one of five main circulating ocean currents where marine debris accumulates, has acquired the dubious name of, "Great Pacific Garbage Patch" or "Trash Vortex". It consists of a floating island of plastic waste nearly twice the size of Texas, estimated to be three million tons or more. The debris can spin for decades with the ocean currents and affects our food chain as birds, animals and fish ingest plastics mistaken as food.

The other issue is that plastic is manufactured from nonrenewable resources, petroleum and fossil fuels such as oil, coal or natural gas. The manufacturing of plastic is a major source of industrial pollution. Manufacturing one 16 oz. #1 bottle from plastic, generates more than 100 times the toxic emissions to air and water than making the same size bottle out of glass.

The Society of the Plastics Industry developed a recycling classification system based on the type of resin used in production. The number in the little triangle stamped on the bottom of our containers ranges from #1 - #7. Some plastics are safer to use than others for food/water storage. #3

### Jeans Day

At Arca every Friday is Jeans Day. For a donation of \$2.00 staff can 'dress down' for the day. The donations are collected throughout the year and donated to Adopt-a-Family, Family & Children's Services in December each year.

*Contributor: Sue Block*

(PVC), produces "dioxins" during its manufacture and incineration. It is commonly used for cling-wrapped meats and cheeses from the grocery store and can release "phthalates" and "adipates" onto foods, particularly hot or fatty foods. Health Canada has recently considered naming BPA (bisphenol-A) as a "toxic" substance. #7 plastic, commonly used for water bottles, the lining of cans, etc. contains the highest amount of BPA. Generally, the safest and most commonly recyclable plastics are #1, #2 and #5. For more information about recycling, listings of safe containers and other health and environmental concerns, please go to: [www.thegreenguide.com](http://www.thegreenguide.com). A popular suggestion is to use stainless steel, glass or ceramics whenever possible.

There have been many attempts recently, at producing take-out containers, cups, etc. from other sources, such as starch and corn. These options would be healthier for the environment, but also come with major drawbacks, i.e. using corn/starch is currently putting a heavier burden on the world's food supplies already being stretched for biofuels. Other products are also being explored which can be added during manufacturing to existing plastic operations accelerating biodegradability. Recommended website: [www.wikipedia.org/wiki/Plastic](http://www.wikipedia.org/wiki/Plastic).

*Contributor: Rose Frim*



## Arca Family Announcements



Congratulations to Krystal King on passing the IFIC exam! Great accomplishment Krystal!



Congratulations to Chris Osborne! Chris passed his CSC exam and is also moving into the position of Marketing Associate for Mark Leech. Good Luck Chris!



Welcome Joanne Strub! Joanne joins us from Manulife Head Office. Joanne will be Insurance Associate on both the Lunz and Vollmer teams.