

The Markets; What's Going ON?

The stock markets delivered strong returns in 2003, 2004, 2005 and 2006. The bear market from 2000-2002 is a distant memory. The markets were doing very well last year until late in the summer. Since then chaos seems to have taken over! What's it all about?

You may have read about such financial instruments as CDO's (collateralized debt obligations), SIV's (structured investment vehicles) or ABCP's (asset backed commercial paper). These things are at the heart of what is going on. You may also have heard that the problems relate to the US sub prime mortgages.

You may find this all very confusing. We have as well as it is complicated. Many investment managers have also struggled to understand exactly what is going on with these complicated investment products and why they are causing turmoil in the markets.

In the last 3-4 years, credit has been cheap, especially in the US. More and more investors are retiring or getting closer to retirement, wanting products that provide higher returns. These financial products were created as a response to this demand, and the average investor paid no attention to the risk inherent in these financial products. This all changed last year when these highly liquid products become almost 100% illiquid. Nobody wants these things. Unfortunately, there are trillions of dollars of these products around the world. This 'illiquidity' has caused huge issues with financial institutions around the world. Citigroup, one of the largest US banks, has announced write-offs of more than \$20 billion. Many other banks have announced large write-offs as well.

As an investor, if you have investments that have direct exposure to the US housing industry or to financial institutions directly impacted by the above structured products, your investment portfolio has been hit hard this year. At Arca, our clients do not invest directly in individual stocks but rather they invest in pools of stocks in a mutual fund or a segregated fund. None of the funds on our recommended list have direct exposure to the US housing industry; some of our funds do have some holdings that have been impacted by the chaos caused by CDO's, ABCP and SIV's. For example, although most Canadian banks have announced low exposure to these products, their stock prices are down significantly from their previous highs.

The volatility of the Canadian dollar has also had a big impact last year on the performance of various global funds. The Canadian dollar at one point hit a high of \$1.10 to the US dollar hitting a record. Many global funds with investments in the US were impacted negatively in a large way by this strengthening of the Canadian dollar. The Canadian dollar has since weakened and the negative impact has been reduced. For example, the Trimark Select Growth fund was down more than 20% at one point but gains almost half of this back in the month of November when the Canadian dollar weakened.

The issue of the day concerns whether the US market is going into a recession. The US market represents about half of the world markets. A US recession would have an impact on world markets, particularly the Canadian economy.

So as an investor, what do you do? Governments and financial institutions around the world are dealing with the issues, and creative solutions are being announced almost daily. This chaos, like every one in the past, will pass in time. The Canadian dollar has retreated, although we don't know where it will go from here. If you need all your money in the next year or two, your money should not be invested heavily in equities. If you don't need your money for more than five years, you should be able to earn reasonable returns by leaving your money in the hands of professional fund managers.



*Contributor: Bill Vollmer,
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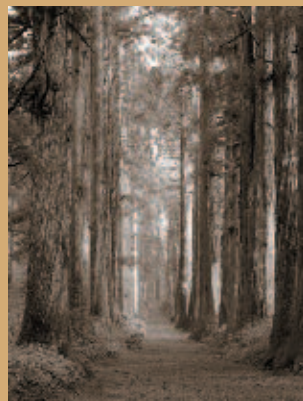
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MARKET COMMENTARY

Financial Markets Review

Market Index Report

Fund Name	December 31, 2006 %	December 31, 2007 %
Dow Jones Industrial Average	16.29	6.43
Dow Jones Industrial Average (\$ Cdn)	16.23	-9.75
MSCI World (\$ Cdn)	20.58	-7.10
NASDAQ Composite	9.52	9.81
NASDAQ Composite (\$ Cdn)	9.46	-6.89
S&P 500 Composite	13.62	3.53
S&P 500 Composite (\$ Cdn)	13.56	-12.21
S&P/TSX 60 Index	17.02	8.85
S&P/TSX Composite Index	14.51	7.16

Article sourced by Lori Struk
Index chart found at globeadvisor.com

This historical information represents past performance and should not be considered indicative of future results. Principal value and investment return will fluctuate, so that an investor's shares/units when redeemed may be worth more or less than the original amount.

The information included in this report is based upon data obtained from public sources believed to be reliable; however, Globe Interactive does not guarantee the completeness or accuracy thereof.

"If you don't like something, change it. If you can't change it, change your attitude. Don't complain."

Maya Angelou



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TAX AND ESTATE PLANNING CORNER

Considering a Florida Property Purchase?

The decline in both the US dollar and real estate market has increased the interest of many Canadians in acquiring US property. Before you purchase US property for personal or rental purposes, a number of tax issues should be considered.

If the US property is being rented, the tenant (or an agent) is required to withhold and remit 30% of your gross rental receipts to the US Internal Revenue Service (IRS) as US income taxes on the rental income. It is usually advantageous to avoid the withholding requirement by using the net income method and filing US income tax returns to report the annual rental income and pay the US income taxes.

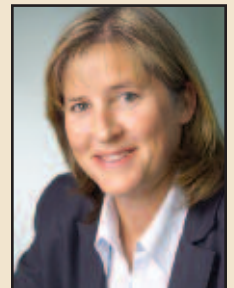
Any gain from the sale of the US property will be subject to US taxation and reporting. The purchaser is required to withhold and remit 10% of the sale proceeds to the IRS as US income taxes on the gain. However, if you are selling US property for less than \$300,000 US and the buyer intends to occupy it as their residence, the withholding is not required. You can also obtain a withholding certificate at the time of the sale to reduce the withholdings to the actual US income taxes on the gain.

The rental income and gain must be reported on both the US and Canadian Federal income tax returns. US state and / or city income tax returns may also be required. Any US income taxes can usually be claimed as a foreign tax credit to reduce the Canadian taxes on the income and gain.

The US property may also be subject to US estate and gift tax upon your death. If the phase out of the estate and gift tax is not ratified in 2010, the rates will significantly increase in 2011.

Thanks to Greg Weiler, a Tax Partner with the Kitchener BDO Dunwoody office, for the Tax & Estate Planning article this month.

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



COMMUNITY BUSINESS PROFILE

WATERLOO COFFEE COMPANY

In 2006, Jay Marteniuk and Chu Ingram set out to find a way to bring the wonderful taste of freshly roasted coffee to the Waterloo region and soon after, the Waterloo Coffee Company was born.

Using only the finest organically grown Arabica beans from various regions around the world, Waterloo Coffee offers an array of coffees and has a wonderful selection of origins and their very own blends. Two of their best selling coffees are the Oktoberfest blend, a bold, rich coffee and Muskoka Morning, a blend enjoyed by those who prefer a lighter coffee to start their day.

Additionally, they only use Fair Trade Certified green beans. This ensures that farmers and workers who grow the beans in developing countries are provided with fair compensation for their products and labour, sustainable environmental practices, improved social services and investment in their local economic infrastructure. Waterloo Coffee only sells organic coffee beans because they are produced without using most conventional pesticides and fertilizers. Freshly roasted organic coffee contains a high amount of anti oxidants, which are also beneficial to our health.

To enjoy the freshly roasted coffee offered by Waterloo Coffee, you can visit any number of local delis and cafes listed on their website at waterloocoffee.com or, you can order freshly roasted beans for home delivery by calling (519) 616-0800. Green beans are roasted and delivered each week to homeowners and businesses within the Waterloo Region.

Waterloo Coffee Company, a perfect way for starting your day, winding down the evening, or when you're just looking for something a little extra special.

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 Lori Struk at 519-745-8500 ext. 265 or by email lstruk@arcafinancial.com.

GROUP BENEFITS FUNDAMENTALS

Group Registered Retirement Savings Plan (GRSP)

In today's tight labour market, what can employers offer their employees in addition to Group Life and Health Benefits? Perhaps a GRSP would be worthy of consideration. Here are some of the advantages of a GRSP:

- Cost of the plan is fully deductible to the employer
- Lower Management Expense Ratios
- Preferred returns
- Immediate tax relief at source
- Convenience
- 2007 contribution limit is 18% of earned income to a maximum of \$19,000
- Home Buyers loan permitted
- Lifelong Learning loans permitted
- No foreign content limits
- Spousal/common-law contributions permitted
- Employee participation voluntary
- Employee contributions are voluntary
- Not subject to the provincial Pension Benefits Act

Want to learn more? Give us a call at Arca. We would be happy to answer all of your questions.



*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@arcafinancial.com!

Charity Barbeque

We are excited to share the success of our Charity Barbeque that was held on Saturday, September 15, 2007. Through the generous support of everyone who attended the barbeque, along with our sponsors and staff volunteers, we were able to raise over \$2500.00 for The Grand River Hospital Foundation.

Holiday Gala

Thank you to all of our clients who joined us for our Annual Holiday Gala on December 18, 2007. Through the participation of our clients, along with the help of some suppliers, we raised over \$3,300.00. We combined these funds with the toonies staff paid throughout the year for "Jean Fridays" and were able to donate a total of \$5000.00 to The Family & Children's Services of Waterloo Region.

On the Air...

Have you heard us "on the air" on CHYM or 570 News? We are currently running an ad campaign on the radio and are wondering if you have heard us and what you think. Please give us your feedback at inquiries@arcafinancial.com, or give us a call at 519.745.8500.

Office Hours During RRSP Season

Please note that we will be extending our office hours from Tuesday, February 5, 2008 to Friday, February 29, 2008, and will be open from 8:00 am to 5:30 pm during this time. We will resume our regular business hours of 8:30 am to 5:00 pm on Monday, March 3, 2008.

Holiday Dates – Office Closure

Please note our office will be closed on:
Monday, February 18, 2008 (for Family Day)
Friday, March 21, 2008 (for Easter Friday)
Monday, May 19, 2008 (for Victoria Day)

Don't forget to change your clocks on Sunday, March 9th for Daylight Savings. "Spring Ahead".

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.

We wish everyone a safe and healthy winter, filled with happy news from Warton Willie, and many blessings at Easter and always.

Contributor: Sue Langdon

INSIDE ARCA

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

Thanksgiving Food Drive

In October we held our annual food drive as an office we were able to contribute \$2,600.00 which we donated to the Food Bank of Waterloo Region. We collected money rather than food items this year because for every \$1 donated, the Food Bank is able to provide over \$8 worth of emergency food.

Arca Jeans Days

This was the first year that Arca had Friday Jeans Days. Staff may wear their jeans to work every Friday for a weekly donation of \$2 to our Charity Fund. The staff's charity of choice is Family & Children Services Adopt-a-Family Program. After a full year of collecting we were able to raise \$400 and chose to donate the full amount to the Adopt-a-Family Emergency Fund.

Staff Christmas Party

December 1st was our annual Staff Christmas Party which was held at the Charcoal Steak House. The evening included

a year-in-review slide show and our annual Arcademy Awards ceremony. The awards ceremony is an opportunity to recognize some of the special achievements our staff and advisors have accomplished in the past year. Congratulations to Paul Struck, Lori Struk, Stephanie Schaefer, Claire van Wijk, Kelly Smith, John Lunz, Bill Vollmer, Mark Leech and Dave Archer on your awards!

Children's Christmas Party

On December 16th we held our annual Children's Christmas Party for the children of our staff. Those who braved the snowstorm enjoyed a fun afternoon of cosmic bowling and treats.

Contributor: Sue Block

LIFESTYLE TIPS

Adjusting to Retirement

Most of us diligently prepare ourselves for our retirement years by taking stock of our financial status and saving as best we can. We look forward to a carefree lifestyle where we imagine ourselves enjoying leisure activities and experiencing new adventures. The majority of us look forward to retirement our whole lives.

Then why is it that not long after retirement begins many retirees find themselves feeling a bit lost or even depressed? Sure, its exciting planning trips and imagining ourselves swinging in a hammock by the sea. But realistically, what will we do every day long-term? What can we find that will give us a feeling of satisfaction and meaning? How will we adjust to being with our spouses on a full time basis? These questions beg more consideration and may require more planning than we think.

Although many of us see retirement as freedom from the "chains" of work that have kept us from pursuing hobbies, traveling, or relaxing, studies have shown that there are five stages that the majority of us will go through after leaving the workforce. Initially, we experience the "Liberation" or "Honeymoon" stage which is, as it sounds, a happy and exhilarating time usually lasting about two years. But the next stage, clinically called the "Reorientation" stage, is the realization that the things we've planned to do after retiring have already been completed within the first year or two. With another 25 years or so to go – what do we do now? Not having found a replacement for the kind of affirmations that retirees were accustomed to receiving in their former careers, some find themselves falling into a bit of an emotional rut, partly due to boredom and partly due to a sense of loss of identity. Studies

report that this challenging period of time can last up to 15 years or more unless the time and foresight towards planning short-term and long-term goals has taken place – just like before retirement!

Fortunately, there are many suggestions to help us prepare and gain perspective. Starting to plan early is certainly helpful. Whether your interests are athletic, educational, centered on travel, or spending more time with family, we need to cater to our own desires – one size doesn't fit all! Insight from Dick Korthals from "Focus on the Family" states, "We seldom realize that what we may miss the most after leaving the workforce is the ability we once had to give of ourselves." A priority is to take care of your health, diet, and exercise. Studies show that physical activity seems to be the strongest indicator of whether we'll be happy in retirement. By staying physical, volunteering, taking classes, finding a hobby, or doing any kind of work that we enjoy, this season of life can be fulfilling, rewarding and fun!

Contributor: Rose Frim



Arca Family Announcements

We're happy to welcome these new faces to Arca!



Welcome to Anna Francescangeli! Anna has joined Bill Vollmer's team as Insurance Assistant.



Welcome to Anna Wagg! Anna has joined us as Client Services and Insurance Assistant for Mark Leech and Insurance Assistant for Paul Struck.



Welcome to Chris Osborne! Chris has joined Arca and will be working with the Lunz team while completing the requirements for registration as a Financial Representative.



Welcome to Shari-Lyn Wilton! Shari-Lyn has joined Arca as the General Manager.



Kelly Strome celebrated his 65th birthday on October 24th!