The McCartney Report

December 2006

Table of Contents

ScotiaMcLeod
P.O Box 402, Scotia Plaza
40 King Street West, 15th Floor
Toronto, Ontario
M5H 3Y2

Telephone: **(416) 865-6392**
Fax: **(416) 416-862-3087**
E-mail: jeff_mccartney@scotiacapital.com
Web :
www.advisors.scotiamcleod.com/jmccartney

Jeff McCartney, CFP
Investment Executive

The Last Word

"Whether it's ensuring a comfortable retirement, protecting family members from hardship, or reducing taxes, a comprehensive and disciplined financial strategy can open many doors for Canadians."
- Jeff McCartney

Market Update

The month of November started out with a huge bump in the road as Federal Finance Minister Jim Flaherty announced he would level the playing field between Income Trusts and Corporations and tax them in the same manner as corporations. This resulted in significant drops in the valuations of Income Trusts across the board with the Scotia Capital Income Trust Index down roughly 14% for the month of November.

The income trust market going forward can expect to see additional volatility as many Mutual Fund and Closed End Fund managers who manage portfolios of Income Trusts are predicting another set of redemptions as clients review their monthly statements.

It's an interesting time, and it is very difficult to tell where the dust will settle on this issue. As the prices in the income trust market have fallen, the result has been a significant increase in their yield to investors (if you can stomach the risk). Who will step up to the plate and purchase these depressed trusts remains to be seen.

So how did the rest of the market fair throughout November?

November Month End & Year to Date World Indices Performance

World Index	*MTD*	*YTD*
S&P/TSX Comp.	2.62%	12.65%
Dow Jones	1.21%	13.44%
S&P 500	1.56%	11.38%
Nasdaq	2.77%	9.22%
FTSE-100 (London)	-0.38%	9.13%
CAC 40 (Paris)	0.66%	12.90%
DAX (Frankfurt)	2.02%	17.47%
Nikei (Tokyo)	-0.76%	1.91%
Hang Seng (H.K.)	3.47%	24.87%

Of particular note here is the continued strong performance of the Canadian composite index, which rose 2.62% for the month of November and which is up 12.65% year to date. What this means is that if your portfolio was well diversified, regardless of the decline in the Income Trust market, it is likely you came out ahead of the game in the month of November.

So what does all this mean for the future? Should we be getting smug about the Canadian market's success? Should we be fleeing for the exits? I think the answer to both of those questions is an unequivocal "NO". It is important to consider though that over 70% of the S&P/TSX Composite Index is made up of Financials, Energy, & Materials. If most of your investments are Canadian, it means you're very likely missing out on

ScotiaMcLeod™
Building Relationships for Life

some very important sectors in the Global Economy. These would be sectors such as Telecommunications, Consumer Staples, Industrials, Health Care, Consumer Discretionary, & Information Technology to name a few. It also puts an individual's portfolio at risk due to concentration.

Let me leave you with a few questions to think about:

- How much exposure to non-Canadian companies do you have in your portfolio?
- How much should you have?
- Should you be selling your income trusts right now? Should you be buying them?

The answers to these questions are not going to be the same for everybody. Investment decisions are as personal as your goals and circumstances are.

- When was the last time you discussed these ideas with your Investment Executive?

If you're not sure of the answers to these questions, please call me. I'd like to hear from you.

Financial & Estate Planning

The following article is from ScotiaMcLeod's Financial and Estate Planning Website. The article is for information purposes only and should not be construed as offering tax advice. Individuals should consult with their personal tax advisors before taking any action based upon the information in this article.

You and your taxes: Establishing a year round process.

Does most of your tax planning take place during the last few months of the year? If so, you are not alone. However, to effectively reduce your current and future tax liabilities, tax planning should be a year round endeavor. Here are some opportunities.

Split your income

Income splitting involves structuring your affairs to move income into the hands of a lower-income family member who will pay less tax.

A spousal RRSP allows a higher-income spouse to contribute to the RRSP of a lower-income spouse. At retirement, this can help shift more income to the spouse who is expected to be in a lower tax bracket.

Another possibility is a spousal loan. As long as a prescribed rate of interest is paid, a spousal loan can be an effective way to transfer assets from a spouse in a higher tax bracket to a spouse in a lower tax bracket.

Donate securities

If you are considering a charitable donation, you may want to give stocks, bonds, or other publicly traded securities, including mutual funds. You'll be deemed to have sold the investments at fair market value; however, you do not have to include any portion of the resulting capital gain in your income.

Create deductible debt

Tax-deductible loan interest can be a great tax-saver. One strategy is to convert all or part of your mortgage debt into an investment or business loan.

For example, you could sell some investments to pay off your mortgage, and then take a loan to repurchase the investments. This will effectively replace your non-deductible mortgage debt with a deductible investment loan.

Maximize your RRSP

Your RRSP is one of the few good tax shelters left. But don't wait for the deadline to make your contribution. The sooner you invest, the longer your savings will be able to grow on a tax-deferred basis. A monthly RRSP contribution plan can make this easy. And, if you have significant unused RRSP contribution room, a short-term loan is often a great way to catch up.

Consider an RESP

Today, a four-year university education in Canada costs $32,000 or more. In 18 years, using a 5% annual inflation factor, that number could rise to $77,000. Although contributions to a Registered Education Savings Plan (RESP) are not tax deductible, the income earned in the plan grows tax-free until the student withdraws it. Plus, you could receive up to $400 a year in government grants to help your savings along. Consider this option if you have children with ambitions for higher education.

Make the right decisions all year - Tax planning means that you are entitled to arrange your affairs, within the limits of law, so that you pay a minimum amount of tax.