



# Perspective

[www.bmonesbittburns.com](http://www.bmonesbittburns.com)

## In This Issue:

● The all-clear signal still some time away

● Federal budget review 2008

● Security of your assets

## The all-clear signal still some time away

The lingering tremors of the U.S. housing debacle continue to roil financial markets as stock markets have soured and credit risk has risen. Financial markets in a number of industrialized countries have been under considerable strain since last summer when heightened investor concerns about the credit quality of U.S. subprime mortgages triggered global financial turmoil. Banks and other financial institutions have tightened their lending standards and are fearful of counterparty risk associated with the enormous write downs already underway and those still yet to come. Central banks in the U.S., Canada and elsewhere responded by providing enhanced liquidity to banks, accompanied by substantial easing in monetary policy. The Fed, in particular, has been aggressive, cutting rates by 225 basis points since September 2007, with the likelihood of more to come. Nevertheless, credit remains tight and business and consumer spending in the U.S. has slowed.

Inevitably, Canada has been impacted by the U.S. weakening, largely through the dramatic drop in our trade surplus. The strong Canadian dollar has boosted import demand, while Canadian exports have become more expensive south of the border. Moreover, the collapse in the American housing market has markedly reduced demand for Canadian lumber and building materials. Our economy continues to benefit, however, from the rise in oil and natural gas prices, global demand for uranium and potash, as well as the boom in grains and agriculture, generally.

The U.S. economy slowed sharply in the final quarter of 2007, and while it has clearly weakened further, the jury is still out on whether we will fall into an outright recession. Regardless, the pace of activity has diminished sufficiently to cause a fall in confidence and in employment growth.

The Congress and the White House were quick to pass a fiscal stimulus bill, which will put rebate cheques in the mail by May as well as provide incentives for business capital spending. Consumers, however, have registered greater caution in spending, particularly as foreclosures mount across most of the country. Unfortunately, we have not turned the corner yet, as the global financial risks continue to pile up. We are forecasting the beginning of an economic turnaround in the second half of this year. In the meantime, stocks will be skittish and credit spreads could widen further.

For longer-term investors, this could well be a buying opportunity, and while there are no guarantees on timing, well-placed investments in strong companies in varying growth sectors will undoubtedly pay off in time. Many good stocks have been thrown out with the bad in order to raise liquidity and meet redemptions. Even the beleaguered financial services sector will reasonably soon provide value as dividend yields are historically quite high and Canadian institutions have not suffered the disastrous losses evident at many U.S. and European global banks. Nevertheless, the market is still in no mood to discount current risks with an eye towards the future. Inflation is moderating, especially in Canada, and inflation expectations are muted. If the credit conditions should worsen from a weaker-than-expected U.S. economy, both the Bank of Canada and the Federal Reserve will respond aggressively.

**Dr. Sherry Cooper**  
Chief Economist, BMO Nesbitt Burns

*Sherry Cooper is Global Economic Strategist and Executive Vice-President, BMO Financial Group and Chief Economist of BMO Capital Markets*

# Federal budget review 2008

The release of the federal budget on February 26, 2008, billed as a balanced, focused and disciplined mandate, did not result in any changes to personal federal tax rates.

Instead, the government highlighted its previous measures, including the broad-based tax relief provided in the October 2007 federal economic statement.

The federal government did announce a number of new personal tax initiatives that will be beneficial to investors, the most significant are described below. Please consult with your tax advisor for specific advice on how these tax measures will affect you.

## The Tax Free Savings Account (TFSA)

- The TFSA is a new type of registered account that will be available to all individuals (excluding trusts) 18 years of age and older.
- Beginning in 2009, amounts of up to \$5,000 (\$10,000 per couple) can be contributed annually.
- Contributions will not be deductible for tax purposes however income and capital gains earned in the account will grow tax-free.
- All withdrawals from the TFSA (including income and capital gains) will be received tax-free and will not be taken into account in determining eligibility for federal income-tested benefits and credits.
- Unused contribution room will be available for carry forward in future years.
- Additionally when amounts are withdrawn, the carry forward contribution room will be increased by the amount of the withdrawal.

## Registered Education Savings Plans (RESPs)

- The number of years that an RESP contribution can be made will increase from 21 years to 31 years.
- Current rules require that an RESP must be terminated by the end of the year that includes the 25th anniversary of the opening of the plan. The budget proposes to extend the length of time before required termination to the 35th year.
- From a beneficiary perspective, current rules require that contributions end once a beneficiary turns 21 years of age. The budget proposes to extend this limit to 31 years of age.
- Another proposal will now allow Education Assistance Payments (EAPs) to be made to a beneficiary up to six months after ceasing to be enrolled in a qualifying

program. The current rule requires the beneficiary be enrolled in a qualifying program at the time the EAP is received.

## Registered Disability Savings Plans (RDSPs)

- The 2007 federal budget introduced the concept of RDSPs to help provide for the financial futures of individuals with severe disabilities. While only minor changes to the RDSP legislation were proposed in the 2008 budget, the government affirmed its commitment to putting the necessary administrative mechanisms in place so that financial institutions can make these plans available sometime in 2008.

## Dividend Tax Credit

- Since 2006, Canadian-resident individuals who receive “eligible” dividends are entitled to a higher dividend gross-up and tax credit, which results in a lower effective tax rate than other ineligible taxable dividends. As a result of planned reductions in the general corporate tax rate, the 2008 federal budget proposes to reduce the dividend gross-up and tax credit annually from 2010 to 2012 on eligible dividends.

## Increased Flexibility for Locked-in Pensions

- LIFs originating from federally regulated registered pension plans are currently subject to strict annual withdrawal limits.
- The 2008 federal budget proposes to enhance the flexibility to withdraw funds from these federal LIFs as follows:
  - Individuals 55 or older with small holdings of up to \$22,450 (indexed) will be able to wind-up their accounts with the option to convert to a tax-deferred savings vehicle; such as an RRSP or RRIF.
  - Individuals 55 or older will be entitled to a one-time conversion of up to 50% of LIF holdings into a tax-deferred savings vehicle with no maximum withdrawal limits; and
  - All individuals facing financial hardship (such as low income, high disability or medical costs) will be entitled to unlock up to \$22,450 (indexed).

## Capital Gains and Donations: Exchangeable Securities

- Effective February 26, 2008, the budget proposes to allow the capital gains exemption for donations of publicly-traded securities on the capital gains realized



when exchanging unlisted securities (shares or an interest in partnership) for publicly traded securities provided:

1. the unlisted securities included a condition, at the time of issuance, allowing the exchange of securities,
2. the publicly-traded securities are the only consideration received on the exchange, and

3. the publicly-traded securities are donated to a registered charity within 30 days of the exchange.

*For more information please consult with your tax advisor or visit the Canada Revenue Agency (CRA) website at [www.craarc.gc.ca/agency/budget/2008/](http://www.craarc.gc.ca/agency/budget/2008/) for additional details on the budget proposals.*

## BMO provides shelter from the storm

**N**o one should have to live with abuse. Ever. That's why BMO Financial Group is proud to support Shelter from the Storm – the Canadian Women's Foundation's national fundraising and awareness campaign dedicated to ending violence against women.

Between April 14th and May 11th, BMO is raising funds to directly support 455 shelters for abused women and community violence prevention programs across the country. These programs help women to rebuild their lives after violence, teach young people about healthy relationships and counsel children who have witnessed violence, to help them heal and prevent them from becoming victims or abusers themselves.

At BMO Financial Group we have a long-standing commitment to the success of our clients and the communities where we do business. And we know that addressing the challenges facing women is essential

to the health, economic growth and success of Canadian society as a whole.

We invite you, our valued client, to join us in achieving the vision of a safer, more prosperous society where women and their children are free from domestic violence.

*Together we can end violence against women.*

*Donate online at [www.shelterfromthestorm.ca](http://www.shelterfromthestorm.ca).*

*BMO has been a major supporter of the Canadian Women's Foundation since 1991 and has donated over \$1 million to support CWF-funded programs that help low-income women establish economic independence. BMO is also a lead sponsor of CWF's Regional Skills Institutes which trains organizations in helping women out of poverty. In 2005, BMO became a lead national partner in Shelter from the Storm.*

## Security of your assets

**D**uring times of market volatility investors are rightly concerned about the health of their investments. But market downturns are a natural element of business and economic cycles, and often a necessary corrective function of efficient capital markets.

As one of Canada's leading investment firms, BMO Nesbitt Burns has an established reputation within the financial services industry. Since its origins in 1912, the firm has been committed to helping clients meet their investment objectives and goals with the highest of standards.

Today, we remain focused on meeting the needs of individual investors through a customized approach to wealth management. Our Investment Advisors provide clients with personal advice and services, drawing upon

some of the best knowledge and expertise in the industry including BMO Nesbitt Burns' top-ranked research.\*

As a member of BMO Financial Group, the Private Client Division of BMO Nesbitt Burns provides clients with access to one of the broadest selections of wealth management solutions, products and services available today, both in Canada and the United States.

BMO Nesbitt Burns operates its business in strict adherence to the regulations, policies and bylaws dictated by the governing bodies of our industry. These regulations are in existence, first and foremost, for the protection of individual client assets. Canadian investment dealers including BMO Nesbitt Burns are members of and/or are governed by a number of self-regulatory bodies, commonly referred to as SROs.

## Security of your assets *continued.*

### These include:

- Investment Dealers Association of Canada (IDA)
- Toronto Stock Exchange (TSX)
- Bourse de Montréal
- TSX Venture Exchange (formerly CDNX)
- Winnipeg Commodity Exchange (WCE)
- Market Regulation Services Inc. (RS)

The IDA is responsible for member regulation, while the TSX, WCE, TSX Venture Exchange, Bourse de Montréal and RS are responsible for market regulation, which involves monitoring and regulating members' trading activities on the exchanges.

Each organization is in turn governed by the Provincial Securities Commissions or other securities regulatory authorities. Making certain that your assets are as safe and secure as possible is very important and your assets at BMO Nesbitt Burns are protected in a number of ways.

### Asset segregation

Industry regulations require that all fully paid and excess margin securities held by BMO Nesbitt Burns on your behalf must be kept separate and easily identified (or segregated) from the total assets of the firm. This regulation exists to protect your assets in the highly unlikely event of BMO Nesbitt Burns becoming financially insolvent.

### Canadian Investor Protection Fund (CIPF)

Clients' accounts are protected by the Canadian Investor Protection Fund (CIPF) within specified limits. A brochure describing the nature and limits of coverage is available upon request from your BMO Nesbitt Burns Investment Advisor.

*You can also visit the CIPF website at [www.cipf.ca](http://www.cipf.ca) to learn more.*

### Canada Deposit Insurance Corporation (CDIC)

Your portfolio may include deposit products, such as Canadian dollar term deposits. The Canada Deposit Insurance Corporation (CDIC) insures eligible deposits at CDIC member institutions in case of the failure of a member institution. If a member institution should fail, CDIC will reimburse you for any insured deposits you have with the failed institution.

Subject to coverage limits, eligible deposits held with CDIC member institutions are automatically insured; you do not need to apply for deposit insurance. The maximum basic coverage that is available for all eligible deposits that are held in the name of a depositor at a single member institution is \$100,000 (principal and interest combined). CDIC provides separate coverage (up to a maximum of \$100,000, including principal and interest) for each of the following types of eligible deposits: those that are held jointly, in the name of two or more persons; those that are held in trust; those held in registered retirement savings plans (RRSPs); and those in registered retirement income funds (RRIFs).

*For more information and a list of member institutions, visit the CDIC website at [www.cdic.ca](http://www.cdic.ca) or call 1-800-461-CDIC*

### Government backed securities

You may also purchase fixed income products through BMO Nesbitt Burns that are issued or backed by the Government of Canada. Investments in this category include Government of Canada bonds, Treasury Bills, NHA (National Home Association) Mortgage-Backed Securities, and government strip coupon bonds. In many instances, your principal and interest in these types of investments are backed by the Government of Canada.

*If you have any more questions about the security of your assets at BMO Nesbitt Burns, please discuss with your Investment Advisor.*

\*Brendan Wood International Survey. Institutional Equity Research, Sales and Trading Performance in Canada, 2007 Report.

*Perspective* is a quarterly newsletter for the clients of BMO Nesbitt Burns Inc. It is designed to keep our clients informed about the markets, our outlook and new products. The information contained in *Perspective* represents the view of BMO Nesbitt Burns, but please remember that you should consult with your Investment Advisor to ensure that this information is applied appropriately for your personal circumstances and investment needs. Questions or comments about *Perspective* may be forwarded to Shane Mungal by mail, fax (416) 359-4977, or e-mail [shane.mungal@bmonb.com](mailto:shane.mungal@bmonb.com).

BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltée, are wholly-owned subsidiaries of The BMO Nesbitt Burns Corporation Limited, an indirect wholly-owned subsidiary of Bank of Montreal. The information contained herein is based on sources that we believe reliable, but is not guaranteed by us and may be incomplete. Any opinion expressed herein is based solely upon our analysis and interpretation of such information and is not to be construed as an offer or the solicitation of an offer to buy or sell any of the securities mentioned herein. This firm may act as financial advisor, fiscal agent and underwriter for certain of the corporations mentioned herein and may receive remuneration for same. The firm and/or its directors and/or its representatives and/or members of their families may have a position in the securities mentioned and may make purchases and/or sales of these securities from time to time in the open market or otherwise.

The comments contained herein are not intended to be a definitive analysis of tax or estate law, and are general in nature. Professional advice regarding an individual's particular tax and legal position should be obtained.

All insurance products and advice are offered through BMO Nesbitt Burns Financial Services Inc. by licensed life insurance agents and, in Quebec, by financial security advisors.

® "BMO (M-bar roundel symbol)" and "BMO (M-bar roundel symbol) Harris Private Banking" are registered trade-marks of Bank of Montreal, used under licence. "Nesbitt Burns" and "Nesbitt Burns Gateway" are registered trade-marks of BMO Nesbitt Burns Corporation, used under licence. Member CIPF.