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# YourWealth

Views and opinions
for the clients and friends of

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Please visit us on the web at
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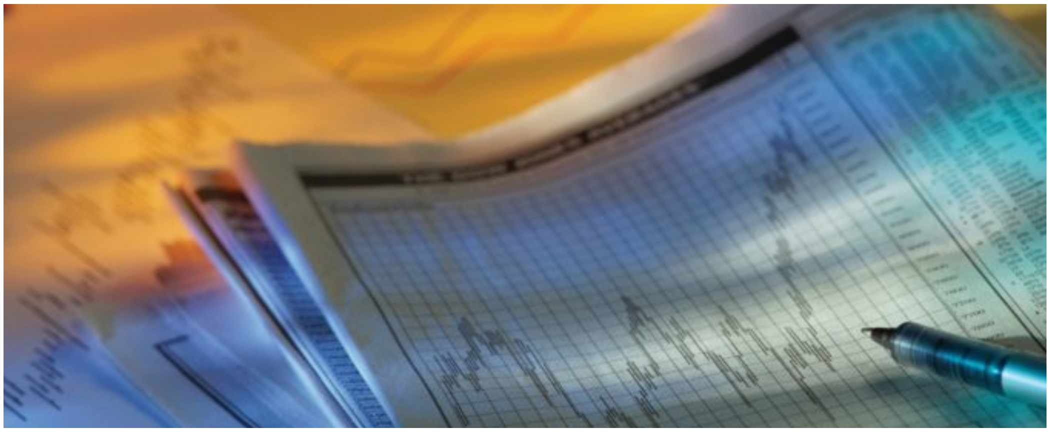
Welcome to those clients who joined us this quarter and thank you to those who recommended our services.



## How's the Market?

Everybody has said it. Perhaps the better question is "***What*** is the market?" Investors know that a stock exchange index is made up of many stocks, some more important than others in calculating changes in the index. Yet few people realize that the composition of an index is not necessarily a good representation of the economy. In Canada the S&P/TSX Composite index is heavily weighted towards financial, energy and mining stocks. Together these sectors represent about 70% of the weighting of the index despite the fact that these three sectors are responsible for only 25% of Canada's annual GDP. Go figure. Be that as it may professional fund managers and major investors have a maniacal devotion to their domestic index and consequently their portfolios replicate the composition of the index. Unfortunately history has proven that this focus and concentration can be hazardous to the health of investors.

Next question: ***Who*** is the market? It's not you. The investment world and the business media continue to propagate the myth that small investors make up most of the market participation. Twenty-five years ago this was the case as 80% of shares were owned by small investors with only 20% held by institutions like pension funds, mutual funds, insurance companies or hedge funds. Fast forward to the present and these figures are reversed. Do these fund managers and traders have the same motivations as you, the same time horizons? Not a chance. The vast majority of them maintain a fully invested posture, regardless of risk levels. Relative underperformance can lead to dismissal as fund company owners or principals see managed money go to the competition. A conservative strategy during a bull market may yield positive returns but performance relative to the index may be poor if the portfolio holds much cash.

The dramatic 1,000-point stock market moves on May 6 had nothing to do with small investor behaviour. While individuals implement their long term portfolio plans hedge funds and financial firm trading desks set their algorithms upon a previously (CONTINUED ON PAGE 4)

# The HST is Coming!

In addition to being Canada Day, this July 1 marks the introduction of the Harmonized Sales Tax in Ontario. The HST will be replacing the PST and GST charged in the province. For most transactions there will be no change in the total amount of tax payable: instead of paying 8% PST and 5% GST consumers will instead pay 13% HST. The provincial government estimates that over 80% of the goods and services purchased by consumers will see no new tax as a result of the HST. That means however that close to 20% of goods and services will see a change in tax. For consumers exactly which items will have their tax status changed has been a source of some confusion.

For most people probably the biggest impact will be on fuel and electricity bills. Natural gas, gasoline and electricity are currently exempt from PST charges; however all will be subject to the new HST, resulting in an 8% tax increase. We are confident that a great deal of thought went into deciding which products and services will move from being PST-exempt to being HST-eligible (hairstyling, dry cleaning and karate lessons) and which ones (books, newspapers and air travel from Ontario to the U.S.) will retain their current tax status. In what we can only assume to be an attempt to demonstrate the certainty of both death and taxes, funeral services will also be subject to the HST. On the plus side however, if you can find a restaurant meal for less than $4.00 it will be exempt from HST.

For a more detailed description of the Harmonized Sales Tax, including a full list of what will and will not be subject to the HST, please visit the Ontario Ministry of Revenue's special HST web site: http://www.rev.gov.on.ca/en/taxchange/hst.html.

## Email Updates

Two to three times a month we send out email updates highlighting wealth management topics that we feel would be of interest. If you would like to receive these updates please email Mark at mark.luukkonen@rbc.com or call us at 1-800-267-1522 with your email address.

## Visit Us Online

One resource that we encourage people to make use of is our web site, www.luukkonen.ca. In addition to providing information about us and the services we provide we have tried to ensure that the web site offers visitors a wealth of investment information. While it will not win any design awards (sorry, we're number people not designers!) the web site can be an excellent source of information for everything from market commentary to tax reporting to estate planning:

•On a daily basis the web site is updated with a morning market commentary and current GIC rates. We also post a Month-in-Review document summarizing the previous month for investors and as conditions warrant we will add commentary from the RBC Portfolio Advisory Group discussing investment conditions.

•At tax time a tax reporting guide is posted that outlines important tax information, reviews the tax reporting packages from RBC Dominion Securities and outlines important dates for the current tax year.

•An overview of any upcoming events or seminars that are available to our clients is maintained along with instructions on how to attend.

•An archive of previous events along with all of our published newsletters is updated regularly.

•We maintain an extensive list of guides and resources specific to many different situations on the web site. Some of the guides are very broad in scope, covering topics like retirement and estate planning while others are very specific, reviewing the recent CPP changes or how best to use investment holding companies.

Much of the content on www.luukkonen.ca is available to the public but there is a separate Client Area that provides access to more detailed commentary and analysis as well as administrative information for clients. Please contact Mark (mark.luukkonen@rbc.com) for a password to the Client Area.

# Discretionary Portfolio Management

As time goes by and their circumstances change, many of our clients are choosing to step back from the day-to-day management of their investment portfolios. For some, their careers keep them too busy to focus on individual buy and sell decisions while others no longer have the inclination to keep up with markets and want us to manage everything on their behalf. The clients that choose this approach are taking advantage of our premium level of wealth management, the exclusive Private Investment Management (PIM) program. Only a select group of experienced and accredited RBC Dominion Securities advisors are able to offer discretionary portfolio management and we are pleased to be able to offer this service to our clients. Our participation in this program began twelve years ago.

Traditionally the relationship between an investor and their financial advisor has been an advisory one: recommendations were provided to the investor but it was up to the investor to approve and authorize every transaction. For many this was and remains an appropriate relationship. For others however the traditional advisory relationship does not meet their current needs.

Through the PIM program we are able to offer a select group of clients full discretionary investment management. With Private Investment Management, you receive a completely customized portfolio built from the ground up based on factors such as your growth requirements, income needs and risk tolerance. Furthermore, you hold segregated securities in your portfolio, providing you with greater flexibility in how your portfolio is structured. We will handle all the details on an ongoing basis, working within the specific guidelines established in your customized Investment Policy Statement. We are always accountable to these guidelines, which are reviewed at least annually and updated in consultation with you.

Advantages of personal discretionary management include:

•Fewer missed opportunities. We are able to take advantage of investment opportunities quickly and efficiently because your approval is not required for every single transaction. A careful process involving strict guidelines, checks and balances, and formal reviews ensures that your portfolio is managed to the highest standards of ethics and professionalism.

•A personal touch. Most discretionary accounts offer portfolio management through a centralized source - usually an institutional investment management firm. While you enjoy a high level of money management, you don`t have a personal relationship with your Portfolio Manager. With Private Investment Management, you can sit down with us one-on-one to discuss your needs. It`s this personal understanding that makes Private Investment Management unique. It also gives you a greater degree of control compared to traditional discretionary accounts, where people you are unlikely to ever meet manage your wealth. Because you have a personal relationship with us, your portfolio can more accurately reflect your individual needs and goals on an ongoing basis.

•Enhanced oversight. Your portfolio will also be reviewed quarterly by our Private Investment Management Portfolio Risk Group to ensure it is managed according to the terms of your Investment Policy Statement. The Portfolio Risk Group also reviews your portfolio based on a second set of guidelines that overlay the entire program. These guidelines are in place to ensure that all Private Investment Management clients hold quality investments and a suitable asset mix for their situation.

The fee-based Private Investment Management program is suitable for portfolios with a minimum size of $200,000. To learn more about PIM and to find out if it is appropriate for you please contact Luke or Mark.

# Have You Opened Your TFSA?

The new Tax-Free Savings Accounts are now in their second year. Over time these TFSA accounts will become hugely important to the average Canadian investor. As a quick recap, Tax-Free Savings Accounts were made available as of January 1, 2009. Every Canadian over the age of 18 is able to contribute $5,000 per year to a TFSA and any income earned inside the account is earned tax free. On top of that, all withdrawals made from TFSA's are also tax free.

While the potential tax savings are still fairly small – this year we are only talking about the tax from the income on a maximum of $10,000 of contributions per adult – the potential savings will increase every year as more and more contribution room is earned. Ten years from now, for example, a couple will have been able to shelter $100,000 ($50,000 per person) of non-RRSP/RRIF assets from tax.

If you have not yet opened a TFSA please talk to us so we can discuss whether opening one makes sense given your personal situation.

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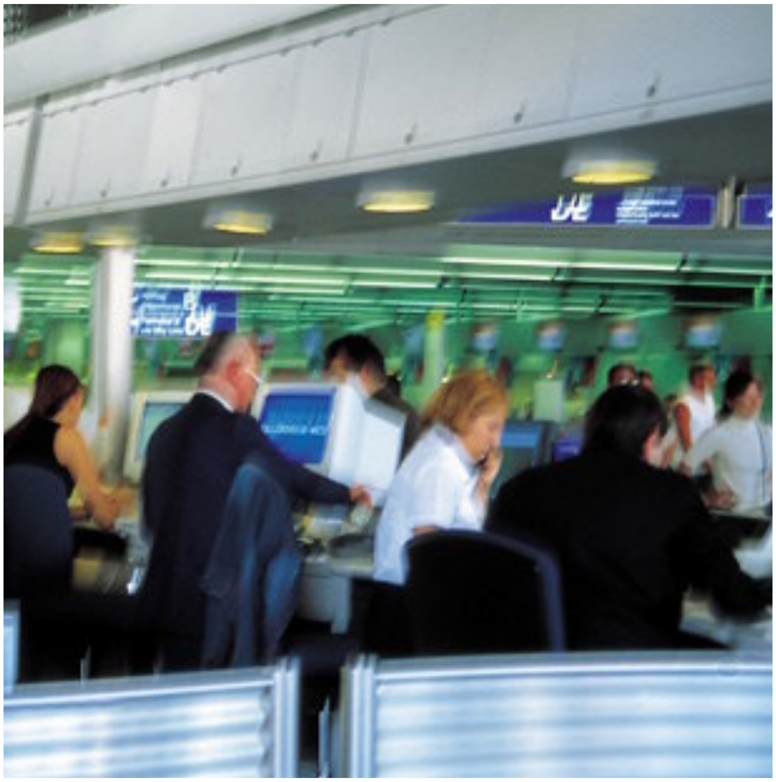
unsuspecting world, buying and selling stocks, commodities and currencies as if they were tokens in a game. It is estimated that 70% of the daily trading volume on U.S. exchanges is due to computer trading, with thousands of orders triggered at any one time without a single thought given to the fundamentals of the companies whose shares are being traded.



High frequency trading, flash trading and dark pools have nothing to do with long term investing and yet the related activity moves markets. In turn the talking heads then try to explain the resulting prices changes by commenting on corporate or economic conditions. Forget it! This is not your father's market. Occasionally a day like May 6 may bring attention to this phenomenon but surely no one believes that this activity is not a daily occurrence, albeit to a lesser degree.

These orchestrated movements are not limited to stocks. Commodity and currency markets are dominated by highly leveraged, algorithmic trading firms. The ever growing universe of Exchange Traded Funds (ETF's) has been a magnet for investment dollars in all markets but liquidation of these same ETF's during market declines increases the selling pressure. The strong interrelationship of all investment vehicles causes uniform price trends that cannot be explained by fundamentals.

We are personally surprised at the extent to which complacency has returned to markets worldwide. Does anyone really believe that lending more money to an over-indebted country without insisting on austerity measures is a good thing? Is no one worried that throughout the world Canadian consumers have the highest debt per capita relative to our financial assets? What happens if China slows down? Are we ready for higher taxes? Are we ready for higher interest rates? Are we ready for declining house prices? Are we ready for an economic slowdown when the stimulus packages end?

In our opinion the world has not yet learned the lessons that should have been obvious from the dramatic economic and credit contraction of a year and a half ago. Unfortunately we foresee increased liquidation of financial assets. In this environment maintaining a cash reserve is important.