

Insights

FALL 2008

STRATEGIES FOR YOUR FINANCIAL SUCCESS

Food prices have climbed: Can your portfolio benefit?

Food, one of the world's most basic commodities, has become a hot investment trend. While a strong dollar has helped keep Canadian food costs in check, world food prices have risen by 80% over the past three years, according to the World Bank. This has led to some significant gains in the share prices of some food and agriculture stocks. Should we expect more gains ahead?

Although food prices may moderate in the near term, several underlying trends are coming together to suggest that high prices may be a fact of life in the coming years.

The most prominent of these is the rising demand for meat and dairy in China, India, and other developing countries. Greater affluence in these countries is contributing to changing diets, which is driving up prices and also raising the cost of inputs such as animal feed and fertilizer. High oil prices have also made producing and transporting food more expensive.

The boom in biofuels has also contributed. Driven by government subsidies, ethanol production is leading to much higher prices for corn.

Droughts in Australia and Africa have devastated crops, putting pressure on food supplies. The involvement of large investment funds in



world food markets has also driven up prices. For investors, these factors point to continued strength in companies that produce food, farm equipment, fertilizer, pesticides, and other inputs. Railroads that move many of these products may also see some benefits.

Let's discuss the role that agricultural stocks can play in your portfolio, in light of your goals and risk tolerance. ■



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Please join us in welcoming Ryan Webster as the newest member of our team. Ryan has been a wealth advisor at ScotiaMcLeod for the past 2 years. During that time, he's helped clients achieve their financial goals through personalized financial solutions and relationships built on trust, and we know he's going to bring the same professional attitude to his work with us. Ryan has a post-grad degree in business and is working on his CFP designation. You can reach Ryan directly at (519) 660-3200.

Is it time to consider investing in infrastructure?



While commodity stocks have been grabbing the headlines recently, there are potential investment opportunities in another sector with great global potential: infrastructure.

In North America and around the world, massive investment will be needed to build and replace roads, public buildings, water and electrical systems, airports, and other structures that modern economies depend on.

Growth and stability

Pension plans have long been advocates of infrastructure investing, favouring assets such as toll roads and utilities whose operations produce a long-term income stream.

Today, there are many opportunities for individual investors to participate in infrastructure as well. Because the ownership and management of these projects can run for decades, these investments have less correlation with stock and bond markets — making them a compelling diversification tool.

Why now?

Infrastructure in many developed countries is in need of dramatic overhaul. In

2005, Canada's provinces and territories identified \$97 billion in required spending on transportation facilities alone.

The American Society of Civil Engineers, meanwhile, estimates that after years of underinvestment, renewing the United States' aging infrastructure will take an

expenditure of about \$1.6 trillion over five years. To cite one example, 3,500 of the nation's dams are considered to be unsafe.

In China, India, and other developing countries, infrastructure need is being driven by urbanization. Populations are growing and people are moving to the cities, creating a demand for construction services and materials to build the schools, public transportation systems, and other facilities they will need.

How to invest

Perhaps the simplest way to benefit is to invest in the companies that will build and operate the new wave of projects. This includes the civil construction and engineering companies that plan and build large-scale projects. In some cases, engineering companies are choosing to manage the projects they build, adding a long-term income stream that can help stabilize returns on investment.

Canada has a handful of companies with domestic and international experience. But there are also opportunities in the United States, and in foreign markets such as India and Hong Kong, which can provide access to the burgeoning activity in Asia.

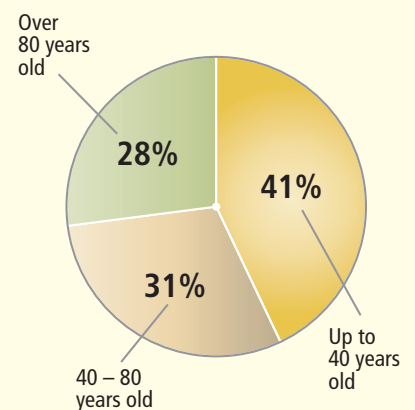
A wide variety of other companies will also benefit from the expected infrastructure boom. These include specialized service providers such as electrical contractors and environmental companies, and suppliers of heavy machinery, power generation equipment, pipelines, and electrical components. The list includes companies that supply basic materials used in construction projects.

There are many ways to take part in infrastructure. You can invest in individual stocks directly or gain diversification through mutual funds. Canada has a small, but growing number of funds that specialize in domestic and global infrastructure investments.

We can work with you to identify investment opportunities in the infrastructure sector that fit with your portfolio and investment goals. ■

Canadian infrastructure shows its age

More than half of Canada's infrastructure is over 40 years old and in need of repair or replacement. As old infrastructure reaches its life expectancy, opportunities will open for a wide range of firms.



Source: The Canadian Society of Civil Engineering, "Civil Infrastructure Systems Technology Roadmap 2003-2013" (June 2003).

How to maintain a tax-efficient portfolio

No matter how high the returns from your investments, the real indicator of success is how much is left in your hands after taxes. Taxes can have a significant impact on your overall investment returns, and their effect increases as your income rises.

One of the many benefits of having a non-registered portfolio is that it allows you to benefit from the tax advantages accorded to some investment classes.

There are three main types of investment income — interest income, dividends, and capital gains. Each of these is subject to different tax treatment when held outside your registered plan.

We can help structure your portfolio to effectively allocate your investments between your registered and non-registered portfolios, which can help to reduce the tax you pay on investment earnings.

Tax treatment of investments.

Equities and equity-based investments receive the most preferential tax treatment — only 50% of any capital gains earned are taxable.

Dividends received from shares of taxable Canadian corporations qualify for the dividend tax credit, which reduces the tax you pay on dividend income.

Interest income from investments such as bonds, Guaranteed Income Certificates (GICs), and high-interest savings accounts is fully taxable at your marginal rate.

Depending on your objectives and your holdings, it may make sense to hold interest-bearing investments inside your tax-sheltered registered plans, while holding investments that generate capital gains outside your RRSP.

A periodic review of your portfolio can help fine-tune your overall asset allocation.

Look for tax-efficient income.

Income trusts produce distributions in the form of interest, dividends, and return of capital, which is not taxable but can increase your future capital gains. However, some distribute primarily interest income, which is fully taxable.

Choosing trusts that produce a higher level of dividends and return of capital will leave you with better after-tax gains. Income trusts that produce predominantly interest income may be better held in your RRSP.

Fine-tune your cash flow. Holding a “ladder” of bonds with different maturities can be a good way to derive regular income from your portfolio. But while



bonds have a place in every investor's portfolio, there are other ways of producing the needed cash flow while minimizing your tax liabilities.

Distributions from high-income mutual funds, for example, may be more tax-effective than drawing income from an interest-bearing investment.

As well, you can derive income from a portfolio of mutual funds through a systematic withdrawal program, which uses the growth of the funds to provide the regular cash flow you need. Part of these returns may consist of tax-advantaged capital gains.

We can ensure your overall portfolio is structured in a tax-effective manner that is tailored to your financial situation. ■



Year-end tax-planning tips

While the end of the year is approaching, there's still time to take steps to minimize your tax bill for 2008. Here are a few ways to avoid paying more than you need to.

- **Tax-loss selling.** Plan any tax-loss sales of securities before the end of the year, so they can be applied against capital gains made during 2008. For the 2008 taxation year, any tax-loss security sale should be made with sufficient time for your trade to settle before the end of the year.

- **Mutual fund sales.** Time any mutual fund sales to take place before the funds' yearly distributions, usually made in December. These represent a taxable gain. We can help you decide if tax-loss selling and sales of mutual funds are right for your situation.

- **Professional and business purchases.** Complete any tax-deductible purchases before year end, in order to claim them for 2008. These include business equipment, such as computers and office supplies, as well as professional services such as lawyer's fees.

- **Charitable donations.** Set aside the funds now for any charitable donations you intend to claim for 2008.

More options, lower prices improve home theatre systems

With high-quality, big-screen televisions becoming increasingly affordable, many Canadians are choosing to enjoy movies in their own home theatre, complete with high-definition video and surround sound. However, creating a home theatre can be a major undertaking, so it pays to do some planning.

The type of theatre environment you create is often dictated by the shape, size, and acoustics of your room. However, you'll still have to make a number of decisions:

Who'll do the work? It's possible to put together an enjoyable home theatre yourself. However, a high-quality theatre with built-in speakers and theatre-style seating may require a professional installer who creates a plan, recommends the appropriate equipment, and installs it. Your electronics retailer may offer this service.

Television. A home theatre starts with a big-screen television. A high-definition LCD television is a common choice and performs well in bright rooms. Plasma televisions offer more contrast and deeper colours, but images can temporarily "burn" onto the screen. For the largest screen sizes, there are also rear-projection TVs and video projectors to choose from.

Discs and players. Blu-ray Discs and players are now the gold standard,

offering higher-definition output than ordinary DVDs and players. Although you can play Blu-ray Discs on your existing DVD, you will not get the truest high definition.

Receiver. Most home theatres use an audio-visual (A/V) receiver as the heart of the system. This processes the audio signals and creates multi-channel sound. Some receivers offer features such as connections to your iPod and computer. In many cases, the receiver, disc player, and speakers are sold as a home theatre system.

Speaker sound. You can choose a 5.1, 6.1, or 7.1 system; these have five, six, or seven speakers, plus they have a sub-woofer for ultra-low-frequency sound. Six- and seven-speaker systems offer better surround-sound effects, and can reproduce soundtracks that use proprietary enhancement systems such as DTS-ES and THX. Speakers should be sized to match the room — larger spaces need bigger speakers.

Creating a home theatre requires planning. Connecting all the components correctly may require expert advice, and you may need to undertake some room renovations if you are installing a more extensive system. However, once it's installed, it can provide you with movie-going enjoyment right in your own home. ■

Take advantage of new tax-free savings accounts

Beginning next year, Canadian investors will be able to deposit \$5,000 each year into a new tax-free savings account (TFSA).

How it works. Deposits into your account are not tax-deductible. However, any interest or investment earnings, including capital gains, are not subject to tax. As well, you can withdraw money at any time, for any purpose, without facing tax. Any amounts withdrawn can be put back at a later date, without reducing future deposit room.

Many ways to use. You can use your account to save for shorter-term goals, such as buying a car, renovating your house, or building an emergency fund. A tax-free account can also help you achieve more tax-efficient savings after you've filled your RRSP contribution room.

You can also contribute to your spouse's or common-law partner's tax-free savings account. And if you're over 71 and have collapsed your RRSP, this account provides a new opportunity for tax-free savings growth.

This useful new savings tool is something that all investors should consider incorporating into their 2009 financial plans. If you'd like more information, we're here to help. ■

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