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GETTING YOUR PARTNER INVOLVED

If you have a spouse or partner, it's vitally important to bring them up to speed with the family finances. Too many of us wait until it's too late, adding the burden of financial concerns at a time of grief.

If you're single, you already know how much is involved in managing your personal finances – everything from balancing the chequebook and paying bills on time to meeting with your wealth manager to review insurance needs and investment strategies. But, if you're one half of a traditional couple, you may not be involved in these activities at all. In most relationships, it seems that one person handles the financial matters. While this may seem efficient at the time, it can lead to problems when one person is eventually left to manage things on their own.

At PWL, we have seen the full spectrum – from clients who were well prepared to handle matters on their own, to those who didn't have the slightest familiarity with financial issues. In one case, we had a referral to assist a widow who didn't know whether or not her husband had a will or insurance policies, let alone where these documents might be found.

Our experience has taught us that dealing with the death or departure of a spouse is traumatic enough, without the added pressure of trying to figure out the family finances. Why not do your spouse or partner a favour and get them involved in the planning process while you're still around to help them learn the ropes?

At PWL, we encourage spouses to attend meetings with their advisor together. This helps to educate the less knowledgeable partner about the family financial picture, and gives them an opportunity to ask questions about issues they don't understand. More importantly, it fosters an atmosphere of trust, and allows each partner to develop a comfort level with the advisor. Think of how much easier it would be for a new widow to pick up the phone and call an advisor she has known and worked with for years, as opposed to someone she has never met!

If your spouse finds it difficult to come into our office, your advisor may be able to make arrangements to hold meetings at your home.

It's all about time – it takes time for a spouse to develop a relationship of trust with an advisor. The more time they spend in our company, the easier it will be for them if they have to step into your shoes one day.



*Kathy Clough
Investment Advisor
PWL Capital, Toronto*



ACTIVE, PASSIVE OR STRUCTURED?

In the investment industry, there is an ongoing debate centred on the benefits of active versus passive investing.

At PWL, we take it one step further to provide a structured approach to managing investments.

Proponents of active investing believe that markets are not effective at pricing securities. They believe that these mispricings can be systematically identified and captured to the investor's benefit. Active managers are believed to add "alpha" – additional investment return above market returns. Continuing on this theme, the active investor believes that it is possible to identify those managers in advance, invest with them and achieve fairly consistent above market returns. The appeal is obvious – no one wants to be just average.

But what does the research tell us?

According to Standard & Poor's Index Versus Active Funds Scorecard, 89.2% of actively managed Canadian equity funds under-performed the S&P/TSX Composite Index for the five-year period ending December 31, 2006. A full 85.5% of U.S. equity funds under-performed the S&P 500 Index over the same timeframe. Note that the Scorecard corrects for "survivorship bias"; in other words, it includes all funds in each category that existed at the beginning of the period, even though 40% of Canadian and 58% of U.S. funds were merged or liquidated along the way.

One more important point – there is no guarantee that the same funds will perform consistently next year. The message, when it

comes to our large, sophisticated capital markets, is that most investors fail to achieve even average returns.

At PWL, we welcome this research as a starting point and add value from there – using a structured approach to investing.

Structured investing harnesses the power of capital markets for you, handing you independence from the noisy investment market place.

How do we do this?

We focus on long-term studies of markets developed in academia rather than in the sales driven market place. We stay abreast of academic research that shows where and how investment returns occur and use this information to limit the risks taken by our clients to those areas where research shows investors have been rewarded.

First of all, studies show investors are rewarded for being in the market over the long term – not moving in and out according to market fluctuations.

Second, studies also show that, over long time periods, investors have earned a premium investing in small cap stocks and value stocks. By tilting our portfolios toward these two areas, we're able to capture these profitable aspects of investment risk for our clients.

Third, we pay attention to the costs associated with portfolio management and taxes. We continuously research new ideas and products to identify the tools to allow us to capture returns at minimal cost. Decisions about your portfolio are made with taxes in mind, and you can expect a timely tax focused review of your portfolio each year.

Is this approach right for you?

Being an active investor requires putting your faith in the inefficiency of markets – and your ability to choose the right active manager to be able to capitalize on this. Structured investing harnesses the power of capital markets for you, handing you independence from the noisy investment market place.



*Nancy Graham
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THE PROS AND CONS OF INCORPORATING A PROFESSIONAL PRACTICE

If you're a professional, you're undoubtedly aware of the growing opportunities to incorporate and perhaps even offer share ownership to family members.

Read on to find out if incorporation is right for you

There are lots of reasons for a professional to incorporate his or her practice. My wife, for example, an optometrist, has been stockpiling earnings in her corporation in order to fund her upcoming maternity leave. She also hopes to generate some tax-free capital gains on the sale of her practice in future to help fund our retirement.

But incorporation can be complex. Not only do the rules differ by province and professional group, but they're in flux as the professional associations continue to lobby for changes to benefit their members.

As of last May, only chartered accountants, lawyers and doctors have been able to incorporate in Quebec. In Ontario, any professional can incorporate, but each body has different restrictions on share ownership.

So why all the fuss and bother? What are the benefits of incorporating? The ability to defer tax on earnings retained in the corporation is key. To the extent that earnings are not needed to cover personal expenses, they can be taxed at the corporate level at a much lower rate than personal tax rates, and paid out in future as dividend income. This allows the professional to draw out income when in a lower tax bracket, i.e. at retirement, or, as in my wife's case, when taking time out for family reasons.

In situations where other family members are allowed to become shareholders, incorporation offers significant income splitting benefits. A non-working spouse, for example, could receive up to \$35,115 in dividends tax-free at the Federal level, assuming he or she had no other sources of income. Depending on your province of residence, please consult the provincial tax guidelines on dividend income. Even where the spouse has other income, as long as he or she is in a lower tax bracket, income splitting is still worthwhile.

Although federal regulations have eliminated the benefit of income splitting with minor children, there are still advantages to paying out dividends to children over 18. Suppose you're a professional with two children in university. Rather than drawing a salary at your higher tax rate to cover their expenses, you could pay dividends directly to them, likely on a tax-free basis, given their low income and tuition credits.

The corporate structure also allows each shareholder to take advantage of the \$500,000 capital gains exemption when the professional practice is sold. Note that the recent federal budget proposed increasing this exemption to \$750,000.

Are there any downsides to incorporating? Certainly, there's a cost to doing so. Between

\$2,500 and \$3,500 in legal fees will be required to set up the corporation, and you can expect ongoing annual accounting fees since a separate tax return must be filed for the corporation. Other costs may include additional fees payable to your professional association, and increased premiums for liability insurance, depending on your profession.

If you're just getting yourself established as a professional, you may find that your expenses are outstripping your income. If this is the case, this isn't the time to incorporate. On a personal basis, your losses can be deducted against other sources of income, but this benefit is lost inside a corporation.

Professionals should also be aware that incorporation does not provide the same protection against liability issues that it does for other forms of business corporations.

We look forward to hearing from you if you're interested in exploring this idea further.



*Andrew Baechler
Investment Advisor
PWL Capital, Ottawa*



THE FINANCIAL KNOWLEDGE TEAM

Portfolio Management

Financial Planning

Insurance and Estate Planning

Research

PWL - SUPPORTING THE ENVIRONMENT

Over the past few years, public awareness of environmental issues has increased dramatically. At PWL, we are taking a leadership role in encouraging conservation practices within our own offices, and looking at how we can help our clients invest in environmentally responsible companies.

What are we doing in our own operations? What are we doing on the investment front?

First, we started by instituting the PWL Paper Challenge, with a goal of reducing our paper usage by 15%.

Secondly, we try to limit the impact that our travel has on the environment by subsidizing monthly transit passes for all employees, and using web-based technology for staff meetings instead of having employees fly or drive to other locations.

Finally, we're encouraging employee involvement as we search for new ways to improve our environmental practices. We've set up an Eco-Ideas billboard so that employees can post their suggestions, and we'll be drawing on these ideas as we move towards identifying and tracking our progress towards our environmental goals.

We have been studying research that shows that assets invested in socially responsible investments (SRI) have grown tremendously over the past couple of years.

The SRI approach seeks to combine environmental, social and governance factors with traditional financial analysis.

At PWL, we are studying how we can incorporate this approach into our suite of investment solutions. To help us decide how to proceed, we are considering holding a series of client focus groups later this year. If you would be interested in participating in such a group, please let your advisor know.

As always, we welcome your input!

PWL WELCOMES ANDREW BAECHLER AND CLAUDIA MORRISON

Please join us in welcoming investment advisors Andrew Baechler and Claudia Morrison, who have recently joined our Ottawa team.



It was PWL's investment philosophy that caught Andrew's eye. While completing his CFA designation, Andrew studied the scientific basis of our approach, and became convinced that it truly provides a solution that is in the client's best interests.

Andrew looks forward to building a practice with medical and dental professionals. The son of an Ottawa-area dentist, Andrew recognizes the challenges faced by professionals who try to manage both their practice and the financial side of their lives, and strives to remove the financial burden from their shoulders.



Claudia is passionate about delivering a successful investment experience to her clients. Before joining PWL, Claudia spent ten years in the Investment, Estate and Trust divisions of a major Canadian financial institution. This expertise allows her to present solutions to help her clients and their families achieve their financial goals and to stay the course through unanticipated market events.

Claudia is an active volunteer in the community, enjoys running and skiing and is a dedicated supporter of her two sons, both competitive soccer players with the FC Capital United Soccer Club.

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