

When markets and investors get emotional, it creates fantastic buying opportunities, because there's no discrimination between what should go down and what does go down.

- Yves Tack

Most Canadians worry about their debt if interest rates rise

In a recent survey of 2,000 Canadians across the country, nearly 70 percent of respondents expressed concern about their debts if interest rates keep rising. Mortgage debt was cited by 27 percent as their biggest financial concern while 17 percent identified credit cards and 18 percent named other debts such as car loans and lines of credit as their primary source of financial worry.

Surprisingly, while nearly 70 percent of survey respondents had concerns over their debts, 79 percent didn't know how much they pay in interest each month on those debts.

The survey, conducted by Manulife Research for Manulife Bank during the month of September, indicated that most Canadians were simply "treating financial water" last year, neither reducing their debt nor increasing their savings while they worked to make ends meet. A full 76 percent of respondents' debt either increased or stayed the same in the past year while 74 percent said their savings either decreased or stayed the same.

The simplest answer to managing debt is to consolidate all debts at one low rate.

By moving all of their debts into one account with the low interest rate of prime, Canadians can realize tremendous savings, can use those savings to get out of debt more quickly and can simplify their finances.

Just about every time you go against panic, you will be right if you can stick it out.

- Jim Rogers

Alberta...

The Tax Haven

Alberta leads the provinces when it comes to lower overall taxes. For example, while all other provinces charge a provincial sales tax ranging from 6% to 10%, Alberta has no provincial sales tax whatsoever. Nor does it have any land transfer tax. You can even benefit by dying in Alberta – the maximum probate tax you'll pay in the province is \$400, compared to 1.5% of the value of the estate in Ontario, with no maximum.

The Alberta government announced that its current hotel room tax of 5% would be eliminated as of March 1, 2005. While a lower "tourism levy" will replace it, all funds will be specifically earmarked for tourism marketing and development as opposed to general tax revenues.

But it's in the area of personal income taxes that Alberta really leads the way. With Canada's average top combined federal and provincial marginal personal tax rate running about 45%, Alberta's top marginal rate hovers at a mere 39%, a consequence of its 10% flat provincial tax.

Do you have Grandchildren?

As financial advisors we preach about starting early when we invest. As grandparents the opportunity exists to create a lasting legacy for your grandchildren and their children simply by the power of compound interest. A \$50 per month contribution until the child is age 25 will give the child \$1.4 million at age 65.

Main Street FINANCIAL NEWS

Our Mission is to build long-term relationships with our clients. Our clients trust us with their financial future and the financial future of their families. Our work gives our clients the time to focus on what is important to them now, and we focus on what is important to their families in the future.



WINTER 2004

Wylie's MARKET COMMENTS

Another year is winding down and some clients use this time to judge the value of their investments. How have they performed this year? How about over the last 3-5 years? What are our expectations on returns? Are we going to see returns like we saw from 1980 to 2000? United States T-Bills delivered real returns of almost 9% and the S&P 500 index delivered real compound returns of 15%. These are compared to compound annual real returns of less than 1% and 5.3% respectively, during the previous 100 years." Bank credit analyst, August 2004, Bill Dickey, Private Client Group at Bisset sites a number of considerations behind the shift to moderate returns. For instance, it is expected that:

- Returns will continue to reflect the current low interest rate environment
- Interest rates will **only** increase to normal levels of 4-5%
- Market performance will track the GDP of over 5%

In the 1990's client expectations of market returns were above the 10-15% mark and have now shifted to a 7-8% return.

When conducting client reviews in the next few months, I will be stressing the importance of portfolio diversity and for some clients, increasing the dividend portion of their investments. The trend in the last 20 years has been toward growth-oriented stocks with dividend-paying companies taking a back seat. David Bisset suggests many reasons for clients taking a second look at dividend-paying stocks:

- Baby Boomers expected capital gains to look after their retirement. Dividends establish a means of retirement cash flow in a low interest rate environment.
- Tax on dividends in the US is becoming more favorable.
- Dividends express the health of a company.
- Dividends add credibility and give investors an inside look at a company's real earnings.

We will review each portfolio, keeping in mind your time horizon and risk tolerance.

There are a few items to consider as 2004 comes to a close.

- If you are 69, remember to convert your RRSPs by December 31.

- If you are 69, make your final year RRSP over-contribution based on your earned income for 2004.
- If your child is 17 in 2004, the final RESP contribution that receives grant money must be in by December 31.
- For everyone, if you have capital gains in 2004, consider selling investments that would generate a loss by December 31 to offset those gains.

In January and February, RRSP Season is upon us. Final contributions should be made by March 1, 2005. We will be open on Saturdays and evenings by appointment to accommodate client reviews.

Have a great holiday season and a special thank you to our clients who put their trust in us to help plan their financial future.

Main Street Financial is having an open house December 22, 2004, Wednesday from 3-7 pm. Please feel free to stop by and see our new office, located in the same building. Main Street Financial is celebrating 15 years serving the community and Chris Wylie is proud to have served his clients for 10 years. Stop by for some Christmas cheer!

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Important information regarding changes to RESP's

Effective January 1, 2005 changes to RESP accounts will help low and middle income families to begin saving for their children's post-secondary education. These changes were made to encourage families to set up a Registered Education Savings Plan (RESP). The Canada Education Savings Grant (CESG) will double from 20 to 40 percent on the first \$500 of RESP contributions each year for families with a net income of \$35,000 or less, and from 20 to 30 percent on the first \$500 of RESP contributions per year for families with a net income greater than \$35,000 but not exceeding \$70,000. Since the creation of the CESG in 1998 has been highly successful at encouraging parents to save for their children's education with a total amount of savings in RESPs increasing from a little over \$2 billion in 1997 to over \$13 billion in 2004.

In addition, the Alberta government will celebrate the province's past and at the same time invest in its future with a new education savings grant for Alberta newborns. The Alberta Centennial Education Savings (ACES) Plan will encourage parents to open a Registered Education Savings Plan (RESP) for their child with a \$500 kickstart from government. Under the plan, government will make a one-time contribution of \$500 to any Alberta child born in 2005 or later whose family has opened an RESP in that child's name. It is estimated that 40,000 children will qualify for the grant each year, meaning the program will cost about \$20 million per year. In addition to the initial \$500 grant, government will provide another \$100 to an RESP for children attending school in Alberta at age 8, 11 and 14, beginning with children born in 2005. The first of the \$100 grants will be issued in 2013. To be eligible for the grant, a child must have an RESP opened in his or her name. This can be done with the financial institution or RESP promoter of the family's choice. To apply for the Alberta Centennial Education Savings Plan grant, parents and guardians will need to follow these steps:

- Register the birth or adoption of their child
- Apply for a birth certificate
- Apply for a social insurance number for the child
- Open a registered education savings plan account with the financial institution or RESP promoter of their choice
- Apply for the ACES Plan grant

A stock market decline is a great opportunity to pick up bargains left behind by investors who are fleeing the storm of panic.
- Peter Lynch

RSP Loans

When you think of a loan, you automatically associate it with debt. In fact, borrowing to invest in your RRRSP can have a positive effect. If you're like most people, finding money to maximize your RRRSP contribution can be difficult. Over time, the gap between the amounts you've contributed and the maximum amount you can invest in your RRRSP widens. Borrowing to invest in your RRRSP can reduce your unused RRRSP room and make good financial sense:

- Minimum loan \$1000 to max \$15,500
- Automatic approval within the program
- 90 day payment deferral
- Simple application process
- Flexible repayment date
- Increase your RRRSP growth potential
- Reduce your taxes now

Establish a disciplined savings routine

If you're 69 this year don't forget to convert your RRRSP to a RRIF or annuity before December 31, 2004.



Christmas hours:
Our office will be closed from December 24 until December 31, 2004, reopening January 3, 2005.

RSP Savour Tips

Top five Registered Retirement Savings Plan tips...

1. Contribute early in the year and early in your career. Ask us about setting up a pre-authorized chequing plan, which will deposit a set amount each month from your bank account into your RRRSP.
2. Maximize your foreign content. You are allowed to have 30% of your plan invested outside of Canada. It is wise to use the full amount to take advantage of some of the booming markets around the world. We offer a wide range of global RRRSP funds, which are 100% eligible for RRRSPs.
3. Consider a spousal RRRSP. If your spouse earns less than you and will likely have a lower income in retirement, it may make sense to contribute to his or her RRRSP rather than your own. You'll get the tax deduction for your contribution, reducing your taxable income. In retirement, withdrawals will be taxed in your spouse's hands, rather than yours, allowing you to benefit from a lower tax rate.
4. Think about borrowing to contribute. An RRRSP loan can work in your favour as long as you pay it off quickly and your RRRSP is earning a good rate of return.
5. Consolidate your RRRSP holdings. There's no limit to the number of RRRSPs you can own. However, to minimize fees and maintain better control over your portfolio, it's often a good idea to keep everything in one place.

YEAR RRRSP DEDUCTION LIMIT

2004	\$15,500
2005	\$16,500
2006	\$18,000
2007	Indexed to the growth of the average wage

Last day for RSP contributions for the 2004 tax year is March 1, 2005.

If your child is 17 in 2004, the final RESP contribution that receives grant money must be in by December 31, 2004.

Top 10 tips for investors

1. Don't try to time the market.
2. Keep tax consequences in mind.
3. Set up a regular contribution plan.
4. Start saving as early as possible for children's post-secondary education.
5. Maximize foreign content in an RRRSP.
6. Take advantage of "clone" funds.
7. Consider your whole family in your investing and financial planning.
8. Make sure you have a will and keep it up to date.
9. Set life goals for investing, know your objectives and risk tolerance.
10. Avoid overreacting to the recent short-term behaviour of your investments.

Why Start Early

In the last newsletter Chris Wylie commented on how much money is enough to retire on. This is obviously different for everyone but what he did not show was how much money would be available at age 60 by starting at different age bands:

MONTHLY CONTRIBUTIONS @ 8% RATE OF RETURN	\$100	\$200	\$300	\$500
Age 20	\$349,101	\$698,202	\$1,047,302	\$1,745,504
Age 30	\$449,036	\$898,072	\$1,347,108	\$2,245,180
Age 40	\$58,902	\$117,804	\$176,706	\$294,510
Age 50	\$18,295	\$36,589	\$54,884	\$91,473

As you can see starting earlier has a big impact on your savings. Investing can be very simple if time is on your side and a disciplined investment approach is taken.

Did you know that for every \$1000 that goes into an RRRSP you defer tax as follows:

INCOME	TAX REFUND (DEFERRAL)
\$36,000-70,000	\$320
\$71,000-\$114,000	\$360
\$115,000 +	\$390