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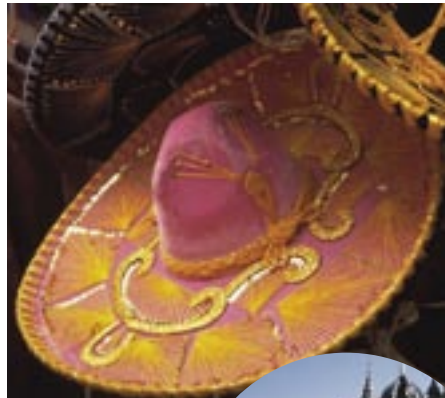
AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

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MARKET COMMENTARY 2004 ... STILL STRONG BUT DECELERATING

By Greg Farries, BSc., The Nakamun Group, Calgary

RECENTLY, I HEARD A STORY about a gentleman who went on a vacation to Mexico. While he was there, he decided to purchase a sombrero as a souvenir to bring home and share with his family and friends. After all, he thought, what better item could he purchase than a sombrero to symbolize the Mexican culture. When he returned home and looked inside the sombrero, he was shocked to find a “Made in China” sticker.



WHY IS THIS STORY IMPORTANT?

China is undergoing a dramatic shift from a largely agricultural/rural economy to a more industrial/urban economy. In fact, over the last number of years, approximately 20 million people a year have been moving from the farms to the cities. To put this into perspective, China is building a city the size of Calgary every three weeks to accommodate the massive influx of people. 80 percent of the building cranes in the world are now estimated to be in China. China's rapid urbanization has led to a significant increase in demand for resources, which has pushed the commodity index to an all-time high in 2004.



China is now estimated to be using 60 percent of the steel manufactured in the world and 40 percent of the world's iron/ore production.



What is going on in China and India as well – India now has the largest middle class in the world – is having a major impact on the rest of the world. China has to find work for the millions of people moving to the cities. Therefore, with the low cost of labour, many of the jobs that are being created in the world are being outsourced to China, hence the “Made in China” sticker on the sombrero. The development of China has also been creating opportunities as companies around the globe either invest directly in China or increase production to provide the resources to facilitate the building of the infrastructure that is required.

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From a macro-economic perspective, Canada and most other countries around the world have continued to experience moderate growth over the last couple of years. This growth is expected to continue in 2005, however, rising interest rates and high oil prices may contribute to a slower rate of growth. As with economic growth, there are signs that corporate earning growth has also peaked. While operating earnings in Canada could land 30 percent higher relative to last year, 2005 growth could slow to around 10 percent — still strong, but decelerating.



CANADIAN DOLLAR CONTINUES TO STRENGTHEN

Once again, the strength of the Canadian dollar has also been a significant story. On the back of a 21 percent increase relative to the US dollar in 2003, the Canadian dollar has appreciated in value by more than another 12 percent in the first 11 months of 2004. While this might be good from a psychological perspective and for those traveling, this steady increase can have a negative impact on our economy as our exports become more expensive. A negative impact on investment portfolios is also possible as gains in the value of foreign investments are offset somewhat by the strength in our dollar.

STICK TO YOUR PLAN

The last five years have been challenging for equity investors, however, we still believe, and history has proven, that equities will outperform other investments over the long term. The key is to stick to your plan and not get caught up worrying about what is happening on a day-to-day basis. 🌱

INFORMATION FOR 2004 TAX RETURNS

By Garry Keiller, The Nakamun Group, Edmonton

DURING THE NEXT FEW MONTHS, you will receive information that you need to complete your 2004 income tax return. The following is a guide to when the information must be sent to you. Remember to allow time for Canada Post to deliver the mail to you.

| MAILING DEADLINE | DOCUMENT | TYPE OF INFORMATION |
|---------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Soon after December 31, 2004 | December 2004 Mutual Fund Statements | capital gain or loss positions on mutual funds held outside a registered plan* |
| February 28, 2005 | T4s | employment income |
| | T4As | non-investment income, including withdrawals from RRSPs, RIFs or work completed on contract |
| | T5s | investment income such as dividends, interest, royalties |
| March 31, 2005 | T3s | trust income including capital gains, mutual fund income, lump-sum pension benefits and pension income, business and non-business income from foreign sources, investment and tax credits |

* This includes gains or losses resulting from your selling shares or units of non-registered mutual funds or your withdrawal of cash from these funds. You are responsible for calculating and reporting these gains or losses. In order to do that, you will need the purchase price and dividend payments of these mutual funds. If you haven't kept track of this information, and dispose of all or part of the holdings, call your Nakamun advisor for assistance.

NO TAX SLIPS FOR REGISTERED PLANS

Remember that tax slips are not issued and you do not need to report income within registered plans such as Registered Retirement Savings Plans, Registered Retirement Income Funds, or Individual Pension Plans, unless a portion of the plan was cashed during 2004.

CHECK ALL TAX SLIPS

Check all your tax slips carefully against your records. Be aware that some insurance companies calculate annual interest as of the anniversary of the investment's purchase while other companies such as banks and trust companies use the calendar year.

If you have any questions or concerns about your tax slips, please call your Nakamun advisor. 🌱

HEALTH AND DENTAL INSURANCE ... FOR THOSE WITHOUT COVERAGE

By Cec Blackburn, CLU, CHFC, CFP, The Nakamun Group, Edmonton

WHEN YOU LOSE YOUR Group Health and Dental Plan or, for any other reason, don't have one, you risk facing exorbitant healthcare and/or dental care expenses not covered by your provincial health plan.

In Canada, more than 25 million people, or about 87 percent of our total population are covered by some form of protection through Group Health and Dental Plans. When you retire or if lose your job, the coverage likely will end. If you are employed overseas and are not part of a benefits program, you face even greater risks.

If you are in a situation that leaves you without adequate health and/or dental

insurance, we strongly urge you to call your Nakamun advisor immediately. We are now able to provide several options for personal health care insurance.

If you are self-employed through a Personal Service Corporation, you might be able to pay eligible claims through your Corporation, using the services of a third party administrator. However, you must be sure to comply with Canada Revenue Agency guidelines.

To ensure that you have the most appropriate health and dental coverage, together with the most effective tax treatment, please call us. ☎



UNDERSTANDING LIFE INSURANCE ... PART THREE OF A SERIES

By R.A. (Bob) Challis, CFP, RHU, TEP, The Nakamun Group, Winnipeg



IN THE SUMMER 2004 ISSUE of our newsletter, we began a series entitled "Understanding Life Insurance". We outlined the basic types of life insurance contracts and how they function. In our Fall issue, we continued our series to explain how and where this unique financial instrument may be structured to create real value. In this, the third article in our series, we look at ways to use permanent life insurance to indefinitely defer and/or fully eliminate tax on investment income/growth.

EARN TAX-FREE INVESTMENT INCOME

In almost all instances, growth on investments is taxable. While there are differences between tax rates payable on interest, dividend, and capital gain earnings; and tax deferral techniques are available, the irrefutable fact remains that eventually all growth on such investments will be taxed during or at the end of the owner's lifetime.

The one exception is earnings on investments held within a tax-exempt permanent life insurance contract.

This remarkable difference in tax treatment is attributed to Section 148(3) of Canada's Income Tax Act. In plain English, Section 148(3) bestows two enormous advantages

upon investments made within qualified permanent life insurance contracts:

- Earnings within a tax-exempt policy are not subject to annual taxation
- Upon the insured's death, all policy values – deposits plus untaxed investment growth plus any additional benefit amounts – are paid to the beneficiaries tax free

Alone or combined, these two provisions of Section 148(3) allow creation of unique and highly tax-effective wealth planning tools. Permanent and hybrid investment-insurance contracts are designed to maximize these distinctive characteristics and are readily available through most top-tier Canadian life insurance companies.

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HOW?

Most permanent investment-insurance contracts allow “over-funding”. Large deposits may be placed in fixed interest rate, fully guaranteed term investments and/or a vast array of variable-yield “pooled equity or bond fund” accounts.

Several life insurance companies issue contracts within which the guaranteed cash value equals the death benefit at a certain future date.

Over many years, national and local tax advisory firms have researched these unique tools on behalf of individual or corporate clients. Their expert consensus is that employing properly structured permanent life insurance strategies can be extremely effective in converting otherwise taxable investment income into tax free wealth.

IS THIS FOR YOU?

We see the advantages of Section 148(3) creating extraordinary value for Canadians with any or all of the following goals as part of their comprehensive financial plans:

- Increasing real net rates of return on secure investments
- Indefinitely sheltering investment gains from annual income tax
- Reducing income tax payable on current and future investment income
- Converting deferred (otherwise taxable) investment gains into tax-free estate distribution when you die
- Retaining control of your assets during your lifetime, just in case
- Minimizing probate taxes
- Protecting your wealth from potential creditor claims

There are many, many other real-life situations not listed here, in which financial results may be enhanced by applying proven permanent life insurance-investment strategies. Please call your Nakamun advisor to learn how the unique advantages available could be best put to work in your personal circumstances.



AN EXAMPLE

A couple, aged 50 and 48, intend to invest \$10,000 per year for ten years, for a total of \$100,000. Their goal is to grow this money to the maximum possible value to pass on to children and grandchildren. They want fully guaranteed returns and control of the account until they both pass away. Their average tax rate of 35 percent will not change much in the future. They assume they will get about 6 percent guaranteed interest before tax on the savings. Two possible courses of action are:

1. Employ a traditional GIC savings plan
2. Create a permanent life insurance-investment plan

Results of each will be as follows:

| | GIC STRATEGY | INSURANCE STRATEGY |
|-----------------------------|--------------|--------------------|
| Deposited over 10 years | \$100,000 | \$100,000 |
| After tax capital to heirs: | | |
| In 5 years | \$56,163 | \$760,000 |
| In 10 years | \$118,214 | \$760,000 |
| In 20 years | \$166,805 | \$760,000 |
| In 30 years | \$244,548 | \$760,000 |
| In 40 years | \$358,525 | \$760,000 |
| In 50 years | \$525,623 | \$760,000 |

Obviously there is a huge advantage gained within the insurance-based strategy. Once put in place, the result is guaranteed, regardless of future interest rates. For the GIC strategy to produce comparable results by age 70, interest rates would have to be 20.77 percent compounding. To compare favourably in 35 years, the rate earned must be 10.48 percent. 🌱