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CHARTERED ACCOUNTANT
CERTIFIED FINANCIAL PLANNER
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Our fall newsletter is ready and full of new and interesting information. In addition to our regular newsletter, our website has been updated with articles of interest on the subject of health and travel. Be sure to check out the "Library" section on our website for the latest updates.

The great mortgage debate: fixed or variable?

Are interest rates going up or down? That's an important question for anyone who's thinking about buying a house—or those who are still paying down their mortgage.

Conventional wisdom suggests that if interest rates are headed up, it's a good move to choose a "fixed-rate" mortgage. If interest rates are flat or headed down, then a "variable-rate" mortgage is the way to go. But is this really sound advice? Before you make a decision on which kind of mortgage to choose, it makes sense to know a little more about each type and the difference between them.

➢*Fixed vs. variable*

As the name suggests, a fixed-rate mortgage is just that: one where the interest rate is locked in for a given period of time (also known as "the Term"). A variable-rate mortgage, on the other hand, has an interest rate that fluctuates along with your bank's prime lending rate.

For example, if you choose a fixed, five-year mortgage at a 5% rate of interest, your interest rate remains 5% for the full five years, no matter what happens to the prime lending rate. If on the other hand you choose a variable five-year mortgage at an interest rate of 5%, your interest rate will start out at 5%, but will then move up and down over the course of five years in lockstep with prime.

However, comparing fixed and variable-rate mortgages is rarely so simple. In general, fixed-rate mortgages cost more than variable-rate mortgages, sometimes considerably more. To understand why, consider what a bank is doing when it guarantees a fixed interest rate to you for a number of years. Essentially, they are tying up their capital for that period of time. The longer they do so, the greater the possibility that interest rates could go up. If rates go up dramatically, the bank could lend out money at a higher rate - but they can't, because the money is already committed to you. To compensate for this risk, they charge you more.

The difference between the fixed and the variable rate for a comparable term (a five-year mortgage, for example) is known as the "spread." Generally, the spread has favoured those who choose variable-rate mortgages, although there have been some notable exceptions over the years. However, over the past 35 years or so, these exceptions have been few and far between, and they have not lasted very long.

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At the time of writing, for example (summer of 2008), a five-year mortgage at one of Canada's "big-five" banks ranges from 6.95% to 7.15%. Meanwhile, a variable five-year mortgage at these same institutions ranges from 4.25% to 4.75%. That makes for a spread of anywhere between 2.20% and 2.90%.

Of course, mortgage rates change frequently; over the course of a standard 25-year mortgage, this spread will fluctuate considerably. But you get the point: the lower your interest rate, the lower your monthly mortgage payment. And the lower interest rate can almost always be found with a variable mortgage.

➤ *Which mortgage should you choose?*

So does that mean that all homeowners should choose a variable-rate mortgage? Not necessarily. While a variable-rate mortgage is usually a good idea financially, numbers don't always do justice to an investor's peace of mind. Knowing your mortgage payments are guaranteed for a given period of time can be very welcome, particularly in times of financial challenge or hardship.

Trying to predict the future of interest rates is always a bit of a gamble. So why try? Instead, base your mortgage decision on your investment personality. If you place a high value on predictability, or if your personal financial situation fluctuates considerably from year to year, chances are a fixed-rate mortgage is a good choice. If, on the other hand, you can handle fluctuations in your mortgage payments, then choose a variable-rate mortgage. Your decision may save you a good deal of money over the life of your mortgage.

If you're like most people, however, you're probably somewhere in the middle. If so, there's no reason you can't have the best of both worlds. When you first buy your home, lock in your rate. That way, you don't have to worry about interest rates for awhile.

As your financial situation becomes more secure, and you pay down more of your mortgage principal, switch to a variable rate and save some money. Such a strategy can be an excellent way to secure your financial future and your peace of mind at the same time.

New laws for creditor protection for RRSPs, RRIFs and DPSPs

➤ *What is the legislation?*

In November 2003 a Senate Committee on Banking, Trade and Commerce presented a report that recommended that RRSPs be exempt from seizure in the event of a bankruptcy, under certain conditions. Subsequently a Bill was introduced in 2005, which was ultimately know as Bill C-12, and which led to these new creditor protections coming into force effective July 7, 2008. The following is an overview of these protections:

Provisions that protect RRSPs, RRIFs and Deferred Profit Sharing Plans ("Registered Plans") against seizure in a bankruptcy:
The new law introduces stronger protection against seizure of registered plans if an individual is declared bankrupt. The caveat is that there is a claw back of contributions made to the plan in the 12 months prior to the bankruptcy. This is a Federal/national law for all plans - but if provincial law is already in place, the provincial law trumps.

Does this mean that all registered plans are creditor-protected?

No. Under the new legislation, the protection extends only to individuals who actually become bankrupt - those in financial hardship with creditors still may not be protected.

Does this mean that investments in segregated funds can still be an effective option for higher-risk individuals such as business owners?

Yes, the Federal legislation does not protect individuals in financial difficulty from seizure of their RRSP or RRIF. A segregated fund is governed by provincial Insurance Acts, and thereby continue to offer the added value of creditor-protection to non-bankrupt individuals' registered assets and to an individual's non-registered accounts.

Don't all provinces have creditor-protection legislation for registered plans?

No. Quebec, Prince Edward Island, Saskatchewan and Newfoundland/Labrador have creditor protection laws in place. Ontario, Manitoba, and British Columbia have laws in place protecting registered assets on a more limited scale. Other provinces, to our knowledge at this time, do not have creditor-protection in place, so will follow the new Federal legislation.

Ten tips to help you make the most of your RRSP …..

Because it allows you to defer tax on both capital (the amount you initially invest) and returns (the money your investments generate), an RRSP is one of the best ways to save towards having a long and happy retirement.

1. ***Know the deadline***
The deadline for making your 2008 RRSP contribution is March 1, 2009.

2. ***Make your maximum contribution***
You can find your maximum in the RRSP Deduction Limit Statement on your latest Notice of Assessment or Notice of Reassessment. If you can't contribute your maximum this year, you can still contribute at a later date. The sooner you do it, however, the longer your money will have to grow.

If you have unused RRSP contribution room left over from previous years, consider taking out a short-term RRSP loan to catch up. Most RRSP loans are offered at extremely attractive rates (prime or close to it) and can be arranged on very short notice. Check your financial institution for details.

3. *Consider an over contribution*

Federal guidelines allow you to contribute up to $2,000 over your normal RRSP limit during your lifetime, with no penalty. You won't be able to claim it as a deduction, but the return on that $2,000 can make a big difference over the lifetime of your plan.

4. *Establish a regular contribution schedule*

Technically, you have an additional 60 days at the start of the following calendar year to make your RRSP contribution. But it can be difficult to find the cash — especially after the holiday season. Instead, set up a regular schedule of contributions. You'll get an even greater advantage if you can deposit some or all of your contribution early in the year — for example, if you receive a bonus at work.

5. *Don't forget foreign content*

Remember that Canada provides only about 3-4% of the world's investment opportunities. To reduce risk and increase the possibility of better returns, include investments in other countries in your portfolio.

6. *Rebalance*

Your portfolio should have a mix of different types of investments designed to meet your particular needs. But since those investments will grow at different rates, you'll need to check your portfolio at least once a year to make sure you've got the right balance. If not, you'll need to rebalance it by selling some types of investments and/or buying other types.

7. *Remember your birthday*

Under federal guidelines, all RRSP holders must wind up their RRSPs at the end of the year in which they turn 71. You have a number of options:cash out your RRSP in its entirety use the funds to purchase an annuity roll your RRSP into a RRIF. Check with an advisor to see which option or combination of options is right for you.

8. *Make a contribution "in kind“*

If you're short on cash but have investments outside your RRSP, you can contribute by rolling them into your RRSP. The market value of those investments will be treated as your contribution.

9. *Consider a spousal RRSP*

If you and your spouse or partner have unequal incomes, you can probably save tax in several ways using this approach. You'll need to set up the spousal RRSP long before you retire to get the benefits, so talk to an advisor now.

10. *Seek professional help*

Working with a financial advisor can help you feel more confident and ensure you have enough income in retirement to keep doing the things you love. It’s never too late, but the sooner you start, the better.

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Reasons to love market volatility!

No doubt about it, equity markets have been volatile lately. But is that a reason to sell your stock portfolio and stash your cash under the mattress?
Absolutely not. As painful as market volatility can be, there are some very good reasons to love it. Yes, that's right: love it. Contrary to popular belief, not everything about market volatility is bad. Allow us to explain:

1. *Bear markets are big sales:*
If you're like most Canadians, you're probably not in the habit of going to the store and asking to see the most expensive items. More likely you read the weekly flyer and look for the bargains. That's not a whole lot different from the way you should approach investing. During periods of market volatility, opportunities can arise to purchase strong, well-managed companies with a bright future at artificially low prices. Although speculation is not a wise thing, especially for the amateur investor, an opportunity for long-term value investing can be very worthwhile.

2. *You're probably not finished buying equities yet:*
Even if you're retired and you rely on your portfolio for income, you still need a portion of your portfolio invested in equities to keep growing your assets and make them last longer. So, if you know you'll be investing in equities for several years to come, the little 'valleys' that come with normal volatility represent important buying opportunities for you. In fact, buying good companies at their most reasonable prices is a strategy used by many mutual fund managers. That's why a good mutual fund may be a wise purchase after a mild market correction (as opposed to the onset of recession or other major downward trend in the economic cycle).

3. *Market volatility reminds investors about risk*
Whenever the stock market experiences a long-running bull market, some investors can lose their perspective on risk. However painful it may be, market volatility helps remind investors about the importance of understanding one's risk tolerance. Market volatility is a natural pause button for your portfolio, allowing you to analyze your current mix of investments and compare it to your ideal mix. Rarely is it a good idea to sell an investment as a knee-jerk reaction to a downturn, but rebalancing a portfolio according to plan can improve risk-adjusted returns in the long run.

4. *Bear markets help us focus on what really matters*
Perhaps most important, market volatility forces us to think about what we're really doing when we invest. The end goal of investing isn't swinging for the fences. Instead, we save and invest to accomplish significant life goals: higher education for our children, secure retirement for ourselves, and good care in our final years. These goals never change, regardless of what the market does in the next three, six, or even twelve months. Market volatility makes it a little easier to temper our ambition.
And that's a good thing!

10 Second Health Tips…

(By the Editors of Men's Health)

Live longer and stronger with this feel-good to-do list

1. *Tea off in the morning*: Hot tea can slash your risk of kidney cancer by 15 percent, according to a review in the *International Journal of Cancer*. Try pu-erh tea, which is better than green or black tea at preventing DNA damage.

2. *Sleep smarter:* Too much sleep, or not enough of it, can kill you. A British study found that getting more than 9 hours of sack time a night, or less than 6, doubles your risk of an early death from any cause. Aim for 7 to 8 hours a night.

3. *Pop in your lenses postshower:* Soaping up while wearing your contacts can expose your eyes to infection-causing waterborne microbes, say University of Illinois at Chicago researchers.

4. *Drink wine, stay lean:* Polyphenols, the compounds found in red wine, help your body block fat absorption, an Israeli study found. Red-wine marinades work, too.

5. *Lose the lint*: Taking 2 seconds to empty the lint trap in your clothes dryer can prevent you from being one of the 315 dryer-fire victims each year in the United States.

6. *Check your neck:* An *American Journal of Medicine* study found that a mildly underactive thyroid can boost your heart-disease risk by 65 percent. A quick blood test can assess your level of thyroid-stimulating hormone (TSH).

7. *Lean back:* Parking your torso at a 90-degree angle strains your spine, say Scottish and Canadian researchers. Instead, give your chair the La-Z-Boy treatment and recline the seat back slightly. The ideal angle is 45 degrees off vertical.

8. *Scent your air safely*: Some air fresheners contain phthalates, compounds that may disrupt hormone processes, Natural Resources Defense Council testing reveals. Stick with Febreze Air Effects and Renuzit Subtle Effects.

9. *Boost your defenses:* An *Archives of Internal Medicine* review reports that 400 IU of vitamin D a day reduces your risk of an early death by 7 percent. Try Carlson's vitamin D

10. *Skip the spray*: Using household spray cleaners just once a week increases your risk of an asthma attack by 76 percent, say Spanish researchers. Use wipes instead.

11. Steam your broccoli: Italian researchers recently discovered that steaming broccoli increases its concentration of glucosinolates (compounds found to fight cancer) by 30 percent. Boiling actually lowers the levels.

12. *Stretch it out*: Genes in your body linked to heart disease, diabetes, and obesity can be "turned on" if you sit for hours on end, reports a study in *Diabetes*. Hit the "off" button by taking hourly laps during TV, book, and Web sessions.