

This past quarter was a roller-coaster ride for investors. The major indices not only tested, but fell below the November 2008 lows, only to bounce back in a strong rally that started in the second week of March. The major stimulus for the rally was an improvement in the financial performance of the large US banks and an update from Treasurer Secretary, Timothy Geithner providing details about the US financial system bailout. Some of the leading indicators mentioned in last quarter's portfolio review also provided a glimmer of light by declining at a slower rate than in previous months. The table below summarizes the market performance as of March 31st, 2009.

Market Indices (\$Cdn)	Year 2007	Year 2008	Q1 2009
TSX (Canadian market)	7 %	-35 %	-3 %
TSX Canadian Small Cap	2 %	-45 %	-4 %
S&P 500 (US market)	-11 %	-24 %	-9 %
Nasdaq (mainly tech.)	-6 %	-27 %	1 %
MSCI World	-6 %	-27 %	-9 %
MSCI EAFE (Int'l)	-5 %	-30 %	-11 %
iShares Cdn Short Bond	4 %	8 %	1.7 %
US\$ relative to Cdn\$	-15 %	22 %	4 %

Despite the decline in the equity markets, client portfolios, on average, were flat for the quarter. Some of the securities mentioned will not necessarily be included in all the portfolios because of the different risk profiles of our clients.

### Portfolio Activity

For accounts that had three percent or more of **Hanfeng** shares, this holding was reduced simply because the sell-off in all equities has provided opportunities that offer a better risk/reward tradeoff. Hanfeng continues to grow but lacks the price support accredited to a dividend paying stock.

**Husky Energy** (HSE – TSX) was added to accounts that didn't have an integrated energy holding. Integrated energy companies operate throughout the entire energy delivery chain, from exploring and producing to refining, transporting and, ultimately, distributing via a service station network. Husky's energy fields range from shorter-term shallow oil and gas production in Eastern Alberta to longer-life, deep oil and gas production in Western Alberta, Northeast British Columbia, Southwest Saskatchewan and the East Coast of Canada. Husky also has significant holdings in the Alberta Oil Sands and Southeast Asia. Husky's Tucker Oil Sands

project, completed in 2006, will ramp up production over the next two years to achieve peak production of 30,000 barrels of bitumen per day. Husky pays a quarterly dividend of \$0.30 representing an annual yield of over 4%.

The remaining shares of **Kingsway Financial**, the non-standard, higher-risk automobile and truck insurer were sold as fortunes at their US-based Lincoln General subsidiary continued to degrade.

**Teva Pharmaceuticals** was trimmed in a few accounts that had a sizeable holding. The outlook, however, for Teva remains favourable as the world's largest generic drug maker with strong earnings growth and a recent 33% dividend increase, yielding 1.2%. The proposed restructuring of the US medical system will undoubtedly put pressure on the cost of drugs and medical care. Lower cost generic drugs are well positioned to take advantage of this initiative.

We continued the liquidation of government bonds, using the cash to add short-term, high-quality corporate bonds and PH&N High-Yield Bond fund, F-series. Corporate bonds appreciated in price in the quarter in addition to paying/accruing interest. Towards the end of quarter we began to take profits in Canadian corporate bank bonds and replaced them with corporate bonds offering higher yields.

Where appropriate, shares of **Atco** (ACO.X – TSX) and **Enbridge** (ENB – TSX) were added to portfolios.

We opened many TFSA (tax-free savings accounts) this past quarter and, to protect capital, purchased corporate bonds yielding about five percent for these accounts. Similar to a RRSP, capital losses incurred in a TFSA cannot be offset by capital gains realized in other accounts. We view the TFSA as the best tax savings vehicle available to the average investor because you don't have to pay tax on income earned or capital gains. Other registered accounts such as RRSPs, RRIFs, and RESPs defer tax but, ultimately, the income or grants received become taxable.

### Outlook

We anticipate that the present market rally will encounter headwinds as more companies report their earnings over the next six weeks. Analysts' earnings' estimates have been rapidly declining, allowing some companies to beat the lower revised estimates but these earnings remain far below pre-recession normalized levels.

China's economy is showing signs of recovery as a result of their \$586 billion stimulus plan announced

last fall. Recently, their PMI (Purchasing Managers index) rose above the breakeven line of 50 and bank lending has increased by more than 17%. This bodes well for our holdings in the **Bank of China, China Construction Bank, Hanfeng** and **iShares FTSE/Xinhua China 25 Fund**.

Energy demand continues to fall which may cause the price of oil to correct somewhat from present levels, particularly during the seasonally weak shoulder season, the period of time in the spring when home heating and air-conditioning demand is low and the summer driving season has not yet begun. With respect to natural gas, prices are weak and will likely stay that way throughout 2009 as the new horizontal drilling technology has unleashed large amounts of natural gas from shale fields.

Gold bullion and gold stocks have been attracting attention because of the perceived threat of inflation resulting from the world's central banks reflating the economy (i.e. printing money). Inflation will likely be benign in the intermediate term but could gain momentum once the economic recovery begins.

In a market pull-back we would use some of the cash on hand to add to emerging markets, energy holdings and possibly initiate some gold exposure.

### Tax Planning for 2009

With the 2008 tax preparation season coming to an end we thought we would provide some tax planning tips for the 2009 tax year:

- **Donate "in kind" to charities.** When planning your charitable giving for 2009, consider donating appreciated securities directly to your charity of choice and eliminating all tax on any accrued capital gains. Any withdrawals, gains or income generated by investments in the TFSA will not be taxable or affect eligibility for federal income tested benefits or tax credits. [www.canadahelps.org](http://www.canadahelps.org) is a convenient website that facilitates "in-kind" donations to many charities.
- **Investigate pension splitting.** If you've received pension income, be sure to investigate whether splitting up to half of that income with your spouse or partner makes sense when you file your tax return next spring.
- **Carryback capital losses** to previous years. For non-registered investments capital losses can be carried back three years.
- **Transfer education/tuition credits** to a parent. A student can transfer up to \$5,000 in education/tuition credits to a parent.
- **Deduct transit passes** as tax credits.

- **Claim the Fitness amount.** Up to \$500 can be claimed per child.
- **Open a TFSA** if you have non-registered investments.
- **Use the HRTC** (Home Renovation Tax Credit) Under proposed changes, you can claim a non-refundable tax credit on your 2009 income tax return based on eligible expenditures incurred for work performed or goods acquired after January 27, 2009, and before February 1, 2010, in respect of an eligible dwelling. The HRTC applies to eligible expenditures of more than \$1,000, but not more than \$10,000, resulting in a maximum credit of \$1,350  $[(\$10,000 - \$1000) \times 15\%]$ . If the total of all your non-refundable tax credits is more than your federal income tax, you will not receive a refund for the difference. Examples of eligible and ineligible expenses are:

#### Eligible

- Renovating a kitchen, bathroom or basement
- New carpet or hardwood floors
- Building an addition, garage, deck, garden/storage shed, fence
- Re-shingling a roof
- A new furnace, woodstove, boiler, fireplace, water softener or water heater
- A new driveway or resurfacing a driveway
- Painting of interior or exterior of a house
- Window coverings directly attached to the window frame and whose removal would alter the nature of the dwelling
- Laying new sod
- Swimming Pools (Permanent - in ground and above ground)
- Fixtures – lights, fans, etc.
- Associated costs such as permits, professional services, equipment rentals and incidental expenses.

#### Ineligible

- Furniture, appliances, and audio and visual electronics
- Purchasing of tools
- Cleaning carpets
- House cleaning
- Maintenance contracts (e.g. furnace cleaning, snow removal, lawn care, and pool cleaning)
- Financing costs

Doug Garner, P.Eng., CFA  
President, Portfolio Manager  
Jane Garner, BA, EPC  
Vice-President