MONEYSTRAT SECURITIES INC.
FINANCIAL STRATEGIES
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Financial Planning Guide

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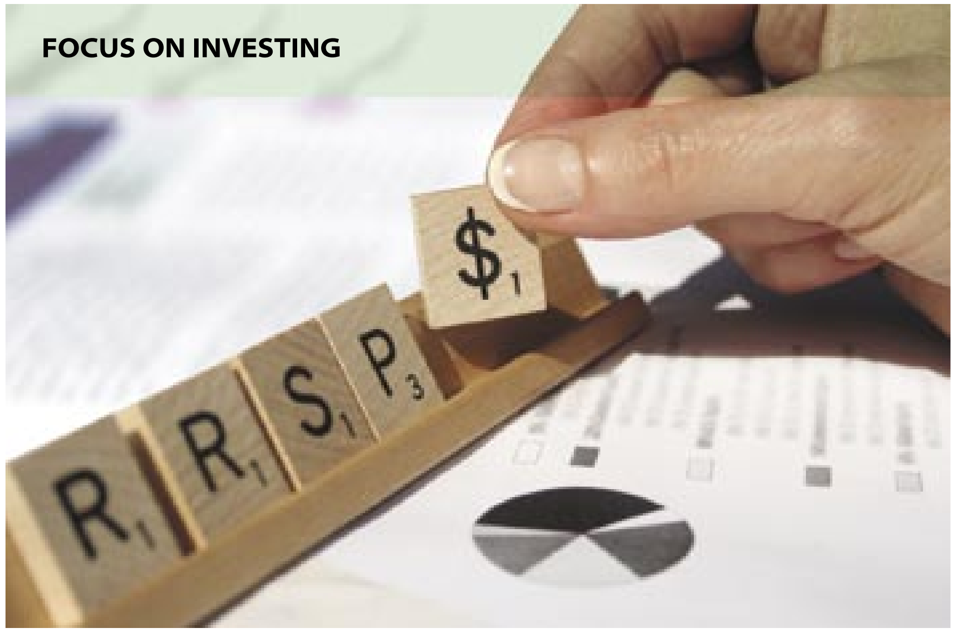


One more RRSP benefit: family harmony

Who would have guessed that a key part of your financial plan might also be able to enhance your partnership with your spouse?

One-fourth of the couples surveyed recently by Decima Research said they have had severe disagreements about money. And 23% found those disagreements affected other parts of their lives.

A financial plan that's comfortable for both partners can minimize, or even eliminate, this stress.

Two points of view

The big flashpoint is spending, said those polled. It's not uncommon for one partner to favour saving and security while the other spends more, living for today.

At this time of year, sources of conflict are likely to be due to overspending during the holiday season or while on a trip down south. Another point of contention could be contributing to a Registered Retirement Savings Plan (RRSP).

A fine balance

Fortunately, there is a solution that's simple, convenient, and may even generate tax savings for you throughout the year — preauthorized contributions. With a periodic contribution plan, money is automatically deducted from your bank account or your paycheque and transferred into your RRSP or a spousal plan. Professional advice can help you determine the optimal amounts for you and your spouse.

Not only does this strategy help ensure your future financial security, it can also enhance family harmony.

The spender in your household will soon forget about the automatic "out of sight, out of mind" contributions. And the saver has peace of mind that the future is taken care of. ■

Does your RRSP need a new fund mix?

We all recognize that our needs evolve as we grow older. But change has a way of creeping up unnoticed. That's why it's important to review your Registered Retirement Savings Plan (RRSP) on a regular basis.

With another year behind us, and the RRSP contribution deadline just ahead, it's an ideal time to schedule a review. A key question for mutual fund investors is: Are you holding the right mix of mutual funds in your RRSP? Is it time to begin making adjustments in preparation for the next stage of your investing life?

Risk-return tradeoff

First, remember that mutual funds are a way to invest in various asset categories — not an asset category on their own. An equity mutual fund invests in stocks. A fixed-income fund invests in bonds and similar holdings. A balanced fund invests in both stocks and bonds. The key point is that your fund's performance depends largely on what it's invested in. When Canadian stocks do well, Canadian equity funds do well too. The same goes for other asset classes.

Historically, equity funds have delivered superior returns over the long term — but with greater volatility. Money market funds and fixed-income funds help to offset that volatility.

Juggling variables

How do we decide whether you have the right proportion of equity, fixed-income, and cash-equivalent funds in your RRSP for your current stage of life? We'll look at the following factors:

- **Accumulation horizon.** The farther from retirement, the longer you have to recover from a setback. As a result, young people can typically bear more risk than older people.
- **Drawdown horizon.** How long will your retirement run? This reflects your target retirement age and life expectancy. Worklife changes and health concerns for you and your spouse can easily affect your target retirement date. Health issues naturally affect your longevity projection. The longer your retirement, the more capital you will need.
- **Target retirement lifestyle.** How much retirement income do you want? Your lifestyle today is probably different than 10 or 20 years ago. As we age, our wants and needs change.
- **Required rate of return.** If you have already accumulated a substantial amount, you may need only modest returns from your retirement savings in order to meet your future needs. On the other hand, if you're behind in your savings, you may need to take on extra risk or consider adjusting your expectations.
- **Other sources of income.** Some retirees continue to work part time. Others may receive an income from a company pension plan.

All of these factors are subject to change as you progress through life's stages.

Do you have the right mix?

An old rule of thumb suggests setting your equity allocation by subtracting your age from 100. So you would be 70% in equity funds at age 30, 60% at 40, 50% at 50 and so on. But there's no one-size-fits-all solution. Indeed, one of the most valuable benefits of working with a financial professional is gaining expert insight into the mutual fund mix that best matches your unique situation.

With professional assistance, you can make sure that the mutual fund mix in your RRSP stays in step with your life. ■

Your RRSP checklist

Deadline

March 1, 2006 is the last day to make a contribution that you can claim on your 2005 tax return.

Foreign content

The 2005 federal budget abolished the foreign content limit. You can hold as much of your RRSP in foreign assets as is appropriate, given your risk tolerance and investment objectives.

Contribution limit

You may contribute up to 18% of the income you earned in 2004 to a maximum of $16,500, less any pension plan contributions, plus your unused room from the past, if any.

Consider RRSP loans

You'll get a tax deduction for your contribution, and in most cases, the long-term benefit of tax-deferred compound growth will outweigh the short-term interest cost. Professional advice can help you decide whether borrowing is an appropriate choice for you.

The MONEY file

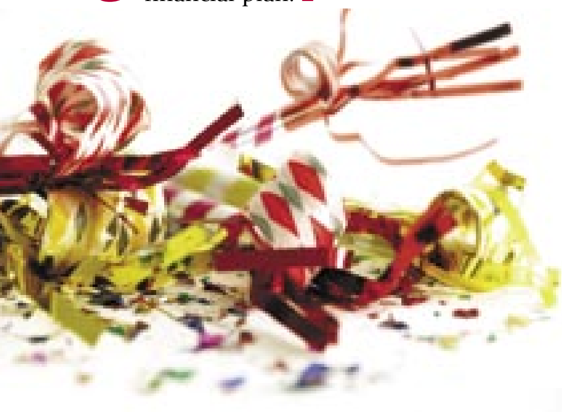
TIPS AND TACTICS TO HELP YOU GET AHEAD

MONEY INSIGHTS

Consider these New Year's resolutions

Keep your financial plan on track for 2006 and beyond with these five financial resolutions:

1. Set up automatic monthly RRSP contributions to help you reach your maximum in 2006.
2. Update your will, power of attorney for property, and power of attorney for medical decision-making.
3. Avoid credit card balances. If you can't pay in full at the end of every month, consider using a lower-rate line of credit instead.
4. Protect yourself, your family, and your property with insurance.
5. Take care of yourself. Poor health is the biggest threat to your financial plan. ■



FINANCIAL PLANNING

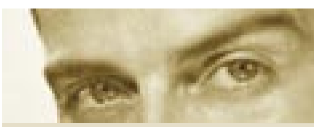
Canadians turning to professionals

Increasingly, Canadians are recognizing the value of consulting a financial advisor, says an Environics poll. Overall, the survey found that 43% of Canadians have advisors. The figures ranged from 46% of those aged 30 to 44 to 48% of those aged 60 or older. The polling firm expressed surprise that so many younger people have sought professional help, but concluded that by age 30, many Canadians find that their financial situation is complex enough to benefit from expert insight. ■

INSURANCE

Do you have what you need?

When did you last review your insurance coverage? If you're like the majority — 61% of Canadians in a recent Ipsos-Reid survey — it's been more than a year. And that may not be sufficient. You should check your coverage at least annually and, more important, whenever there's a major change in your life. That includes marriage, the birth of a child, a home purchase, or a big career move. ■



EYEOPENER

graphic evidence of how investing works

Time really is money

WHILE TAX DEDUCTION is attractive, the most powerful feature of a Registered Retirement Savings Plan (RRSP) is actually long-term, tax-sheltered compounding. That's why it's important to start contributing as soon as you can — and to keep contributing. ■

**Based on a 35-year-old investor contributing $5,000 at the beginning of each year, and earning 6% compounded annually, until age 60. For illustrative purposes only. Actual returns may vary.*

ESTATE PLANNING

You can trust these trusts to be tax-smart

As they write and revise their wills, Canadians are increasingly using testamentary trusts to help their heirs save tax.

A testamentary trust — one that's created at your death — becomes a separate taxpayer. Suppose you leave an investment directly to your spouse and it generates $10,000 a year in taxable income. That $10,000 is added to the recipient's income and taxed. If your spouse pays tax at the top marginal rate, almost half of the annual income could wind up going to taxes.

If you leave the investment to a trust for the person's benefit instead, it's the trust that gets taxed — at the same graduated rates as a person, though with no personal credit. The tax bill could be considerably lower.

Tax-deferred rollover

In addition to the ongoing tax benefits, there is an initial benefit to leaving your assets to your spouse or a spousal trust.

Normally, there is a deemed disposition of your assets at death, which may trigger a substantial tax bill for capital gains. However, when assets are left to a spouse or spousal trust, they can be transferred at their original cost. Any taxable capital gain is deferred until the death of your spouse.

Another tax break

Would you like to leave money to charity? Your will could set up the spousal testamentary trust so that your partner gets the annual income for life, but the capital itself goes to one or more charities when the spouse dies.

Though the charity doesn't initially get any money, it does get an interest in the trust. Your executor(s) can use that to claim a charitable donation tax credit on your final return. The credit won't be dollar for dollar. Rather, the amount will be discounted to reflect how long your spouse is expected to live. Remember: the charity gets the money only after your partner dies.

Restrictions apply

This strategy is complex, inflexible, and rests on a 1991 court ruling *(O'Brien v MNR)*, not on specific legislation. In addition, the following restrictions apply:

- Your spouse cannot encroach on the trust's capital.
- Your will must name the specific charity or charities. The choice cannot be left to your executor(s).
- Your will must set a dollar amount for each charitable bequest or provide a clear formula for calculating the amount. Your executor(s) get no discretion.
- No donation credit will be available when the capital is actually paid to the charity, as it was used on your final return.
- The trust's capital gains will face tax when your spouse dies. Bear in mind that your spouse's estate plan should factor in that future liability.

Like any tax-planning strategy, it's best to review your specific situation with input from an accredited professional specializing in estate planning and taxation. ■

FINANCIAL PLANNING

Now's the time for couples to split income

COUPLES WITH UNEQUAL incomes often ask if one can give the other money to invest, so the earnings get taxed at a lower rate. Unfortunately, special tax rules undermine this. But there's a legal way around them, and this is the best time of the year to do it.

The higher-income spouse can lend — not give — money to the lower-income spouse, who can then invest it in his or her own name. Investment earnings should then be taxable in the hands of the lower-income spouse, quite possibly at a lower rate.

There must be a written agreement and the lender must charge interest, but that can be set as low as the federal tax department's "prescribed rate." Set quarterly, this rate is normally lower than what commercial lenders charge. For the final quarter of 2005, for example, the prescribed rate was just 3%. For current rates, go to www.cra-arc.gc.ca/tax/faq/interest_rates/menu-e.html. Although the prescribed rate changes quarterly, your loan can lock in the current rate — a bonus if rates are to rise.

January is the best time of year to set up an income-splitting loan. The interest isn't due until January 30 of the following year, so a loan made now can run 12 full months without any interest payment. One made in June would generate a bill after just seven months.

Professional advice can help you determine if this strategy is appropriate and ensure it is executed correctly. ■

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