RICEREPORT

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WINTER 2007

The journey is as important as the destination

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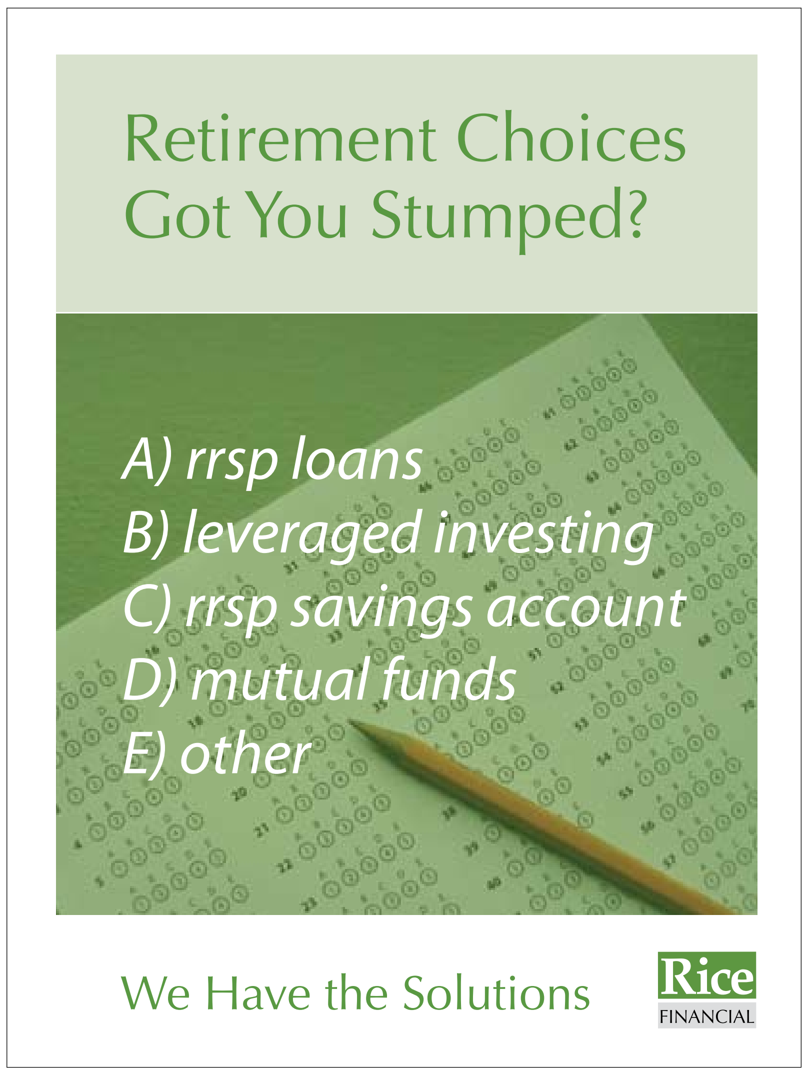

Your One-Stop Financial Service Provider–

Now Offering New, Superior Banking Solutions

At Rice Financial, we're continually striving to find new and valuable ways to enhance your financial well-being. Since we know your regular, day-to-day banking activities play an important role in your larger investment decisions, we're putting you in touch with superior banking solutions that will make managing your money easier and more profitable.

A referral arrangement with Alterna Bank gives Rice Financial clients like you access to a number of new banking opportunities including personal accounts, loans and lines of credit, mortgages, and credit cards. It's our way of ensuring you're equipped with the financial tools you need for every aspect of your life.

"The desire to offer our clients more quality services is what prompted this arrangement with Alterna Bank," said Rice Financial's Director of Investment Products, Dan Steinkey. "Having a solid reputation and a long history providing Canadians with a variety of valuable financial options, Alterna Bank is a great addition."

In finances, having more options available to you is always a good thing. But, what's even better is the fact you don't have to spend time shopping around to find them. With a number of cost-effective banking options from Alterna Bank now available via a referral from your Rice Financial advisor, you can take care of all your financial needs with one stop. Now, when you discuss portfolio strategies such as leveraged investing or home buying plans with your advisor, the banking resources needed to begin implementing them will be at your fingertips.

"By coordinating all their financial interests with one provider, clients will benefit from greater organization—and as a result better money management," Steinkey said.

Alterna Bank is a wholly-owned subsidiary of Alterna Savings, a cooperative credit union that first opened its doors in 1908. Additionally, as a federally licensed bank that can operate anywhere in Canada, it's a convenient choice for investors across the country. With proven industry experience you can depend on, trust Alterna Bank to deliver the same level of quality products and service you've come to know and trust at Rice Financial.

Alterna Bank offices are currently being piloted in both our Winnipeg Head Office and Ottawa branch locations. Keep watch for an outlet at a Rice Financial office near you.

For more information on this new referral arrangement, contact your Rice Financial advisor.

Alterna Bank is offering Rice Financial clients a credit card with a low introductory interest rate. Fill out and return the following form to your advisor to receive yours!

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Split Decision

New legislation on income splitting proposes the ultimate senior's discount

Spousal RRSPs represent a clever income splitting strategy already sanctioned - and even encouraged - by the Canadian government. In this case, the higher-income earner in a couple is permitted to make contributions to their partner's RRSP. The contributing partner gets the tax deduction. But, the income generated by a maturing RRSP is taxed in the hands of the lower-income spouse Age Credit Enhancement.

Lower to middle-income seniors will benefit most by a federal proposal to increase the age credit eligibility amount by $1,000 to $5,066. The age credit is a special federal income tax credit for Canadians 65 and older. Retroactive to January 1, 2006, the increase will be most noticeable among lower and middle-income seniors in the first two years because it means $150 in additional tax relief for senior individuals and $300 more for senior couples.

While seniors typically enjoy a number of savings opportunities in the commercial sector, the same could not always be said of their tax treatment by the Canadian government – until now.

New legislation introduced by the federal government on October 31, 2006, makes it possible for pensioners to split eligible retirement income beginning in the 2007 taxation year.

"The idea is to reduce the tax burden for senior couples by allocating household income more evenly between two spouses or common-law partners," said Wayne Pollon, tax specialist for Rice Financial in Winnipeg.

"So in cases where one spouse or partner is in a higher tax bracket, the lower income spouse will now be able to claim a greater portion of the household income on their taxes, making it possible for both individuals to remain in lower tax brackets."

There are no age restrictions for the spouse or common-law partner who receives the income allocation.

Previously limited to Canada Pension Plan payments, the new legislation could mean a second pension income tax credit and higher Old Age Security entitlements for some couples.

Unfortunately, widowers and single taxpayers who file individual returns will not be affected by the new legislation. In addition, couples who earn similar salaries will gain nothing.

Eligible pension income for those 65+

- lifetime annuity payments from a registered pension plan
- RRSP annuity payments or those from a deferred profit-sharing plan
- RRIF payments

Eligible pension income under age 65

- limited to lifetime annuity payments from a registered pension plan and certain other payments received after a spouse or common-law partner's death

Pension income that does NOT qualify

- Old Age Security payments
- Canada or Quebec Pension Plan payments
- payments from certain supplemental retirement compensation arrangements (RCAs)
- cash withdrawals from an RRSP

Caution

This legislation is currently under review and is not yet passed. If the proposed legislation could have a major impact on the tax you pay on your investments or retirement income, please contact your Rice Financial advisor. Together, you can review the impact these proposed changes will have on your portfolio.

Critical Illness Insurance

Offering the Financial Resources You Need for Recovery

Having worked as a registered nurse for 21 years, Carole MacLachlan knew the importance of a healthy lifestyle and tried her best to follow one. She packed healthy lunches for her and her family and walked at least one kilometre every day with their black lab Mitzy. But, Carole had one negative health habit: smoking.

During a busy day shift last year, Carole began to feel unusually short of breath and some soreness in her back and shoulder. Although she tried to shrug it off as a result of lifting and turning too many patients, Carole was actually having a heart attack.

Fortunately this emergency couldn't have happened in a better place than the hospital where she worked. But, what's even more fortunate is the fact Carole had prepared for such an event by protecting herself financially with critical illness insurance.

Many people have a misconception that heart attacks are a man's health risk when in reality women are just as likely to suffer a heart attack as men. As a result, many clients are not prepared for the emotional and financial outcomes.

"I've worked all my life in the health care field and have seen how sickness takes a toll on bank accounts as well as bodies," Carole said. "I knew that if something happened to me, my family would need to finance my ongoing medical care on top of the mortgage and other substantial expenses in our life. Investing in a critical illness insurance plan assured me we'd have the financial means to continue with the life we had. And, that's just what we've done."

Critical illness insurance is a policy which pays a lump sum benefit if a client is diagnosed with a life threatening condition such as cancer, stroke, heart attack, Multiple Sclerosis, or even severe burns and paralysis as identified within the policy. Its purpose is to provide financial assistance to clients and their loved ones so they are best prepared to recover from and adapt to the events of an illness. A financial tool that focuses on getting well, critical illness insurance enables you to resume a meaningful lifestyle without worrying about how to pay for it.

Rice Financial's Martyn Hall says critical illness insurance is an important product for all clients—regardless of age or health condition.

"The fact is a serious illness can happen to anyone," he said. "Although many people believe their employee group insurance or personal life policy will provide adequate funds should they need it, most fail to realize just how much recovering will cost. As a matter of fact, many plans do not even include a critical illness component."

For Carole, the funds she received not only helped pay for prescription heart medication but also hire a homecare provider to assist around the house while she recuperated. What's great about critical illness insurance's lump sum payment is that it's yours to do as you please. Depending on the type of illness, some may use the money to travel out of province or even outside the country for treatment, modify their home to be wheelchair accessible, or even take a special vacation. What makes a comfortable and speedy recovery is unique to each individual. That's why the protection and flexibility offered by the critical illness coverage is a great fit for everyone.

"There's no doubt my life changed when I had the heart attack," Carole MacLachlan says, "but with the financial support of my critical illness policy, I didn't let it change me."

To find out more about how you can protect yourself and those you love with critical illness insurance, contact your Rice Financial advisor.

PPNs and your Portfolio

Seeing the forest for the trees

Progress, innovation and competition have fostered a culture in which an escalating number of new products are being introduced to the marketplace daily, promising to revolutionize our lives.

Guided by basic marketing principals, the financial industry is no exception, often marketing new products with the same enthusiasm and hype as fast food.

Inevitably though, the excitement dies down and we see the true nature of the product – good and bad – as it applies to our individual needs.

In the past few years, principal protected notes have held a place on the financial industry's A-list—widely marketed as a security-blanket solution for investors seeking principal protection along with a measure of growth in their portfolio.

"As the population ages and more people prepare for retirement, there is a greater demand for investment products designed to build wealth safely without putting existing savings at risk," says Rice Financial's Ken Lewiski

But, while certain types of PPNs represent a viable option for risk-adverse, high-net-worth individuals, they are certainly not for everyone.

Even if PPNs are a suitable match for your portfolio, investors must also understand there are a number of similar products on the market and caution must be exercised when selecting an appropriate and effective PPN for your unique needs.

This is where your Rice Financial advisor can help immensely.

Individual investors will likely become frustrated by the amount of research required to understand different PPNs, and what is required for an investor to make money.

"The increased demand for this product has led to complicated variations, making it difficult for the average investor to track," says Lewiski.

"We make sure we know our product just as well as we know our client. Rather than rely on the issuer, we conduct a comprehensive analysis of the product ourselves before recommending it to suitable clients."

PPN Pros

- Good for high-net worth individuals approaching retirement whose focus has shifted from building to preserving wealth.
- Security: original investment is guaranteed when held to maturity.
- Regular Income: certain PPNs may provide ongoing payments over their term, in addition to the potential for profit at maturity.
- Preferential Tax Treatment: returns are taxed as capital gains rather than interest if the PPN is sold prior to maturity.
- Diversification: PPNs have opened up alternative asset classes, such as hedge funds and managed futures, to retail investors who wouldn't ordinarily meet minimum investment thresholds.
- RRSP-Eligible

PPN Cons

- Potentially high fees: some PPNs have reasonable management prices, others may charge multiple fees, making it harder in some cases to earn a profit.
- Lack of disclosure and regulation: the formulas used for determining returns may vary widely.
- No guarantee you'll receive anything more than original investment – non-guaranteed portion of the investment is often exposed to more risk in an effort to generate higher returns.
- Your principal is only guaranteed if you stay invested until maturity; withdraw early and you will forfeit the guarantee.
- The guarantee is only as good as the guarantor.
- PPNs are not insured by Canada Deposit Insurance Corporation or Regie de l'assurance-depots due Quebec.
- May lock up money for a period of time that does not suit your investment objectives.

The compromise: PPNs will never provide full exposure to the returns of the underlying investment, but neither will they provide full exposure to the volatility or downside risk.

Your RRSP Savings

The Costs of Cashing in Early

You have some loans to pay, a vacation you'd like to take, and a few other day-to-day expenses needing a little financial attention. Luckily you've got some money saved in an RRSP you can use to pay for it all, right? Wrong.

Unless you are turning age 69, the money you've invested in an RRSP should stay put. While cashing in on some of your savings is easy enough to do, there's a reason they call them Registered Retirement Savings Plans. Designed to provide you with a source of income during retirement, RRSP savings aren't intended to be backup bill payments. Unfortunately, too many investors are using their RRSPs the same way as a regular chequing or savings account—moving money in and out as they see fit. What they don't know is dipping into RRSPs early will cost them substantially more in the long term.

Take a lesson from Gerald Gotthard. At age 42, he'd been a committed RRSP investor over the past 20 years and always tried to make the maximum contribution each year. Knowing his savings were growing tax free, he felt confident about the way his wealth was building. But last year Gerald wanted to make good on a promise he'd made to himself when he was just 16: a promise that one day he'd own a Harley Davidson.

"After doing some careful budgeting, I found a way I could finance the monthly payments. But finding the funds for a down payment wasn't easy," Gotthard said. "Taking some out of my RRSPs seemed like a good way to get the cash I needed."

But, when Gotthard went to talk to his Rice Financial advisor, Steve Boyce, about cashing in some of his RRSP savings, he was in for some sobering tax information that quickly changed his mind.

"Although Gerald's RRSP savings are his to do as he pleases, there were some major financial downfalls he needed to know about before supplementing his cash flow this way," Boyce said. "It is important clients understand the long-term effects of such a decision before reaching for their retirement nest egg."

Gotthard was looking to withdraw $16,000 from his RRSP to put toward his dream bike. But, as Boyce explained, any RRSP withdrawal is subject to something called withholding tax. Deducted from your proceeds at the time you pull your money out, withholding tax rates vary depending on the amount you take out. In provinces other than Quebec, 10 per cent is charged on amounts up to $5,000; 20 per cent on amounts from $5,000 up to $15,000; and 30 per cent on amounts $15,000 and over. But that's not all. The next time you file your tax return, you will need to add the amount of your RRSP withdrawal to your taxable income.

Taking money from an RRSP without tax penalties is justifiable on two occasions: buying your first house through the Home Buyers Plan or paying for educational or training courses for you or your spouse through the Lifelong Learning Plan. Not surprisingly, Gotthard's motorcycle purchase didn't qualify.

"Taking into account a 30 per cent withholding tax and the $16,000 increase to his taxable income, a few simple calculations showed a sizable chunk of Gerald's withdrawal would be eaten up by taxes," Boyce said. "This is money that could be going toward his motorcycle, but more importantly it's money that could be earning interest and building wealth for his retirement."

In addition to the immediate tax hits, Boyce says clients need to appreciate the fact that RRSP withdrawals may fund your lifestyle now but will seriously hamper your savings in the long run. Assuming Gotthard earned a compound average of 6 per cent annually, his $16,000 withdrawal would deprive him of more than $50,000 in retirement savings over 20 years.

He suggested Gotthard look at alternative ways to finance his present-day dreams without sacrificing those in the future. Some options included obtaining a line of credit or accessing equity from his home to increase the amount of cash available.

"After talking with my advisor I decided my RRSP savings were off limits. Withdrawing the money I needed turned out to be a very expensive financing method," Gotthard said. "I know my Harley Davidson dream will become a reality in the near future, but so will a comfortable and secure retirement. All it takes is a little planning."

For more information about contributing or accessing RRSP funds, please contact your Rice Financial advisor.

Insuring the Comforts of Home

Mortgage Debt Protection with Term Life Insurance

Not long after the birth of their twin boys, Luke and Sarah Marcoux realized they were going to need a lot more space than what their current downtown condo could accommodate. Buying a house with a big backyard, basement, and plenty of room to play and be active was first on their list of financial goals to achieve.

"Surprisingly, it didn't take us long to find the home we'd been hoping for," Luke said. "But we knew the process of paying for it would be a different story. After doing some homework on the types of mortgages available, we chose a bank we trusted that also provided a good interest rate."

Even though the Marcouxs had solidified a cost-effective mortgage they could manage over time, the dream of watching their family grow up in this house wasn't entirely secure yet.

A mortgage is probably the most significant financial obligation most Canadians will have in their lifetime. And, the house it finances is probably one of the most treasured assets you'll own. That's why protecting it with insurance just makes sense. But, for many, mortgage insurance is simply an afterthought. Taking time to invest in a quality, comprehensive insurance plan covering your mortgage debt is the best way to ensure your future in your home—because if you can't pay, you won't stay.

"I knew if something were to happen to me, Sarah's salary as a teacher wouldn't be enough to pay all the bills plus keep the boys involved in things like soccer and hockey like we do now," Luke admits. "So when our bank associate suggested mortgage insurance, we thought it sounded like a good idea—one financial worry taken care of."

Home buyers like the Marcouxs are often encouraged to purchase their insurance plan through the lending institution where they have their mortgage. Although this is a convenient option, it's important to know there are other alternatives offering greater flexibility and value. Wanting to be sure they were making the best decision, Luke and Sarah asked their Rice Financial advisor Kuldeep Bains for her opinion.

"The problem with mortgage coverage offered by banks and other lenders is that clients have little control over their plan," Bains said. "Premiums can fluctuate and the coverage itself can be cancelled at any time. Additionally, if Luke and Sarah decided to switch lenders at the expiry of their mortgage term, they would lose any insurance purchased to protect it."

Bains pointed out that since most lenders issue group mortgage insurance, they are the owner and beneficiary of the policy. Should something happen to Luke or Sarah, the bank would receive the cash benefit and use all the funds to pay off the debt. In order to give the Marcouxs more control and flexibility, she suggested purchasing an individual term life insurance policy instead.

Investing in term life insurance is a great choice for home buyers for a variety of reasons. Not only does it offer some of the lowest rates per dollar for life insurance, term insurance also provides flexibility by offering a variety of term lengths to suit your needs (i.e. five, ten, or twenty year terms). Also, with regular mortgage insurance the death benefit reduces as more of the mortgage is paid off over time. With a term insurance policy the death benefit remains constant.

But, best of all, term insurance is owned exclusively by you. Should your needs change, you have the option of converting your plan into a permanent policy offering greater coverage and protection. And, regardless of whether you move between lenders, your policy follows you. It's flexible, affordable, and the cash benefit is yours to do as you please.

"Owning the policy ourselves was the biggest advantage to buying individual term life insurance over the bank's group plan," Luke said. "It ensured our mortgage was protected at all times and gave us the option to use some of the benefit to fund the kids' future as well."

Whether it's money for the mortgage, new skates, or college funds, term life insurance protects not only your house but everything that makes it a home. For more information about mortgage insurance options, contact your Rice Financial advisor.

Boost your Small Business with CoreLink

If there is one thing that has transformed Canadians' lives over the last 50 years, it is the way we work. Today's job market is characterized by fierce competition, high employee turnover, and the growing desire to "get more" from the organizations in which we work. What's interesting these days is that "more" doesn't necessarily mean money. Increasingly, employees in the 21st century are demanding better benefit plans to financially secure and protect what's most important in their lives.

Studies show that Canadians are apt to be employed by upwards of seven different organizations throughout their professional career. With a workforce this mobile, businesses need to ensure they have a comprehensive benefits plan in place to not only recruit top talent, but retain them as well. And, for small businesses owners contending with big market players for quality staff, distinguishing yourself as a workplace that cares about the financial well-being of employees is essential.

"Regardless of whether an organization is big or small, effective benefits will aid in attracting valuable workers," said Don Wright, Rice Financial's Vice President of Employee Benefits. "Although purchasing a group plan may seem costly for small companies, it's actually likely to save them money in the long run."

One of the largest expenses organizations face is the cost of re-training. As the saying goes, "time is money," but for many small businesses the time spent acquainting new employees with their job duties can take a serious toll on their bottom line. But, by offering incentives like health care coverage, dental coverage, and life insurance employers can benefit from the efficiencies of a committed staff.

Randal Letts is the owner of an advertising and web design company employing 18 people. After becoming frustrated with what seemed to be a non-stop hiring process, Letts starting looking for a benefits plan that would add value to his business without breaking the budget. Rice Financial's CoreLink employee benefits plan turned out to be the solution he was looking for.

"CoreLink fit my needs better than any other plan I could find," Letts said. "With a number of options to choose from, I was able to create a package best suited to my staff."

Designed specifically for small business owners with five to 50 employees, CoreLink is a new employee benefits plan offering affordable, flexible coverage. It includes all the fundamental elements including basic life insurance, dependent life, accidental death & dismemberment along with at least two of: extended health care, dental, short term disability, and long term disability.

In addition, depending on their unique needs, groups can choose from benefits such as vision (in conjunction with extended health care), employee assistance program, health care spending account, critical illness, and cost plus.

Managed exclusively by knowledgeable staff, a CoreLink plan includes all the administration and billing work. Rice Financial provides enrollments and eligibility data to the insurer and creates premium billings for clients. As a result, employers have more time to spend growing their business.

"What sets CoreLink apart from other plans on the market is its flexibility and administrative ease," Rice Financial's Wright said. "Whether you work out of your home with a handful of support staff or an office of 50 employees, we provide you with more coverage and less paperwork."

As a small business owner, Randal Letts says he's seen improvements in staff morale and productivity since implementing his CoreLink plan.

"It's amazing," he said. "When people don't have to worry about what will happen if they get sick or how to pay for their kid's glasses or braces, they work better and are happier while doing it. That makes me happy too."

It's hard to know which is more difficult for employers in today's world: attracting first-rate employees or keeping them around. At any rate, a well-rounded benefits plan will help to do both. For more information about CoreLink or other employee benefit services, please contact your Rice Financial advisor.

A Matter of Trust:

New Tax Fairness Plan

Although the subject has been hotly debated in parliament for some time now, investors were nonetheless surprised by the federal government's October 31, 2006 announcement that new income trusts would be subject to a 34 per cent distribution tax beginning in 2007.

Income trusts formed prior to 2007 will have four years until they are subject to the new rules in 2011, at which time the tax will be reduced to 31.5 per cent. To further cushion the blow, income trust investors will now also be eligible for the dividend tax credit.

It's cold comfort for investors who had warmed considerably to the product over the past several years.

"In a nutshell, the Conservatives went back on an election promise," says Rice Financial tax specialist Wayne Pollon. "It caught a lot of people off-guard."

For the past several years, income trusts have been providing tremendous yields and a healthy monthly income along with substantial tax benefits for RRSP, RRIF and pension plan investors. So much so, investors were willing to turn a blind eye to the inherent risks associated with this type of investment.

"In this case, the risk didn't quite pay off the way investors hoped," says Pollon. "Unfortunately, those with shorter investment horizons such as seniors and retirees will be hardest hit," he adds.

But rather than spending time on "why," Pollon says investors must begin to ask "what now?"

First, remember existing trusts will continue to pay distributions for another four years, leaving plenty of time to find appropriate yield alternatives while you continue to earn income.

Second, this may be a good time to re-evaluate your risk tolerance. If you're a conservative investor seeking to preserve capital or if you're finding it difficult to stomach this latest upheaval in the income trust market, you may want to look for more secure, alternative investments such as preferred shares, government bonds or GICs. Of course, the yields will be lower, but so is the risk.

Third, if you'd like to continue to participate in the income trust market, look for trusts with good assets, carrying little debt with relatively low foreign ownership. At a more reduced level, consider a diversified mutual fund that offers exposure to the sector without the same risk that comes with purchasing income trust units directly. Remember also, that real estate income trusts are not subject to the new rules.

And finally, speak to your Rice Financial advisor. He or she will be able to explain how the new legislation affects you personally. Together, you can work to find suitable tax-deferral strategies and alternatives for continued growth and/or income products that fit your specific needs and objectives.

Nationalism: At What Cost?

Good Canadians don't necessarily make good investors

A strong domestic economy and surging dollar have more Canadian travelers heading outside Canada to explore international bargains. On the flip side, an increasing amount of Canadian investors appear content to keep their money at home for the very same reasons.

Canadians set record highs for trips abroad in September 2006, according to a Daily report by Statistics Canada last October. Travel overseas was up more than 11 per cent over September 2005 – the seventh record high in nine months. Travel to the US was also up 5.5 per cent over the same month the previous year.

It's safe to suggest the increase may have been related to a strong Canadian dollar, almost 11 per cent stronger than in 2005 (89.6 US cents on average in September 2006, compared to 84.9 US cents in September 2005 according to Stats Canada).

Keeping with this trend, the Investment Funds Institute of Canada reports investments in US and other foreign mutual funds are down to 22 per cent of total holdings, from 38 per cent in 2000.

"While a strong currency is traditionally interpreted as a symbol of confidence and strength, it's not always a good thing for investors in the long run," says Rice Financial's Grant McPhail.

Canada vs. the US – Letting go of patriotism in your portfolio

Of course the patriot in us instinctively wants to encourage and nurture the rise of the Canadian dollar.

Generally characterized by a modest view of ourselves, Canadians are compelled to measure our country's success on the international stage by that of the US – Canada's largest trade partner and the only country to share a border.

Those old enough to remember look back fondly to 1976 – the last time the Canadian dollar was worth more than its US counterpart.

But is nationalism the basis for sound investment decisions? McPhail says no.

Go With the Ebb and Flow

In an era of global capital, the dollar's steady rise relative to other major international currencies is not always a desired development.

The rapid rise in the value of the dollar means Canada's manufacturers face tougher import and export competition. At the same time, Canadian equities have been enjoying a robust bull market since 2002, with a number selling at significant premiums.

Meanwhile, the rising dollar has forced a number of other global companies down in price, creating tremendous investment opportunities outside Canada.

"Canadian investors should take a cue from their traveling countrymen and use the current economic climate to go bargain hunting beyond our borders," says McPhail.

"It's essentially the time-honoured and fundamental principal of smart investing at its finest: buy low, sell high."

By increasing your exposure to foreign markets, you're also diversifying; another cornerstone of smart investing.

True, domestic investments may outperform rest-of-world assets in the short-term. In the long-term however, global diversification stands to minimize risk and enhance returns.

And like it or not, says McPhail, by sheer force of geography we are implicitly tied to the US. As such, the Canadian dollar stands to be pulled down somewhat with the US dollar.

The bottom line is: investors must shield themselves from all currency and market fluctuations by holding a well-diversified portfolio with some exposure to foreign markets.

Think with your head, not your heart

It's almost impossible to separate the two when it comes to your life savings. That's when the objective guidance of an advisor is crucial to stay the course and reap the rewards of a long-term strategy!

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