ARCA FINANCIAL GROUP

Fall/Winter 2008

Per$pective

People who care, Plans that perform

Do You Have a "What If" Account?

Most Canadians look forward to retirement as a time of reduced financial stress, when they'll be able to relax, pursue hobbies and spend more time with family. However, even if pensions and savings provide a comfortable retirement, life doesn't always go according to plan. If we're not financially prepared to deal with the curve balls that life throws our way, retirement could, unfortunately, become a time of increased financial stress.

"What if?" account

Post-retirement anxiety often starts with two words: *What if*?
What if I've underestimated my retirement expenses?
What if I need to pay for unexpected medical expenses?
What if my home needs major repairs?
What if my vehicle doesn't last?
Most people can expect to encounter at least one situation like this in retirement, if not two or three. Many retirees prepare for situations like these by creating a "What if?" account.

TRADITIONAL "WHAT IF?" ACCOUNTS

In the past, people prepared for the unexpected by using one of two product types:

1. Savings accounts

With this strategy, a moderate to large amount of money is kept in a savings account, such as a high interest bank account, so it can be withdrawn right away when there's a need. There is, however, one significant drawback to using a deposit account in this way: you don't know in advance whether your unexpected need will require a little cash or a lot. Because of this uncertainty, using a savings account to prepare for the unexpected is most effective if you deposit a substantial amount of money. Unfortunately, most of us don't have a lot of cash to keep in a "What if?" account.

2. Borrowing accounts

Other people choose to use a borrowing account, such as a loan, reverse mortgage or line of credit as their "What if?" account. With this strategy, you borrow as needed for unexpected expenses. The advantage of borrowing accounts is that they require little upfront cash, since money is only borrowed when it's needed. However, there are some drawbacks: With a traditional loan, you'd likely need to apply after the unexpected need arises, which delays your access to money and introduces the risk that the loan may not be approved. With a reverse mortgage, you may be charged a high interest rate and be required to borrow more money than you actually need. Plus, restrictions on how quickly you can repay the loan may force you to choose between paying penalties or remaining in debt longer than you'd like.

If neither of these traditional options seems like the best way to address your "What if?" concerns, you may want to consider a third option – an "all-in-one" account.

A NEW CHOICE – AN ALL-IN-ONE ACCOUNT

An all-in-one account is a simple, flexible, cost-effective way to prepare for the unexpected that allows you to focus on enjoying your retirement.

An all-in-one account combines your chequing and savings account with a secured line of credit. When an unexpected financial need arises, you have easy access to cash, up to your borrowing limit – normally 50-80% of the appraised value of your home.

It doesn't require a lot of cash. Because a line of credit is always available, up to your borrowing limit, there's no need to maintain a large positive balance in the account.

It's there when you need it. Once your account is set up, you can access money quickly and easily whenever a financial need arises.

It's flexible. There's generally no minimum loan amount required and you have the freedom to repay the loan at any time without penalty, as long as you haven't chosen to lock in your debt at a fixed interest rate.

It simplifies your banking. An all-in-one account can be your everyday bank account. This allows you to manage all of your banking needs, including your need for access to "What if?" money, from a single account.

REDUCE YOUR FINANCIAL STRESS

Nobody wants to spend retirement years worrying about the "What ifs?" of life. An all-in-one account is a simple, flexible, cost-effective way to prepare for the unexpected that allows you to focus on enjoying your retirement.

Contributor:
Bill Vollmer, CA, FLMI, CFP
Financial Representative

Inside this Issue

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"Nothing is predestined. The obstacles of your past can become gateways that lead to new beginnings."

– Ralph Blum

Newsletter Editor: Rose Katrina Frim

Regular Office Hours:

Monday to Friday
8:30 am to 5:00 pm.

237 Labrador Dr
Waterloo ON
N2K 4M8

T: (519) 745-8500
F: (519) 745-8283
Toll Free:
(877) 745-8500

www.arcafinancial.com

MARKET COMMENTARY – What's Going On

The markets have endured large swings both up and down in recent months. While markets around the world are down, buying opportunities are surfacing and values of stocks are becoming cheap.

While the newspapers make things look gloomy, we need to ask ourselves "Why do we invest in the stock market?" The answer is simple and straightforward: we invest in the stock market because given all the alternatives – bonds, t-bills, real estate and commodities – the stock market has historically offered the best long-term performance. If we compare all of these investments over rolling 20-year periods and adjust for inflation, *only stocks have never had a negative return.*

So, how did we get here?

- From 2001-2007, following the bursting of the dot-com bubble, the U.S. Federal Reserve kept interest rates too low for too long.
- Accounting principles were changed to "mark" assets to "market value" following the Enron fiasco.
- This was accompanied by risk premiums that were too low, as well as extensive financial innovations that were complex and high risk, sold as low risk.
- This led to a credit boom, where money in search of higher yields flowed into real estate, leveraged buy outs, etc., driving up asset values, and creating a housing bubble.

During this period, many financial institutions took on the risky securities that are now the source of their problems. Many people were given mortgages that should not have qualified, but were accepted with the thought that "real estate never goes down" and therefore the collateral is good.

The fallout for the financial sector

- Credit risk has been re-priced across the board: For example, low-grade borrowers now pay a premium of 8.5% over the yield on government bonds, versus 2.5% in spring 2007.
- Overall lending has been much reduced; borrowers are being forced to sell assets, driving down prices (affecting the value of collateral held by other borrowers).
- Global financial institutions have taken US$550 billion in write offs to date.
- As a result, we are more likely to see the sale of assets, business lines or entire businesses (such as with Merrill Lynch).
- Financial companies with high leverage and high exposure to mortgage-based securities cannot get funding – this describes U.S. investment banks.

The implications for the economy – from Wall Street to Main Street

Banks have cut back on all kinds of business and consumer loans, affecting consumer spending. U.S. consumers are becoming much more cautious because they're concerned about housing prices, job security, and can no longer get credit.

Outlook & Opportunities

Washington's Plan

U.S. Treasury Secretary Henry Paulson, Federal Chairman Ben Bernanke and the US Congress put together plans to halt the credit-market seizure. Paulson and Bernanke have proposed moving troubled assets (housing related) from the balance sheets of American financial companies into a new government institution. Congressional leaders said they aim to pass legislation soon with many expecting the comprehensive plan to be delivered by the end of September.

The Security Commission's Plan

The US, Canadian and UK Securities Commissions have temporarily banned short-selling in shares of many financial companies. In addition, for a fee, the US Treasury will guarantee assets in some US-based money market funds to ensure they maintain their constant net asset value.

Canadian banks and insurers are well-capitalized – a positive for the Canadian economy and investors.

It sure may not feel like it, but the market is presenting us with a rare opportunity right now. Successful investors are able to unglue themselves from the present and make decisions using historical information that helps to understand what happened *after* every other crisis. By studying what has happened after similar downturns in the past, we gain perspective and let what we *know* transcend how we *feel*, which will allow us to benefit from this buying opportunity.

Article sourced by Mark Healy from comments made by Eric Bushell of CI Mutual Funds and Jim O'Shaughnessy of O'Shaughnessy Asset Management.

TAX AND ESTATE PLANNING CORNER

Other Reasons to Consider Segregated Funds

In addition to the tax efficiencies and guarantees available with segregated funds that we often hear about, they can provide many other advantages.

A segregated fund allows the owner to designate a beneficiary. If the beneficiary is a family member (spouse, child, grandchild or parent) the investment will generally be protected from creditors of the owner. When a beneficiary other than the estate is named, assets will bypass the estate and will be paid directly to the beneficiary, which will avoid legal and probate fees. (In Ontario, probate fees are 1.5% of the assets for estates over $50,000.) The transfer of the segregated fund assets will also be kept confidential and remain private.

A segregated fund can also be used to establish a trust on the owner's death. This would allow an individual to provide benefits to the beneficiaries, but maintain control over the asset by having a trustee administer the asset. This trust would be set up as a testamentary trust, which provides favourable tax treatment.

If you are looking for an investment with these features, please contact your Arca advisor.

Contributor: Christine Black, B.Math, CA, CFP, TEP
Tax and Estate Planning Consultant

COMMUNITY BUSINESS PROFILE

A New Leaf

Are your investment records filed? Do you know where your will or your birth certificate is located? Do you pay your bills on time? Do you file your income tax return before the deadline? Can you find your house insurance policy?

If not, it's never too late to get organized. In the event of an emergency, death or disaster, being able to find required documents quickly can make a difficult situation more manageable.

Cathy Mendler, owner of A New Leaf offers some suggestions to help you get organized: Plan to set aside a few hours to put your paperwork in order. If it feels overwhelming, break it down into smaller chunks—a couple of hours a week until it's done. Make a list of supplies you will need and pick them up before you start.

Start by sorting your paperwork into categories. Keep any receipts that are being claimed as business expenses. If you don't need it, get rid of it. Remember that 80% of what you file you will never look at again. Protect yourself from identity theft by shredding any documents containing your name and address. Label files so that you will be able to find an item when you need it. Create an Action file for any items requiring your attention. When you're done, don't forget to reward yourself for a job well done!

Our lives are so busy these days. Invest some time and put your records in order. Not only will it provide peace of mind, you'll have more time to do what you enjoy!

Cathy Mendler is a member of the Professional Organizers in Canada. Her business provides personalized organizing solutions for home and small business. For a free one-hour consultation, you can contact her at anewleaf.cathy@gmail.com or 519-669-1377. It's never too late to turn over A New Leaf!

Contributor: Anna Wagg
Insurance and Client Services Associate

In order to offer networking opportunities to our clients and business partners, we will be featuring one such business in each newsletter.

If you would like your business to be profiled, please contact Rose Frim at 519-745-8500 or by email rfrim@arcfinancial.com.

GROUP BENEFITS FUNDAMENTALS

Group Tax-Free Savings Account (TFSA)

As previously mentioned in our Spring issue, the Federal Government has introduced the tax-free savings account (TFSA), a completely new tax-sheltered investment vehicle. Although presented in the context of an individual product, it is expected that most administration providers of capital accumulation plans will rapidly add a group TFSA to their product line-up in 2009.

The TFSA has important implications for sponsors of retirement and savings programs. Even if the TFSA will fall under the radar for a large majority of employees at first, some will rapidly expect a group TFSA to be added to existing programs. A simple, one-plan arrangement such as defined contribution (DC) or defined benefit (DB) pension plan may then morph into a combination DC/TFSA or DB/TFSA program. The same would go for a group RRSP/DPSP combination, which would include an extra layer with a group TFSA.

Contrary to pension plan or DPSP contributions, employer contributions to a TFSA are considered as regular salary, and are thereby subject to normal payroll taxes.

Even though the TFSA will only see the light in 2009, the first steps towards understanding all its potential and implications should be taken now.

Stay tuned and we will keep you posted.

Contributor:
Paul Struck, CLU
Group Benefits Consultant

ARCA FINANCIAL GROUP

Spotlight

What would you like to see in our next issue? Let us know at inquiries@arcafinancial.com!

Please note our office will be closed on:

Monday, October 13th
(for Thanksgiving)

Wednesday, December 24th
at noon

Thursday, December 25th
(for Christmas Day)

Friday, December 26th
(for Boxing Day)

Wednesday, December 31st
at noon

Thursday, January 1st
(for New Year's Day)

Daylight Savings Time:

Don't forget to turn your clocks back before going to bed on Saturday, November 1st. Daylight savings time goes into effect the first Sunday in November and that means we get an extra hour of sleep!

Visit Us Online

Looking for information about Arca Financial or any of the products and services we offer? Need directions to our office? Need to contact us? Visit us online anytime at www.arcafinancial.com.

We wish you and your family a bountiful fall, with a chance to reflect on all that you are thankful for. Watch out for ghosts and goblins!

Contributor: Sue Langdon BA, FLMI
Project Co-ordinator

INSIDE ARCA

Arca's Staff Summer Fun Event

On August 28th we held our annual staff Summer Fun Event. This year we took a road trip to the Vollmers' cottage in Port Elgin. We had an enjoyable day of team building games, food & fun.

Arca Holiday Gala

Please mark your calendars for our annual Holiday Gala on Tuesday, December 16, 2008. We hope you will be able to join us! More details to follow.

Staff Achievements

Congratulations to Anna Francescangeli for participating in the Princess Margaret Weekend to End Breast Cancer on September 6th & 7th. Anna completed the 60kms walk in Toronto in support of breast cancer research.

Contributor: Sue Block
Faculties Manager/
Accounting Administrator

LIFESTYLE TIPS

Type 2 Diabetes

Our bodies efficiently convert the foods we eat into fuel we can use for energy. The fuel that your body needs is called glucose, a form of sugar from foods such as fruit, milk, some vegetables, starchy foods (bread, potatoes, rice) and sugar. To use glucose, your body needs the hormone insulin. Insulin helps your body control the level of glucose (sugar) in your blood.

Diabetes results when the pancreas either doesn't make insulin, or your body doesn't properly use the insulin that it makes. The glucose (sugar) builds up in your blood instead of being used for energy. There are 3 main types of diabetes: type 1 diabetes, which affects 10% of people with diabetes, gestational diabetes and type 2 diabetes. Ninety percent of people with diabetes have type 2 and the numbers are rising at alarming rates! It is suggested that everyone over 40 years of age be tested for diabetes every 3 years, especially if any of these risk factors apply: having a parent, brother or sister with diabetes, a member of a high risk group (Aboriginal, Hispanic, Asian, South Asian or African descent), overweight (especially if you carry most of your weight around your middle), or have high blood pressure, just to name a few. Some of the symptoms may include: unusual thirst, weight change (gain or loss), extreme fatigue, blurred vision, and tingling or numbness in the hands or feet. Testing is important as there may be no apparent symptoms. People with diabetes also have a greater risk of increased tooth decay leading to loss of teeth, infection and periodontal disease. As diabetes affects circulation and the immune system, attention to your feet is also necessary as nerve damage can result in infection. Other complications include blindness, heart disease and kidney problems. On the brighter side, definitive studies indicate that by taking some important preventative steps, type 2 diabetes can be delayed or even prevented! People with diabetes can expect to live long and healthy lives by maintaining a proper diet, staying physically active, and having regular checkups with their doctors.

The glycemic index or GI is a scale ranking carbohydrate rich foods by how much they raise glucose (sugar) levels and has made weight management a little easier. How quickly they raise the glucose levels is called the glycemic response. Knowing which foods are on the lower end of the GI scale can help control blood glucose and cholesterol levels and lower the risk of getting heart disease or type 2 diabetes. A few examples of low GI foods are: apples, sweet potatoes, parboiled rice, baked beans and plain yogurt. On the higher end of the scale are foods such as: watermelon, Cheerios, french fries and soda crackers. For more information on diabetes and GI healthy foods, please check the Canadian Diabetes Association website at: www.diabetes.ca

Contributor: Rose Katrina Frim
Receptionist/Executive Assistant

ARCA FINANCIAL GROUP

Arca Family Announcements

Welcome to Heather Huston! Heather joined Arca as our new Branch Manager.

Welcome to Amanda Hesch! Amanda has joined the Lunz team as Insurance Associate.

Congratulations to Anna Wagg! Anna passed her Life License Qualification Program (LLQP) exam in July 2008! Great accomplishment Anna!

Congratulations to Carolyn Brown who passed her CSC exam in August 2008! Way to go Carolyn!

Congratulations to Mark Healy! Mark and his wife Heather welcomed their second child, Cameron James Healy, on August 23rd. Best wishes to the Healy family!

Congratulations go to Bill Vollmer and his wife Debra who celebrated their 25th Wedding Anniversary on August 20th! We wish them many more happy years together!

October 2008

Dear Client,

I am writing to provide you with a brief comment on the situation in the financial markets. The fallout from the U.S. credit crunch has deepened, spreading beyond financial services to other sectors and to the broader economy. The result has been unprecedented volatility on global stock markets.

The Canadian market has also been affected. Our market, home to a number of oil and gas and other resource stocks, had fared well earlier this year relative to many other world markets thanks to increasing commodity prices. This summer, however, growing concerns about a global slowdown sent commodity prices sharply lower, and the S&P/TSX Composite Index followed.

In the United States, other financial institutions have fallen victim to the credit crunch, including investment banks Lehman Brothers and Merrill Lynch, as well AIG, formerly the world's largest insurance company. The U.S. government responded to this crisis with plans for a massive US$700 billion bailout, in which it would purchase the troubled mortgages that are the source of the current problems.

For many investors, staying true to a long-term financial plan in the midst of such volatility can be a challenge. It is natural to be concerned about the value of your assets, and apprehensive about what the future will bring. It is important to remember, though, that market declines are a normal part of investing, and are typically followed by even greater gains in the long run.

Given the stock market's longer-term rising trend, the current downturn can optimistically be viewed as an excellent opportunity. By staying the course and continuing to invest – buying when prices are down – you can create enhanced potential for long-term gains.

You can also take some comfort in the fact that your portfolio is diversified. A portfolio that is diversified by asset class (equities, bonds and cash), sector and region will have more stable returns, because not all investments provide the same returns at the same time, or respond to events in the same way. A well-diversified portfolio geared toward your financial goals and risk tolerance is still the best investment strategy.

A downturn in the market can be uncomfortable, but it's no time for hasty actions. The key is to look beyond the short-term volatility and to envision the inevitable recovery. The markets have responded positively to the U.S. government's plans. Even the hard-hit financial services sector is flush with solid, well-capitalized companies who have solid businesses. Powerful forces are still in place to support global economic growth, such as the demand for goods and infrastructure in emerging economies.

History has shown that those who remained committed to their long-term investment goals despite short-term volatility will ultimately benefit. If you have any questions about your investments, we are here to answer your questions. Feel free to contact us at (519) 745-8500.

Sincerely,

Your Arca Advisor