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**eStatements**

Reduce your paperwork – while helping the environment. Ask your Investment Advisor about paperless eStatements available through DS Online.

## What a year

By Jim Allworth

It was a tumultuous end to a roller-coaster year. The final quarter of 2008 was marked principally by the sudden migration of the financial crisis into the real economy. The U.S. fell into recession, other economies – notably in Asia – slowed sharply. Many commodity prices plunged as did share prices. Central banks and governments came quickly to the table, delivering up dramatic rate cuts, innovative and massive liquidity injections, along with financial rescues and the promise of fiscal stimulus to come.

The waterfall decline in share prices abated but not before major averages posted lows that were typically 50% off their prior peaks. Since the worst days of November, markets seem to have regained at least some composure; however, investors have been left not only bruised and battered but also feeling as though they are standing on ground that remains shifting and treacherous.

### Shaken confidence

Clearly stocks have reacted to a very sharp deterioration in the outlook for corporate earnings that has inevitably accompanied the worsening economic picture. And that economic outlook remains very much in flux. Many long-held and cherished opinions have fallen victim to the cataclysmic shocks of the past few months: the notion (ours among others) that housing and credit market problems would not affect the rest of the American economy to the degree they have; the belief that the fast-growing Asian economies, particularly China's, would sail unscathed past any U.S. slowdown or recession; and, in Canada's case, the assumption that our strong domestic economy, burgeoning energy sector, and healthy fiscal position would insulate us from any global downturn.

Opinions have been shaken and, in the process, turned decidedly more negative. Despite the apparent commitment of policy makers, "worst-case" scenarios abound and expectations for the economy have become open-ended to the downside. In the absence of conviction about where and when the economy might bottom out, equities are quite understandably regarded by many as having a problematic future.

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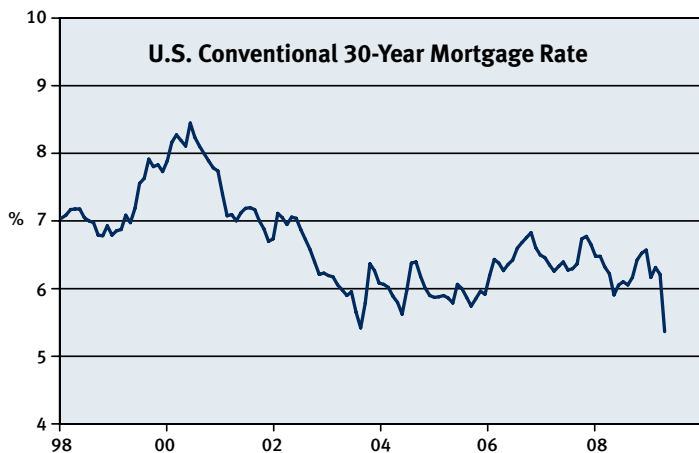
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### Glimmers of hope

At a minimum investors will need to be able to see some plausible path toward an economic recovery. Through much of the past several months no such path has been apparent, as problems and shocks often seemed to balloon ever larger.

However, there are now a number of factors in place that offer the promise of a more constructive, if not exactly normal, economic environment emerging later in 2009:

**Central banks are fully engaged.** There are no longer any dissenters to a policy of pronounced monetary ease. Short rates have been lowered dramatically with more to come especially in Europe and in China. The Fed has embarked on a programme of “quantitative easing” to bring long-term rates down as well, with some notable early success. Failed (or failing) institutions have been recapitalized or merged into stronger, more stable ones. The dire consequences that followed the decision not to save Lehman Brothers have made it extremely unlikely any institution will be allowed to fail outright.



**Governments have committed to stand behind the policies of their central banks and behind their financial institutions.**

The de facto guaranteeing of bank deposits and inter-bank lending has had a profound effect. The spread between the rates commercial banks have been charging each other for short-term loans and the riskless U.S. T-bill rate has narrowed by two-thirds from the unheard of peaks it posted in early October.

**Fiscal stimulus packages are now the order of the day everywhere.**

Last spring it was only the U.S. that chose to pull this policy lever. Now everyone from China to Canada to the EU as well as the U.S. has new spending/tax cut initiatives in the works or announced.

Importantly, there are some glimmers of encouragement in the U.S. housing market. Conventional 30-year mortgage rates have plunged, falling to the lowest levels in more than 35 years. That should begin to slow the rate of defaults and foreclosures, which have been adding dramatically to price pressures in recent quarters. Lower mortgage rates and lower house prices together are making housing much more affordable and accessible. It's true that some markets in Florida and the south-west have such large inventories of newly built and unsold homes that market imbalances may take years to unwind. However, many other markets could begin to see balance restored in 2009.

### Looking forward

In the first two quarters of this year the combination of fiscal packages feeding into the economy, some additional evidence that financial markets are functioning more normally, and any signs at all that housing may have done its worst would probably be enough to allow investors to discount the most negative economic speculations that have been floating around in recent months. That alone would in all likelihood put a bid under stocks, which have recently traded at values that implied a much deeper and prolonged downturn than we think is likely.

Any better second-half-of-2009 economic performance that materializes will likely be recognized by the stock market ahead of time, probably between now and early summer. This opens up the potential for a rally in the first six months of the year that could gain back some portion of the ground lost by the major North American stock markets in the September to November sell-off.

In our view, investors will face a more difficult decision at that juncture: whether to remain committed to stocks for the remainder of the year, in anticipation of the economy and corporate earnings recovering further in 2010 or to reduce exposure acknowledging that the damage done to the financial sector and to the wherewithal and attitudes of consumers may keep global growth well below potential for some extended period.

We look forward to contemplating that decision from the vantage point of a price level appreciably above recent index values.

*Jim Allworth is Vice-Chair of the RBC Investment Strategy Committee.*



# Maximizing the new Tax-Free Savings Account

By Caroline Cook, LL.B.

With tax advantages like tax-free investment income, the new Tax-Free Savings Account (TFSA) gives you an excellent opportunity to enhance your overall financial plan. Following are some of the different ways you can make the most of your TFSA.

## Reduce your family's taxes

If your family consists of a high-income spouse and a lower-income spouse, you can use the TFSA to reduce your family's overall taxes. The higher-income spouse provides funds that would otherwise be exposed to their high tax rate to the lower-income spouse to contribute to their own TFSA. These funds grow tax-free – and can be withdrawn tax-free.

## Save for a child's education

You can gift funds to your adult children to contribute to their own TFSAs as another tax-advantaged way to save for post-secondary education, in addition to Registered Education Savings Plans (RESPs).

## Boosting your retirement savings

If you are currently contributing the maximum amount to your Retirement Savings Plan (RSP), consider contributing to your TFSA to build additional tax-advantaged retirement savings. Although TFSA contributions aren't tax-deductible like RSP contributions, they grow on a tax-free basis and, unlike an RSP, you are never taxed on withdrawals.

## Tax savings for retirees

If you are retired, the TFSA can benefit you in several ways:

- › You want to continue building tax-advantaged retirement savings, but are no longer generating RSP contribution room from earned income. If you have income from other sources that you don't currently need, you can contribute to a TFSA instead.
- › You have converted your RSP to a Retirement Income Fund (RIF) and are receiving the minimum required RIF payments. If you don't currently need these payments, you can contribute them to your TFSA (up to your TFSA contribution limit) where they can continue to grow on a tax-advantaged basis.
- › You anticipate being in the same or higher marginal tax bracket in retirement. Unlike RIF withdrawals, TFSA withdrawals are non-taxable, offering you a way to protect some of your income from your higher tax rate.

*Caroline Cook, LL.B. is a Financial Advisory Consultant with our Wealth Management Services team.*



## TFSA – the basics

- › **Opening an account.** Anyone over the age of 18 (or 19 in certain provinces) with a Social Insurance Number can open a TFSA.
- › **Making contributions.** You can contribute up to \$5,000 annually. Unused contribution room carries forward throughout your lifetime.
- › **Tax-free benefits.** Your investment income grows faster on a tax-free basis within your TFSA. You never pay tax on this income – even when you withdraw it.
- › **Withdrawals.** You can make tax-free withdrawals any time, for any reason, and the amount you withdraw is added back to your available contribution room the following year.

**To open your TFSA, or for more information, please contact your Investment Advisor.**



## Meet minimum RIF withdrawal requirements – without selling assets

If you have a Retirement Income Fund (RIF), you have to withdraw a minimum amount from the fund every year.

However, you may be reluctant to liquidate certain assets within your RIF because their current value is lower than when you purchased them.

Instead, you can transfer these assets “in-kind” to a non-registered account – and still meet the minimum RIF withdrawal requirements.

For example, if your minimum RIF withdrawal is \$1,000, you can complete your withdrawal by transferring assets currently valued at \$1,000 to a non-registered account. You would still pay tax as you normally would with any RIF withdrawal, but you can avoid selling assets at a loss.

**Please contact your Investment Advisor for more details about making in-kind withdrawals at no cost.**

## Before you file your income taxes...

### Make sure you have all of your tax slips

Soon you will receive your 2008 tax slips and other related materials needed to file your income taxes:

- ▶ T5 income-related slips and materials will be mailed starting February 17.
- ▶ The mailing of all other tax slips is contingent on the release of tax information by external issuers. As soon as we receive this information, we begin printing your tax slips. Depending on when we receive this information, tax slips will be mailed in March and, in some cases, early April.

We strongly advise you not to file your taxes until you receive all outstanding slips.

### INTEREST RATES APPLIED TO ACCOUNT BALANCES\*

As of December 22, 2008 our interest rates are as follows:

Credit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	0.10%	0.10%
\$10,000 – \$24,999	0.10%	0.10%
\$25,000 – \$49,999	0.10%	0.10%
\$50,000 – \$59,999	0.10%	0.10%
\$60,000 – \$99,999	0.10%	0.10%
\$100,000 and over	0.50%	0.10%

Debit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	5.50%	5.50%
\$10,000 – \$24,999	5.25%	5.25%
\$25,000 – \$49,999	5.00%	5.00%
\$50,000 – \$99,999	4.75%	4.75%
\$100,000 and over	4.50%	4.50%

#### Registered accounts

All credit balances 0.10% All debit balances 5.50%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with Royal Bank prime rate as follows:

Debit balances	Canadian dollar rates <sup>†</sup>	US dollar rates <sup>†</sup>
Under \$10,000	\$CDN Prime + 2.00%	\$USD Prime + 2.25%
\$10,000 – \$24,999	\$CDN Prime + 1.75%	\$USD Prime + 2.00%
\$25,000 – \$49,999	\$CDN Prime + 1.50%	\$USD Prime + 1.75%
\$50,000 – \$99,999	\$CDN Prime + 1.25%	\$USD Prime + 1.50%
\$100,000 and over	\$CDN Prime + 1.00%	\$USD Prime + 1.25%

<sup>†</sup>Based on Royal Bank prime rates as of December 22, 2008.

\$CDN Prime= 3.50% and \$USD Prime= 3.25%. Rates are subject to change.

\*RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates, and/ or cash rates. Interest amounts less than \$5 are neither charged nor paid on regular accounts and interest amounts less than \$1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate.



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