

THE PERMANENT WEALTH NEWSLETTER

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RBC DOMINION SECURITIES

INSIDE THIS ISSUE:

Lessons for wealth building	1
Sub-Prime crisis explained	2
Chocolate Cake recipe	3
RRSP Contribution limits	3
Tax info	4
GIC rates	4

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Happy Spring!

Welcome to all the new clients who have joined us since our last newsletter. Thanks to the people who recommended our services.
Yamamoto Wealth Management Group



Time Travel and the Lessons for Wealth Building— by John Yamamoto

There is no such thing as the stock market! A better way to view the market is to see it as individual companies grouped together. Concerns about a market meltdown are generally overblown. Why? Because while shares of companies such as Coca Cola, Proctor & Gamble, Petro-Canada and Royal Bank can fluctuate in price, they have what is called “intrinsic value”. This is their value as a business.

Since people need consumer products such as laundry detergent (Tide) and soap (Ivory), Proctor & Gamble shares have value even in tough economic times. Coca Cola continues to sell products during both booms and recessions. Selling these types of companies due to fears of Asian flu, 9/11, technology dotcom meltdowns and recently the sub-prime market decline in real estate, ignore the reality of stocks. We need basic necessities to live. Banking is necessary for a number of other reasons than simply buying speculative real estate. Mortgages for the majority of us help us purchase a home that can take years to pay off. Credit cards help make purchasing things easier and debit cards help us avoid waiting in line to get a cheque authorized. We still fill up the gas tanks in our vehicles. We may complain about the price of gasoline, yet we continue to drive.

During 1999, the media focused on the Y2K bug and the wild swings in the stock market. Concern that the banking system would crash from a computer bug caused stocks such as Royal Bank to plummet in value, only to rise dramatically after December 31, 1999 ended. In the same year, Coca Cola also fell due to concerns over Y2K. It then rose in 2000 as the fears did not materialize. In November 2007, a drop in the price of major stocks started to occur. This continues today. The best solution is to have a broadly diversified portfolio. This broad diversification adds to the financial security of the investor because any drop in the value of any one sector is compensated for by another part of the portfolio. Since a 9/11 event can change the world over night, we cannot tell who the future winners and losers will be so we need to remain broadly diversified for the sake of our long term security.

In the mid 1990’s, the big bubble was in gold and precious metals. The best known one during this era was Bre-X. Having money invested in other stock sectors such as financials helped to minimize the large declines in the gold sector when Bre-X and other such stocks fell dramatically. The next bubble was in technology and dot.com stocks. Again, it was unpopular to remain diversified in sectors other than the new economy stocks of technology. When the dot.com and tech stocks fell, a diversified portfolio helped reduce the impact of the drop. (continued on next page)

(continued from page 1)

After 9/11 the entire stock market fell. The addition or holding of bonds and fixed income in a portfolio helped reduce the impact of 9/11 and then the 2002 invasion of Iraq because bonds and emerging markets like China rose during the difficult times in the stock markets globally.

Three years ago it was unpopular to have part of a portfolio in fixed income. Real estate speculation was rampant amongst even the more conservative investors looking to buy cabins, farmland and condo's. I previously expressed concerns about the levels of speculative money chasing real estate.

Now that there is a correction in real estate, investors are looking at investing in another possible bubble; gold, silver and precious metals. My advice is to be careful. The other direction investors are considering is to sell their stock portfolios and move into GIC's and fixed income investments. Again, be careful. If interest rates continue to slide downward and inflation and the cost of living rise, you may be locking into a negative after-inflation rate of return. Fixed income may be the wrong direction if we enter into a period of rising prices (inflation).

So, what should we do? The answer is simple; remain diversified. If possible, build your portfolio with additional cash into global and US stocks. Remain diversified with both stocks and bonds. Avoid the bubble mentality by putting all of your assets into one thing. The lessons of history are clear. When in doubt hold everything. Please call us for a review of your portfolio mix.

MARKET MAYHEM EXPLAINED

What is a sub-prime mortgage?

A sub prime mortgage is a high-risk real estate loan that is made to people with low credit ratings who don't have a down payment or who don't qualify for a conventional mortgage.

Because of the higher element of risk, lenders charge a premium-usually about two or three percent more than the rate offered to those with better credit. For example, if the going rate is five per cent interest for a conventional loan, it's eight percent for a sub-prime transaction.

Another characteristic of a sub-prime loan is that there's usually a super low "teaser" rate offered for the first year or two, which then escalates to a much higher one.

In many cases these loans were based on the assumption that housing prices would appreciate by double-digit percentages annually, increasingly the underlying property value.

When the interest rates increased and housing prices stalled, the number of defaults soared.

Just how big is this problem?

As of March 2007, it's estimated that there were \$1.5 trillion in sub-prime mortgages outstanding in the U.S. About 20 percent of all U.S. mortgages fell into the sub-prime category. When U.S. President Bush unveiled his relief program last year, he suggested that 1.2 million homeowners might qualify for help.

Who are all these sub-prime borrowers?

Sub-prime borrowers are individuals with high credit card or other personal debt levels, those earning low incomes, new immigrants, the elderly and the disabled. They tend to be concentrated in low-income, high default neighborhoods in urban centers, are less likely to have post-secondary education and are more likely to be Hispanic or African American.

How did this problem spread so quickly and so widely?

Part of the problem has been a lack of standards and regulations in the U.S. mortgage market.

What exactly is this "credit crunch" that everyone keeps referring to?

The so-called credit crunch is the inevitable market reaction to the sub-prime mortgage meltdown. Burned by their exposure to the sub-prime defaults, lenders have pulled in their horns and are being much more risk averse and much tougher about the criteria for loans-corporate and consumer. The credit crunch has contributed to the flagging consumer and investor confidence which is taking a toll on the U.S. economy and threatening the Canadian economy.

Why is the sub-prime mortgage crisis having such a big impact on big banks and investment banks like Bear Stearns?

These are the parties who've invested heavily in the bundles of sub-prime mortgages and have incurred significant losses as a result.

Does Canada have the same sort of sub-prime mortgage business that exists in the U.S?

The regulation of mortgages is much more stringent in Canada. For example, high-ratio mortgages where less than 20 percent down payment is made on property must be insured by the Canada Mortgage and Housing Corporation. Another difference is that only five percent of the Canadian mortgage market can be classified as sub-prime. And of that percentage, only about a fifth use a variable interest rate that would leave them susceptible to interest rate hikes.

-By Deirdre McMurdy, MSN Finance, March 19, 2008

"Never spend your money before you have it."

-Thomas Jefferson

MMM...CHOCOLATE CAKE ANYONE?

Nicole's Chocolate Cake

- 2 cups flour
- 2 cups sugar
- 3/4 cup pressed cocoa
- 2 tsp baking soda
- 1 tsp baking powder
- 1 tsp salt
- 2 eggs
- 1 cup strong coffee (cooled)
- 1 cup buttermilk
- 1/2 cup oil
- 1 tsp vanilla

Combine the first six dry ingredients. In a separate bowl, beat together the five wet ingredients. Add liquid to dry and beat at medium speed with mixer for 2 minutes.



Pour into a greased bundt pan or a 9x13 baking pan.
Bake at 350 degrees for 40-45 minutes.
Frost with vanilla icing, or eat with a scoop of vanilla ice-cream.
Enjoy dessert!

Important dates to remember:
Mother's Day: May 11th
Victoria Day: May 19th
Father's Day: June 15th

**Keeping In Touch
With Market Events**



**Morning
Commentary**

Send us your
new or updated email
address and:

Receive morning
commentaries on
markets from
Doug McMahon
(unsubscribe
anytime)

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RRSP LIMITS

Reminder: The contribution deadline is February 27th, 2009. We encourage you to get your contributions in early!

2008- \$20,000	2010- \$22,000
2009- \$21,000	2011- Indexed thereafter

How much are you able to contribute? An easy way to find out is to review your 2007 Notice of Assessment from the CCRA.



Contact us to
discuss your
RRSP strategy

Quarterly conference call!A Global market update.

Our next conference call, open to all of our clients will be held on Thursday, April 17th at noon. This will be an informative call to address the global markets and provide updates, forecasts and commentary. To participate, please call toll-free 1-800-945-9434.

If you are unable to listen in, the call will be recorded and available for post-view for a two week time period. Please contact Nicole for information on how to access the call during that period.

Tax Info

Tax-Free Savings Account

The federal budget proposes to introduce, possibly as early as 2009, the Tax-Free Savings Account. This appears to have elements of both a non-registered account and an RSP.

It is similar to an RSP in that funds within the account grow tax-free, the account is subject to the same qualified investment rules and subject to a similar concept of “contribution room”. Unlike an RSP, your contributions are not tax deductible and your withdrawals are never subject to income tax. This means that your investment will be made with after-tax dollars, similar to an investment into a regular non-registered account, however the income on the investments will be tax-free. Since your withdrawals will not be subject to tax and will not be considered as taxable income, it would not impact your income-tested benefits and income tax credits such as Old Age Security, Employment Insurance benefits and your entitlement to the age credit.

Contribution Room

All Canadian residents, age 18 and older, will acquire \$5000 of contribution room each year, indexed to inflation, regardless of income. Similar to your RSP contribution room, the Canada Revenue Agency (CRA) will determine and track your contribution room as you file your tax return each year. Unused contribution room will be carried forward indefinitely. Amounts withdrawn from the plan, including the tax-free growth, will be added back to your contribution room for the following year which means you will be able to withdraw amounts and reinvest those same amounts as you choose without losing any contribution room. This type of “revolving” contribution room will help you meet your financial planning goals throughout your lifetime since you will be able to save funds in this account and withdraw funds as necessary without losing your ability to reinvest in this account for future goals.

GIC RATES

(Why you should consolidate your GIC's with us)

Our bond desk is Canada's leading money market dealer. It is operated as a cost centre, which simply means that we can pass on the same rates to you, the client, that our money market desk is able to obtain. Simply put, we can pass on higher yields to you which means more dollars to your bottom line. **Rates are subject to change.** Below are the best rates (from fifteen different institutions, not just Royal Bank) as of the time of publication. All GIC's are of the highest quality and are guaranteed by the Canadian Deposit Insurance Corporation (CDIC).

Cashable GIC: 2.95%

1 year GIC: 4.00%

2 year GIC: 4.16%

3 year GIC: 4.35%

4 year GIC: 4.50%

5 year GIC: 4.67%

