

# Yamamoto Wealth Management Group Newsletter

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*Happy Holidays!*

*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**



As we near the end of 2008, I want to thank each of you for your patience during this difficult year. Some positive changes have occurred in this year that will pay off in years to come.

One of the first, is the change in the willingness of governments to support their financial systems. Positive changes in the way banks will lend in future years are being legislated by governments around the world. The US bailout package was passed through Congress. New leadership and members of President Elect Barack Obama's new team heading into power in January 2009 will bring fresh ideas and strategies to the US economy. British Government and other governments around the world have stimulated the banking systems (37 billion pound bailout package in the UK). Stocks have fallen to bargain basement pricing. Lower energy prices help oil importing economies such as the US and Japan.

- 1) Don't let emotions guide your investment decisions-great investors throughout history have recognized the value of making decisions that may not feel good at the time but that will bear fruit over the long-term.
- 2) Disregard short term forecasts and predictions. Stop making decisions based on variables that are impossible to predict or control over the short-term such as the price of the dollar. Instead focus your energy toward creating a diversified portfolio, developing a proper time horizon when you will need the money and setting realistic return expectations.
- 3) Understand that crises are inevitable. They are painful and difficult, but are an inevitable part of any long-term investor's journey.
- 4) Avoid self-destructive investor behavior-chasing the hot performing investment category or making major investment switches in your long term investment plan can sabotage your ability to build wealth. Work with your investment advisor to outline your goals and review your plan when faced with difficult periods in the markets.
- 5) Recognize that short term underperformance is inevitable. Almost all great investment managers go through periods of underperformance.
- 6) Be patient. Historically, stocks have rewarded patient investors.
- 7) Don't attempt to time the market. Timing is a losers game that will hurt your wealth plan. It seeks to predict the future which is often wrong due to emotions of fear and greed that make investors miscalculate the selling and buying opportunities in their accounts.

-John S. Yamamoto

## TAX FREE SAVINGS ACCOUNT (TFSA)

### Some Words of Wisdom to Consider:

“Be fearful when others are greedy. Be greedy when others are fearful”  
-Warren Buffet  
(Self made billionaire)

“You make most of your money in a bear (down) market, you just don’t realize it at the time”  
-Shelby Davis  
(Legendary Investor)

“History provides a crucial insight regarding market crises: they are inevitable, painful and ultimately surmountable”  
-Shelby McDavis  
(Davis Advisors)

“The function of economic forecasting is to make astrology look respectable”  
-John Kenneth Galbraith  
(Economist & Author)

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**Please contact a member of our team if you require more information on the Tax Free Savings Account or wish to open an account. We will be happy to send you the required application form .**

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*The Tax-Free Savings Account (TFSA) was introduced by the Federal Government in the 2008 budget. Starting in 2009, you will be able to use this flexible savings vehicle to save for a variety of your short-term and long-term goals without any tax consequences. The TFSA will be available at RBC Dominion Securities in early 2009.*

### What is the Tax Free Savings Account?

The TFSA contains elements of both a registered and unregistered account. It allows Canadians to earn tax-free investment income and capital gains, which may help you reach your financial planning goals more quickly. It can also provide an additional source of tax-efficient savings and may complement existing registered savings plans including retirement savings plans (RSPs), retirement income funds (RIFs) and registered education savings plans (RESPs).

### Who Can Contribute to a TFSA?

All Canadian residents aged 18 and older who have a social insurance number will be able to open a TFSA starting in 2009. If 18 is not the age of majority in the province where you live, you will be able to open a TFSA when you reach the age of majority in your province of residence. However, TFSA contribution room will still start to accumulate from age 18.

### Can I Contribute to my Spouse or Child’s TFSA?

If you gift money to your spouse or adult child to contribute to their TFSA, the income and growth in the account will not be subject to the attribution rules. This could help a lower income spouse or adult child who has little or no earned income to earn tax-free investment income and save for retirement as everyone receives annual contribution room, irrespective of their income.

### How Much Can I Contribute?

All eligible Canadian residents will be able to contribute \$5,000 to their TFSA every year. This contribution room will be indexed to the rate of inflation and will increase in \$500 increments.

If you do not use your contribution room in a particular year, you can carry the unused room forward throughout your lifetime to use in a future year. Your income level has no bearing on your contribution room. There is no lifetime limit on the amount you can contribute and no age limit that restricts your ability to continue making contributions. Note that contributions to a TFSA cannot be deducted from your taxable income.

If you withdraw funds from your account, the amount of the withdrawal will be added to your unused contribution room and you can re-contribute it in any year following the year you made the withdrawal. This means that you can withdraw funds as needed and reinvest them in the account throughout your lifetime without losing contribution room.

### Tax Free Investment Income & Withdrawals

You will not pay tax on the investment income and capital gains earned inside your TFSA and consequently, you cannot use losses generated in the account to offset other taxable capital gains outside the TFSA. Another consequence of the tax-free status of TFSA investment income is that if you borrow funds to invest in the account, you will not be able to deduct the interest on those borrowed funds for income tax purposes. However, you can use the assets within your TFSA as collateral for a loan. In addition, you can withdraw funds from the account at any time, for any reason, without including them in your taxable income. For this reason, funds accumulating in your TFSA will not have an impact on any income-tested benefits you may be receiving, such as Old Age Security and Employment Insurance, or your entitlement to the age tax credit.

### Why this is not like the 1930's...

We have gotten this question a few times, so we thought we would briefly address it - Is the current situation at risk of morphing into another Great Depression? Our answer is **almost certainly not** (note that one needs to hedge every comment these days) for several reasons:

**Why isn't this like the Great Depression?** Let's compare several common factors of each period.

- **Stock Market Crash and Margin:** From its nadir in 1929, the stock market would lose 80% of its value. Further, margin requirements were very low and almost everyone used margin to buy stocks. Up until now, the stock market has lost about a third of its value, with margin buying much less pervasive.
- **US as world creditor:** Following World War 1, the US was a huge creditor to Europe and when the US market crashed, the US was unable to keep the credit flowing. This caused Europe to go into a tailspin, which caused massive default on credit owed to US, which furthered the spiral. This time, no such dynamic exists, although there is clearly an interworking of global financial markets that has exacerbated the current crisis.
- **Lack of a policy response:** Back in the olden days, the thought was always and everywhere that the less government intervention the better. As a result, for a full three years of the crisis, there was virtually no positive policy response to help ease the strain of the crisis. In fact, the government response was primarily to cut spending, which we have since learned is the absolute wrong response to a slowdown.
- **Trade Barriers:** One of the biggest reactions to the onset of the depression was a huge increase in trade tariffs as countries looked to protect their domestic manufacturing bases. This made a bad situation far worse, as global trade dropped by half from 1929 to 1932. While we may still see this during this cycle, we have seen no evidence as of yet.
- **Interest Rates:** Back then, the world was still on the gold standard, which required countries to maintain fixed exchange rates. In order to attract deposits, governments were forced to raise interest rates in order to entice investors to buy and hold their currencies. This in turn acted to slow lending, as the cost of borrowing became prohibitive for most.
- **A Lack of stops in the Economy:** For the first three years of the Great Depression, there existed no social safety net such as unemployment insurance to soften the blow. Further, the FDIC did not exist and thus there was no guarantee of deposits, which led to massive bank runs and the failure of more than 10,000 banks in the US alone.
- **Epic Drought:** Just when you think it couldn't get worse, it did, as a massive drought swept through the Mississippi Valley, bankrupting much of the US farming industry. If you have not, you should read *Grapes of Wrath* for more on this. Up until now, we have seen limited evidence of pestilence during this cycle, although the folks in Galveston might beg to differ.

This is not to suggest that the current crisis will not be bad and it may well be the worst crisis to befall the US and Europe since the Great Depression. But we will manage our way through it and normalcy will return at some time in the future.

### RRSP LIMITS

Reminder: The contribution deadline is February 27th, 2009. We encourage you to make your contributions 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.



**(Save the Date!).....Yamamoto University**



Our semi-annual, client educational brunch seminar will be held on Saturday, January 31st, 2009. The location will be the Royal Mayfair Golf & Country Club. Invitations and details will be mailed out in the beginning of the new year. Please join us for an exciting morning of financial news, strategies, and just good information (and pancakes too!).

**Thank you to everyone who attended our brunch seminar in the fall. Because of your generous donations to the Hope Mission, we raised enough money to buy 387 Thanksgiving meals for those less fortunate.**



**Thank you to those who attended our Christmas holiday client appreciation evening at the Telus World of Science on November 26th. Again, because of your generosity, we were able to completely fill a car load of gifts for delivery and donation to Santas Anonymous!**

**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 (selected 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: 2.70%**
- 1 year GIC: 3.51%**
- 2 year GIC: 4.01%**
- 3 year GIC: 4.36%**
- 4 year GIC: 4.46%**
- 5 year GIC: 4.70%**

