



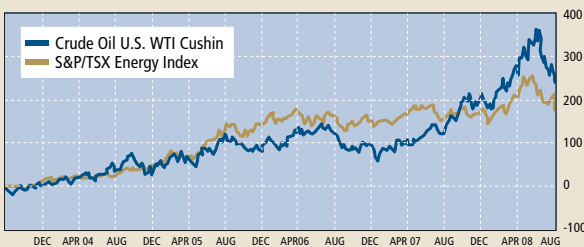
# 3 Macs Canadian Investor News & Guide

Third Quarter 2008, Volume 150, Issue 2

## The Plight of Oil Stocks

How is it that when oil prices are high the market responds poorly, and then when oil prices go down the market seems to respond poorly again?

The short answer is that it all depends on your timeframe. The chart below shows the 5-year bull market in oil with a comparison between WTI oil price and the TSX Energy Index. It shows that in the first 2 years oil and stocks were in lock step, in the next 2 years, stocks outperformed and only in the last 12 months have stocks underperformed the commodity benchmark.



Source: 2008 Bloomberg Finance L.P.

We suggest a couple reasons for the recent trading activity:

1. Investors were skeptical that higher oil prices were sustainable after they broke through \$90/bbl in October 2007 on their way to \$145/bbl and/or investors believed share prices had got too far ahead of the commodity price. Either way, some investors will lock in profits, or they will stop buying and pushing up prices.
2. Current broad market/economic conditions are much more risky than earlier in this cycle. Money is flowing out of ALL sectors, not just energy.

Furthermore, it appears that oil stocks are discounting an oil price in the high-\$80s, low-\$90s. If we see prices firm-up and show some support in the \$110-\$120 range and/or demand fundamentals show improvement, it is very possible that the market will form a bottom and the oil stocks will rally.

## Investment Strategies for Seniors

Seniors often own a wide range of financial assets from bank accounts and GIC's to investment portfolios and Retirement Income Funds. As you get older, there are a number of changes you should make in managing these investment assets in order to address income requirements, lower risk tolerances and estate planning. These concerns are faced by those retired and in reasonable health in their 60's and by those considerably older who may be in declining health. While many complexities may require professional, legal, or accounting help, here are some points to consider.

The first consideration for seniors is cash flow, ensuring there will continue to be an adequate stream of income for current and future needs for you and your dependents. You want to know that your money will outlive you (or at worst will end up in a tie). If you are uncertain, a formal or informal financial plan may be warranted.

It is conventional wisdom that age leads to a more conservative investment approach but much depends on size of the portfolio. A substantial account may need little change. Ironically, those with more limited means, who could use higher returns, are often unable to accept the greater level of risk entailed. Nevertheless, even though risk must be a concern, there are several asset types that senior citizens can use when investing to meet their needs: fixed income (cash, GIC's and bonds), equities and income trusts.

The time will come when you must ask whether the portfolio that is right for you will also be right for your heirs. For example, if your assets include real estate (other than your principal residence) or foreign holdings or shares in private corporations, the tax situation is more complex and professional advice should be sought. If your portfolio will pass to your spouse, there may be little reason to alter strategy. Make sure there is an advisor on the scene who can be counted on to maintain your standards. Similarly, little change is required if you have a single heir or at least a small number of heirs in relation to the size of the portfolio so that each can receive "in kind" a meaningful portion. If it is likely that your portfolio will be liquidated for distribution, it may be appropriate to begin selling securities sooner rather than later when market conditions could be less favourable. It is usually best to maintain reserves in relatively short-term quality bonds. Charitable bequests offer a unique opportunity to further avoid taxes through the gifting of securities in-kind instead of in cash. (Continued on Page 3)

# Dividend Growth Still Makes a Difference

In challenging markets like these, dividend-paying stocks are supposed to be resilient, as their dividends traditionally provide “ballast” for volatile portfolios. However, the advantages of dividends have been a harder sell recently, largely due to their association with the market’s beleaguered Financial Services sector.

From October 2007 to this past August 2008, the Financial Services sector lost over 17% of its value versus a 4.3% decline for the total TSX Index in the same period. With banks recently reporting third quarter results, it doesn’t look as if the situation will change anytime soon. As the financial sector has suffered, other areas of the Canadian market have prospered, including Technology (mostly Research in Motion), Energy (oil and gas) and Materials (potash, coal and gold). Many of the companies in these sectors have enjoyed positive returns, but they are seldom considered to be “dividend-paying”.

So, when it comes to dividends, investors should look at time frames significantly longer than one year and refocus their interest into companies that have consistently been able to increase their dividends.

A few examples may prove helpful:

## **PRETTY GOOD RESULTS FOR FIVE YEARS:**

Manulife Financial is a leading Canadian-based financial services group operating in 19 countries and territories worldwide. In August 2003, just five years ago, you could have bought 1,000 shares of Manulife for \$21,000. At that time, the dividend was \$0.42 per share, so your annual dividend would have totaled \$420 (yielding 2%).

Today, after five annual increases, Manulife pays \$1.04 per share or \$1,040 – a respectable yield of 4.95% on your original investment. It would be difficult to duplicate such a rate of return on a quality fixed-income instrument.

## **EVEN BETTER RESULTS FOR TEN YEARS:**

Bank of Nova Scotia is the third largest bank in Canada with over 2,300 branches and is Canada’s most international bank with significant operations in over 50 foreign countries particularly in the Caribbean and Latin America.

If you were a client of ours ten years ago, (August 1998), we would have bought 1,000 shares of Scotiabank at \$13.00, with a dividend of \$0.35 (yield 2.6%). In ten years, your original \$350 annual dividend has grown to \$1,920 and your share value has gone from \$13,000 to \$47,000.

## **AMAZING RESULTS FOR FIFTEEN YEARS:**

Enbridge Inc., as a pipeline operator in both Canada and the U.S. operates the world’s longest crude oil and liquids pipeline system of over 13,500 kilometers. As a distributor of energy, Enbridge owns and operates Canada’s largest natural gas distribution system to customers in Ontario, Quebec and New York State.

You might remember buying 1,000 shares of Enbridge in August 1993 for \$7,500 (\$7.50 per share) and receiving \$500 in dividends (6.6 % yield) that first year. But now, fifteen years later, your original investment earns an annual dividend of \$1,320 (17.6% annual return on your original investment) and has gone up in value from \$7,500 to roughly \$43,000 - over five times your original investment in fifteen short years. Enbridge’s solid performance should continue and has far outperformed a 7% - 8% 15-year bond purchased in 1993.

## **YOU WILL NOT BELIEVE THIS COMPANY OVER TWENTY YEARS:**

Toromont Industries provides the specialized capital equipment and ongoing customer support to two growth areas; Toromont Cat operates the Caterpillar dealerships in Ontario, Manitoba, Newfoundland and Labrador. Toromont Compression builds and maintains compression equipment for the Canadian and U.S. natural gas, chemical and petrochemical, industrial refrigeration and recreational refrigeration markets.

This is where it really gets interesting – had we purchased 10,000 shares of Toromont in August 1988, the cost would only have been \$5,200, a historical cost of \$0.52 per share after many share splits. Those shares at the time paid dividends of only two cents per share for annual income of just \$200. Now, twenty years later, the annual dividends on your original holding’s cost of \$5,200 is \$5,600 annually – more annual dividends now than you paid for the shares in 1988. The share price appreciation has also been wonderful - from \$0.52 to over \$30 per share. This is what compound growth of dividends is all about.

## **CONTINUE TO BUY THE GREAT DIVIDEND INCREASES**

Stepping back from today’s market, one can appreciate how a steady, consistent and growing dividend stream can gradually grow into a surprisingly large investment gain, even though the yield on the TSX is now just over a modest 2.5%.

Two and a half percent may not sound like a lot, since stocks these days can move up or down that much in a single day. But over time, two and a half percentage points make a huge difference. If you can find even a few stocks that pay 2.5% or more in annual yield and increase their dividend at a good rate each and every year for many years, you have gone a long way towards getting your portfolio to really work for you rather than you working to add to your portfolio.

Dividend increasing stocks will outperform the vast majority of non-dividend paying stocks over longer periods of time. If you are going to be an investor for the next 5, 10, 15, 20 years or longer there is still time – and now may be a pretty good time – to get more such stocks into your portfolio.

Any market decline is really just another buying opportunity for long-term investors. There are better days to come for dividend increasing investors.

# Investment Concepts 101: Hedge Funds

In Canada, there is no strict legal definition of a hedge fund. The term “hedge fund” describes a structure, not a particular investment strategy. In fact, some hedge funds don’t even hedge at all. They are commonly defined as pools of capital, like mutual funds, but with greater flexibility in the types of investment strategies they are allowed to use. These strategies may include arbitrage, high-yield bonds, distressed securities, managed futures or long/short equity positions. Ultimately, hedge funds use alternative investment strategies to minimize risk.

In simple terms, hedging means purchasing any kind of secondary financial instrument that mitigates the risk associated with the primary security or instrument. For example, a combination of a long equity position and a put option.

# 150 Years of Investing Experience

## Proudly celebrating 150 years of client trust and service

Although it is difficult to ascertain the exact beginnings of the “3 Macs”, there is evidence of MacDougall Brothers dating from 1858. The roots however, go back even earlier. Donald Lorn MacDougall is considered one of the first brokers in Montreal, acting as a broker of bills and produce since 1843. He established the first stock broking firm in Montreal with John Glass in 1844 and joined with one of his brothers to establish MacDougall Brothers in the early 1850s.

In these early years, there was an evolving succession of partnerships involving various members of the MacDougall family. In his time, D. Lorn MacDougall was a leading figure in the investment industry and a prominent member of the Montreal business community. In 1874, he was a central figure in transforming the former Board of Brokers into the Montreal Exchange and was elected as the first Chairman, a post he held until 1883. His brother, Hartland St. Clair MacDougall, was also a founding member of the Montreal Exchange and served as Chairman from 1894 to 1895 and again from 1897 to 1899. He succeeded his brother as the senior partner of the family firm when D. Lorn MacDougall passed away in 1885.

Hartland B. MacDougall, one of the nephews of D. Lorn and Hartland St. Clair returned to the family firm in 1921 forming a partnership with Robert E. MacDougall, a friend of no relation, under the name of MacDougall & MacDougall.

The Firm prospered during the “boom” years of the 1920s and suffered, along with everyone else, during the difficult years of the 1930s. The Firm continued to be very much a family affair, with two of Hartland B. MacDougall’s sons joining as partners.

After the Second World War, one of his sons, Hartland C. ‘Tommy’ MacDougall emerged as the senior partner and guided the Firm until his retirement in 1975. Tommy MacDougall presided over a significant expansion of the Firm bringing in new partners and undertaking various mergers or takeovers as the industry consolidated during the 1960s and early 1970s. While previously the Firm had been dominated by MacDougall family members, by the mid 1960s there were ten partners and approximately 25 employees. The Firm prospered and gained a reputation for their conservative and discreet character.

The first significant merger was with MacTier & Co. on January 20, 1960, which brought Stuart MacTier into the partnership and the name was changed to MacDougall, MacDougall & MacTier. From this time, the Firm became familiarly known as the ‘3 Macs’. Other notable names that were taken over or merged with during this period were Burnett & Company (established in 1868), Marler & Marler (1875), Kingstone & MacKenzie (1919), Stuart Molson and his half of the partnership of Molson & Rousseau, and Moat & Co. In 1975, the Firm took over Barry & McManamy, an old Quebec City firm, thus establishing an office in that city with Olivier Samson, a former City Councilor of Quebec City. (Continued on Page 4)

## Canada Economic Data – August

**Canada Composite Leading Indicator**  
+0.3%, July +0.1%

**Canada Consumers Prices**  
-0.2% on Month, +3.5% on Year  
July +3.4%

**Canada Bank of Canada Core CPI**  
+0.3% on Month, +1.7% on Year  
(July +1.5%)

**Canada CPI**  
Seasonally Adjusted +0.2% on Month, July  
+0.3% (Unchanged)

**Canada Prices Dip in August on Gas Prices**

**Unemployment Rate**  
6.1% Unchanged From July

**Employment**  
15.2k Full Time +16.1k  
Part-Time -0.9K  
Job Growth +0.5% in Past Year

**Employment Rebounds Slightly in August**

## Investment Strategies for Seniors (continued)

If there is only one message you take away from this article, it should be to simplify your affairs. If you only need one bank account, don’t have two. Centralize your asset management. You and your heirs will find your affairs easier to manage, tax return preparation will be less complex and the settlement of your estate will be faster and less expensive.

1. Consolidate investment accounts
2. Terminate dividend reinvestment plans
3. Close dormant or unnecessary bank accounts
4. Ensure stocks and bonds are NOT held in certificate form – get them converted by your broker.

In summary, it is evident that investment planning and management do not stop as you age. There are steps you can take to make your investments more conservative and simpler to manage so that they remain easy for you to manage and control.

## Market Performance & Yields

Comparable Market Stats	S&P/TSX Comp Index	S&P 500	Dow Jones Industrial	FX US\$
START Aug 31/07	33,555.30	1,474.00	13,357.70	1.0582
Quarter Ended Nov 30/07	33,830.10	1,481.10	13,371.70	0.9671
Quarter Ended Feb 29/08	33,790.90	1,330.60	12,266.40	0.9991
Quarter Ended May 30/08	36,857.30	1,400.40	12,638.30	0.9994
Quarter Ended Aug 31/08	34,734.70	1,282.80	11,543.60	1.062
1 Month Return	1.50%	1.20%	1.50%	
3 Month Return	-5.80%	-8.40%	-8.70%	
6 Month Return	2.80%	-3.60%	-5.90%	
12 Month Return	3.50%	-13.00%	-13.60%	

Source: MacDougall, MacDougall & MacTier, September 2008

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# 150 Years of Investing Experience (continued)

While the Firm was now considerably larger with a number of partners, the Family presence was still strong. Tommy MacDougall's nephew, Tom Price had joined the Firm in 1954, later becoming a partner, and then President in 1970. Bart MacDougall (Tommy's son) joined the Firm in 1959 and established an office in Toronto in May 1968. By the mid 1970s, the Firm had 17 Directors (or Partners) and approximately 35 employees.

In 1975, Tom Price succeeded his uncle as Chairman. The next twenty years saw significant change in the industry, including the deregulation of commissions and the entrance of the chartered banks through takeovers of other brokerage firms. Through it all, the '3 Macs' continued to grow and thrive as an independent firm focusing on the needs of the private client. By 1995, the Firm had grown to approximately 125 people and ownership had opened up to include the majority of employees, not just the Directors.

In May of 1996, Tom Price died suddenly. He had made a significant contribution over his 42 years at the '3 Macs' as the Firm grew into one of the largest independent firms in the country. Bart MacDougall succeeded him as Chairman.

Over these last ten years or so, the Firm's business has continued to evolve. It now enjoys a reputation as a first class investment manager with a focus on client service. On Michael Harrison's retirement, he was succeeded as President & CEO in June 2002 by Tim Price, (the son of Tom Price). Tim joined the Firm in 1984 and served in a variety of roles, including responsibilities in finance, administration and compliance, as well as serving as a portfolio manager since 1990.

From its formative years, some 150 years ago, and through five generations of the MacDougall family, the Firm has been dedicated to providing high quality investment advice. Today's '3 Macs' is a broadly owned firm of individuals, which is committed to the fundamental principles of integrity, independence, performance and service.

## Montreal Annual Investment Outlook

November 4, 2008

Please call us if you would like to attend.

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# RRSP Facts, Figures and Ideas

Take advantage of the time now to consider your 2008 and 2009 RRSP contribution strategies. In most cases, contributing early is best. In others, balancing contributions over two or more years can create a more advantageous tax consequences.

## RRSP CONTRIBUTION DEADLINE FEBRUARY 28, 2009

- By contributing as early as possible, your investment is tax sheltered longer and therefore, the funds available upon your retirement will be greater. By contributing earlier, you can add up to 14 months of earning power to your RRSP.

## MAXIMUM RRSP CONTRIBUTION

For Non-Members of Pension Plans

2007 Maximum \$19,000

2008 Maximum \$20,000

- Your 2009 maximum contribution is 18% of your 2007 employment earnings or \$19,000, whichever is less.
- An early contribution for 10, 15, 20, or 25 years can mean \$43,000, \$63,000, \$93,000 or over \$137,000 of extra money in your Plan. We can show you how.

## NO TRANSFER FEES

- Do you have other RRSP accounts elsewhere? Transfer your assets to us and we will cover any transfer fees!

## "NO FEE" RRSP

- Are you paying RRSP administration fees? Unlike many institutions, we do not charge RRSP administration fees. You should have a no fee RRSP.

## REASONS TO CONSOLIDATE YOUR ASSETS

- Independent, personal, and professional advice
- Simplified paperwork
- Reimbursement of any transfer fees
- 7 days a week and 24 hours a day on-line access to all your accounts

## SPOUSAL RRSP & INCOME SPLITTING

- Contributions (within your limit) may be directed fully or partially to a spousal plan. If your spouse's income during retirement will be lower than your own, this strategy can help reduce your family income tax bill by splitting income more evenly.

## PRE-AUTHORIZED DEBITS HELP MAKE CONTRIBUTIONS AUTOMATIC

- To facilitate your RRSP contribution, we can debit your bank account as a one-time event or on a recurring monthly or quarterly basis. It is entirely up to you.

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