



3 Macs

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Quarterly Market Watch

After four years of double-digit appreciation by the TSX/S&P Composite Index, it is hard to ask for, or expect, a fifth year without a correction, or at least a pause. The first weeks of January provided just that. No doubt, there will be more in store. However, the fundamentals are still reasonable. The full year should produce worthwhile returns in equities. All the concerns are still valid, such as the political climate in almost every country, inflation, the direction of interest rates, currency valuations, international and localized conflicts, terrorism, volatile commodity prices, trade protectionism, and need we add, the weather. All this notwithstanding, we remain optimistic about prospects for equities in 2007.

One of the more talked about concerns has certainly been the weakness in the US dollar. It has declined by approximately 1/3 since early 2002. One can't say that this has had disastrous consequences for their economy. On the contrary, it has been beneficial: it has made the US more competitive. (Continued on page 2)

Tax Tip: Gifting Securities

If you plan on selling securities which will give rise to capital gains, consider gifting the securities to a registered charity in order to fully eliminate paying any capital gains taxes while still benefiting from a charitable donation.

Taking Stock: Canada's Economic Place in the World

The Conference Board of Canada introduced its international benchmarking of Canada a decade ago and we have consistently ranked well when compared with the other major industrialized countries. That said, our relative ranking on income per capita, a commonly used measure of a country's standard of living, has been slipping relative to other countries.

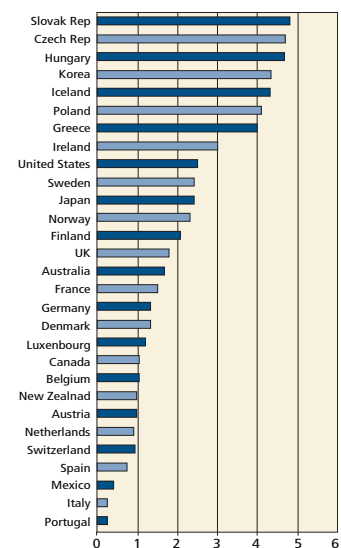
From 1995 to 2000, Canada's rank among OECD countries has dropped from 13 in 1995 to 20 in 2005. This drop is attributable to poor productivity increases and Canada not attracting foreign direct investment (FDI) versus other countries. Productivity involves automating workflow and investing in equipment.

Without changes to Canadian productivity and attracting greater investments, the Canadian standard of living stands to fall further behind other nations as our aging population and relatively slow growth rates act as a drag on the economy. Increases in productivity and foreign investments can help offset these factors.

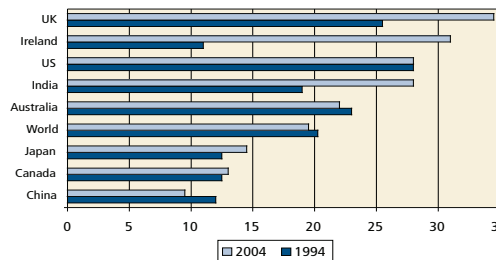
The one bright area in the report is the Canadian service sector (higher paying, more difficult to duplicate) playing a more important role in our economy.

Distribution of World FDI Inward Stock (percent)	1980	1990	2000	2004
Developed economies	75.1	79.4	68.8	72.7
Western Europe	45.5	45.2	38	45.3
United States	15.7	22.3	21.7	16.6
Canada	10.2	6.4	3.7	3.4
Developing economies	24.9	20.6	30	25
China	0.2	1.2	3.3	2.8
India	0.1	0.1	0.3	0.4

Growth in Labour Productivity in OECD Countries, 2000-5



Services Exported as a Share of Total Exports



Source: Mission Possible: Stellar Canadian Performance in the Global Economy. The Conference Board of Canada. Jan. 2007.

Canada Labour Data for March 2007

Labour Participation Rate at 67.7% vs 67.5% in February

Labor Force +65,300 vs February

Average Hourly Wages + 2.18% From Year Ago

Full-Time Jobs + 30,500; Part-Time + 24,500

Net Jobs Forecast at + 10,000 for March but + 54,900 from February

Jobless Rate at 6.1% for March, meeting forecasts of 6.1% and no change from 6.1% in February

Canada Housing Starts + 7.6% in March vs February

As of April 8, 2007

International Investing

As Canadian investors, we have excellent access to the 2.5% of the world's public companies listed on Canadian stock markets and the 49% listed on US exchanges (as measured by the total market capitalization). However, this leaves almost half of the world's investment opportunities under-represented in many portfolios. Diversification is a key tool to reduce risk while maintaining performance, and geographic diversification is often overlooked in the management of portfolios. Although individual circumstances will vary, the typical investor would be appropriately exposed to global markets with 5 to 10% of their equity holdings invested internationally.

While European and Asian markets have generally under performed North American returns over the last few years, this will not always be the case.

Chinese and Indian markets are rapidly expanding and we believe that European markets are showing signs of reviving. While direct investing on overseas stock exchanges can be very expensive, even in large accounts, there are several low cost ways to increase international exposure, including index funds and ETF's.

Quarterly Market Watch (continued)

It stimulates exports and makes foreign goods (imports) less attractive. The key here has been the slow erosion rather than a sharp decline. This helped avoid a disruption in global capital flows, which could have damaged foreign economies. A sharp decline would have complicated the Federal Reserve's management of the US economy and financial markets. While further erosion is possible, it should not be considered a major negative as long as the decline is not precipitous.

The best performing sectors in this bull market have undoubtedly been the resources. Most important have been energy resources, which include oil, natural gas, coal, and uranium. Base metals, which include copper, zinc, lead, and iron ore, have also been on a tear. What now? We make the case that as long as the economies of the world continue to perk along with modest growth, the demand for all these commodities will remain strong. It is the supply side that is the problem. Companies in a position to explore for new supplies and bring on new production are increasingly reluctant to make investments in politically unstable countries. There may be vast untapped resources in South America, Asia, or the Middle East, but will they be developed? Increasingly, foreign companies are being treated badly by local regimes. This slows development, as domestic companies are unlikely to perform as well. Current examples include Russia's Gazprom takeover (confiscation) of Shell Oil's Sakhalin gas project, and Venezuela's plans to nationalize large portions of their oil and gas production, along with other segments of industry such as electricity and communications. This is "economic nationalism" in the extreme, and it is creeping in everywhere. In all too many countries, political and social instability, and terrorism, continue to be disruptive. With modest growth, limited new supplies and uncertain existing supplies, prices will remain high.

Market Performance & Yields

Comparable Market Stats	S&P/TSX Comp Index	S&P 500	Dow Jones Industrial	FX US\$
Quarter Ended Mar 31/06	12,110.6	1,294.8	11,109.3	1.1686
Quarter Ended Jun 31/06	11,612.9	1,270.2	11,150.2	1.1163
Quarter Ended Sep 31/06	11,761.3	1,335.8	11,679.1	1.1180
Quarter Ended Dec 30/06	12,908.4	1,418.3	12,463.2	1.1659
Quarter Ended Mar 28/07	13,165.5	1,420.9	12,354.4	1.1540
1 Month Return	0.9%	1.0%	0.7%	
3 Month Return	2.0%	0.2%	-0.9%	
6 Month Return	11.9%	6.4%	5.8%	
12 Month Return	8.7%	9.7%	11.2%	

Source: Bloomberg, April 2007

GIC Yields					
Long Term	1 Year	2 Year	3 Year	4 Year	5 Year
	4.15%	4.25%	4.26%	4.27%	4.33%
Short Term	30 Days	60 Days	90 Days		
	4.07%	4.07%	4.06%		

Source: MacDougall, MacDougall & MacTier, April 2007

Tax Tip: Triggering Capital Loss

Investors should review their portfolios and consider triggering accrued capital losses. This strategy is valuable if the taxpayer realized capital gains during the current year. Since capital losses can only be claimed against capital gains, triggering a capital loss could reduce or eliminate any capital gains during the year.

Feature: Stocks vs Bonds: Dividend Increases Matter Most!

With the Canadian stock market on a roll for the last four years, more and more investors may start to become concerned about future equity performance and may therefore be attracted to bonds as a possible alternative. Do not be seduced. Bonds can be fine, but they are not a substitute for stocks. They serve a specific role in a portfolio as the place to hold money that you will need in the short or even medium term – between one and three years.

The Purpose of Bonds

If you have saved \$150,000 to send your teenagers to university over the next three or four years, or to buy a cottage property in the next summer or two, then keep those specific funds in bonds, not stocks. The reason is simple: While bonds produce returns far below the level of stocks, they also carry far less risk in the short-term. Over a short stretch, you can lose a lot in the stock market, but over longer periods, stocks are remarkably consistent and profitable. The place for your long-term money is stocks, which have produced “long-term” average annual returns of more than 10% over the last decade or so.

Bonds Then and Now

Bond coupon rates of 7% or 8%, which some of us may remember from only a few years ago, are not currently available. Long-term average annual returns from bonds have been and continue to be below stock returns.

Why, then, are these low returns possibly attractive to investors right now? Because, as small as they are, they are positive. Over the past 12 months, the TSE 300 Index has had several weeks of negative performance. Such short-term declines are the way of the stock market

and can be disheartening. But the fact that stocks have fallen is not a good reason to buy bonds. In fact, it is a very good reason to buy stocks.

The Risk of Bonds

When you buy a bond, you are making a term loan to the issuer. The interest on the bond is taxed in your hands at the highest rate of taxation in our Canadian income tax system. Another risk with bonds is the uncertainty of the interest rate environment upon maturity and therefore the return at which the proceeds can be reinvested.

Stocks are Better

When you invest in a stock, you’re buying part of a company. There are three advantages to owning shares. 1) The Canadian tax system rewards dividend-paying common share investors with a very favorable and slowly increasing dividend tax credit. 2) If your purchased company prospers, you benefit from a higher share price. 3) Successful senior companies make a habit of increasing their dividends, offering investors further reward and benefit. Some successful companies have made a habit of raising their dividend by more than 10% each year, year after year. It is seldom that the rate of interest on a bond or debenture is ever increased.

This article is not meant to be entirely against bonds, income trusts, growth stocks or foreign investment opportunities, which may have a place in your specific portfolio. Instead, it is meant to point out that many Canadian investors have been and will continue to be well rewarded by holding a large portion of their investable assets in the shares of companies that have “extra”-ordinary records of increasing their dividends.

Tax Tip: Stock Advantages

Our federal income tax system provides two encouragements to own stocks. 1) The dividend tax credit on dividends from Canadian companies makes dividend income more attractive than interest income, especially for higher income taxpayers. 2) For stocks that do well, taxes on capital gains are even lower than taxes on dividends. Recent Canadian budgets have made interest income the least desirable (taxed at 48% in Quebec). For top-bracketed taxpayers dividends are rather more tax effective (31% taxed) and capital gains the least taxed (23%). Stocks that produce increasing dividends and capital gains are a perfect combination.

Investment Concepts 101: Dividend Growth Stocks

We define dividend growth stocks as equities with a proven track record of always paying a dividend and also for regularly increasing their dividend. The benefits of these types of investment are threefold. First, as a growth stock, you can often look forward to some capital appreciation in the value of the underlying security. Second, as the dividends increase, you benefit from an advantageous tax treatment of dividend income. Third, the dividend increases are often kept in line with the increasing value of the stock, so the yield on your initial investment increases over time. As an example, you bought shares in XYZ Corp at \$10.00 when they were paying a 2% dividend yield. Now, the shares are trading at \$20 and the company is still paying a 2% dividend yield, but your cost base is just \$10.00, so you are getting a yield of 4%, not to mention the increased value of your shares. See related Stocks vs Bonds in this issue.

About 3 Macs

MacDougall, MacDougall & MacTier Inc. is an independent, employee-owned investment firm, dedicated to pursuing our clients' interests and needs with consummate professionalism.

Our experience, over almost 150 years of operations, have proven the values of integrity, independence, service, performance and trust. These values continue to be our foundation for success in wealth creation and management.

We provide a range of client services including estate planning, tax preparation, estate settlement, insurance products and registered accounts (such as RRSPs, RRIFs, RESPs).

Our research resources include an internal team of analysts and relationships with external partners – ranging from individual specialists, to independent research boutiques, to global investment firms. The focus is on North American securities, with international reach through managed products and large global companies.

With portfolio management as the cornerstone of our business, we offer the full range of services that our clients need to fulfill their financial objectives.

Through our wholly owned subsidiary, MacDougall Investment Counsel Inc., we provide investment counselling capability.

3 Macs Upcoming Events

MacDougall Annual Market Outlook

November 2007

3Macs Supports the Montreal Children's Hospital Pedal For Kids Event

June 15, 2007

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Trend Watch: Aviation

During a weak economy, airlines typically experience a slowdown in passenger traffic and revenues and profits decline. Often, layoffs and bankruptcies occur. Unions give concessions in order to keep jobs. It's not really the time the airlines think about purchasing new aircraft and sometimes orders that have been made previously are canceled. Inevitably, the economy improves and this bad time is almost always forgotten. Passengers return, as do revenues and profitability. The mood improves and thoughts turn to improving fleets with newer, larger aircraft designed to carry the ever-increasing passenger load.

Why don't the airlines just use the planes they had before the slowdown?

Improvements have been made that will allow more passengers to be carried with greater fuel efficiency. Margins have to be considered. Also, the emergence of a viable class of low-cost carriers has forced the traditional carriers into looking at ways of making more bottom line with less top line. It is a fact that most airlines that return to profitability order new aircraft approximately one year later, much to the delight of the aircraft manufacturers who have been building the better mousetraps all along.

Approximately one year after delivery of new aircraft, unions begin rumblings of wanting a better deal, as they gave up so much when times were tough. The airlines inevitably give back to the unions. Just as predictably, when the unions are happy and the new aircraft are increasing airline profitability, the economy begins to slow. The cycle usually takes 10 years. The events of September 2001, which obviously had a great impact on the cycle, merely sped up the end as industry operating margins had been declining since 1998.

With operating margins just now returning to positive, we see ourselves as nearly four years into the current cycle. The buoyant global economy has led to international airlines having just become profitable and their North American cousins are on the brink of profitability. Look for new aircraft orders throughout the course of this year and next.

There are a few differences this time. The first is that Asia was not a factor in the last cycle while it is all-important this time. With the Asian population having become the ideal demographic for air travel, demand from Asian airlines for new aircraft is expected to be very strong this time around. This up cycle will be balanced among North America, Asia and Europe.

So far this cycle, it is approximately even between the two competitors in terms of aircraft orders. The company that will have its wide body product ready for market first will emerge as the leader in this cycle. It appears Airbus is banking on the next cycle (~2015) for its A380 wide body as it has had numerous production delays and order cancellations. We see Boeing as the dominant aircraft manufacturer for this cycle with its revolutionarily fuel-efficient 787, 777 and next generation 747.

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