



A Strong bond of Trust

As we move into a new year, we're encouraged by a fresh outlook for the markets.

We can take comfort in the fact that the Canadian economy did not get hit as hard as the US, UK and Europe and has rebounded strongly over the past nine months. While we are seeing positive signs in the global capital markets the other G8 economies are still somewhat fragile and may not have a smooth recovery. We know it's been a challenging time, and we want you to know how much we appreciate and value your continued support and trust. Thank you for your vote of confidence in us!

Your loyalty has been rewarded by strong results. The volatility of the past couple of years has demonstrated the soundness of PWL's disciplined approach to risk management. While we were certainly not immune to the downturn, our disciplined investment philosophy and emphasis on managing risk protected you from the worst ravages of the bear market and placed your portfolios in a strong position to benefit from the recovery. We will continue to hold fast to our principles, as we look for ways to manage investment risk even more effectively.

A new year brings new changes at PWL as well. As part of our continued expansion strategy, I'm pleased to announce that we've formed a strategic alliance with Bengest Inc., a partnership between René Perreault of HR Strategies and Capital Benoit. René Perreault, who has been a great supporter of PWL since our inception in 1996, introduced us to Capital Benoit and after lengthy discussions, we determined that

we had a common vision for expansion of PWL over the long term. As a result we offered Bengest a small stake in PWL in exchange for their ability to help us grow through acquisition of other like-minded firms in Canada.

Finally, I'm very excited to announce new appointments at PWL. After two years as Chief Operating Officer, Brenda Bartlett has been named as President of our firm. This well-deserved promotion puts the management of PWL into extremely capable hands, while allowing James Parkyn and myself to devote our full attention to providing quality client service, which has always been our passion since founding PWL. As President and COO, Brenda will focus on searching out suitable opportunities for acquisition and expansion.

I'm also pleased to announce that Lynn Dery-Capes has joined PWL as our Director of Finance & HR, and Michael Simioni has joined PWL as Senior Director, Operations and Compliance and is our Chief Compliance Officer.

Please join me in welcoming these newcomers on board, as we move full steam ahead into 2010!

Anthony S. Layton
Chairman & CEO,
Portfolio Manager
PWL Capital Inc.
Montreal



Meet Bengest – Our Strategic Partner for Growth

Our new strategic partner, Bengest Inc., is led by the Benoit family, a widely recognized and highly successful entrepreneurial family - truly a Quebec success story.

Many years ago, the Benoit family started their own insurance business called Groupe Commerce. This firm was eventually bought by the Dutch powerhouse ING Group, one of the top financial institutions in the world, in an effort to establish and grow their North American presence.

Today, the Benoit family, via Capital Benoit, their private family investment company, looks for long-term investment opportunities in companies they believe in – companies with a strong business model and excellent prospects for future growth. They approached us because of our unique wealth management framework – our Defined Objectives™. They see our integration of tax, estate, and retirement planning with investment management as the way of the future. As PWL's partners they bring their rich experience to the table to help us grow and expand through acquisition of other firms.

We are very proud and excited to be associated with Bengest Inc., as we look toward to a long and productive relationship.

Brenda Bartlett
President & Chief Operating Officer
PWL Capital Inc.
Montreal



Is There a Place for Leveraged ETFs in my Portfolio?

At PWL, our investment philosophy has always been based on the belief that active managers cannot consistently beat market indices over time.

That belief, coupled with our desire to capture market returns at the lowest possible cost, had led us, for over a decade, to the decision of building our client portfolios using exchange-traded funds (ETFs) as one of the primary components.

But, as ETFs have evolved and increased in popularity, many variants have emerged. One of these are the inverse and leveraged ETFs, which use derivative products to create a short position or a higher level of exposure to an index. The inverse ETFs are structured to produce a positive return when the index return is negative (and vice versa), while a leveraged ETF aims to double the return of the underlying index on a daily basis. In order to do this, it holds a large amount of cash invested in short-term securities, and a smaller

but highly volatile portfolio of derivatives, such as index futures, equity swaps, and index options.

There are several risks to these products:

- 1) As with any leveraged investment, the risk is magnified considerably.
- 2) The complex structure of these products results in management expenses which are much higher than non-leveraged ETFs.
- 3) This type of product is designed to be held for only a few days.

If held as a long term investment, the return on these products may be different from what was reasonably expected. For example, in 2008, a US-listed inverse ETF on Emerging Markets produced a deep negative return while its underlying index also produced a negative return, where in theory it should

have been positive. This happened because the composition of inverse/leveraged ETFs is rebalanced daily, which makes their longer term results unpredictable.

It is our view that, given these drawbacks, leveraged ETFs are unacceptable for our client portfolios. I encourage you to contact your PWL advisor if you would like further information.

Raymond Kerzérho
Chairman of the
Investment Committee
and Director of Research
PWL Capital Inc.



Investment News

In late 2009, two events occurred in the investment world, both of which we see as positive for you and your portfolio.

DFA mergers some funds

In November, Dimensional Fund Advisors (DFA) Canada carried out a merger of some of their funds, with the goal of reducing costs to unit holders.

The *DFA US Vector Equity Fund* was created as a result of the merger of the DFA US Value Fund and the DFA US Small Cap Fund. This new Fund invests primarily in common stocks of U.S. companies, but with a greater emphasis on small cap and value stocks than DFA's US Core Equity Fund.

Similarly, the *DFA International Vector Equity Fund* was created by merging the DFA International Value Fund and the DFA International Small Cap Fund. This new Fund invests primarily in common stocks of non-Canadian and non-U.S. companies in both developed and emerging markets. The small cap and value tilts, as compared to the DFA International Core Equity Fund, are evident here as well.

Both new funds are expected to have lower management fees and transaction costs, resulting in savings for you and better portfolio diversification. DFA Canada absorbed the entire cost of these mergers, rather than passing them on to investors.

BlackRock Asset Management buys Barclays Global Investors

In December, New York-based BlackRock Asset Management bought Barclays Global Investors from Barclays Bank PLC. As a PWL client, you likely hold some iShares exchange traded funds, which were managed by Barclays. Although the iShares brand will be retained, the management of these funds will be transferred to BlackRock.

BlackRock is a leader in investment management, risk management, and advisory services for institutional and retail clients worldwide.

BlackRock was also mandated by the U.S. Government to work out the toxic assets it had taken charge of during the financial crisis.

We see the transfer of the iShares business as positive for you because of BlackRock's reputation, and the fact that it is not involved in investment banking. You may recall that Barclays Bank acquired parts of the bankrupt investment bank Lehman Brothers in 2009, in the wake of the 2008/09 financial crisis. In our opinion, this resulted in a conflict of interest which has now been resolved.

Are Our Fees Still Taxable? – An Update

In our last issue of *Perspective*, we commented on this past summer's court decision involving the Canadian Medical Protective Association and the tax status of some investment services. The outcome of this case suggested that discretionary investment management services might be GST and QST exempt.

It now appears that this will not be the case. In December 2009, Finance Minister Jim Flaherty issued a response that clarified the government's position. The federal government has always treated investment management services as taxable for GST purposes, on the grounds that these services do not meet the exemption definition for financial services in the *Excise Tax Act*.

In order to clear up any uncertainty, the government will introduce legislation to reaffirm its longstanding policy and specifically exclude investment management services from the definition of financial services. There will be no rebate of GST or QST paid in the past.



Thoughts on TFSAs

By now, most of you are familiar with the basics of the Tax-Free Savings Account (TFSA). We've heard a lot about how it can work as a supplement or an alternative to other savings plans such as RRSPs. Here are some strategies you may want to consider.

> Retirement

A major advantage of the TFSA is that withdrawals are tax-free. While this is a bonus at any time, it's particularly valuable for those over 65 who may be affected by the clawback of Old Age Security (OAS) payments and the age credit. You may want to consider gradually moving non-registered investments into a TFSA, or making TFSA contributions in lieu of adding to your RRSP, to reduce the impact of this clawback.

> Tax Planning Strategy

When strategizing for the long-term, use the RRSP before the TFSA to hold interest-bearing instruments, as interest is fully taxed when received. However, under certain circumstances, it also makes sense to hold dividend-generating investments within a TFSA, as the grossing-up of dividends held in a non-registered account may cause the clawback of the OAS benefit.

> Becoming Non-resident

If you decide to move away from Canada permanently, you can still maintain your

TFSA; you just won't be able to add to it once you become non-resident. You can withdraw funds at any time, and they are not subject to tax in Canada. However, because TFSAs are new, other countries have not yet established rules relating to their taxation. You may be subject to tax in your new country of residence on withdrawals and even on the income earned in the plan.

And, while we are on the subject of tax, remember that you can now add another \$5,000 to your Tax Free Savings Account for 2010. Take advantage of this great opportunity!

We invite you to contact your advisor for further information on TFSAs.

Caroline Nalbantoglu
Senior Financial Planner
PWL Advisors Inc.
Montreal



Tax Time is Just around the Corner

When you are organizing all those tax slips to send along to your accountant, don't forget to include the receipts for your home renovation projects. As we covered in the Summer 2009 issue of *Perspective*, both the federal and Quebec governments introduced financial incentives for home renovation and improvement last year. If you are one of the many Canadians who took advantage of this opportunity to get some projects completed, don't forget to assemble the information you'll need to claim the tax credit. Please contact your PWL advisor if you need more information.

The Uncertain State of US Estate Tax

U.S. citizens, as well as residents of Canada who own U.S. property, are understandably concerned about the current uncertainties revolving around U.S. estate tax.

Back in 2001, through the *Economic Growth and Tax Relief Reconciliation Act* (EGTRRA), the U.S. government began minimizing the impact of federal estate tax by reducing the tax rate and increasing the size of the minimum taxable estate each year. By 2009, federal tax applied only to estates in excess of \$3,500,000, and the tax rate topped out at 45%. When EGTRRA was passed, it included provisions for repeal of the U.S. estate tax in 2010.

The law also came with a sunset clause that gave Congress until December 31, 2009 to extend its provisions. This didn't happen. Thus, there is currently no federal estate tax imposed on the estates of persons dying in 2010, but in 2011, the old 2001 tax regime is scheduled to be reinstated. This would take the size of an exempt estate down to \$1,000,000 from \$3,500,000, while the top tax rate moves up to 55%.

Although the House of Representatives voted for a one-year extension of the \$3,500,000 exemption in December, the Senate adjourned before the end of the year without addressing the issue. It remains to be seen what action will be taken this year. We would suggest that anyone who is affected by U.S. estate tax may want to revisit their existing estate plans, particularly if division of assets among beneficiaries is driven by a tax-based formula.



Cameron Passmore
Portfolio Manager
PWL Capital Inc.
Ottawa

Dr. Mlodinow
Mathematician,
Physicist and Author of
*The Drunkard's Walk:
How Randomness Rules
our Lives*

Patricia Lovett-Reid
SVP, TD Group
Host of
Money Talk
Business News
Network



Thought Leadership and Client Appreciation

Leonard Mlodinow Came to Town!

Last September, we were thrilled to host Leonard Mlodinow at three well-attended client events in Toronto, Ottawa, and Montreal. Dr. Mlodinow, author of *The Drunkard's Walk: How Randomness Rules our Lives*, showed us how understanding randomness helps us to better manage risk. We had great feedback from our attendees, and also garnered lots of media attention. Dr. Mlodinow and our own Cameron Passmore, Portfolio Manager in our Ottawa office, were guests on a full television episode of *Money Talk* with Patricia Lovett-Reid on BNN (Business News Network). Check out our Broadcast Centre (www.pwlcapital.com/Broadcast-Centre/Event-Leonard-Mlodinow-at-PWL-Capital) to see the BNN program, as well as comments from those who attended this highly successful & informative event.

Strategic Alliances

Montreal



Our Montreal office is very pleased to announce a new formal relationship with M Bacal Group which will provide PWL clients wider insurance solutions.

Monette Malewski, President and CEO of M Bacal Group, provides individuals and companies with innovative strategies concerning: life, disability and critical illness insurance, and long-term care. Along with her team, they create the best insurance strategies for any given situation, and provide the protection that is most advantageous for each client.

Monette is recognized as one of the leading advisors in the insurance industry and participates on numerous boards and organizations in the educational, cultural, health, and humanitarian sectors.

Ottawa



Our Ottawa office is very pleased to announce a new formal relationship with WelchGroup Consulting.

WelchGroup consulting is on a mission to deliver high-value advice to local entrepreneurs, and as part of that mission, want to offer assessment services in a variety of areas. We are pleased to announce that PWL was chosen, after a very rigorous process, to be one of the firms that will offer investment assessments as part of the WelchGroup offering. Please check out WelchGroup online at www.w-group.com for details on how they can help local businesses.

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Montreal
T 514 875-7566
1 800 343-7566
F 514 875-9611
capital@pwlcapital.com

Ottawa
T 613 237-5544
1 800 230-5544
F 613 237-5949
ottawa@pwlcapital.com

Rivière-du-Loup
T 418 862-5643
1 800 774-7418
F 418 862-3585
rdl@pwlcapital.com

Toronto
T 416 203-0067
1 866 242-0203
F 416 203-0544
toronto@pwlcapital.com