

## This Is No Time to Stop Saving

by Dr. Sherry Cooper



We're reminded daily of the global financial crisis and the accompanying slowdown in economic activity. The U.S., Canada, Britain, Japan and the eurozone are in recession. Incoming data confirms that the economy declined rapidly late last year, and we'll likely see continued weakness through most of 2009. Many investors,

even the most conservative, have suffered considerable losses in their stock portfolios. The only real safe haven in North America has been government bonds, where interest rates have fallen sharply, especially in the U.S. Canada's economy has been hit hard by falling commodity prices, particularly for oil, as well as by reduced exports to the U.S. In addition, the ongoing woes of Detroit's Big Three automakers continue to contract Ontario's economy. Manufacturing activity has plummeted in Canada and around the world, and consumer and business spending has slowed sharply.

While Canada continues to outperform the rest of the G-7, the repercussions of the global credit crisis are taking their toll on us. Our dollar has fallen significantly, owing largely to the decline in export prices; but it also dropped again late last year in response to the political uncertainty that led to the suspension of Parliament. Clearly, fiscal stimulus and further Bank of Canada easing will be forthcoming early in 2009.

*Continued on page 2*



Tax-Free Savings Account

### Win \$5,000 a Year for Life

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To learn how the TFSA can help you achieve your short- and long-term goals, and to open your TFSA, sign in to your account at [bmoinvestorline.com](http://bmoinvestorline.com) and go to the **TFSA Corner** under **Planning**.

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In this environment, not surprisingly, stocks have sold off sharply as profits declined and commodity prices plunged. Financial services companies were severely affected but, again, not nearly as much as in the rest of the G-7, as Canada demonstrably has the strongest banking sector in the world. Nevertheless, the roughly 40 percent decline in the S&P/TSX was very painful, and credit spreads on corporate bonds remain wide.

One thing is certain: governments around the world recognize the severity of the situation, and are taking aggressive and unconventional actions to thaw the liquidity freeze, assuring that credit becomes more readily available for households and businesses. Virtually every country is introducing substantial, targeted steps to establish multi-year fiscal stimulus, create jobs and increase confidence, mainly through project spending for infrastructure, alternative energy and education, as well as moderate tax cuts for the middle class.



To date, Washington has made almost \$8 trillion in financial commitments, ranging from direct investments to debt guarantees, through a wide range of rescue initiatives by the Federal Reserve, the U.S. Treasury and the Federal Deposit Insurance Corp. This figure will undoubtedly grow if markets worsen. It is clear that the Fed and the Treasury are willing to

print as much money as necessary to revive America's crippled banking system. As well, the new Obama administration will take aggressive fiscal action to reboot the U.S. economy.

As devastating as this crisis has been, this once-in-a-lifetime meltdown also provides investment opportunities. Straws in the wind now suggest that economic activity could gradually turn a corner in the second half of this year. While these are still early days, there are glimmers that many good stocks are

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considerably undervalued. This should have enticing implications for longer-term investors, as stocks will rebound well in advance of the global economy.

Corporate bond spreads, even for investment-grade bonds, remain at historically wide levels but are likely to come in once the credit markets thaw. In other words, risk assets should begin to spin off positive returns, some of which could be substantial. Many investors have watched their hard-earned savings diminish, but we have learned valuable lessons during this volatile period. **This is an excellent time to create or refresh your financial plan, and restructure your portfolio to reflect the “new normal” environment. Most of all, continue to save – and contribute whatever you can afford to your RSP. Open a Tax-Free Savings Account. Consider government bonds, GICs and other low-risk investments, as well as undervalued stocks. Unquestionably, 2009 will be a weak year, but by 2010 we should be well into the thrust of economic recovery. Stock market rallies occur in anticipation of economic upturns, and therefore we could well see a bull market in stocks before year’s end.**

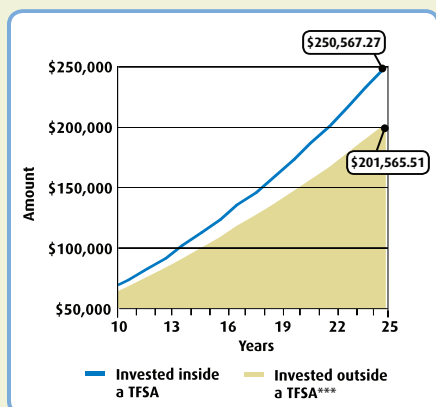
*Sherry Cooper is global economic strategist and executive vice-president, BMO Financial Group, and chief economist for BMO Capital Markets.*

# > TAX-FREE SAVINGS ACCOUNT

## THE BIGGEST NEWS IN SAVINGS SINCE THE RSP

In 2008, the federal government introduced the Tax-Free Savings Account – a new way for Canadians to invest and earn tax-free returns. Just how significant are the tax savings? The chart below will give you an idea.

PROJECTION BASED ON INVESTMENTS OF \$5,000 PER YEAR\* AT 5%\*\*



\*Applies to investments made at the beginning of the calendar year.

\*\*5% rate of return for illustrative purposes only. As with any investment product, returns are not guaranteed.

\*\*\*Earnings taxed annually at 30%.

## HIGHLIGHTS

You can contribute up to \$5,000 annually, and all accumulated earnings within the plan are tax free, as are withdrawals. In addition, you can make withdrawals for any reason, and then redeposit the original amount plus any earnings in subsequent years. Any unused contribution room is carried forward indefinitely.

When you choose a BMO InvestorLine TFSA, you have the flexibility to invest however you choose, now and in the future. As with an RSP, you can put money into a broad selection of investments: stocks, fixed-income securities, mutual funds and GICs. You can use your TFSA to save for short-term goals like a vacation or a wedding; or long-term goals, such as retirement or to fund education. There are no restrictions or penalties on how you use your funds once you withdraw them.



## HOW A TFSA COMPLEMENTS YOUR FINANCIAL PLAN

The annual TFSA contribution limit for 2009 is \$5,000, which

will be periodically adjusted upward for inflation in the future. If you contribute the maximum allowable for 10 years, you could have at least \$50,000 plus any additional investment earnings available tax free.

The TFSA is the most significant personal savings initiative since the government introduced the RSP, and it's just as important to your overall financial plan as your RSP.

Get started by signing in to your account at [bmoinvestorline.com](http://bmoinvestorline.com).

To open your TFSA, go to **Open an Account** under **Account Services**. To learn more about how the TFSA can help you achieve your short- and long-term goals, go to the **TFSA Corner** under **Planning**.

## THIS TABLE ILLUSTRATES HOW YOU MAY CHOOSE TO USE YOUR TFSA SAVINGS

I am...	Using my TFSA to...	Because...
<b>A young investor, just starting out</b>	<ul style="list-style-type: none"> <li>Buy a car</li> <li>Help pay for my education</li> <li>Save for a down payment on a home</li> </ul>	<ul style="list-style-type: none"> <li>Earnings are tax free, so savings grow faster.</li> <li>Withdrawals can be made whenever needed without tax consequences and be recontributed in a later year.</li> </ul>
<b>In my peak earning years</b>	<ul style="list-style-type: none"> <li>Save in addition to my RSP</li> <li>Save for my children's education</li> <li>Set aside money for personal goals, perhaps a vacation or home renovations</li> </ul>	<ul style="list-style-type: none"> <li>If RSP contributions have been maximized, the TFSA provides another way to earn returns that aren't taxed.</li> <li>The TFSA is useful for both short- and long-term savings goals.</li> <li>TFSA withdrawals can be used for any purpose; there are no restrictions on how the money is used.</li> <li>All potential returns are tax free.</li> </ul>
<b>Retired</b>	<ul style="list-style-type: none"> <li>Reinvest my required Registered Retirement Income Fund withdrawals</li> <li>Make withdrawals that aren't included in my income for tax purposes</li> </ul>	<ul style="list-style-type: none"> <li>RRIF holders are required to withdraw a minimum amount from their plan every year; any excess not needed for living expenses can be invested in a TFSA for all earnings to remain tax free.</li> <li>TFSA withdrawals don't affect eligibility for income-tested benefits like Old Age Security and the GST credit.</li> </ul>

## > EXPLORING YOUR RSP CONTRIBUTION OPTIONS

When you're ready to contribute to your BMO InvestorLine registered account this year, you have numerous ways to do so – quickly and easily.

### 1. CONTRIBUTE ONLINE

Contribute to your RSPs online by using funds from your BMO InvestorLine cash or margin account, or your BMO Bank of Montreal account. Go to **RSP Contribution** under **My Portfolio** to make your contribution.

### 2. USE ONLINE OR TELEPHONE BANKING

Top up your RSP as easily as you pay bills online. Use your Internet or telephone banking service to add BMO InvestorLine to your list of payees.

### 3. SET UP PRE-AUTHORIZED CONTRIBUTIONS

Enrol in a pre-authorized plan and avoid the yearly rush to make the RSP deadline. Set up a convenient payment schedule that suits your needs, and benefit from dollar-cost averaging. Complete the Pre-Authorized Contribution form, and we'll take care of the rest.



### 4. TRANSFER YOUR RSPS FROM OTHER FINANCIAL INSTITUTIONS

By consolidating your investments with BMO InvestorLine, you simplify your investing activities and gain a consolidated view of your portfolio. Get started with the online transfer form.

### 5. DEPOSIT CASH, CHEQUES OR SECURITIES AT ANY BMO BANK OF MONTREAL BRANCH

Visit a BMO Bank of Montreal branch to make your deposit. To deposit securities into your BMO InvestorLine account, complete the Power of Attorney to Transfer Stocks or Bonds (LF255) form, and return it with the endorsed certificates to BMO InvestorLine or a BMO Bank of Montreal branch.

### 6. APPLY FOR AN RSP LOAN

If you're short on cash and want to contribute to your RSP, you can apply online for an RSP loan. To apply now, visit the **RSP Centre** under the **Education Centre**.

With the RSP deadline right around the corner, now is a good time to consider your options. To access any of the above forms, sign in to your account at **bmoinvestorline.com** and go to **Forms** under **Account Services**.

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Please send comments and suggestions to [insite@bmoinvestorline.com](mailto:insite@bmoinvestorline.com).

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\*The BMO \$5,000 a Year for Life contest begins at 8:00 a.m. EST on Monday, November 17, 2008, and ends at 11:59 p.m. EST on Saturday, January 31, 2009. Open to all residents of Canada who have reached the age of majority at time of entry. Limit one entry per person. No purchase necessary. All prizes must be accepted as awarded. Selected entrants must correctly answer a mathematical skill-testing question to win. One Grand Prize of \$5,000 CDN a year paid for the life of the winner and ten second prizes of \$5,000 CDN each will be offered. The Grand Prize will be paid in annual instalments and may be awarded in the form of an annuity. Approximate retail value of the Grand Prize based on a 40-year-old winner is \$100,000. However, actual retail value of the Grand

Prize will depend upon the age of the Grand Prize Winner. Chances of winning depend on the number of entries received. Complete contest terms and conditions available at [bmo.com/5000forlife](http://bmo.com/5000forlife) or at your local BMO Bank of Montreal branch.

<sup>1</sup>Any interest, capital gains and/or dividends earned on savings and investments held in a Tax-Free Savings Account (TFSA) are not taxable on withdrawal.

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