

## How to Turn a Loss into a Gain

### Tax Strategies

#### RESP's

#### Tax Loss Example

#### Tax Strategy for your Investment Account (non-RRSP)

Chances are, if you have invested in the equity markets during the past three years, you may be holding a few positions that are currently in a loss position. This is especially true when considering the effect the events of the last few months have had on the markets. While we continue to subscribe to the practice of buying and holding for the long-term, there are times when triggering a loss for tax purposes makes sense. The key is to trigger the loss without losing sight of your long-term goals. Keep in mind **this only applies to your non-RRSP investments.**

There are two scenarios by which selling at a loss makes sense:

#### Scenario #1

**Selling a security that does not appear to have good prospects for the future.**

Unfortunately, your account may hold a couple of these types of securities. You know the ones we're referring to, that great tech stock you heard from a friend

or a 'hot stock tip' that was floating around. A company that was going to revolutionize the way we live and had made great profits for your newly 'day trading' friends so far. Now, with venture capital financing all but dried up and not enough sales to generate a profit, the stock has plummeted. In retrospect you probably should have never bought the stock in the first place and hopefully you have learned a valuable lesson at minimal cost. The best course of action for this situation in most cases is to cut your losses whether or not you can immediately apply them against capital gains.

#### Scenario #2

#### Good investment - rough market

In this strategy, you would be selling an investment that has great potential and is high quality, often blue chip stocks or medium to high risk mutual funds that have just had a tough run over the last few years due to market conditions. These investments are ideal to hold for the long-term, but if you don't have any 'scenario 1' positions, this may be your best tax savings option for triggering a loss. Why sell? Why not wait for them to turn around? Simple. If you or your spouse had paid capital gains tax in the past three years, you may be able to get that money back - now that's the kind of 'sure thing' that we like! Here's how it

works:

If you trigger a capital loss, Canada Customs and Revenue Agency (CCRA) allows you to carry forward the loss indefinitely or back to the previous three years. Capital gains inclusion rates were higher than today's rates for most of 2000, all of 1999 and 1998. Therefore, taking this into consideration along with the fact that tax rates were higher in the past, it makes sense to try and get that back from the government. If you like the company or mutual fund and you want to buy it back that is always an option.

**\*\*Important\*\***

When you sell a security at a loss, you or your spouse cannot buy it back within the 30 days before or after the disposition.

*continued on back page*

### **It's coming close to year-end again!**

Consider opening an RESP account with ScotiaMcLeod and be eligible for a 20% government grant. Details are on our website at [www.mutualfundreporter.com/resp](http://www.mutualfundreporter.com/resp) or give us a call at 1-800-387-9273.

UP TO 30% IN AN RRSP

### 1 Year Total Return

1 Fidelity Small Cap America . . . . .	18.7%
2 AIC American Focused . . . . .	13.9%
3 Talvest Global Health Care . . . . .	12.3%
4 Mac Univ World Tactical Bond . . . . .	11.5%
5 AGF Global Total Ret Bond . . . . .	11.2%
6 AGF Global Gov't Bond . . . . .	10.2%
7 TD Global Gov't Bond . . . . .	9.7%
8 Mac Cundill Value Series A . . . . .	9.4%
9 Mac Cundill Value Series C . . . . .	9.1%
10 CI World Bond . . . . .	9.0%

### 3 Year Total Return

1 Talvest Global Health Care . . . . .	46.9%
2 BPI Global Opportunities . . . . .	26.0%
3 Talvest Global Small Cap . . . . .	26.0%
4 Fidelity Small Cap America . . . . .	23.8%
5 CI Global Consumer Products . . . . .	23.2%
6 Elliott & Page US Mid-Cap . . . . .	21.7%
7 AGF Aggressive Growth . . . . .	21.5%
8 Mac Cundill Value Series A . . . . .	20.4%
9 CI Signature Gbl Small Cos . . . . .	20.0%
10 AGF International Value . . . . .	18.3%

### 5 Year Total Return

1 BPI Global Opportunities . . . . .	34.8%
2 Orbit World . . . . .	18.8%
3 Fidelity Small Cap America . . . . .	18.7%
4 AGF International Value . . . . .	17.8%
5 CI Global Financial Serv Sec . . . . .	16.2%
6 Janus American Equity . . . . .	14.9%
7 McLean Budden Amer Eq Growth . . . . .	14.7%
8 CI Global Health Sciences . . . . .	14.7%
9 AGF Aggressive Growth . . . . .	14.4%
10 BPI American Equity . . . . .	14.4%

### 10 Year Total Return

1 CI Signature Amer Small Cos . . . . .	16.0%
2 Trimark Fund . . . . .	15.6%
3 AGF International Value . . . . .	15.5%
4 TD US Index Fund (\$US) . . . . .	15.2%
5 AIC Value . . . . .	14.2%
6 McLean Budden Amer Eq Growth . . . . .	14.2%
7 Altamira Select American . . . . .	14.0%
8 BPI American Equity . . . . .	14.0%
9 Trimark Select Growth . . . . .	13.9%
10 Spectrum American Growth . . . . .	13.8%

### 1 Year Total Return

1 Talvest Global Sci & Tech . . . . .	-77.8%
2 Altamira Science & Technology . . . . .	-77.0%
3 AIM Global Technology . . . . .	-74.9%
4 CI Global Technology Sector . . . . .	-74.8%
5 Altamira e-business . . . . .	-74.5%
6 CI Global Telecom Sector . . . . .	-74.2%
7 AIM American Blue Chip Growth . . . . .	-73.0%
8 Mac Univ Wld Science & Tech . . . . .	-71.2%
9 AIM Global Telecom Class . . . . .	-70.8%
10 TD Science &Technology . . . . .	-69.5%

### 3 Year Total Return

1 AIM American Blue Chip Growth . . . . .	-21.2%
2 Mac Univ Wld Science & Tech . . . . .	-9.8%
3 TD Int'l Growth . . . . .	-9.3%
4 AGF Germany Class . . . . .	-9.2%
5 Clean EnvironmentGlo Equity . . . . .	-9.1%
6 Spectrum Global Telecomm . . . . .	-8.1%
7 Clarington Globl Communication . . . . .	-7.0%
8 CI Global Technology Sector . . . . .	-6.8%
9 AIM European Growth . . . . .	-6.6%
10 Sceptre Global Equity . . . . .	-6.3%

### 5 Year Total Return

1 Royal Asian Growth . . . . .	-14.1%
2 HSBC AsiaPacific . . . . .	-12.6%
3 AGF Asian Growth Class . . . . .	-11.9%
4 CI Pacific Sector . . . . .	-8.9%
5 AGF Latin America . . . . .	-8.1%
6 CI Pacific . . . . .	-7.8%
7 TD Emerging Markets . . . . .	-7.7%
8 AIM Indo-Pacific . . . . .	-7.4%
9 TD Asian Growth . . . . .	-6.8%
10 TD Japanese Growth . . . . .	-6.3%

### 10 Year Total Return

1 Royal Japanese Stock . . . . .	-1.3%
2 AGF Japan Class . . . . .	0.6%
3 CI Pacific Sector . . . . .	2.0%
4 CI Pacific . . . . .	2.8%
5 CI Short-Term Sector . . . . .	3.5%
6 Royal \$US Money Market . . . . .	4.0%
7 Merrill Lynch US Money Mkt . . . . .	4.0%
8 AGF US Dollar Money Market . . . . .	4.2%
9 AGF Special US Class . . . . .	4.5%
10 CI Canadian Sector . . . . .	4.6%

#### COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

## 1 Year Total Return

1 Dynamic Precious Metals	36.6%
2 Mac Universal Precious Metals	32.5%
3 Scotia Precious Metals	31.4%
4 TD Precious Metals	24.9%
5 Royal Precious Metals	23.7%
6 Scotia CanAm \$US Income	18.3%
7 Elliott & Page Monthly Hi Inc	18.2%
8 Merrill Lynch Cdn Inc Trust	17.9%
9 Trimark Canadian Resources	17.6%
10 GGOF Guardian MonthlyHi Inc Cl	17.1%

## 3 Year Total Return

1 Dynamic Venture Opportunities	25.9%
2 CI Signature Select Cdn	23.0%
3 AIM Canadian First Class	21.1%
4 StrategicNova Cdn Technology	20.1%
5 PH&N Dividend Income	19.7%
6 Merrill Lynch Cdn Core Value	18.7%
7 Fidelity Disciplined Equity	18.4%
8 AIM Canadian Premier	18.0%
9 Beutel Goodman Small Cap	17.7%
10 Working Opportunity (Balanced)	17.7%

## 5 Year Total Return

1 PH&N Dividend Income	21.4%
2 Royal Dividend	15.9%
3 Scotia Cdn Dividend	15.5%
4 MAXXUM Dividend	13.9%
5 TD Dividend Growth	13.7%
6 Mac Industrial Dividend Grth	13.1%
7 AIC Diversified Canada	12.7%
8 Spectrum Canadian Investment	12.5%
9 Beutel Goodman Small Cap	12.4%
10 HSBC Dividend Income	12.4%

## 10 Year Total Return

1 AIC Advantage	18.8%
2 PH&N Dividend Income	17.0%
3 MAXXUM Dividend	15.5%
4 Northwest Specialty Equity	15.4%
5 Dynamic Power Canadian Growth	14.5%
6 GBC Canadian Growth	14.0%
7 Mac Industrial Dividend Grth	13.6%
8 PH&N Vintage	13.3%
9 Mawer New Canada	13.0%
10 Tradex Equity Fund Limited	12.0%

## 1 Year Total Return

1 Altamira RSP Science & Tech	-76.9%
2 AIM RSP Global Technology	-74.7%
3 CI Global Technology RSP	-74.7%
4 CI Global Telecom RSP	-74.2%
5 AIM RSP Amer Blue Chip Growth	-72.7%
6 Mac Univ RSP World Sci & Tech	-71.4%
7 AIM RSP Global Telecomm	-70.8%
8 TD Sc & Tech RSP	-69.1%
9 TD Nasdaq RSP Idx	-68.3%
10 Spectrum RRSP Global Telec	-68.0%

## 3 Year Total Return

1 AGF Canadian Aggressive AllCap	-12.9%
2 StrategicNova Cdn High Y Bond	-12.9%
3 AGF Canadian Small Cap	-10.4%
4 Working Ventures Canadian	-9.4%
5 AGF Cdn Opportunities	-8.1%
6 AGF Canadian Aggressive Equity	-7.6%
7 Global Strategy Eur+ RSP	-7.6%
8 Spectrum Canadian Resource	-6.5%
9 TD EuroGrowth RSP	-6.1%
10 Triax Growth Fund Inc	-4.7%

## 5 Year Total Return

1 AGF Precious Metals	-19.1%
2 Scotia Precious Metals	-14.5%
3 Dynamic Precious Metals	-12.3%
4 Altamira Resource	-11.8%
5 AGF Canadian Aggressive AllCap	-11.1%
6 Royal Precious Metals	-10.9%
7 CI Signature Explorer	-10.9%
8 TD AsiaGrowth RSP	-10.5%
9 TD Precious Metals	-10.0%
10 AGF Canadian Aggressive Equity	-7.9%

## 10 Year Total Return

1 Working Ventures Canadian	-1.1%
2 Mac Money Mrkt	3.9%
3 TD US Money Mkt (\$US)	4.0%
4 Merrill Lynch Canadian T-Bill	4.0%
5 AGF Canadian Money Market	4.1%
6 Fidelity Cdn Money Market	4.2%
7 Ethical Money Market	4.3%
8 Mac Industrial Growth	4.3%
9 Scotia Money Market	4.4%
10 Royal Canadian Money Market	4.4%

### NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to provide information on funds marked #
- Figures are average rates of return for the periods ending Sep. 30, 2001
- Source data from Bell Charts, including over 3900 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP eligible funds are at least 70% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 30% of book value

If you do, it is considered a superficial loss and revenue Canada will not recognize it. If you decide to trigger the loss, there are a couple of factors to consider before proceeding. What is it going to cost you to buy and sell the position and is it going to be more than you will get back? Stocks have commissions attached to transactions and mutual funds may have DSC (deferred sales charges) that you could incur. It's important to investigate these costs before proceeding. Another consideration is if you are willing to risk the value of the stock or mutual fund increasing while you are not holding the position, and missing that potential growth period. Also, note that in Scenario #1, you don't want to hold the security anyway, so the buy back rules don't apply.

### The Easy Way

With many mutual funds it is possible to trigger a loss without necessarily getting out of the mutual fund (unless of course you want to). Several of the fund companies offer corporate class funds (more tax-efficient) or an RRSP-eligible version of the same fund you may hold. Switches between funds sometimes have restrictions, but we can evaluate them for you before you make a decision.

### How this works

We have used the Elliott and Page Equity Fund in the chart below as an example for tax loss selling. The reason we chose this fund was due to the high distribution paid in 2000 of \$5 per unit. Many investors that owned the fund in a non-registered account paid a significant amount of tax in 2000. The Elliott and Page Equity Fund had strong returns between 1998 and 2000 which was reflected in the increase in value over the two year period (see chart - total account value column). With trading and taking profits in 2000, Elliott and Page triggered capital gains for its unitholders. When the proceeds of these sales were reinvested and the market dropped this year, investors were faced with a difficult situation. They had paid considerable tax in 2000, followed by a substantial decrease in value this year. How can the decrease work to the unitholders advantage? By selling or switching to another fund within the same company. This will trigger a loss and offset those gains that they paid tax on. You can see from the example below that there were total taxable gains of \$4,971 from 1999 and 2000 that the investor would have paid tax on. By placing the sale in September the client would have triggered a loss of \$3,173.

The investor can then use this loss to offset the previous gain they paid tax on in 2000 and reduce taxes by approx. \$1,000 for the 2001 tax year.

The client's average return on investment over the past 3 years totaled 5.7% per year. Considering where markets are right now this is much better than some of its competitors for the short-term and much better than one would assume looking at an average cost price of \$11.28 and a current price of \$8.89.

It's important to note for this example that you cannot repurchase or switch back into this particular fund as it is capped for new purchases. However, the Sector Rotation Fund that E&P offers has a similar investment portfolio and the same manager as the Equity fund.

Tax loss selling has long been a strategy practiced by the pros in the investment business. In certain situations it can work very well for the private investor. We would be happy to discuss whether this is a strategy you should be employing for the 2001 tax year with you and/or your tax advisor.

*This publication should not be construed as direct tax advice. Please note that as individual situations differ, tax strategies should be discussed with your tax professional before proceeding.*

### Example of Tax Loss Selling on a fund that has paid high taxable distributions

		Units	Price	Distribution Per Unit	Value	Total Acct Value	Average Cost / Share	Taxable Gain/Loss	Cumulative Gain/Loss
Sept 30 1998	Buy	914.913	\$ 10.93			\$ 10,000	\$ 10.93		
Dec 31 1999	Distribution	19.210	\$ 15.05	\$ 0.32	\$ 289	\$ 14,058	\$ 11.01	\$ 289	\$ 289
Dec 31 2000	Distribution	393.100	\$ 11.91	\$ 5.01	\$ 4,682	\$ 15,807	\$ 11.28	\$ 4,682	\$ 4,971
Sept 30 2001	Sale	1,327.224	\$ 8.89			\$ 11,797		\$ (3,173)	\$ 1,798

**3 Year Avg Return on Investment 5.7%**

\*Prices have been rounded to two decimal places.

Source: Scotia Capital