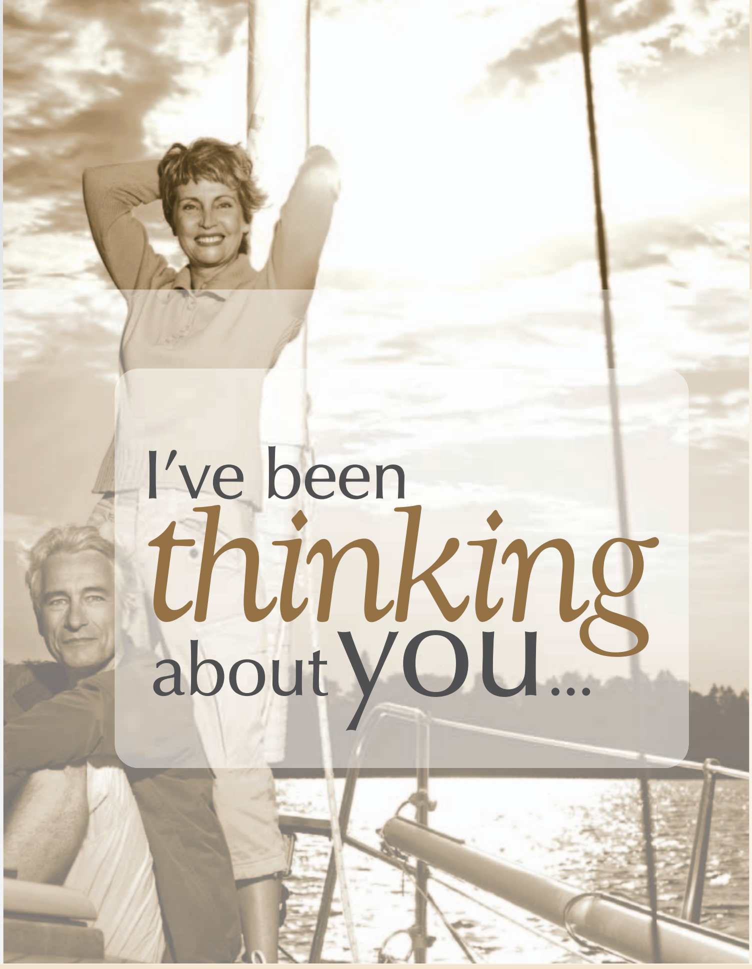

Expert advice for informed investors

Investing during a transition period in the economic cycle

The current situation is raising many questions among investors. This is why we wanted to share the vision of one of Desjardins Group's most illustrious strategists, Peter Gibson, who specializes in quantitative analysis.

With quantitative analysis, it is possible to draft investment strategies based on corporate profitability and the evolution of shareholders' returns. The goal is to target securities that will outperform the benchmark index being used, such as the TSX.

The market's current condition

According to our expert, when an economic shock occurs, as is now the case, central banks try to keep interest rates at a level that is compatible with maintaining the growth cycle for a longer time. This time, the challenge is to identify the degree to which the American mortgage loan crisis will affect consumer confidence and impact the economies of other developed nations, like Canada.

Peter Gibson is the Vice Chairman, Portfolio Strategy and Quantitative Research at Desjardins Securities. For the last 18 years, he has been the top-ranked quantitative research analyst, according to Brendan Wood International, an evaluation firm.

Outlook for the next 12 to 18 months

For the United States, Peter Gibson is expecting an economic slowdown rather than a "GDP defined" recession. In his view, we must never underestimate the American economy's ability to bounce back. If U.S. 10-year treasury bills were to reach the 5.07% - 5.2% range, this would signal the onset of a downturn in stocks and a move toward a greater weighting in bonds.

The outlook is much better in Canada, as the housing market is more stable. Until early 2010, the equity market should provide better returns than bonds (except if the above-mentioned 5.07% to 5.2% range were reached).

Sectors to privilege

In light of these above, Peter Gibson's key observations are as follows:

- Base metals: This sector will be under intense pressure to maintain its profitability.
- Energy: In the short term, the sector will remain volatile. This is a major issue, as the sector accounts for 32% of Canada's TSX index. We suggest taking a buy and hold strategy, as long as you can handle the coming volatility. Otherwise, it would be better to sell and buy back (trading strategy) depending on market conditions.
- Financial institutions: Everything will depend on the actual or apprehended magnitude of the impacts that are still being felt from the American mortgage loan crisis.

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Peter Gibson's advice to investors

Take a look at the profitability of the Canadian and American companies you are interested in. This is a source of information that has proven itself over decades.

Canada's stock market is still undervalued. As a result, the outlook for Canada's TSX is better than it is for the U.S. S&P500 through to early 2010. The stock market growth cycle will continue as long as the companies you have chosen are making a profit. Approval of the bail out plan by the US Congress should reduce market uncertainty. Financial panics have occurred in 1987/88, 1997/98 and now 2007/08. The market low should be close at hand.

Make income tax an unexpected source of income

While they are complex, tax rules are among the criteria that must be taken into consideration within the framework of an effective investment strategy. We therefore asked Simon Beauchemin to answer the main tax questions posed by our investor members. With 30 years of experience in taxation, Simon Beauchemin is a chartered accountant and an advisor in Desjardins Group's Taxation Division.

How advantageous is borrowing to invest? (leverage loan)

A leverage loan becomes profitable as soon as the income from the investment exceeds the loan's interest expenses. In some cases, it is also possible to deduct the interest on the loan from taxable income. This makes it even more attractive when the investment generates dividend income or capital gains, which are more advantageous tax-wise. However, the tax impacts of a leverage loan vary from person to person; they must be carefully reviewed with an expert.

Do interest expenses receive the same tax treatment at the federal level and in Québec?

Not entirely. In your federal income tax return, your interest expenses can be deducted in the year in which you paid them. In Québec, you can only declare them if your investment earned taxable income. However, you do not lose out, as unclaimed interest expenses can be carried backward to the three previous years or deferred to later years.

How do we plan for a capital gain or loss by the end of 2008?

Toward the end of the calendar year, all investors should review the year's gains and losses on paper. If you are going to sell an investment at a profit in the near future, knowing that you will have to pay tax on your capital gains in the next four months, it may be better to put the transaction off until January 2.

However, if you are incurring a loss, it could be better to sell the investment before the end of the year so as to offset or diminish the tax impact of the capital gains incurred in 2008. The capital losses can also be used to recover income tax paid on capital gains made in the previous three years. They can also be accumulated for future years. This is an attractive option if you expect to make substantial capital gains in 2009.

What are the tax impacts of donations?

<u>Donating stock to a charitable organization.</u> To get a real tax benefit, you must give the security directly to the organization, so as to be exempt from the capital gains tax. You will then receive a tax receipt for the security's fair market value. However, if you sell the security to give the proceeds of the sale to the organization, you will get a receipt for the amount of the donation, but 50% of your capital gains will be taxed.

<u>Gifts to an adult child.</u> Any transaction between a parent and child is deemed to have occurred at the fair market value of the asset, whether it is an investment, a building, or something else.

Example of a gift from parent to child

1980: A father buys an investment for $12,000.

2008: The father gives the investment to his son. Its fair market value is now $30,000. The father is taxed on 50% of the $18,000 capital gain, i.e. $9,000. The son is deemed to have acquired the investment for $30,000.

2015: The son sells the investment for $40,000. The son is taxed on 50% of the $10,000 capital gain, i.e. $5,000.

You will naturally think of other questions as you read this document. Come in and meet with us to talk these matters over in greater detail and discuss any other financial questions. We would be happy to share multidisciplinary expertise of Desjardins group with you.

Tax-free or deferred tax investments

New for 2009! You can invest up to $5,000 per year in a *tax-free savings account* (TFSA). Interest and dividend income and capital gains generated in the account will never be taxed. Interesting, right? Come see us now to be ready for January 2009.

Did you know that there is a kind of investment fund* which makes it possible to defer capital gains tax as long as you remain in the same fund structure? Corporate class funds, also known as corporate-structure funds, offer a full array of products that all have this feature. Moreover, the annual taxable distributions are also reduced or even eliminated, allowing you to maximize growth tax-free.

* Desjardins Funds are offered by Desjardins Financial Services Firm Inc. mutual fund representatives. Desjardins Financial Services Firm Inc. is a company belonging to Desjardins Group. Desjardins Funds are not guaranteed; their value fluctuates frequently and past performance is not necessarily indicative of future returns. Commissions, trailing commissions, management fees and other costs are all associated with investing in a mutual fund and using an asset distribution service. Please read the Desjardins Funds simplified prospectus in which the asset distribution service is explained before investing.

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