



BUSINESS MANAGEMENT
QUARTERLY

WINTER 2003
(DENTAL EDITION)

NEW LOGO

You've probably noticed...we have revamped our logo. It was time for a change. We needed to put a new stamp on our business to reflect the improvements and additions we've made to our infrastructure in order to improve our service.

Over the past year we have added two additional members to the team, upgraded the computer system and as of last September, began to send out an analysis with our Monthly reports. Our mission is to maximize your wealth in the long term, while maximizing your cash flow in the short term in a manner that best suits your individual preferences and needs.

By the end of the year you will notice all of our correspondence will have our new logo. We could make the over haul sooner, but that wouldn't be the best use of our financial resources. We must "practice what we preach".

SURVEY RESULTS

If you recall, during last summer we distributed 200 service questionnaires to a cross section of our clients. The purpose of the survey was to determine:

1. How clients defined what we do?;
2. What services BA performs?;
3. How BA's performance ranks?;
4. And what other services clients would like to see offered through Business Affairs?

The response rate was excellent in that 35% of surveys were completed and returned to us. The results were as follows:

1. Top four responses to how clients defined BA services (multiple answers per respondent were given) –
 - a. Accountants (73%)

- b. Business Managers (48%)
 - c. Bookkeepers (43%)
 - d. Financial Planners (24%)
2. Top 5 responses to what services are performed by BA (multiple answers per respondent were given)
 - a. Personal Tax Returns (96%)
 - b. Year End Financial Statements (81%)
 - c. Employee T4 Summaries (63%)
 - d. Monthly Management Reports (58%)
 - e. Business Consulting (45%)
3. 91% of respondents felt BA met or surpassed expectations.
4. Top 4 requests for additional BA services (multiple answers per respondent were given) –
 - a. Retirement Planning (71%)
 - b. Budgeting (46%)
 - c. Practice Appraisals (39%)
 - d. Practice Transitions (39%)

We thank all respondents who took time out of their busy schedules to provide us with incredibly candid and valuable feedback. We use the feedback to shape our service strategy and offerings. For those of you who would like a refresher of the different services we offer please contact me (Frank – frank@businessaffairs.ca) or Norma Jean (normajeane@businessaffairs.ca) at 1-800-387-7021.

We will continue to distribute our service questionnaire every summer so that we may keep current with our clients' needs and wants.

MONTHLY MANAGEMENT REPORTS

As a reminder, we are heading into our busy tax season. Though we have made improvements to the turnaround of our Monthly Management Reporting, due to the demands of the tax season, you will

experience a slight slow down in the process between the months of February and April. All will return to normal by mid-May.

Top 4 Ways Self-Employed can Reduce Personal Taxes

1. **Hire family.** They can do work you don't need to, pay little taxes on their earnings and provide you a deduction you didn't have. However, there are certain precautions to be aware of. Please contact us for details.
2. **RRSP's.** RRSP Contributions reduce your taxable income. In some cases it even makes sense to borrow in order to max your RRSP contributions. Please contact us for details.
3. **Spousal RRSP's.** The goal is to equalize as much as possible the taxable income each spouse will receive later on in life, which can significantly reduce the overall tax bill.
4. **RESP's.** If you were planning to invest, consider investing in Registered Education Savings Plans. Though the contributions do not reduce your taxes, income earned within the RESP will be taxed at the child's rate when withdrawn. Please contact us for details.



SPECIAL ARTICLE

From time to time we will ask people within the financial industry to provide their insight on information that will be beneficial to our clients. The article below is written by Barry Epstein (bepstein@ipocapital.ca) of IPO Capital Corp (Dundee Securities is the back office provider). The article reflects Barry's

opinion and not necessarily the opinion of Business Affairs Ltd.

CORPORATE BONDS by Barry Epstein

Before I commence with my discussion on corporate bonds and why I feel it is the right time to invest in them, let's define what a bond is and how it differs from a stock. When you buy a bond or debenture you make a loan to the business enterprise or the government body that issued it. The issuer promises to pay this money back to you on the maturity date and in the meantime pay you interest at set amounts on regular and specified dates, usually semi-annually.

Bonds and debentures are issued in Canada by the federal government, by the ten provinces, by municipalities, by government agencies, by business corporations and occasionally, by religious organizations.

Every bond states on its face the rate of interest which the bond carries (known as the coupon rate). The Yield to Maturity on a bond reflects the total investor return in the form of income but also makes allowances for any capital gains (or loss) realized when the bond matures. The reason is that the bonds were bought at par and will be paid off at par on maturity so no gain or loss results.

However, bonds can trade at either a discount or premium to its par value and this is dependent upon a number of variables such as prevailing interest rates and perceived credit worthiness of the issuer (particularly as it pertains to corporate bonds).

Finally, the difference between a bond and a stock is the bond represents an obligation on behalf of the issuer to pay back fully the principal amount owing at maturity; stock is not an obligation on the part of the issuer but a unit of ownership in the company itself.

There are opportunities that exist in the corporate bond market. Companies such as Nortel Networks, Bombardier and Rogers Communications offer bonds of varying maturities from 1 - 25 years out. Due to the nature of the yield curve for corporate bonds, the 1 - 3 years range offer the best risk/reward for your investment dollar.

Nortel and Bombardier have had their stock prices severely hit due to the market downturn over the past 2 years. Consequently, corporate bond prices have been adversely affected because of this. Generally speaking, corporate bonds will move in tandem with the issuers underlying stock price. If for instance, Bombardier stock is adversely affected due to a slow down in corporate business, then their earnings will suffer as a consequence and as a result bond prices will be impacted. There exists an excellent opportunity to capture some very attractive yields going out 1 - 3 years.

Currently, Nortel offers a 9 month, US denominated bond, carrying a coupon of 6% with an effective yield to maturity of 13%. The bond is trading at a discount to par - i.e. 96. At maturity, bonds trade at their par value of 100. Nortel also has a 3 year bond maturing Feb.15/06, again a US currency bond, offering an incredible yield to maturity of approximately 18% - i.e. 18% per annum over the 3 year life of the bond.

Due to the downturn in the market, companies such as Nortel and Rogers are considered "Junk Bonds". This means that they are below investment grade and as such carry with it a greater risk that the issuer could default on its interest payments over the bond life. The incidences of this happening are unusual.

Historically, companies such as Nortel, Bombardier and Rogers which have stable,

longstanding businesses with solid customer bases rarely, if ever, default. Coupled with an improved economic and market forecast for '03, I believe you'll see substantial improvement in both stock market prices which should carry through to bond prices. Keep in mind that bond markets are for the most part very liquid and there exists exciting capital gains potential for longer term maturities; this of course would be for more aggressive, capital gains oriented individuals.

The above illustration using Nortel bonds in no way exhausts the selection of corporate bonds available for investment purposes. For those individuals a little less aggressive, there are medium grade bonds - not junk status - such as GMAC, Ford Canada Credit, Hudson's Bay, TransAlta, Cominco and Royal Bank to name a few that offer very attractive yields in the 5% - 7% range.

All in all, I believe the time is right to capture hefty yield returns in the corporate bond market if the investor is not too risk averse.

TAX, TIPS AND TRAPS

As a reminder, for your benefit we've included some relevant tax information with this news letter.

INCORPORATION REMINDER

If you are in a position with positive Equity and business debt, then you may be an ideal candidate for professional incorporation. As we complete Year End financial statements we will be contacting clients who have met these two criteria.

Further, if you are considering selling a stake in your practice, this too can present an attractive opportunity for professionally incorporating. Please contact us for details.