

the HERALD Outlook

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Year end analysis

Any stocks up for sale?



Diane Maley

Your Business
Thomson News Service

With year end approaching, it is time to look over your stock portfolio and decide if there is anything you would like to sell.

Increases in capital-gains tax in 1990 may make it worthwhile for you to sell a stock before 1989 ends. This only makes sense if you are thinking of selling anyway, says Gordon Bonn, tax-planning specialist with Wood Gundy. Mr. Bonn does not advise you to sell your stock just to take advantage of the lower tax rate. After all, the stock may do well over the next year, so that the gains far outstrip the tax increase.

Beginning next year, three-quarters of capital gains must be taken into income. This year, two-thirds of capital gains are taxable. This means you will be paying about 13 per cent more federal tax on your capital gains next year.

The tax change will affect only those who have used up their lifetime \$100,000 capital-gains exemption. Otherwise, you need not worry about capital-gains tax.

TO SELL OR NOT

"In terms of strategy, if you are going to sell a stock, it is probably better to sell it in December rather

than January," Mr. Bonn says. "You should not sell just because of the tax rate."

As always, there are people for whom some other strategy might be better, he notes. For example, taxes on 1990 capital gains do not have to be paid until April, 1991.

On the other side of the equation, you may want to sell your money-losing stocks so you can apply your capital losses against any capital-gains tax you have to pay. Capital losses can only be used to offset capital gains, Mr. Bonn notes.

But he points out that an argument can also be made for deferring your losses until next year, to offset the higher capital-gains tax. If you do decide to sell for tax-loss purposes, you cannot buy the stock back for 30 days. If you sell to lock in a capital gain, you can buy the stock back immediately.

Either way, you must sell the stock by Dec. 20, so that settlement will take place before year end. Stocks traded after that day will be settled in 1990, the Toronto Stock Exchange says.

RRSP THOUGHTS

Although you have until March 1 to make changes to your registered retirement savings plans, Mr. Bonn points out that this will be the last year that taxpayers will be allowed to roll all of their income from company pension plans into an RRSP tax-free.

Also, 1989 is the first year taxpayers can roll \$6,000 of pension income into a spousal RRSP. This tax-splitting measure will suit people whose spouse will be paying lower income in retirement.

Another note on RRSPs: The plan to raise the amount taxpayers can contribute to RRSPs has been put off once again.

SNAFU® by Bruce Beattie



Rejecting Meech Lake would hurt the economy

Vic Parsons

Ottawa Bureau
Thomson News Service



Don't take to the lifeboats yet, but Canadians should consider seriously the argument that rejection of the Meech Lake constitutional agreement would hurt the economy.

That's the view of a group of 300 Quebec business leaders, both French- and English-speaking, who warn that Canada and Quebec will suffer if Meech is spurned.

The group is led by Claude Castonguay, a former provincial Liberal cabinet minister who now is chairman of Laurentian Group Corp., one of Quebec's largest firms.

Castonguay said a recent trip to Europe persuaded him that foreign investors are nervous about Canada's future. "Money flies very rapidly when investors fear there is a chance of instability," he told reporters.

This, of course, fits in neatly with the vision of Prime Minister Brian Mulroney, who choreographed the Meech Lake deal and would like to leave it to posterity as his contribution to nation building.

But the past suggests there is substance to Castonguay's claim. While many opponents of Meech, fed up with years of wrangling, feel it might be better if Canada and Quebec go separate ways, foreigners would view political instability in the country in a different light. Indeed, it's doubtful the opinions of outsiders have changed much since the first constitutional shake-up occurred in 1976.

ELECTION SCARE

What happened in the late 1970s to justify this view? In November, 1976, the Canadian dollar was coasting along at a value of \$1.03 U.S. But then came the stunning election of Rene Levesque's Parti Quebecois.

Immediately, as foreigners' lost confidence in Canada's future, the

dollar tumbled. It was the start of a free-fall that lasted for years until the Canabuck bottomed out in 1986 at around 69 cents U.S.

Currency experts insisted in 1976 that the dollar was over-valued. At \$1.03, it wasn't doing wonders for our exports. So, a downward revision was due, but it's doubtful it would have fallen so far and so fast without the political element.

As the dollar plunged, what happened? In the late '70s, the government spent billions of its foreign currency reserves to ease the helter-skelter retreat.

For the first time in a decade, Ottawa had to borrow money from offshore to build up depleted reserves. In the 1978-79 fiscal year, perhaps the worst time, the federal government borrowed \$6.2 billion. It also arranged huge standby credits with international banks, which could be tapped if necessary. (Putting this in perspective, in 1977-78, foreign borrowing was \$855 million. The record prior to that was \$282 million.)

INFLATION HIGHER

By mid-1978, the dollar had fallen to a low point unequalled since the worst days of the Great Depression. With its dramatic fall, the cost of imported goods soared as foreign-made products became more expensive. That pushed up the inflation rate.

Partly to clamp down on inflation, and partly to restore confidence in the Canadian dollar, the Bank of Canada raised interest rates.

Meanwhile, unemployment rose sharply in 1977 and 1978, before dropping off to more reasonable levels in 1979. And in 1977-78, the national debt ballooned by 21.4 per cent, a one-year rise not matched since.

It can't happen again, you say? The economy is too strong? Everyone is getting acclimatized to the idea that Meech Lake will be rejected?

Maybe. But Canada is teetering on the edge of recession. Investment dollars are flowing to Europe, Asia and other places where the economic future looks brighter.

This week, an economist has suggested the dollar is over-valued by eight cents. A fall could be coming. Perhaps the spurning of Meech will be the trigger.

Special interest groups get more money

Derek Nelson
Queen's Park
Thomson News Service



There's a trend nowadays for government to give money to special interest groups so those groups can then "intervene" (usually against) what the government is doing.

Such "intervenor funding," as it is known, is given on the grounds that financing such groups enhances "public participation."

But does it? Critics suggest that - by definition - intervenor funding is biased, a political shell game where some win and some lose depending on arbitrary criteria.

In this regard, there's been an interesting test case the past couple of years. It appears to confirm many of the critics' suspicions.

"The grants are tied to what is officially known as the "class environmental assessment for timber management on crown lands."

In plain English: the Natural Resources ministry appears before a three-member panel and tells them about now it plans and carries out timber management in the 70 per cent of Ontario that is crown timber land. (Basically, this is most of the Canadian Shield country in eastern and northern Ontario up to the tree line.)

It includes diverse aspects of logging, from building roads to harvesting, regeneration and fighting bugs and disease.

Once assessed and approved, the ministry's plan will become the blueprint for all future timber management and harvesting projects in Ontario - since all projects of that "class" will have therefore been approved.

This being the age of public input, groups that wished to participate by cross-examining ministry witnesses or by presenting their own experts were registered as intervenors. The assessment board was given \$300,000 to divide up any way it wanted to help the intervenors do their job.

This was 21 months ago. About 20 groups appealed for more than \$1 million in funding. Only nine got cash, with the biggest chunk of \$134,000 going to Forests for Tomorrow, a coalition of five environmental organizations, including the 35,000-member Federation of Ontario Naturalists. Three Indian-Metis lobby groups received almost \$155,000.

One of those turned down for funding was the Ontario Federation of Anglers and Hunters, with its 67,000 members and a deep interest in multiple use of forests.

The hearings were held in Thunder Bay, of course, which both upped the cost and made it difficult for a lot of intervenors to attend on a daily basis. Nor did anyone expect the assessment to take so long that the hearings are still on-going today.

Thus, cabinet authorized another \$900,000 in intervenor funding in May this year, again leaving it up to the board to decide who got what out of the kitty.

Berry's World



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"Sometimes, I wish we'd never GOTTEN a fax machine!"