CastleMoore News

Buy, Hold... *and* Know When to Sell™

VIKING FINANCE

By Ken Norquay, CMT, Partner

When travelling, I love to stay at bed-and-breakfast establishments because I meet the most interesting people. Even boring people seem interesting over a good cup of coffee. This time, I met a fellow from Iceland, the first Icelander I had ever encountered. No wonder we rarely meet them: Iceland has a population of only 320,000, half that of Winnipeg. This was my chance to solve the mystery. The media never did follow up on the aftermath of the Icelandic banking crisis and I was curious as to how things came out. Do you remember what happened in Iceland? In 2008 all three of Iceland's banks went broke and had to be nationalized. Britain and the Netherlands provided huge bail out loans in order to keep the Icelandic banking system together and the government of Iceland guaranteed the loans. The crisis got worse. In early 2009 a variety of government officials resigned. In March 2010 there was a referendum where the people rebelled and voted not to support their government's guarantee. This left the Dutch and British banks in a pickle! The rescue operation, appropriately labelled "Ice Save" had failed. Iceland's sovereign debt became junk bonds. So, I asked John from Iceland, how things were nowadays in the aftermath of all this. John said, "Fine," and sheepishly took another sip of his coffee. As I pressed further he started to use words like "economic depression" and said that many Icelanders were emigrating, mostly to Norway. Another guest, Hans, from Denmark, used the term: "Third World country." Icelanders are paying the price for their decision not to honour their country's obligations.

That's why we're all so worried about the Greek crisis.

Greece has a population approximately double that of the Greater Toronto: significantly larger than Iceland. But the script is the same. Act I was when Iceland tried to borrow its way to prosperity. Act II was when they went too far and the excesses came to light. Act III was the bail out. The whole world hopes that this Greek tragedy (I call it "The Golden Fleece") won't go into Act IV – the default. The Greek people are embroiled in their debate. What concessions will they make? Will they accept austerity? Or will the people rebel as the Icelanders did? The script is almost the same, but the problem is significantly larger.

Let's not even think about Italy with a population almost double that of Canada. But, "The Decline and Fall of the Roman Empire" is the same script, isn't it?

All these scripts have the same ending. In fact, all financial crises have the same ending: great loss for some and great opportunity for others. The trick is to avoid the loss and be there for the opportunity.

At CastleMoore, our technical methodologies help us in avoiding great loss. In 2008 we sold out of the stock market before the big decline. And in summer of 2011 when the Greek debt crisis unfolded (We call it "The Golden Fleece"), we participated in the bond boom and the gold boom. Avoiding loss is priority #1. Taking advantage of opportunity is priority #2.

Eventually the Euro-banks will sort themselves out, like the American banks did after their sub prime mortgage financial bust. And, perhaps some new financial crisis will arise. For now, that's how the world's financial script is reading: one crisis after another. Nowadays financial trends are moving both up and down. We have to be alert and ready for the down moves. Otherwise, we'll wind up like our Icelandic friend at the B&B: trying to keep a stiff upper lip in a regrettable situation.

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HANDICAPPING INTEREST RATES

By Robert 'Hap' Sneddon, FCSI, President

Though I've not been to see the ponies too much – I think I've been twice for races – I've heard friends who are regulars talk about reading the race program to gleam an edge or an advantage in making their wagers. I am always fascinated by how much information they extract, and how little I do. There's a clear analogy with understanding the direction of interest rates today. Like the equity markets, opinions are many, and certainty is high that we are on a one way direction up. Here's how I'd handicap interest rates, how I'd read the "program".

1. BOND MODEL

The most important bit of information that we look at each month is our bond model. Without going into too much detail on how it works, it's sufficient to say that it has 3 components that each produces a monthly buy or sell signal for CastleMoore clients. One component looks at very long term trends, in terms of years. The other two have a much shorter focus. They consider bond price moves in weeks and months. Well right now one of the shorter term ones is on sell, and the other shorter term one is on buy. The long term component is on buy. Based on this scenario – two buys, and a new sell - which occurred back in November we sold one half of our 40% portfolio allocation to long government bonds at that time. If we had the other shorter term signal go sell or even the longer term one do the same, we'd sell the remaining holdings.

2. TREND

The trend is up. A brief look at the longer term chart on the next page shows that the trend for yields is down, and has been so for 35 years. This explains the long term component being in a buy mode. That said, there is significant room from here, around 2.25% for 10 yr government bonds, up to that trend line. Let's call it 3.5%. A move of that magnitude in yields means that we have given up a fair bit in price. In simple terms the trend in yield remains down.

3. HOUSING

In the US, with still some 7million homes of unsold inventory, the US housing market cannot afford to have rates move past that trend line. If we had bonds paying 4%, we'd be talking about mortgage rates north of 6½% and that would not be good. Similarly, housing is hitting stall speed in Canada, and Canadians did learn much from our American neighbours. We are as indebted as they were at their peak in 2008. Recent figures show that we have been using the home as a piggy bank too, refinancing to pay for whatever. Canadians cannot afford rates 150bps higher.

4. INFLATION

Inflation has been running above trend in Canada (2.6%), the US (2.9%), and Europe (2.7%) and below trend in China (3.2%). The long term averages of each are Canada 3.26%, the US, 3.38%, Europe, 3.08%, and China 4.25% (1994-2010). This is a direct result of stimulation by governments in the form of Quantitative Easings I & II (and maybe QEIII on the horizon) and the recent Long Term Repo Operation (LTRO) in Europe to save Greece and European banks.

continued on next page

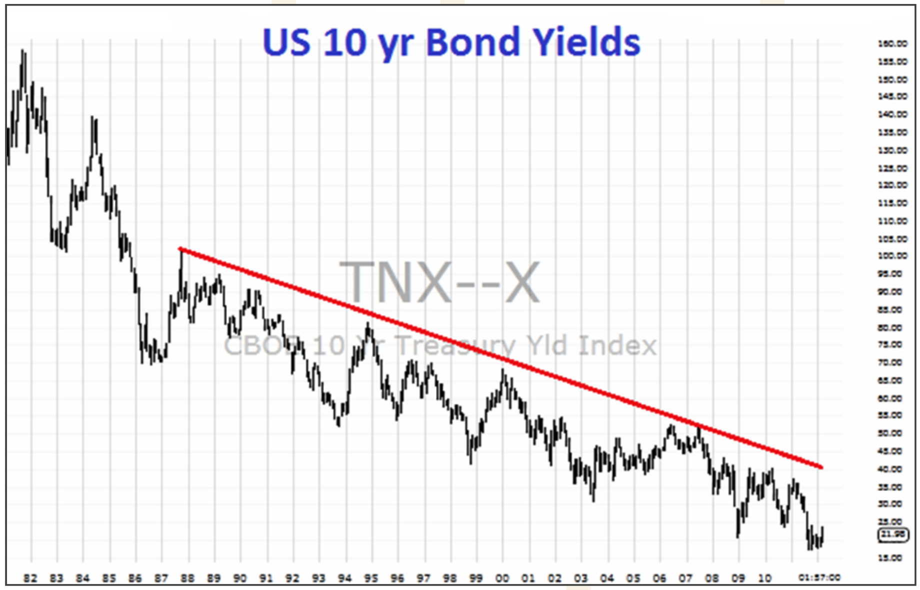
The most important component of inflation with respect to bond price direction is interest rate expectations. Sure it matters what the inflation numbers are today, but investors make decisions based on what they see in the future 6 months to a year out. And they see inflation in the US moving up to 3.5%. How much would this come down with a halt to the government back-stopping of markets?

5. GOVERNMENT INDEBTEDNESS

As with the point on personal indebtedness governments cannot handle rates 150bps higher for a very long period of time. They've racked up a lot of debt in stimulating things; saving banks and insurance companies (In Canada we did our share of bank saving though it's been not covered as much by the media here). The social implications would be severe with deep cuts to many services as a result of significantly higher rates.

6. WAGES

Wages and housing are the two most significant factors that account for inflation. Yes we've come off the bottom in unemployment in both Canada and the US, but we are not yet seeing upwards pressure on wages. Until we see this wages will not drive higher inflation numbers.



This 30 year chart of 10 yr. US Treasury Bond yields shows a powerful bull market.

In conclusion, when you look at the totality of the points, it's clear that there are many factors that strongly infer we cannot handle higher interest rates, though investors expect higher yields and lower prices for bonds in the foreseeable future, but what does foreseeable mean? To me, today, it means until the market comes to believe that we are not going to get anymore government stimulus, and corporate earnings begin to fade. Could we be on the verge of this now? Yes, it's possible, but so too is the likely hood that we move up to that downtrend line in the chart. A move much higher from here triggers a sell of the remaining bonds, and then the patience to wait for a buy signal at the line. Managing from models give CastleMoore an advantage; we don't have to rely on our ability to handicap interest rates, though we know the state of the major inputs to the interest rate question.

Bonds made up a good portion of our superior portfolio returns in 2011. Bonds, really? Yeah bonds.

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RECENT MEDIA

BNN Appearances **http://www.castlemoore.com/businessnewsnetwork.php**

BNN BUSINESS NEWS NETWORK

THE CHART PAGES

GOLD BULLION

We still don't own gold – we sold all of it last August. Though the investor fervour has died down somewhat, putting this type of trade in our wheelhouse, there's still some bullishness our models need to see worked off before we establish full positions across our portfolios. We are still in a long term uptrend no matter how many episodes of Alaska Gold Rush I see. Our analysis still shows potential downside into the $1400's USD/oz.

CANADIAN BONDS

Long bonds have performed very well for all our client portfolios that have an allowable bond mandate – which is most portfolio types. As with our gold exit, we parcelled away half the position initially. In this case, we sold one half of a 40% portfolio position in late November and still hold the remaining 20% today. We are currently close to our risk management levels, a breach of which would lead to the sale of the rest. That said, the odds at the time of writing (late March) are in favour of a push higher, not lower.

LOONIE

The Canadian dollar is synonymous with the "risk-on trade", or sectors such as energy and mining, both of which have not reaccelerated as investors had expected. No wash, rinse and repeat this time. A break below $0.98/USD would suggest risk off; a break above $1.02/USD would suggest another shot at oil (WTI) north of $140.00bbl/USD.

US DOLLAR

The US dollar has been strong too like the Loonie the last couple of quarters. For Canadian based investors or investors who are reported to in C$'s it's been a wash, with not much change. We own USD cash as a simple hedge at this time. Now this should make sense with the US printing some better overall economic and corporate earnings numbers of late, and when we compare the two currencies – the USD and CDND – it appears the Loonie has run its course or at least the USD is stronger on a relative basis. Should we get a clear resumption of the "risk-on" trade we would close this position out.

THE CHART PAGES

CANADIAN EQUITIES

We tend to show the same charts each issue so as to develop expectations from our readers of seeing the same things. We pick a broad basket that should help paint a big picture. This allows readers to notice themselves, along with the commentary, what has changed in the last two months. This has been a long-winded way of saying Please see comments on the Loonie. We could have just said that and been done with it. Have a look yourself. Any difference to you? "Risk-on" means buy the TSX, but it doesn't look so today.

US EQUITIES

If we compare this chart of the S&P with the TSX it's night and day. The S&P has a much smaller concentration of resource equities, a larger component of international companies and Apple. The commodity complex has not taken off in almost a year (we have recently taken up small position in them based on good current risk-to-reward levels) and Canadian companies as not as global as US are, but the most intriguing difference is the attribution to the index levels from Apple. Based on market-weighting, the index's total earnings growth dropped from 7.8% YoY with Apple to just 2.7% without. Quality aside, should we mention to our friends down south about stock concentration? Nortel?

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GUEST COLUMNIST

THE BLACK CROW

By Mukul Pal

Call it a good omen or bad, human beings have associated natural occurrences with events. Though 'objectivists' say human beings suffer from illusion and see what they want, reconsideration shows there is more to illusion than just a black crow or swan.

Seeing a crow perched outside your window or a black swan gliding on a lake are rare events. A "black swan" or a financial event that is an outlier, unknowable or surprising, showing up on a trading screen is the same as the real birds: they are patterns because they repeat, even if rarely. If there was constant crisis we would not connect them to rare events because there would be no precedent for it. Only when the passing comet coincides with a famine is it that we label its next passing as a bad omen. It's the repetition or the cyclicality of a process that guides society to establish patterns, no matter their frequency.

The point I am making here is that identifying an outlier such as a crow perching itself outside your window and metaphorically connecting it to economics does not make it all objective. At the soul of every pattern is a repetition, a cycle. The pattern keeps repeating because the cycle keeps pulsating. So, if time is at the heart of every pattern, why does a pattern get more attention than a time cycle?. Patterns do offer a story and humans love stories (Shiller in Irrational Exuberance), but is there really an objective reason which can make cycles more objective and scientific?

If we could connect an outlier with a cycle, in other words, if we could prove that outliers happen cyclically, we could time the reappearance of the crow or swan. Before we connect cycles and outliers we need to understand the character of an outlier. Conventionally, outliers can be defined as extreme or rare events (rare large price fluctuations). An example is the Great Depression, the 1987 crash or the recent 2008 crash. Statistically, however, data has both positive and negative outliers. And the 1985 DeBondt-Thaler paper, Does the Stock Market Overeact?, on mean reversion and three-year worst portfolio outperforming the three-year best portfolio, is statistical proof that outliers among a group reverse in performance, and this happens repeatedly, in cycles.

As early as 1985, the two researchers looked at outliers on a relative basis, as part of a group and proved extremity and reversion were connected. If we could increase the duration from three years to five years or more, we should get similar reversion in outliers. Shiller's price-earnings (PE) work assumes decade-long PE reversion. The worst valuations of a decade tended to reverse. So, if outliers were always reversing and doing so repeatedly, what stops us from timing the appearance of the crow at the window?

I think some more research and some more time would generate enough cases on outlier cyclicality i.e. today's worst are tomorrow's best (and vice versa). And outlier cyclicality could be used to time the next big earthquake, the next large volatility spike, the next crash, the next $10 intraday move on oil or just about anything else.

Another thing that stops us from understanding rare market events is how we define market in the first place. If the market for you is the S&P500, the chances of your understanding the worst or the best (the outlier) are small. You need to extend your group to 1,000 securities or maybe 10,000 before you are sure what is really the worst, or best security. And once your analysis is complete, the only challenge would be to have the courage to buy the worst, despite the black crow or the swan that may be ready to fly your way.

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Orpheus Capitals' vision is to revolutionize the world's understanding of TIME and build research analytics around it.

GUEST COLUMNIST

THE RELATIONSHIP BETWEEN VELOCITY OF CIRCULATION AND ECONOMIC GROWTH

By William Chin

To understand why growth is anaemic despite Herculean efforts by governments and central banks, one has to look at the velocity of circulation, which correlates extremely closely to changes in economic growth.

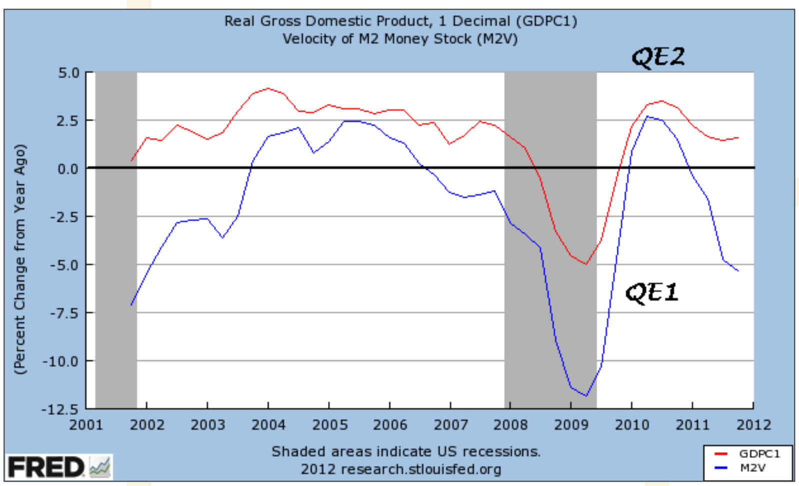
Put simply: When businesses have the appetite to expand and the investors have the appetite to invest (money is changing hands; velocity is up), there will be growth.

Conversely, if businesses and investors start to hoard cash instead of investing, either because they see little prospect of profit, or they are fearful of risks, there will be little or no growth, regardless of the level of money stock.

In the following chart, as the U.S. economy emerged from the 2001/2002 recession, velocity of circulation started to pick up. During the housing bubble (2004 – 2007), the velocity of circulation reached its recent high points as debt piled up and leverage proliferated. Growth followed.

The collapse of the housing bubble and the financial crisis started a period of deleveraging, as debt was being repaid, defaulted, or denied. Balance sheets at U.S. households and financial institutions shrank; some ended up in bankruptcy. Business and investment sentiment were weak and personal consumption was down, further reducing the velocity of circulation. Growth suffered.

QE1 helped in bringing the velocity up and QE2 tried to keep it going higher. However, such temporary measures were insufficient to reverse a now well-entrenched, secular trend. After the conclusion of QE2, velocity dipped again, and so did growth.



It would be difficult to argue for a return to normal levels of GDP growth (red line in chart) as long as the velocity of circulation (blue line in chart) remains weak.

The economist Irving Fisher has long captured this concept mathematically in his Equation of Exchange.

THE EQUATION OF EXCHANGE

MV = PT

Where

M = money stock

V = velocity of circulation

P = prices

T = transactions

MV together represents total demand in an economy, while PT represents total supply in an economy.

The money stock (M) by itself cannot generate growth (transactions, or T) if velocity (V) is low. If everyone is hoarding cash and not spending it, even an enormous increase in money supply will not generate economic activities.

This is what economists refer to as the "Liquidity Trap" central banks are finding themselves in these days.

Since the deleveraging process takes years to complete (households need years of savings to rebuild lost equity in their homes), velocity of circulation will remain low, dragging growth lower with it. In this environment, unemployment will remain high and wage pressures low, giving rise to a low inflation environment. All these factors combine to keep interest rates low and that is long-term bullish for bonds.

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FROM THE KITCHEN TABLE…LOWER RISKS FOR HIGHER RETURNS

By Thomas Kleinschmidt

Typically, financial advisors meet prospective clients at their kitchen table. Perfect place…that's where most of the important family decisions take place, so it is from that perspective which I write.

Despite the obvious "sigh of relief" out there due to the rising equities markets and stable bond markets there are a few points that I heard come up again and again recently, while talking with investors.

The first, beyond the myopic focus of the equities markets, is that there is still much uncertainty about "how will my family be financially in the future" worry. The immediate stress is gone, but not the worry.

Secondly, it is the issue of "timing". Not timing the markets, but the timeline of their investment strategy. Many investors, especially retired ones over 70, are now beginning to realize that the long term time horizon they have enjoyed is now shortened…they are taking money out of their accounts, wanting to leave as much inheritance as possible to their kids (maybe not?)…or just plain mad that 30-50% swings in the value of their portfolios isn't "investing" and they need better (hear the hand hitting the table in emphasis).

What to do as a Do It Yourselfer? Same answer for both points above – you must take heed of the volatility of the markets. That's the bond market and the stock market for everyone, the bullion markets for some, and the currency markets for a very few. Said differently, know when the "shot" you heard is just some kid setting off a firecracker in their backyard or that it's Wyatt Earp coming down the road and you're in Tombstone, AZ.

Bonds? I can see how investors with large bond portfolios are happy, happy, happy. I said last month "Methodologies aside, investors of all shapes and sizes have found that the markets are indeed different. What is really happening is that investors are getting their emotional risk tolerances tested." What will they feel if indeed long term interest rates have bottomed and their portfolios now come down in value big? Or will they be the ones breathing the sigh of relief when interest rates fall even more?

Gold bullion seemed unstoppable, but dropping a hundred bucks in a day? What's a gold bug to say today?

And recent news has "DOW AT 13,000" headlines, but consider, from a price/book value perspective the 2007 highs were actually weaker than the 2000 highs and the push to break 13,000 and perhaps 14,000 now seems weaker still. Then again, perhaps things are indeed better economically and it becomes stronger over the next few years? Note to DOW30 clients!: have no fear as the Dow 30 INDEX is what we're aiming to beat and with absolute returns…the index is just the benchmark and our universe…we're leaving about half of the 30 stocks behind and of the ones we'd invest in you're only holding 7 stocks (as of March 27, 2012).

I've talked about how important it is to allocate your investable assets in a timely, dynamic fashion. I've gone on about the need for methodology to overcome fear/greed and other behavioral biases. I've discussed watching dollars over percentages and I've yakked about absolute returns vs. beating the benchmark. What I haven't said is perhaps the most important thing now….and now that you are "trainable" (as my Sensei might say!).

Stop reading people's opinions on the markets and get better at your investing. Either you will continue to do it yourself or you place your faith in a portfolio manager/financial advisor. In any case you'll need to ask the right questions for you and the only way to do that is to know more. And you won't find that out by reading opinions.

That said, may you please pass the salt.

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GUEST COLUMNIST

DISCLOSING FOREIGN PROPERTY ON YOUR TAX RETURN

By Ed Arbuckle, CA, FCA, TEP

I usually try to avoid writing articles about technical tax issues because almost everyone else does. But, the huge penalties that honest taxpayers can encounter by not filing certain forms has me departing from this resolution. Page two of your personal tax return has a seemingly harmless little question to answer.

Did you own or hold foreign property at any time with a total cost of more than $100,000?

If you own any foreign property, the question then instructs you to complete form T1135 – Foreign Income Verification Statement. The question doesn't exactly pop out as important and has nothing to do with the calculation of your taxes. Chances are you didn't even notice it and if you did you may have ignored it – not thinking about the foreign stocks in your portfolio or your condo in Spain that you sometimes rent out to friends. However, some of these properties may be specified foreign property and if so you will need to file Form T1135 with your tax return or suffer a lot of grief with a filing penalty.

FOREIGN ASSETS

Foreign property consists of income earning assets with a situs outside Canada but excludes personal assets (except if you earn income from them) and assets used to earn income from a business. They include the following:

- Funds held outside of Canada
- Interests in non-resident trusts
- Shares of non-resident corporations
- Real property outside Canada
- Indebtedness owed by non-residents
- Other property outside Canada

The form must be completed by individuals, corporations, trusts and partnerships. Investments inside RRSPs and other registered tax plans don't count as specified foreign property.

Here is a summary of what CRA considers to be specified foreign property:

Funds Held Outside Canada – money on deposit in foreign bank accounts, money held with a foreign depository for safekeeping, money held by any other institution.

Shares of Non-resident Corporations – shares of non-resident corporations whether or not they are listed on a stock exchange or are physically held inside or outside Canada.

Indebtedness Owed by Non-residents – all amounts owed to you by a non-resident person includes all promissory notes, bills, bonds, commercial paper, loans, mortgages and indebtedness issued by a non-resident person.

Interest in Non-resident Trusts – any interest in a non-resident trust. You do not have to report your interest in the following – a trust that is governed by a US Individual Retirement Account (IRA), a non-resident trust that neither you nor a person related to you had to pay for in any way, a non-resident trust principally providing superannuation, pension, retirement or employee benefits primarily to a non-resident beneficiaries.

Real Property Outside Canada – any real estate holdings that you have outside of Canada, other than real estate used in an active business or for personal use. If you have a property you rent outside Canada it may need to be included. (CRA mentions a vacation property that you only use four months a year and rented out for eight months a year)

Other Property Outside Canada – precious metals or bullion, precious stones situated outside Canada, commodity or future contracts, options or derivatives.

Form T1135 also requires taxpayers to indicate where the foreign assets are located. Locations noted on the form are the United States, United Kingdom, Europe, Southeast Asia, Caribbean and Other. The asset location may seem to be a harmless question but for obvious reasons CRA will pay more attention to assets located in the Caribbean (maybe the Bahamas, eh!) than those situated in say the United Kingdom.

PENALTIES AND PRIOR YEAR RETURNS

You should think about going back and having a look at your old returns to see if there was a reporting problem in earlier years. The penalties for failing to file form T1135 are huge and apply to each year that the form was not completed. Here are the penalties:

- Innocently not filing –$25 per month to a maximum of $2,500
- Knowingly not filing –$500 per month to a maximum of 24 months

If you have foreign assets and haven't filed the T1135 for say three years, you would have a penalty of $7,500. If CRA asked you about this in the past and you then failed to file form T1135 in a later year, the penalty for one year alone is $12,000. In both cases, interest is added on. That can add up to a healthy sum. There are further comments below about Fixing Up The Past.

continued on next page

CRA'S CHANGING POSITION

CRA has in the past waived non filing penalties for a first time omissions but more recently they have been applying them. Taxpayer relief appeals may help get you out of penalties but they are becoming more difficult to obtain – despite the wording in the CRA's Taxpayer Relief Provisions publication which lists the following factors that will be used to arrive at CRA's decision to grant penalty relief or refuse it.

- Whether or not the taxpayer has a history of compliance with tax obligations.
- Whether of not the taxpayer has knowingly allowed a balance to exist on which arrears interest has accrued.
- Whether or not the taxpayer has exercised a reasonable amount of care and has not been negligent or careless.
- Whether or not the taxpayer has acted quickly to remedy any delay or omission.

CRA holds all the cards and can make their decision one way or the other – even if you believe you meet their tests. CRA's recent withdrawal from its "one-chance policy" seems to fly in the face of the words in their own publication.

DARE WE COMPARE THIS WITH THE US

Let's compare CRA's new approach with a recent Fact Sheet issued by the United States IRS – also about a failure to file a disclosure return. The IRS indicated that if a taxpayer is able to show reasonable cause, they will not be subject to penalty. In determining reasonable cause the IRS considers the following factors:

- Your education
- Whether you have previously been subject to the tax
- Whether you have been penalized before
- Whether there were recent changes in the tax forms or law that you could not reasonably be expected to know
- The level of complexity of a tax or compliance issue

In general, the IRS will provide relief based on complexity, compliance history and taxpayer sophistication. Compare that with CRA's abandonment of its one-chance policy and the Winnipeg Taxation Director's rather draconian comments on this matter described below. Shame on CRA!

THE INJUSTICE

There is no doubt that Canada (and other countries as well) want to catch people cheating on their taxes by hiding money abroad. Fair enough! The problem with this is that innocent taxpayers inadvertently get caught in a penalty trap and can be penalized by CRA for innocent oversights – even if all of their income has been fully reported. We see more and more complex tax legislation every day designed to help CRA get the bad guys but honest taxpayers can get thrown into the same pot.

In a recent tax dispute involving the application of penalties for not reporting foreign assets, the Director of the Winnipeg Tax Services Office was reported to have said the following – even where all the income had been reported and the taxpayer (actually the accountant) simply made a filing mistake:

While I can sympathize with your position, the Taxpayer Relief Provisions do not allow for cancellation of penalties and interest when a Taxpayer or their representative, lacks knowledge or fails to meet filing deadlines.

Now come on!

TAX RETURN PREPARATION

At one time tax return preparation was a fairly mechanical process. Most people did their own returns and many still do. Others will take their information to a tax preparer to get the nasty job out of the way. Those who still view tax filing as a simple process might be tempted to use basic software or an inexpensive tax preparer to get the return done cheaply. They are making a serious mistake – today's higher complexity warrants a more thorough review.

Even if your tax assessment comes back confirming that your filing was done correctly, this may not be the case. You obviously paid enough tax but just maybe you paid more than was necessary. The following is a small sample of areas that can easily be overlooked and increase your taxes unnecessarily.

- Failing to claim tax credits (there are many that could apply).
- Not filing the T1135 which can get you into hot water and penalties.
- Overlooking tax elections that can make normal taxable transactions tax free.
- Failure to transfer tax credits amongst family members to make otherwise unusable credits useable.
- Failing to correct prior year's overstatement of taxes because in advertently income was overstated, expenses were understated or tax credits were missed.

It makes us laugh when we see e-file as a big benefit provided by tax preparers. Whoop de do! There are much bigger fish to fry than that.

FIXING UP THE PAST

Information attached to the T1135 form indicates that CRA encourages taxpayers to voluntarily correct any deficiencies to your past tax affairs (i.e. not filing the T1135). This can be done by filing a voluntary disclosure on CRA form RC-199.

Taxpayers who have overlooked form T1135 should seriously think about making a disclosure to head off nasty assessments of penalties and interest for prior years. You can go back ten years to fix up errors or complete missed filings.

Paragraph 18 of CRA's circular indicates that a voluntary disclosure will be accepted for failing to file an information return. However, a voluntary disclosure is not available if CRA has already contacted you about the matter, so all the more reason to get at it sooner rather than later.

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