CastleMoore News

Buy, Hold... *and* Know When to Sell™

2013: WHAT'S GOING ON DOWN IN THE DEEP?

By Robert 'Hap' Sneddon, FCSI, President

Prognostication on the future can be a mug's game. You look like a goat if you're wrong and some kind of wizard if you're right. But I learned early on in my career at Richardson Greenshields, and then RBC Dominion Securities, working with the influence of some great people like Don Vialoux or Ray Hansen that true investment success comes from understanding probabilities. It's a stark, uneventful way to assess opportunity, and act, but the most relevant now. With the contemporary twin investor objectives of performance and asset preservation having one's cake and eating too, or at least a bit of both, is the portfolio manager's job these days.

From today's standpoint – that is post-QEternity, post-US presidential election, pre & post the Euro mess, and as we (especially the non-American "we"), march along with the US on their lemming saunter (it is like a slow motion train wreck isn't it?) towards the fiscal cliff – here's what changes are occurring in asset classes, sectors, TSX stocks and countries. They lay out an investment map for 2013.

Asset Classes

Our regular weekly work on asset classes is a study in inter-market analysis, something crucial to delivering absolute return. This tells us which broad asset classes are strong and which are weak. Within the large group the biggest movers on an intermediate or investment term basis (vs. short term or trading) since mid-September were US government bonds, the US dollar and silver bullion. Bonds jumped from 11th to 4th; the US dollar moved from 14th to 9th; and silver bullion from 1st to 13th. While we expect markets to favour pro-risk assets through to the New Year big money appears to be placing its markers in more risk adverse classes.

TSX Sectors

Drilling down into TSX sectors the top ranked are the cons. staples, cons. discretionary, telecom and trusts. Industrials and financials moved down out of the upper ranks to mid-tier. Rogers Comm. (shown) as a presentation of the teleco sector (we have preferred to own BCE) continues to show strength against the TSX. The recent up move for the owners of the trade-hot Blue Jays too shows a longer term commitment to industries with more stable revenue, cost-certainty and a good yield. Consumer discretionary in Canada is not as much about consumer consumption pace as it is in the US. Besides take-out-candidate Astral Media, it also has Shaw and Cogeco. Go figure.

TSX Stocks

On an individual stock basis the strongest stocks within the TSX 60 tables are appropriately Rogers, Shaw, BCE Inc., TransCanada, Enbridge, Weston and Fortis Inc. Collectively all the stocks passed the TSX – we include the TSX itself in the TSX 60 company component table for a total of 61 in the list – over the last month, again reasserting investor compulsion towards securities and sectors showing reliability. We recently purchased George Weston (shown) as it has more upside potential and a good risk-to-reward equation. The company just announced decent earnings and a dividend increase. Success lies at the hands of Loblaws management. The baking is doing well.

Countries

It's no surprise to see Switzerland make a jump, going from 17th to 6th in the country rankings. When you peer inside the components of the ETF (shown), which presents a cross-section of Swiss industry, you see names like Nestle (cons. staples), Novartis (pharma), and Roche (pharma). For investors, Switzerland and all things Swiss represent performance, reliability and efficiency. They are expecting the same attributes of their capital today. Other stand outs include Turkey, Thailand and Mexico. The common theme amongst the latter group is a young population, smaller government liabilities and pro-commerce policies and reasonable resources..

S&P Sectors,

In the US, biotech, healthcare, financials consumer staples and consumer discretionary lead the pack. The biggest losers on the month? The NASDAQ, info tech, and the S&P. Like in our TSX 60 rankings we include broad indices to understand when shifts are occurring. Healthcare and biotech are the long term standouts, and most healthcare companies have significant biotech divisions now. On the shorter term I expect that we will see trading investments made in tech (Apple), materials (Freeport), industrials (Cat) or beaten up financials (Bank of America) into December but on the whole they have displayed material changes since mid-September.

Conclusion

With corporate earnings rolling over from weakening top-line revenue growth and decreasing effectiveness of central bank stimulus programs, investors are preferring to allocate to those securities, sectors or countries displaying predictability in profit and income (dividends) As alluded to above, there will be one more kick at the "risk-on" can at the end of 2012 here and briefly into 2013, a trading timeframe. Granted there will be particular or individual cases of strong growth, but these will be the exception not the rule. When scanning those areas showing good price action there is very favourable return potential.

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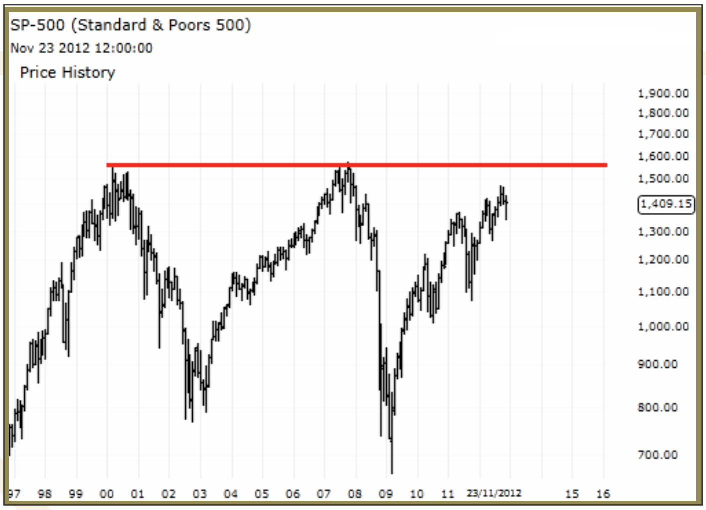
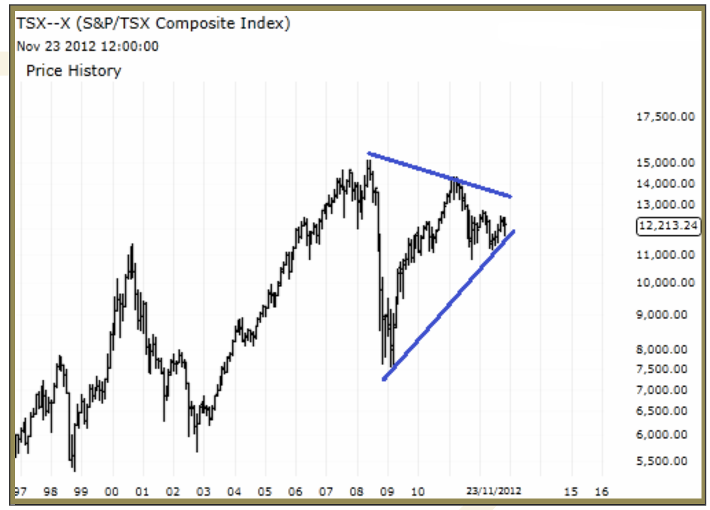
THE CHART PAGES

US EQUITIES



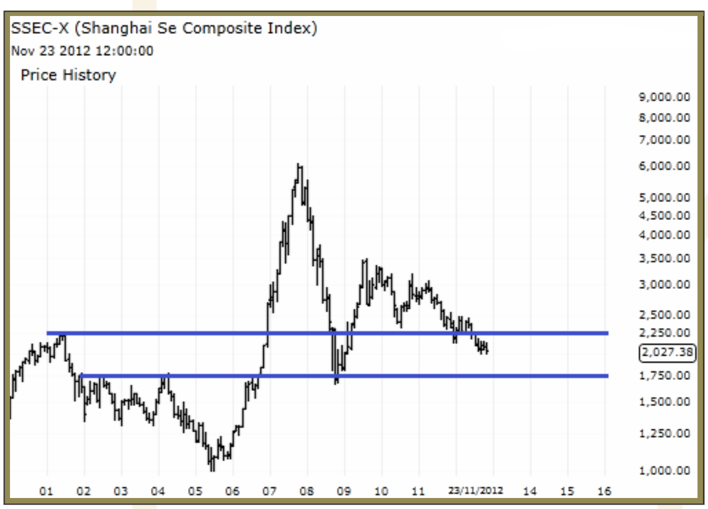
All the charts in The Chart Pages this issue are longer term – 15 year looks. Because we are about the big picture stuff it makes sense to get as much perspective as possible now with the winds of changes blowing again. The S&P has almost travelled back to the 1500 level where the bulls have been vanquished twice before in 2000 and 2007. Will this time be different?

CANDIAN EQUITIES



Canadian equities price pattern doesn't look the same as the US, mostly due to our resource-heavy index, but it too is at a juncture depicted by the symmetrical triangles pattern. This image suggests there is indecision between bullish and bearish forces. If the market breaks out to the upside it is bullish and considered a continuation of the previous trend (from 1997 really). Since the TSX peak investors are still down 18.6%.

CHINESE EQUITIES



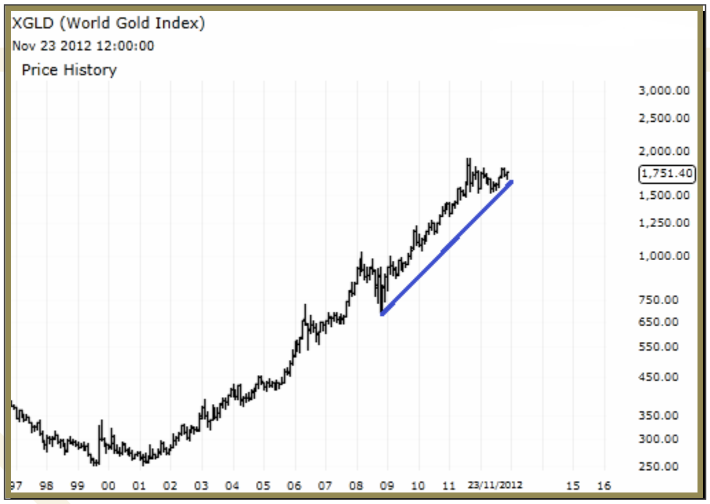
To me, this chart of the Shanghai which represents the fairest look at Chinese equities is one of the most interesting charts. It is perplexing to consider why the second biggest economy and one that is still reporting almost 8% growth after many years of double digit growth has a stock market that looks like this? The 2250 level gave way into the band shown. An upturn would surely resolve the TSX chart.

INTEREST RATES

The US 10 year government bond is still the longest bull chart out there. This one shows it in terms of yield or rate. At the side axis you can see we are sitting at 1.693%. We currently hold 20% of most client portfolios in long dated Canadian government bonds, and are looking for an uptick in yield to add to the holding. One day this will change, rates will rise, but there is no evidence yet. Canadian and US central banks' monetary policy and comments bear this out as well. (For an article explaining how investors can make decent capital gains from these levels please e-mail robert@castlemoore.com).

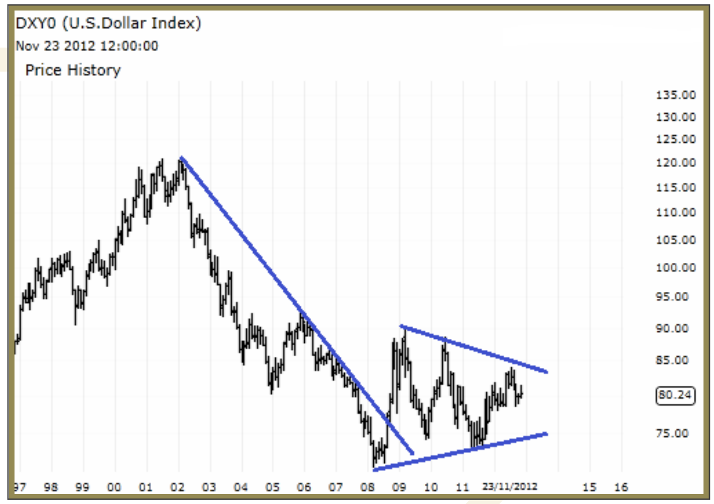
THE CHART PAGES

GOLD BULLION



Gold bullions' bull market is about 1/3rd that of bonds or 10 years old. Bullion price is most affected by deflation or currency volatility, not inflation as is the common sentiment. We sold significant client portfolio holdings in 2011 and began to re-establish a position in the spring of this year. In early summer another 5% was added. For now we are 2/3rds of the way through what to date is a 7 month trade execution. The last "buy add" will be completed when we break out or test the trend.

US DOLLAR



The US dollar is seminal when understanding global economics and investing. Its no coincidence that western stock markets, which bottomed in 2002 and peaked in 2008, have an inverse relationship to the greenback. The index found a floor in 2008 and has made higher lows since. Another symmetrical triangle depicts investor indecision. A break out above 84 changes the short term weakness seen after the US Fed announced QEternity September 13th.

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BAD ATTITUDE

By Ken Norquay, CMT, Partner

When I was just a little boy, my teachers and parents sometimes reminded me about my attitude: "I don't like your attitude, young man!" Invariably this meant I would have to give up my ideas and accept theirs. Then I grew up, left home and became a market technician; that's when I got my revenge.

One of the best investment techniques used by modern market technicians involves following investor attitude toward the stock market. When your parents and all your teachers just LOVE the market, it's time for you to sell out. And when THEY are all selling out in fear that they'll lose everything, it's time for you to buy back in. It's called the theory of contrary opinion and it's one of the tools CastleMoore uses to help us manage your investments. And, over the long term, it's the only technique that works every time.

Right now, stock market opinion is mixed. Some are bullish; some are bearish. The only really noticeable investor attitude is that no-one really cares. Investors are apathetic: they don't give a hoot! The Republican candidate in the recent US presidential election tried to fire up American voters by campaigning about a weak U.S. economy – but it didn't work! Nobody really cared. What does apathy mean with respect to the stock market? It means the theory of contrary opinion doesn't work because apathy is not really contrary to anything! At times like this, are there any other stock market theories we can use to help us decide how confident we should be?

My stock market mentor, Bob Farrell, formerly of Merrill Lynch, taught us his three C's of a bear market: complacency, concern, capitulation. Bear markets begin when stock prices decline, but no-one cares. Bob called that complacency. In the second phase, stock prices continue down and investors are concerned about it. And the bear market ends when the majority of investors capitulate: they give up on the stock market and sell out, creating the selling climax that finally ends the bear market.

Let's check in on the stock market as of mid-November, 2012. The S&P 500 dropped about 8 ½% from mid-September to mid-November and nobody seemed to notice. The TSX is down about 15% from April 2011 to mid-November 2012 and nobody seems to care. On a longer term scale, the S&P 500 is down 10% from both its 2007 high and its 2000 high. That's pretty poor performance for 5 and 12 years! The TSX is down 19% from its 2008 high four years ago. Why are so many stock market buy-and-hold investors still apathetic? Why aren't they concerned?

It's human nature. When the stock market dropped in half in 2001/2, and again in 2008/9, people were very concerned: some even capitulated and sold out. But now that it has recovered, most investors have become unconcerned again. Most people don't like to worry unless they have to. They try to keep a positive attitude. But it's that attitude that often gets investors in trouble. It's that complacency that makes investors hold onto their stocks at the top, when they should be selling.

The Market Technician's Revenge.

People still complain about my attitude. "You are much too bearish on this market, young man, (OK, maybe they don't call me young man any more…)!" But they are right about my attitude - I am concerned about the market all the time! It was my negative attitude that helped CastleMoore sell out in spring of 2008 – but it was my bad attitude that discouraged us from buying back in spring 2009 after the bottom. Maybe it's time for me to ease into semi-retirement: I will work part time. Whenever the market goes up 25% I would be gainfully employed trying to judge when the market peaks and when we should sell out. And I'll retire again when the market goes down 25% so my younger, more positive associates can judge when we should buy back in!

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FROM THE KITCHEN TABLE…

AN INVESTMENT POLICY STATEMENT OR CAT FOOD?

By Thomas Kleinschmidt
Executive Liaison, Assoc.
Portfolio Manager

Often, 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.

Investors love talking about the four main investment strategies – Momentum, Growth, Value and Income. Unfortunately, many only have what amounts to a sales-fee arrangement at times. Just that and without a financial plan or if-this-then-that rule structure to get them to where they need to go.

From hearing what is going on overseas, and watching the equity/bond/bullion markets go up and down, what typically happens is that investors (that's you) feel something between confidence that you have the best investments to fear of having to eat cat food (not good) in your golden years. To that emotional rollercoaster I would say that with a financial plan in place an investment policy statement (or IPS) would definitely help you sleep better after watching the evening news.

Simply put, an IPS is a critical document drafted between you and your financial professional (ideally a portfolio manager) that outlines how your assets will be managed. From Investopedia.com: "This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements would also be included in an IPS."

Crafted from the combination of a "Know Your Client" questionnaire (think little old ladies and what your REAL risk profile is) and the strategies required to achieve your financial goals your IPS is the set of operating instructions that your financial professional will use to keep your investments on the high road and not worrying about what you need to mask the taste of cat food.

The issue many of you face is that you have been relying on a basket of mutual funds as the ticket to increased assured retirement wealth and realize that it is not so anymore, my pretty kitties. Your IPS not only has to match your psychological temperament (read: tolerable stress levels) it has to match the market conditions for the here and now and also the far. It has to make sense to you at the gut level and give your financial professional the okay to get your nest egg out of harm`s way.

Imagine that you, your spouse and your financial professional were at your kitchen table right now, reviewing your financial plan, discussing your financial situation, touching upon your past satisfaction and dissatisfactions with investments… Now, going forward, how should your assets be managed? If you don't know the answer to this extremely important and fundamental question, get the answer as in "yesterday".

So, quickly snap off an email to your financial advisor right now and request a meeting for your first IPS or a new one if you feel that it might need to change! For those of you without a financial advisor and interested in what an IPS looks like for you, give me a holler and I'll send you a typical one so you have a starting point.

Once done you'll sleep better.

Note: an IPS is NOT a financial plan…you need a plan also. Two pieces of bad news: first, there is usually a cost for a good one, and second, they sometimes leave an unpleasant aftertaste for a while but nowhere near you-know-what….

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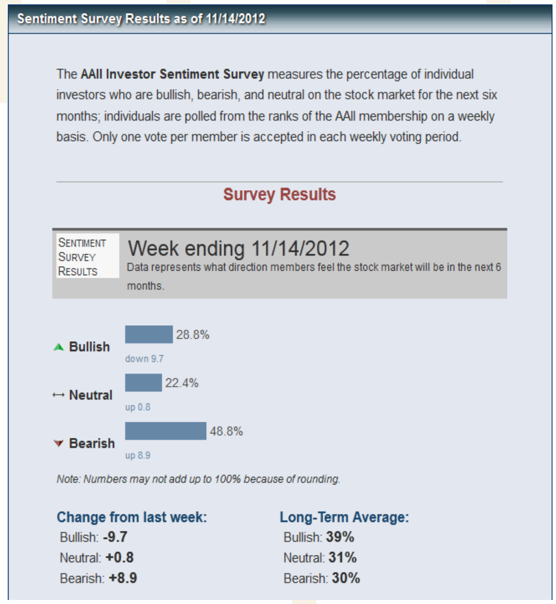
INVESTOR SENTIMENT READING ANALYSIS

By Jason Dubbeldam

One thing that is clear in modern financial theory and too from empirical observation of today's markets is just how much the mentality of investors, or sentiment, impacts the day-to-day movements of major equity markets. This phenomenon is referred to as Behavioural Finance in financial academia and refers to situations in which markets and their constituents move more in response to the way investors feel rather than the fundamental facts of the economy or business. The sometimes powerful effects of this phenomenon have been exacerbated by today's 24-hour news cycle, placing temporal and transitional issues constantly at the forefront of the average investors mind. This has added to the frustration of generations of long-term thinking, buy-and-hold investors. Since we know the impact of sentiment, how can we quantify it and its impact and possibly make investment decisions based on the results? One possible method is found in analysing investor sentiment polls.

The American Association of Individual Investors (AAII) has been polling its members weekly for bullish, bearish and neutral sentiment (6 month outlook) since 1987. With over 150,000 members, it's one of the most accurate representations of how the average individual investor feels about where the economy and financial markets are headed over the next six months. Other than the basic three readings, there are many metrics that are calculated off of them and used by many in various ways to make investment decisions.

Measures such as moving averages and standard deviation are used to identify momentum turns and identify extreme readings. Historically, the tendency has been for extreme bearish readings to precede bull markets and, more recently, extreme bullish readings to lead bear markets, making it one of the most written about and used contrarian indicators in North America. With a current bearish reading of 48.8% and readings of above 41% in four of the past five weeks, the conventional wisdom would call for a budding bull market. It of course is not predictive of duration.


Sentiment Survey Results as of 11/14/2012

The **AAII Investor Sentiment Survey** measures the percentage of individual investors who are bullish, bearish, and neutral on the stock market for the next six months; individuals are polled from the ranks of the AAII membership on a weekly basis. Only one vote per member is accepted in each weekly voting period.

Survey Results

Sentiment Survey Results

Week ending 11/14/2012

Data represents what direction members feel the stock market will be in the next 6 months.

Note: Numbers may not add up to 100% because of rounding.

Change from last week:	Long-Term Average:
Bullish: **-9.7**	Bullish: **39%**
Neutral: **+0.8**	Neutral: **31%**
Bearish: **+8.9**	Bearish: **30%**

These readings must be used with caution however, and can't always be relied on as we have seen the bearish sentiment enter extreme measures, but then stay there for extended periods. Two recent examples that would have been extremely costly occurred in 2002 and 2007. In both situations, from the first 41%+ reading to the actual market low, investors who bought at the first sign of an extreme bearish reading would have lost a further 16% and 53% respectively.

With many of the same economic and credit concerns still hanging over the macro-economic environment today as existed five years ago, and some of the big fiscal guns stretched and running out of ammunition, one must be prudent in using the survey results. Another factor making the reading less clear and useful is consistent, abnormally high levels of neutral readings, indicating either a lack of consensus, or reluctance to take a side in such uncertain times.

All of these observations, and more, must be boiled down and considered by the discerning investor in order to make the best use of the information at hand. While the multiple personality disorder of world markets frustrates many as they jump and dive in reaction to worldwide headlines and how the general public receives them, these market inputs can be measured and used in successful money management.

For more information and historical data relating to the AAII Sentiment Survey, visit: www.aaii.com

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GUEST COLUMNIST

"BAD IS STRONGER THAN GOOD"

by Makul Pal

When I saw this research paper, it attracted me like a headline on CNN News. It had a catchy headline. The decade old paper by Baumeister, Bratslavsky, Finkenauer and Vohs (http://www.csom.umn.edu/Assets/71516.pdf) goes about explaining how life is full of bad and good instances and how bad was predictive, underestimated, more lasting, more pervasive, elicited more processing, got more attention, was more unusual, was connected to speedy decision making, universal and simply stronger than the good.

The 50 page document had made a compelling case to justify its headline. The more I thought about it, the more I could confirm that the authors were correct. My unfortunate no satellite dish, just cable situation forced me to watch more news at the guest apartment in Budapest. Rest everything else from Bruce Willis to football had a Hungarian voice. And I am sure even with subtitles, the bad would not have become weaker.

And then what was I watching, more bad news, starting from Syria, to Malala, to Rajat, to Lance, to hurricane Sandy. And just like the authors mentioned, bad interested the society more than the good. The few good things seemed to be the good life ads interspersed between the bad news. So on one side we had a bad attention seeking stronger reality and on the other we had businesses sweetening it up with good life in a Hyundai car, remarkable Indonesia, Qatar foundations and other positive messages. Reality was a bad memory, which we were letting the positive ads erase. Life was like full of bad memories, which we systematically erase to stay positive.

The paper lists a series of instances. The long term success of a relationship depended more on not doing bad things rather than on doing good things. Bad reputations were easy to acquire but difficult to lose, whereas good reputations were difficult to acquire but easy to lose. The overall goodness of a person was determined mostly by his worst bad deed, with good deeds having lesser influence. Even pessimism not optimism uniquely predicted psychological and physical health outcomes. The universality of stronger bad over weaker good was unequivocal.

The strength of bad was also visible in the stock markets. Investors attached more weightage to a loss than to a gain. This was the reason for risk aversion. This was also the reason why there were more momentum investors tracking winners, compared to contrarian bets looking at depressed losers.

The paper explains how trauma has no true opposite concept. Unlike many good experiences, a single traumatic experience can have long-term effects on the person's health, well-being, attitudes, self-esteem, anxiety, and behaviour. Ability to feel pain has served humans well on both a personal and an evolutionary level. People, who fail to feel pain, fail to adapt and die early. People who write about their most traumatic experiences typically show significant improvements in physical health, as compared with the control group. Market panics also have an ability to inflict a generational pain, which create new financial habits.

How we all handle bad event, loss, pain subconsciously or consciously is our choice. If we are conscious about it, we might learn more from losses than gains. We might embrace the bad worst losers more than the fast shinning "good" winners. In the end we have a psychological framework that keeps us alive, but it's our only conscious decision making that can not only create wealth but also keep us good, while we enjoy it.

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

HOPE AND A PRAYER FOR... END THE GRIDLOCK!

By David Rosenberg of Gluskin-Sheff

Survey data indicate the American people are much less polarised than the broader political class that purports to represent them.
Francis Fukuyama

Senior Fellow. Stanford's Freeman Spogli Institute
Page 9 of the FT. November 6th, 2012

So we get a brand new start. Either way... it was always going to be either a new president or the old president but with a fresh term in which to contemplate his legacy — a legacy that could hardly be another four years of subpar economic performance.

When I was at John Mauldin's conference last spring. I thought the extremely provocative lunch-time speech by Paul McCulley contained many hidden truths. If that sermon is available anywhere on video. I'd highly recommend you watch it – preferably over a tall glass of single malt.

The one hidden truth that truly resonated was Paul's comment that the toughest thing in the world right now is to be bullish.

Maybe I should try harder to see whatever silver linings there are.

For example, we are entering into a period of stable consumer prices that should last at least for a generation. This will help prevent erosion in real household incomes. There is a strong probability that after years of very solid productivity gains in the industrial sector, that the U.S. will experience a manufacturing renaissance of sorts and re-emerge as a global export leader. This process is already in its infancy stages, by the way, aided and abetted by cheap natural gas costs. The move towards frugality and savings will make us less reliant on foreign borrowings and usher in a period of stronger household balance sheets.

As far as what that means for investments, my primary strategy theme has been S.I.R.P. – Safety and Income at a Reasonable Price – because yield works in a deleveraging deflationary cycle. Not only is there substantial excess capacity in the global economy, primarily in the U.S. where the "output gap" is close to 6%, but the more crucial story is the length of time it will take to absorb the excess capacity. It could easily take five years or longer, depending of course on how far down potential GDP growth goes in the intermediate term given reduced labour mobility, lack of capital deepening and higher future tax rates. This is important because what it means is that disinflationary, even deflationary, pressures will be dominant over the next several years. Moreover, with the median age of the boomer population turning 56 this year, there is very strong demographic demand for income. Within the equity market, this implies a focus on squeezing as much income out of the portfolio as possible so a reliance on reliable dividend yield and dividend growth makes perfect sense.

We are in a period of heightened financial market volatility which is typical of a post-bubble deleveraging period when the forces of debt deflation are countered by massive doses of government reflationary polices. This to-and-fro is the reason why in the span of a decade we have seen two parabolic peaks in the equity market (March 2000 and October 2007) and two depressed bottoms (October 2002 and March 2009). For any investor, return of capital is yet again re-emerging as a very important theme, and so is the need to focus on risk- adjusted returns. This in turn means that a strategy that minimizes both the volatility of the portfolio and the correlation with the equity market is completely appropriate – the best way to play this is with true long-short hedge fund strategies.

Gold is also a hedge against financial instability and when the world is awash with over $200 trillion of household, corporate and government liabilities, deflation works against debt servicing capabilities and calls into question the integrity of the global financial system. This is why gold has so much allure today. It is a reflection of investor concern over the monetary stability, and Ben Bernanke and other central bankers only have to step on the printing presses whereas gold miners have to drill over two miles into the ground (gold production is lower today than it was a decade ago — hardly the same can be said for fiat currency). Moreover, gold makes up a mere 0.05% share of global household net worth, and therefore, small incremental allocations into .bullion or gold-type investments can exert a dramatic impact. Gold cannot be printed by central banks

continued on next page

and is a monetary metal that is no government's liability. It is malleable and its supply curve is inelastic over the intermediate term. And central banks, who were selling during the higher interest rate times of the 1980's and 1990s, are now reallocating their FX reserves towards gold, especially in Asia.

On the political side of things, let's hope we see the return of the two-party system, that the fringe elements in both the GOP and Democrat camps see their influence diminish, and that the populist anti-business sentiment in Washington subsidies.

If we can only end the gridlock finally and begin the necessary process towards fiscal probity that will of course necessitate shared sacrifice but will also remove the clouds of uncertainty, then households and businesses will be able to plan more effectively for the future and perhaps feel more comfortable in releasing their massive cash hoards into the real economy (that may be little more than a hope and prayer, mind you).

All that said, it is not going to be a new government that necessarily ushers in a whole new era of growth, prosperity and confidence. Even under the revered Ronald Reagan, the period of secular growth and bull market activity took two years to unfold — it didn't happen right away. It took the inflationary excesses to be wrung out of the system and concrete signs that the executive and legislative branches could work together to usher in true fiscal reform — and to get blue Democrats on board with reduced top marginal tax rates.

Hope isn't generally a very useful strategy, but there is reason to be hopeful nonetheless. The critical issue is going to be how we get Washington to move back to the middle where it belongs. This requires bipartisanship which in turn requires leadership. Reagan's whole eight-year tenure in the 1980s occurred with the House being in Democrat hands the whole way through. Bill Clinton's second term coincided with both the House and Senate controlled by the Republicans.

It can be done!

The most fascinating article I have read in recent weeks was on page B1 of yesterday's NYT, titled The Election Won't Solve All Puzzles. The title just about says it all, but some heft was added as an economic report jointly published by Stanford and University of Chicago was cited, with this conclusion:

The claim is that businesses and households are uncertain about future taxes, spending levels, regulations, health care reform and interest rates. In turn, this uncertainty leads them to postpone spending on investment and consumption goods and to slow hiring, impeding the recovery", and added that "current levels of economic policy uncertainty are at extremely elevated levels compared to recent history.

With this in mind, the best that can happen is a Reaganesque and Clintonesque return to compromise on the road to fiscal reform. It will be painful. We all know it will be painful. But all we need is the roadmap to reform so at least we can plan for the future – removing the cloud of policy uncertainty alone will be empowering for the private sector (to this end, I also recommend a read of Business Craves Fresh Certainty on page 3 of yesterday's FT).

In the final analysis, it is up to the business leaders and innovators to step up to the plate. They are the ones that have always been responsible for bringing the economy off the bottom, and taking us over the top. Boy, a new "killer app- or some major innovation that manages to spur sustainable growth in multi-factor productivity would sure be nice to bring me to where I was back in 1987 when I started in this business.

A perma-bull!

Now how good would that be? A sustained decline in oil prices that is induced by new supplies as opposed to demand destruction would act as a he facto tax cut. Structural economic reforms in the world's "surplus saving" countries like China, India and Germany that stimulate their domestic demand, and hence bolster U.S. exports and reduce the global reliance on the U.S. as the consumer of last resort, would be a huge plus. Signs that the debt deleveraging cycle has run its course. Progress in terms of working our way through the domestic balance sheet repair process among households and businesses, though history shows that this is not merely -a two or three year adjustment following a credit bubble and ensuing financial crisis on the scale that we have just endured.

David Rosenberg is the Chief Economist and Strategist at Gluskin Sheff + Associates, Inc.

ADVENTURES OF AN ACCIDENTAL AMERICAN

By Ed Arbuckle, CA, FCA, TEP

Maybe you were born in Pittsburgh when your parents went down to see a Steelers game. Maybe your mom and dad met in Boston when your dad was going to university. One thing you do know for sure is that your parents are both Canadians and you couldn't possibly be an American. Well you are!

If you were born in the United States, no matter how you got to the delivery room, you are an American citizen. The United States constitution says so. Anyways, accidental American citizen or not, the United States law says that its citizens must file a US income tax return - there are no ifs, and or buts about it. It doesn't matter where in the world you now live – a US 1040 personal tax return must be filed every year except if you only have small amounts of income. Oh, and when you die an estate tax return will be needed and gift tax returns may be required if you give away property during your lifetime.

I won't deal with other forms that an accidental American needs to file but if you own RRSPs, RESPs, TFSAs, Canadian mutual funds or if your cash and investments total more than $200,000 you have some US reporting to do that may or may not be part of the 1040 tax return. The penalties are horrendous for not filing. They may check your Canadian passport at the border and ask why you aren't using a US passport (it's illegal to use a foreign passport) if you are a US citizen.

The purpose of this article is not to talk about the tax filing requirements because other articles on our website (www.finplans.net) already deal with that. The first problem you must confront is to get a US social security number in order to file anything. That's step one.

US SOCIAL SECURITY NUMBER

The Americans are big on forms. To get a social security number (SSN) you will need to go to the IRS website and download Form SS-5, fill it out, and put together the required supporting documentation. This documentation helps the US Internal Revenue Service know 1) your age, 2) verify your identity, and 3) confirm that you are a US citizen.

Many different documents can be used to verify the above three items but they must all be originals and not copies. Here are a few of the allowed documents:

1) Age: hospital record of your birth or passport

2) Identity: drivers license, passport, or marriage or divorce decree

3) Citizenship: any documents that show that you were born in the United States

One of my clients was born in the United States and her parents moved to Canada shortly after she was born. She had no SSN. Here is her first experience with the IRS that she told to me:

I have made good progress today (I think). I had seen on line that to apply with the Consulate, plan on 6 – 8 months to get the SSN. I got through on the phone, and talked to a real person who checked to see if I was ever issued a number. I wasn't, but I learned exactly what to take, and to go to the nearest SSN office (for Waterloo Region it is Niagara Falls NY). She said it depends how much verification they will need to follow up on, it could be done as fast as overnight, or up to 2 months. I will go early next week and let you know the results.

She went to the Niagara Falls social security office with a pile of documents and this is where the real fun began. Her experience should prove helpful to those who need to get a SSN.

Good morning Ed – just thought I'd let you know how I made out. On Tuesday morning I left early to drive to the Niagara Falls NY Social Security Administration office. It was very easy to find - just less than 10 minutes from the Lewiston Bridge Boarder and right at the I90 interchange. I was there early and was 3rd in line. I presented my Birth Certificate and Canadian Passport ..... and the official said "Do you have your marriage certificate here as well to prove your name change?" (I have been divorced for 34 years - so not a document I keep real handy!!). I guess the frustrating part was that I had asked on the phone from 2 offices what documentation I needed, and checked online as well - and nowhere was it indicated that a person needs proof of any name change. (That would be a good item for you to note to others needing to apply.) Anyway, I headed home, found my certificate and 10 minutes later was on my way back.

By 2:30 I was finished, they had what they needed, they verified with the Bureau of Vital Statistics in Virginia, they called my older sister to verify that I had lived in Canada for the past 57 years, and my application was put through. She said I should receive it in 2 weeks - but might take a bit longer since it will be mailed to Canada. I will let you know as soon as I get it.

Here are a couple things I learned and also what they had said I would need to have along - NOT listed on the internet:

1. Name and day phone number of a person that they could verify the length of time living in Canada - can be family, but not children born after the move to Canada. They call right away, so the person needs to be available.
2. They said I would need proof of residence - such as a copy of a utility bill showing address. (I had it along, but not needed to show).
3. Canadian Passport worked fine - along with Birth Certificate.
4. Legal proof of any name change.
5. Completed Application Form "SS-5" Here is a good site with instructions, and also list of SS Admin offices: http://www.ssa.gov/ssnumber/ss5.htm
6. Here is a hot line phone number I called - got a person after 3rd try. Very helpful: http://www.socialsecurity.gov/foreign/phones.html- "If you are calling about a new or replacement Social Security Number card, call 410-965-9334."
7. Office was open 9:00 to 3:30, but doors opened at 8:30 and you could take a number.

That's a very helpful description and not something you will find in any US government publications.

You absolutely shouldn't, mail in your Canadian passport or driver's license to the US Social Security Office. I strongly suggest you take the original documents and go there in person or you will wait forever. Take more identification then you can ever imagine you need and you may come back without a second or third visit.

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