
Tax Loss Selling

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As we approach the end of the year, it is an ideal time for investors to examine their portfolios and consider what changes could be made to reposition their portfolios for the upcoming year. For many, this process involves looking for strategies to help minimize taxes. One such strategy is tax loss selling, which is used to help offset capital gains realized during the year by selling investments with accrued losses prior to the end of the taxation year.

Note: This document is prepared as a source of ideas only. Investors should consult their professional tax advisor before implementing a tax loss strategy to confirm the specific tax implications in their situation.

The amount of capital gains subject to tax in a taxation year is based on the calculation of net capital gains, which is the sum of all capital gains less all capital losses realized in the year. To the extent a net capital loss is realized in a year, it can be accumulated and carried back up to three tax years (i.e. to the 2004 tax year for a loss realized in 2007) or carried forward indefinitely and be applied against future capital gains. A capital loss that is carried back reduces income taxes payable in that year and will result in a refund of taxes already paid. Since October 18, 2000, the inclusion rate of capital gains and losses has been 50%. Capital losses cannot be used to offset other income.

For example: a stock purchased at \$100 is sold for \$30. This would result in a \$70 capital loss, which may be used to offset capital gains. The maximum tax benefit (for an Ontario resident) equals \$16.24 derived as follows:

\$70 capital loss
x 0.5 (taxable portion)
x 0.4641 (Ontario's top marginal tax rate)
= \$16.24 per share in potential tax savings.

Before considering this strategy it is important to understand the relevant tax rules, specifically the concept of a “superficial loss”. A superficial loss will occur if a security is sold, and any entity “affiliated” for tax purposes with the investor (re)purchases the security, or a right to acquire the security (referred to as the “substituted property”), before or after 30 days of the sale. An affiliated entity includes (amongst other entities): the individual, his/her RRSP or RRIF, his/her spouse, his/her spouse's RRSP or RRIF, or a corporation that he/she or his/her spouse controls.

If an individual incurs a superficial loss, the loss will be denied and thus cannot be used in the current tax year. However, the loss that was denied will be added to the cost base of the substituted property held by the affiliated entity. This will either decrease a future capital gain or increase a future loss when the substituted property is later sold.

In the following pages we have included common stocks and income trusts from the S&P/TSX Composite (*Table 1 on Page 3*) and S&P 500 (*Table 2 on Page 4*) that have declined 15% or more since January 1, 2007 that investors may consider for tax loss selling. Although more names could be considered, stocks with the most significant declines are the most likely candidates for tax loss selling. As with most strategies there are advantages and disadvantages with tax loss selling. In some cases, tax loss selling could cause further weakness in a stock while at the same time present a buying opportunity. In other cases, investors may wish to realize losses and move on to other opportunities within the equity market. ***Regardless, it is important to ensure that investment decisions are not based solely on the potential tax considerations.***

To assist you in identifying alternative Canadian equity investments we have included five BMO Capital Markets Equity Research Top 15 lists and the BMO Nesbitt Burns Portfolio, Action and Research Team's *Canadian Equities Portfolio (Table 3 on Page 5)*. The range of names is intentionally wide to provide for greater security selection. This should make it easier to adapt the strategy for different investor types, as well as investment style and market capitalization preferences.

Given the significant decline in the U.S. dollar relative to the Canadian dollar, it is quite possible that U.S. dollar investments have accrued capital losses on an aggregate basis which includes foreign currency fluctuations. To help you identify alternative U.S. equity investments we have included focus lists from our third party U.S. research providers Bear Stearns and Credit Suisse as well as the BMO Nesbitt Burns Portfolio, Action and Research Team's *U.S. Equities Portfolio (Table 4 on Page 6)*.

Table 1
S&P/TSX Composite Stocks Down 15% or More Year to Date

Company Name	Decline in Share Price (%)	Company Name	Decline in Share Price (%)
Gabriel Resources Limited (GBU)	-54	Alamos Gold Inc (AGI)	-29
Cott Corporation (BCB)	-53	Biovail Corporation (BVF)	-27
QLT Inc (QLT)	-51	Celestica Inc (CLS)	-27
Nortel Networks Corp (NT)	-49	Paramount Resources Ltd (POU)	-27
Gammon Gold Inc (GAM)	-44	Newalta Income Fund (NAL.UN)	-27
Cyries Energy Inc (CYS)	-40	Angiotech Pharmaceuticals In (ANP)	-26
Tristar Oil & Gas Ltd (TOG)	-39	True Energy Trust (TUI.UN)	-26
ATS Automation Tooling Sys (ATA)	-39	Kingsway Financial Services (KFS)	-25
Mega Brands Inc (MB)	-38	First Calgary Petroleums Ltd (FCP)	-23
Highpine Oil & Gas Ltd (HPX)	-36	Cardiome Pharma Corp (COM)	-21
Abitibi-Consolidated Inc (A)	-36	Alimentation Couche-Tard (ATD.B)	-20
Uranium One Inc (UUU)	-35	Daylight Resources Trust (DAY.UN)	-19
Shore Gold Inc (SGF)	-34	Iamgold Corp (IMG)	-19
Canwest Global Comm Corp (CGS)	-33	Centerra Gold Inc (CG)	-19
Crystallex Intl Corp (KRY)	-33	Compton Petroleum Corp (CMT)	-18
Paramount Energy Trust (PMT.UN)	-33	Methanex Corp (MX)	-17
Northgate Minerals Corp (NGX)	-32	Tanzanian Royalty Exploration (TNX)	-17
Precision Drilling Trust (PD.UN)	-31	Galleon Energy Inc (GO.A)	-17
Quebecor World Inc (IQW)	-30	Connors Brothers Income Fund (CBF.UN)	-16
Cascades Inc (CAS)	-30	Flint Energy Services Ltd (FES)	-15
Ballard Power Systems Inc (BLD)	-30	Cinram International Income (CRW.UN)	-15
Fairborne Energy Trust (FEL.UN)	-29	Reitmans Ltd (RET.A)	-15
Synenco Energy Inc (SYN)	-29		

Source: Bloomberg, data as of October 11, 2007.

Table 2
S&P 500 Stocks Down 15% or More Year to Date

Company Name	Decline in Share Price (%)	Company Name	Decline in Share Price (%)
Countrywide Financial Corp (CFC)	-56	Gannett Co (GCI)	-24
Pulte Homes Inc (PHM)	-53	Bear Stearns Companies Inc (BSC)	-23
Lennar Corp (LEN)	-51	Limited Brands Inc (LTD)	-23
Tenet Healthcare Corp (THC)	-51	Monster Worldwide Inc (MNST)	-22
Circuit City Stores Inc (CC)	-50	Novellus Systems Inc (NVLS)	-22
Centex Corp (CTX)	-48	Huntington Bancshares Inc (HBAN)	-22
Mgic Investment Corp (MTG)	-46	Cb Richard Ellis Group Inc (CBG)	-22
Dr Horton Inc (DHI)	-44	IAC/Interactivecorp (IACI)	-21
Lexmark International Inc (LXK)	-42	Mcgraw-Hill Companies Inc (MHP)	-21
KB Home (KBH)	-41	Mylan Inc (MYL)	-21
Office Depot Inc (ODP)	-41	Ambac Financial Group Inc (ABK)	-20
Qlogic Corp (QLGC)	-40	Washington Mutual Inc (WM)	-18
E*Trade Financial Corp (ETFC)	-39	Merrill Lynch & Co Inc (MER)	-18
Jones Apparel Group Inc (JNY)	-37	Regions Financial Corp (RF)	-17
Dillards Inc (DDS)	-35	Masco Corp (MAS)	-17
First Horizon National Corp (FHN)	-34	Lehman Brothers Holdings Inc (LEH)	-17
Officemax Inc (OMX)	-34	J.C. Penney Co Inc (JCP)	-17
Akamai Technologies (AKAM)	-33	LSI Corp (LSI)	-17
King Pharmaceuticals Inc (KG)	-33	Sealed Air Corp (SEE)	-17
Advanced Micro Devices (AMD)	-32	Avery Dennison Corp (AVY)	-17
Sovereign Bancorp Inc (SOV)	-32	Electronic Data Systems Corp (EDS)	-17
Brunswick Corp (BC)	-29	Leggett & Platt Inc (LEG)	-17
Moody's Corp (MCO)	-29	New York Times Co (NYT)	-16
Harley-Davidson Inc (HOG)	-27	Comcast Corp (CMCSA)	-16
Network Appliance Inc (NTAP)	-27	Sears Holdings Corp (SHLD)	-15
Cit Group Inc (CIT)	-27	Amgen Inc (AMGN)	-15
Convergys Corp (CVG)	-26	Home Depot Inc (HD)	-15
National City Corp (NCC)	-26	Autonation Inc (AN)	-15
Liz Claiborne Inc (LIZ)	-26	Walgreen Co (WAG)	-15
Starbucks Corp (SBUX)	-26	Fifth Third Bancorp (FITB)	-15
Forest Laboratories Inc (FRX)	-25	Bemis Company (BMS)	-15
Micron Technology Inc (MU)	-24		

Source: Bloomberg, data as of October 11, 2007.

Table 3
Canadian Equities

BMO Capital Markets Top 15 Large Cap Stock Selections

Alimentation Couche-Tard (ATD.B)
Canadian Pacific Railway (CP)
CIBC (CM)
EnCana Corp. (ECA)
Finning International Inc. (FTT)
Gildan Activewear (GIL)
Husky Energy Inc. (HSE)
Onex Corp. (OCX)
Potash Corp. of Saskatchewan (POT)
Power Financial (PWF)
Rogers Comm. (RCI.B)
Royal Bank (RY)
Suncor Energy Inc. (SU)
TD Bank (TD)

BMO Capital Markets Top 15 Value Stock Selections

Canadian Pacific Railway (CP)
Canam Group Inc. (CAM)
CCL Industrials Inc. (CCL.B)
CIBC (CM)
The Data Group Income Fund (DGI.UN)
Domtar Corp. (UFS)
EnCana Corp. (ECA)
The Forzani Group (FGL)
Industrial Alliance (IAG)
Magna International (MGA)
Nexen Inc. (NXY)
Onex Corp. (OCX)
Sherritt International Corp. (S)
TD Bank (TD)
Valero Energy Corp. (VLO)

BMO Capital Markets Top 15 Small Cap Selections

Aastra Technologies Ltd. (AAH)
Bourse de Montreal Inc. (MXX)
Bow Valley Energy Ltd. (BVX)
Canadian Apartment Properties REIT (CAR.UN)
Canam Group Inc. (CAM)
CCL Industries Inc. (CCL.B)
Cossette Communication Group Inc. (KOS)
The Forzani Group (FGL)
Home Capital Group Inc. (HCG)
Le Chateau Inc. (CTU.A)
Linamar Corp. (LNR)
Minefinders Corp. (MFL)
Stantec Inc. (STN)
Theratechnologies (TH)
Transat AT (TRZ.B)

BMO Capital Markets Top 15 Growth Stock Selections

Alimentation Couche-Tard (ATD.B)
Bourse de Montreal Inc. (MXX)
CAE Inc. (CAE)
Descartes Systems Group (DSGX)
Evertz Technologies Ltd. (ET)
Garda World Security Corp. (GW)
Gildan Activewear (GIL)
MDA (MDA)
Potash Corp. of Saskatchewan (POT)
Rogers Comm. (RCI.B)
Silver Wheaton Corp. (SLW)
Stantec Inc. (STN)
Suncor Energy Inc. (SU)
Tim Hortons Inc. (THI)
Uranium One Inc. (UUU)

BMO Capital Markets Top 15 Income Stock Selections

BFI Canada Income Fund (BFC.UN)
Calloway REIT (CWT.UN)
Canadian Oil Sands Trust (COS.UN)
CIBC (CM)
Cominar REIT (CUF.UN)
Enbridge Inc. (ENB)
Fortis Inc. (FTS)
Great-West LifeCo (GWO)
H&R REIT (HR.UN)
IGM Financial Inc. (IGM)
Penn West Energy Trust (PWT.UN)
Royal Bank (RY)
TD Bank (TD)
TransCanada Corp. (TRP)
Yellow Pages Income Fund (YLO.UN)

BMO Nesbitt Burns Canadian Equities Portfolio

Alimentation Couche-Tard Inc. (ATD.B)
Canadian Pacific Railway Ltd. (CP)
CanWest Global (CGS)
Finning International Inc. (FTT)
iShares CDN Gold Sector Index Fund (XGD)
Manulife Financial (MFC)
Onex Corp. (OCX)
Penn West Energy Trust (PWT.UN)
Power Financial (PWF)
Royal Bank (RY)
Suncor Energy Inc. (SU)
TD Bank (TD)
Thomson Corp. (TOC)

Table 4
U.S. Equities

BMO Nesbitt Burns U.S. Equities Portfolio

Altria Group Inc. (MO)
 Ameriprise Financial Inc. (AMP)
 Amgen Inc. (AMGN)
 Apple Inc. (AAPL)
 Archer-Daniels-Midland (ADM)
 Bank of America Corp. (BAC)
 Bunge Ltd. (BG)
 Caterpillar Inc. (CAT)
 Cisco Systems Inc. (CSCO)
 CVS/Caremark Corp. (CVS)
 General Electric Co. (GE)
 Goldman Sachs Group Inc. (GS)
 Haliburton Co. (HAL)
 Nasdaq (NDAQ)
 Nokia (NOK)
 Oracle (ORCL)
 PepsiCo (PEP)
 Procter & Gamble (PG)
 Starbucks Corp. (SBUX)
 Wyeth (WYE)

Bear Stearns Focus List (as of October 8, 2007)

Allstate (ALL)
 Apple Inc. (AAPL)
 Hewlett Packard (HPQ)
 McCormick & Co. (MKC)
 Nokia Corp. (NOK)
 Paychex Inc. (PAYX)
 Penn National Gaming (PENN)
 QUALCOMM Inc. (QCOM)
 Reliance Steel & Aluminum (RS)
 Transocean Inc. (RIG)
 Waters Corp. (WAT)

Credit Suisse Focus List (as of October 8, 2007)

Allstate (ALL)
 Bunge Ltd. (BG)
 Caterpillar (CAT)
 Hartford Financial Services (HIG)
 Nucor (NUE)
 Office Depot (ODP)
 OshKosh Truck (OSK)
 Polo Ralph Lauren (RL)
 QUALCOMM Inc. (QCOM)
 Rite Aid Corp. (RAD)
 Teva Pharmaceutical Inc. (TEVA)
 UnitedHealth Group (UNH)
 United Technologies (UTX)
 XTO Energy Inc. (XTO)

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