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Your RRSP: Growth remains the key to your future

Generous tax incentives make a Registered Retirement Savings Plan (RRSP) one of the best ways to build wealth over the long term. Tax-deferred returns on your investments, along with the tax break you receive on your annual contributions, give you far greater growth potential than you can realize on investments outside a registered plan. Making the right investment decisions is critical to maximizing that potential.

The danger of focusing on safety

With the RRSP season approaching, it's time to make some important investment decisions. Recent financial market volatility might tempt you to ignore stocks and gravitate toward "safer" lower-return investments in your retirement plan.

However, that tactic could have a detrimental long-term impact on your accumulated wealth. Being overly conservative with lower-return, cash-type investments for

too long can strip your RRSP of potential; low returns mean less wealth accumulation.

Where to find growth

To take maximum advantage of the tax-sheltered compound returns your retirement plan offers, you need to look to investments that have the potential for higher returns. Equities and equity mutual funds are historically the best route to higher long-term returns.

While stock market investments are more volatile than other types of assets — as we've certainly seen this past year — over time, they have historically outperformed other asset classes. And while volatility can be unsettling, it offers an opportunity to invest in stocks at more attractive prices and potentially increase returns further.

Together, we can explore options for your contribution this year and position your investments for returns that will meet your retirement objectives. ■



Build up core strength

Anyone with a penchant for fitness has probably heard about how important a strong “core” is to overall body strength. What’s true for your body is true for investments. Just as you pay attention to your body’s core, you need to take care of your core mutual fund investments. They need to be strong enough to support your investment goals.

Every mutual fund portfolio should have a nucleus of broadly diversified funds. This core is crucial to the strength of your portfolio because it provides stability. It can help your long-term investment returns grow and ease the anxiety caused by financial market volatility.

Core holdings are long-term “buy and hold” investments of low to moderate risk that we can consider leaving in your portfolio for as long as you invest. They are generally less volatile than other types of investments, at the same time offering the potential for attractive long-term investment returns within your risk tolerance.

Diversify across asset classes

Just as your overall mutual fund holdings should be well diversified, so should your core holdings.

Equities. Equity core holdings often consist of “large-cap” equity funds that invest in blue-chip stocks. These funds may not always win the performance race, but they have good long-term track records and may fare better in difficult times.

Fixed income. The fixed-income core of your fund portfolio should consist of moderate-risk, solid investments such as funds that invest in government bonds. We should consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global funds. The changing shape of world markets may also call for non-Canadian investments to form part of your core. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

How much is enough?

How much of your total portfolio your core should represent varies with factors such as individual financial objectives and risk tolerance. For many investors, 70% to 80% is not unrealistic.

The types of funds that constitute your core will depend on your personal investment characteristics. Funds that can be considered core holdings for one investor may not be suitable as a core for another investor.

Even if you already have a series of core investments, it’s a good idea for us to review your holdings from time to time to ensure they’re meeting your needs and expectations, and that the positioning continues to make sense for your goals.

Let’s talk

Now is an excellent time for a core assessment. Financial market volatility in recent months may have thrown your mutual fund asset allocation percentages out of balance, including your core investments. For example, the 2011 stock market events may now mean you have a lower percentage of core equity fund holdings and a higher percentage of fixed-income funds than your original target.

Just as a strong core for your body helps you to run further, hit harder, and play longer, a strong mutual fund core can help you tackle bigger challenges. For example, with the support of a strong core, we can focus part of your portfolio on more aggressive, less mainstream investments that are generally riskier and more volatile but have the potential to add higher returns.

These might include small-capitalization and mid-cap equity funds, funds that invest in riskier securities or geographical markets, and fixed-income funds that invest in high-yield corporate bonds or higher-potential securities.

Let’s get together to talk about the structure of your mutual fund portfolio. We’ll ensure you have the right balance of core and non-core funds to meet your financial objectives. ■

FRAUD PREVENTION

Protect yourself from identity theft

Identity theft is a growing problem. If you have a good credit rating, you're at risk of identity theft that can cause big problems in your financial and personal life. You could suffer financial losses, emotional stress, and a huge drain on your time as you try to set things right.

A study by Hamilton's McMaster University found that almost 70% of Canadians are concerned about identity theft. In the year prior to the poll, 6.5% of those surveyed were victims of identity theft. These findings suggest that some 1.7 million Canadians may be victims every year.

Protecting yourself from identity theft can save more than money. It can save you from the stress and effort required to put your life back in order. On average, identity theft victims spend more than four working weeks undoing damage to their credit.

While many people think of identity theft as credit card and debit card fraud, many cases go well beyond that, involving social insurance fraud, mail theft, hacked bank accounts, embezzlement, mortgage fraud, and a host of other life-rattling crimes.



The best way to avoid becoming a victim is to be defensive. Your first step should be to obtain your credit report at least once a year. Often identity theft isn't discovered until a credit check reveals something is amiss.

To keep your personal information safe, follow these simple steps:

- Be cautious about sharing personal or financial information online or over the phone.
- Remove any unnecessary identification from your wallet or purse and keep it in a secure location instead.
- Be careful with passwords and PINs. Don't give them out and make sure they are as strong as possible.
- During transactions, swipe or insert your card yourself. If this isn't possible, watch your card closely and always shield your PIN.
- Review your credit card statements and other financial records regularly and report any discrepancies immediately to the appropriate institution.
- Use a paper shredder when disposing of personal information or documents. ■

TAX PLANNING

Family caregiver tax credit

As more Canadians find themselves looking after disabled family members, it's good to know that new, increased tax relief is available to help offset the often considerable expenses caregivers face.

Effective January 2012, a new family caregiver tax credit provides a 15% non-refundable income tax credit on expenditures of up to \$2,000. This provides up to \$300 in annual tax relief for caregivers of infirm dependent relatives, including spouses, common-law partners, and minor children.

In its last budget, the federal government also lifted a previous \$10,000 cap on the medical-expense tax credit, which allows taxpayers to claim medical and disability-related expenses incurred by financially dependent relatives. Caregivers who incur extraordinary medical and disability-related expenses will benefit beginning in the 2011 tax year, so be aware of this change when filing your 2011 tax return. ■



WHAT'S NEW

New CPP rules



Here's some good news about Canada Pension Plan benefits. As of this year,

you no longer have to stop working to draw CPP. You can simultaneously receive and accrue CPP benefits between the ages of 60 and 70, which means you have increased potential to improve your retirement finances.

Beginning January 1 of this year, you can continue to work while collecting CPP benefits. The old rules stipulating that you had to stop working to collect early CPP benefits no longer apply.

If you're between 60 and 65, employee and employer contributions to CPP will still be required. However, if you work between the ages of 65 and 70, contributions will be optional. If you want to continue to contribute to CPP as an employee, your employer must also continue to contribute.

For residents of Quebec, similar rules apply under the Quebec Pension Plan (QPP). QPP allows for "phased" retirement between the ages of 60 and 65. To collect QPP before age 65, your estimated employment earnings for the first 12 months during which a pension is paid must not exceed \$12,075 in 2011 (other conditions apply). You will continue to contribute to the plan, which will provide you with a retirement pension supplement the following year.

Talk to us before making any decisions about early retirement and collecting CPP/QPP benefits. We can help you make the choices that will work best for your financial future. ■

Why your debt should retire before you do

The less debt you have, the more you can focus on saving and investing. In other words, getting rid of debt is one of the best things you can do to help save more for retirement.

Yet there is evidence that many Canadians aren't making the connection between paying down debt and accumulating retirement wealth. A recent poll by a major Canadian financial institution showed that just one in five baby boomers aged 45 to 64 sees a connection between paying down debt and saving for retirement.

And while 42% see debt as an obstacle to achieving their financial goals, one-third of baby boomers 55 or older have not paid off their mortgage and three-quarters carry debt.

Even more disconcerting is the increasing trend to carry debt into retirement. A survey by a different financial institution found that 44% of retired Canadians are carrying debt, up from 39% the year before.

The benefits of retiring debt-free

The sooner your debts are eliminated, the more your savings can be accelerated. If you choose to carry debt into your pre-retirement and retirement years, you face a number of potential risks:

- You may be compelled to delay your anticipated retirement date.
- You may find you have to return to work, whether full-time or part-time, in order to cover your expenses, including debt repayment.
- You might have to sell assets to free up the cash flow you need to live on.

- You might have to alter your retirement lifestyle, in order to reduce spending. Retiring debt-free can help you enjoy greater financial security by relieving you of the stress of debt repayment — a stress that increases anytime interest rates rise.

Where to start?

Unless the interest costs are tax-deductible, your highest-interest debts should be the area you target first. These typically include credit card balances and unsecured personal loans or lines of credit. These debts are costing you the most on an annual basis, so paying them off first will have the greatest effect.

If you aren't carrying any high-interest-rate consumer debt, we might look at your mortgage next. It is typically the largest debt Canadians carry and poses a barrier to maximizing retirement savings for many.

Although mortgage rates are low today, they could rise in the future, meaning higher payments and a reduction in retirement savings potential or a less comfortable retirement. Think of it this way: Every dollar put toward your mortgage is a dollar that could be used to finance your retirement. Paying off your mortgage can free up significant cash that can be funneled into your Registered Retirement Savings Plan (RRSP) each month to build tax-deferred savings for your retirement.

Regardless of your level of debt and proximity to retirement, we can recommend a plan to pay it and help ensure a comfortable, worry-free retirement for you. ■

Boost returns potential with real estate investments

WHEN IT COMES to investing, commercial real estate isn't top of mind for most Canadians. Let's face it, we can't all be Donald Trump — nor would we want to be. Still, it is possible to benefit from the commercial real estate market without actually buying real property.

You can get exposure through many types of investments that focus on commercial real estate. Real-estate-related investments are a great way to diversify your portfolio because they can add growth, income, or both. They can also be an attractive inflation hedge. Historically, real estate has held its value in the face of increases in the cost of living.

Factors such as low interest rates, low office vacancy rates, and rising commercial real estate prices portend well for the future. Canadian and global commercial real estate can outperform in times of financial market turmoil, as has been the case recently.

There are many ways to invest in real estate. They include real estate investment trusts (REITs), shares of companies operating in the real estate industry, and real estate mutual funds. REITs and funds that hold REITs are a good way to add both capital gains and income potential to your portfolio at a time when many fixed-income investments are generating low returns.

Commercial real estate is one of the world's largest asset classes. Contact us if you'd like to talk about real estate investments for your portfolio. ■

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