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MONEYFILE
FINANCIAL STRATEGIES
INVESTMENTS • TAX • INSURANCE • WILLS • ESTATES


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FOCUS ON INVESTING

Why you should invest when nobody else is

It's time to face reality: Equity market volatility is here to stay, no matter how much we might wish it wasn't. But since it's a fact of investment life, why not use it to our advantage?

We can make volatility your friend by using market declines to make investments that could boost your portfolio returns over the long term.

Turning declines into opportunities

Market declines tend to affect most stocks across the board. Those moves do not necessarily — or even usually — reflect a fundamental change in an underlying company. In many cases the business you liked when shares were $40 is the same one, with the same potential, when shares are $30.

There's another reason why buying when prices drop makes good sense. History shows that some of the biggest upward moves in stock markets come after sharp declines. For example, in 2008, Canada's main stock market index fell by 33%. In 2009, it gained 35% and it added another 14% in 2010.

Commit to your portfolio

Of course, nobody knows exactly when prices have reached a bottom or when a rebound will happen. That's why the most effective strategy is to invest regularly. That way, you don't have to worry about trying to time the market. You'll always be investing, adding to your portfolio and enhancing its potential performance.

What should you invest in? That depends on your long-term objectives, immediate cash flow needs, and tolerance for risk. Talk to us about which opportunities are most appropriate for you. ■

An effective strategy for uncertain times

Sick and tired of hearing all the bad news related to market volatility? Well, here's the good news. Forget about turbulence and focus instead on a strategy that will allow you to get on with the business of investing for the future.

The best way to do that is through dollar-cost averaging. This strategy involves investing a fixed amount at regular intervals, no matter how markets are performing. When markets dip and mutual fund prices fall, the amount you regularly invest buys more fund units. Over time, this can reduce your average cost per unit and, in a rising market, increase your returns when you sell.

It's easy!

We can easily and quickly set up a dollar-cost averaging program by taking advantage of the regular investment plans offered by most mutual funds. Money can be transferred automatically from your bank account or other sources to regularly buy units in the fund or funds of your choice.

Most regular investment plans offer a wide choice of investment frequencies — monthly, quarterly, or semi-annually. You can also augment your strategy by reinvesting regular mutual fund distributions in additional fund units.

Reduce the temptation

Regular investing also helps keep the temptation of trying to "time the market" at bay. When you invest regularly, you don't need to worry about trying to buy low and sell high.

Trying to pick the best times to purchase and redeem mutual funds is fraught with difficulty. Even professional investors don't do it well.

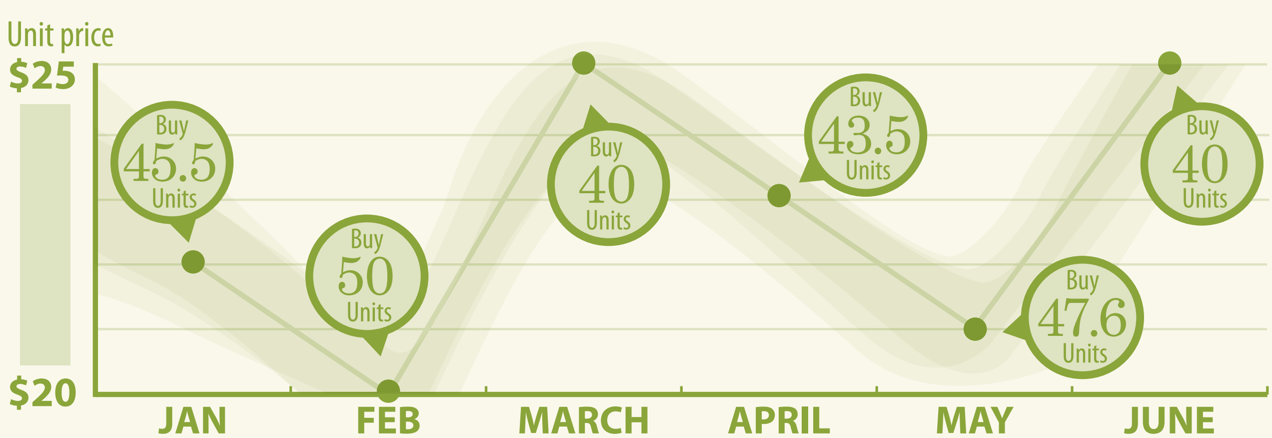
Effective in all types of accounts

Dollar-cost averaging can be put to work with any of your mutual fund investments, including those in a Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), or other registered accounts. When you invest regularly in tax-advantaged plans, you put money to work sooner and give yourself the potential to build more wealth while sheltered from tax.

Talk to us about how dollar-cost averaging can work for you. We'll be happy to help you select appropriate mutual fund investments and set up a mechanism for regular investing. ■

HOW DOLLAR-COST AVERAGING WORKS

Invest $1,000/month in Equity Fund XYZ | AVERAGE COST PER UNIT: $22.51



Hypothetical example; values are for illustration only.

INVESTING

A prescription for financial health

We all age. And as we do, our minds may become a little less sharp, particularly when it comes to finances. In fact, according to Harvard economics professor David Laibson, our peak ability to make good choices comes in the mid-50s. After that we experience a decline.

Age is a greater obstacle to economic rationality than low income or lack of education. When Laibson examined memory and analytics tasks for all ages, 80-year-olds performed at the lowest percentile.

Indeed, risk-adjusted returns for people in their 80s are about 300 basis points below the baseline; older adults also tend to pay interest rates about 100 basis points higher than middle-aged adults when they borrow. All of this indicates that older individuals, despite their best intentions, may not be making the best investment choices.

So what can you do to protect yourself, financially, as you grow older? Continuing to work with a trusted financial advisor can help. Just as you might need more support from your doctor as you grow older, you might require additional help from us.

A doctor takes care of your physical health, and we are committed to maintaining your financial health so you can enjoy the long and happy retirement that you've earned. ■

FAMILY

Is there a 'boomerang kid' in your future?

Are you a candidate to become the parent of "boomerang kids" — children who move back home after living on their own? Or maybe your adult kids are showing no signs of leaving the nest anytime soon? If so, you and your adult child should prepare yourselves for the financial and emotional consequences.

According to a recent CBC Television documentary, 60% of children aged 20 to 24 still live with their parents. Many children leave home, only to come back when they have difficulty finding a job.

Unless you're prepared, the return of an adult child may have negative consequences. You may find yourself sacrificing your own financial goals and security in order to support your child. One U.S. study showed parents spend $200,000 to raise a child to 18, but a child who stays at home into his or her 20s can increase that amount by a third.

It may also delay your plans to downsize your home or affect other important decisions — including your expected retirement date.

When a child returns home or leaves later than expected, families can experience emotional tension and stress, as the independence of adult children may conflict with parental expectations. For example, parents may become resentful when children treat a home like a "hotel," while adult children may chafe if parents impose restrictions such as a curfew.

The best way to make sure this kind of arrangement works is for you and your child to have a frank discussion about the impact on your lives. You need to talk about potential financial and behavioural issues and clarify the expectations, guidelines, and rules for everyone in the household. ■

RETIREMENT PLANNING

More Canadians are ditching the rocking chair

Older workers have been increasingly delaying retirement since the mid-1990s, according to a recent Statistics Canada report. If you're planning to join that group, we need to discuss the financial implications. Your choice of when to retire and the reasons for your decision affect how we plan your future.

StatsCan says that in 2008, an employed 50-year-old could expect to work an additional 16 years, about 3.5 years longer than workers of the same age in the mid-1990s. But working longer doesn't necessarily mean a shorter retirement, because of longer life expectancies.

In 1977, men could expect to spend 11.2 years in retirement. In 2008, the expected length of retirement was 15 years.

What's critical to our discussion is why you are considering delaying retirement. Are you looking for additional earning years to save and invest for a more comfortable retirement or a larger legacy? Or do you simply love your job and not want to leave it just yet?

No matter what your motivation, we can help you adapt your retirement plan accordingly. Let's talk about your needs and goals for today and for your future. ■

Take the year-round approach to tax planning

It's income tax season, and if you're like most Canadians, it's probably the only time of year you think about income taxes and how to reduce them. However, with a little planning and some easy-to-implement strategies, you could be generating tax savings throughout the year instead of scrambling for deductions and credits at the end of April. Here are four areas for your consideration.

Revisit your RRSP on a quarterly basis

A Registered Retirement Savings Plan (RRSP) is one of the most popular tax-saving investments, for good reason. But a lot of investors consider their RRSP just once a year, right before the contribution deadline for the previous year. This timing can lead to hasty investment decisions or, even worse, no investment decision — that is, simply parking your contribution in a low-rate money market fund or cash investment.

To make the most of your RRSP, we should review the investments it holds on a regular basis. This will give us the opportunity to make any adjustments and to deploy any cash that you contribute through a regular investment plan.

Expand your TFSA horizons

With an additional $5,000 contribution allowed for 2012, your Tax-Free Savings Account (TFSA) could have the potential to hold as much as $20,000 (assuming you were 18 or older when TFSAs were introduced in 2009). That's enough to hold a diversified portfolio, not just cash or Guaranteed Investment Certificates.

By including investments with higher potential returns, such as equities or equity mutual funds, you can increase your TFSA's potential long-term returns.

Consider asset location as well as allocation

If you have both registered and non-registered accounts, we need to consider the most tax-effective way to arrange your overall portfolio.

For example, 100% of interest income is taxable outside a tax-advantaged plan; earned inside a registered plan, you'll pay no tax on interest. Capital gains, however, are taxed on only half their value when held outside a registered plan. Canadian-source dividends also qualify for advantageous tax treatment when held in a non-registered account.

So when you have both kinds of accounts, it can be to your advantage to concentrate your interest-earning investments in your registered plans and use your non-registered account for holding equities and equity funds that generate capital gains and dividends.

Delay your RRSP deduction

One often-overlooked strategy is not to claim all of your RRSP tax deduction in the year you make the contribution. You can claim all or part of your deduction in a future year.

This will work to your advantage if your income, and therefore your income tax rate, increases in the future. The higher your tax rate is, the greater the tax benefit generated by your deduction.

Let's talk regularly about your tax situation. With income taxes top of mind right now, this is a great time to start. If necessary, we can arrange for a consultation with a tax professional about the implications of your investment strategy. ■

Be careful who you listen to online

CANADIAN INVESTORS HAVE embraced the Internet with wholehearted enthusiasm.

According to a survey by Cisco's Internet Business Solutions Group, half of those under age 50 seek investment advice on social networking sites, such as Facebook, and investor-specific sites. Two-thirds of those under 50 surveyed expressed interest in joining online investor communities.

If you're among them, that's a good thing. You can add to your knowledge of investing and finances and discover what other investors are doing. But a degree of caution is also advisable. Not all of what you read will be suitable for your individual circumstances.

Stay safe

To play it safe, it's a good idea to talk to us about the ideas you find online that pique your interest. We can tailor material to your needs and make sure that any strategies you act on are aligned with your specific situation.

We can also verify that the investment ideas you're considering are coming from reputable sources. After all, anyone can post ideas and advice, and you may not always be aware of their qualifications or even their motives.

Check first

Bring us the ideas you find on the Internet, and we'll act as a sounding board. If they're suitable, we can work to implement them in your financial life. ■

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