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MONEYFILE
FINANCIAL STRATEGIES
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FOCUS ON INVESTING

The *real* cost of missing the RRSP deadline

March 2, 2015, is the last day on which you can make a contribution to your mutual funds in a Registered Retirement Savings Plan (RRSP) that can be deducted on your 2014 tax return.

If you're thinking of skipping your contribution "just this once," you might want to think again.

Opportunity cost

If you are now 55 and skip a single $5,000 contribution, you could end up with nearly $9,000 less in your RRSP by age 65, assuming an average annual return of 6%. If you skip a $10,000 contribution, that lost opportunity may rise to more than $17,900.

The younger you are, the higher the potential cost. Using the same 6% assumption, skipping a $5,000 contribution at age 45 could cost you about $16,000 by retirement.

Skipping a contribution at age 35 has an even greater impact on retirement funding. A single $5,000 contribution missed could see you lose out on more than $28,700; skipping a $10,000 could mean missing out on nearly $57,500.

Tax cost

Opportunity cost is only part of the story. Not contributing also means not being able to claim a tax deduction that could reduce your tax bill or maybe even result in a refund. And the higher your earnings, the more valuable that deduction becomes.

Contact us if you want to contribute cash in your RRSP account to meet the deadline - we can always meet later to decide which mutual funds may best serve your investment needs. ■

MUTUAL FUNDS

Craving Indian? Let's talk.

India's economic outlook improved significantly this year after the country gave reformer Narendra Modi a stunning electoral majority. India's benchmark BSE Sensex index climbed steadily in the months after the results were announced and reached a record high on September 8, 2014.[1]

Investors are hoping that Modi, who built up an impressive track record running the north-western state of Gujarat, will have similar success in streamlining the various bureaucracies, interest groups and regulations which have long stunted the country's progress.

India has several qualities that can make it attractive for mutual fund investors looking to spice up portfolio returns.

Growth potential

At 1.24 billion and growing, India's population is about 35 times larger than Canada's.[2] That's important because population growth is one of the key drivers of business sales and profits. Almost all of India's major sectors stand to benefit from rising consumer demand, including infrastructure, housing, food distribution, transportation, and telecommunications.

A growing middle class

Average incomes in India are low by western standards and per-capita gross domestic product was just $1,770 in 2013.[2] However, an increasingly educated and affluent middle class is beginning to demand the accoutrements of a Western lifestyle, creating new opportunities in the automotive, retail, and travel sectors.

World-class businesses

One of the more tangible signs of India's rise is the emergence of a number of world-class businesses. Many, such as Infosys, Wipro, and Reliance Communications are concentrated in high-value sectors such as mobile technology, computer programming, software support, and business process outsourcing.

However, firms in traditional manufacturing, such as Tata Motors (which bought the Jaguar and Land Rover brands in 2008) and ArcelorMittal, the world's largest steel company, are also making their mark.

A large English-speaking population

Another big India attraction is that its business community, political class, and educated elite generally speak English. This makes it far easier for Western businesses to seek out new investments there and to partner with local firms. The world's largest democracy also has a long common law tradition, and solid institutions ranging from a free press to well-regarded universities.

One worry in recent years has been India's inflation rate. At more than 8% in 2013,[2] it is creeping up to unsustainable levels. However, even there, India fares well relative to Western economies, particularly Japan and Europe, which have been fighting deflation, widely regarded as a far more serious threat.

Spicing up your portfolio

As with any emerging market, fund investors need to be prepared for volatility when investing in India funds. Still, as a modest portion of a diversified portfolio, they offer significant growth potential to boost overall returns as well as valuable currency, geographic, and industry sector diversification.

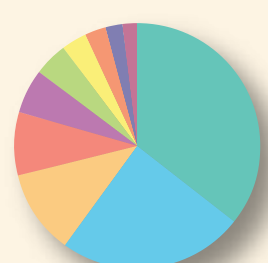
If you'd like to explore India in more detail, give us a call. We can help you select funds that are appropriate for you based on your investment objectives and risk tolerance level. ■

1 bseindia.com/indices
2 *The Economist*, The World in 2013

Boost diversification

Adding India funds to your portfolio can enhance its diversification and provide you with access to more companies in sectors that are underrepresented in Canada. Information technology, for example, makes up almost 17% of India's benchmark market index, compared with less than 2% for the S&P/TSX Composite.

S&P BSE SENSEX Index constituents by sector



As at October 10, 2014. Source: bseindia.com

S&P/TSX Composite Index constituents by sector

As at October 10, 2014. Source: tmxmoney.com

The MONEY file

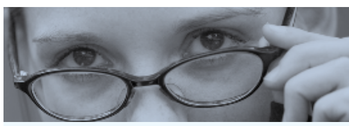
TIPS AND TACTICS TO HELP YOU GET AHEAD

ARE YOU MAKING THE MOST OF YOUR TFSA?

The turning of the calendar represents an opportunity for all Canadians 18 years or older to contribute an additional $5,500, to their Tax-Free Savings Accounts (TFSAs). That brings total cumulative contribution room since the TFSA was introduced to $36,500.

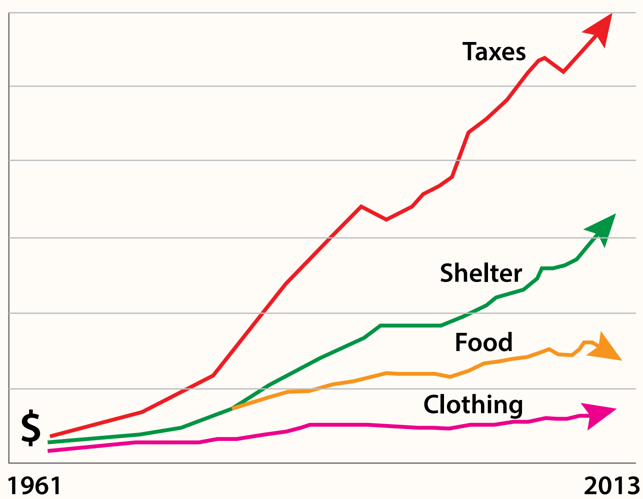
If you're using your TFSA only for cash investments, you may be missing out on valuable tax-free growth potential. With more than $35,000 in contribution room available, there is an opportunity for you to create a diversified portfolio of secure cash and cash equivalents, fixed-income holdings, and growth-oriented equities. All of your investment earnings, whether interest, dividends, or capital gains, are completely tax-free, as are all withdrawals. (The downside is that you can't use capital losses to offset capital gains.)

The next time we meet, we can review your TFSA strategy to make sure you're making the most of this powerful tax-free savings opportunity. We can also make sure that your investments are optimized for tax minimization across all your registered and unregistered accounts. ■



EYEOPENER
graphic evidence of how investing works

Canadians spend more on taxes than food and shelter



[1]Source: The Fraser Institute, August 12, 2014

% of income in 1961	
Tax	34%
Basic necessities	57%

% of income in 2013	
Tax	42%
Basic necessities	36%

Feeling overtaxed? That's not surprising. According to a recent study from Vancouver's Fraser Institute, the average Canadian family spent more on taxes in 2013 than they did on food, clothing and shelter combined.[1]

These statistics illustrate just how important it is to invest as tax-effectively as possible. That's why we make every effort to ensure that the tax implications are considered for every investment decision you make.

3 reasons to invest in Canada

Canada is not only a great place to live but also a great place to invest. A number of current demographic, economic and market factors could provide positive momentum for the Canadian economy during coming years, benefitting Canadian corporations and investors. Here are three reasons to believe.

1. A growing population

Statistics from the World Bank show that Canada's population increased by 1.2% in 2013,[1] from a combination of both immigration and births. That's significant because population growth is one of the major drivers of growth in gross domestic product (GDP).

More people means more families needing housing, food, cars, clothing, and so on. Increased demand leads to greater activity and growth for the businesses that supply these goods and services. As they expand, these businesses may need to hire more employees who then increase their own consumption as they begin earning more money.

Economic sectors most likely to benefit from this cycle of activity include consumer discretionary (companies that make or sell automobiles, leisure products, durable household goods) and consumer staples (suppliers of food, beverages, household and personal products).

2. A strong natural resource base

Canada is a country rich in natural resources, and the resource sector (energy and materials) accounts for more than 35% of the S&P/TSX Composite Index listings by value.[2]

Businesses that are involved in the production and transport of oil and gas, metals, and lumber stand to benefit from growth in rapidly emerging economies such as China and India. These countries need our natural resources for the construction of roads, bridges, and office towers as their rural populations begin to migrate to cities — a process that is likely to take several years, meaning ongoing demand for Canadian raw materials.

3. A stable foreign investment climate

Canada's educated workforce, rule of law, participation in NAFTA (one of the world's most open economic partnerships) and strong currency position it well as a target for foreign direct investment. The country's newly inked Comprehensive Economic and Trade Agreement (CETA) with Europe will further add to its allure, by opening up markets and easing labour mobility regulations. All of this could keep driving up equity values as foreign firms bid up the prices of Canadian assets.

Canada also benefits from an exceptionally stable political structure by international standards. This has made cities such as Toronto and Vancouver meccas for wealthy foreign investors who want to park funds overseas. In addition, Canada tops the international ranks for financial strength as measured by the World Economic Forum.[3]

Whether you're seeking broad exposure to Canadian equities, looking for dividend-paying companies, or searching for high growth potential, there are plenty of opportunities. We'd be happy to help you explore them and find the equities that are the best fit for your portfolio. ■

1 Worldbank.org
2 As of Oct. 10, 2014. Source: tmxmoney.com
3 World Economic Forum, Financial Development Report 2012

The tax-smart way to rebalance

As of November 25, 2014, the S&P/TSX Composite Index had posted a one-year gain of 13%.[1] For equity investors, that represents a reason to celebrate, but it also means that it may be time to rebalance your portfolio.

Suppose, for example, that your portfolio target was 50% equities and 50% fixed income. The outperformance of equities may mean that your portfolio no longer has the 50/50 split that aligns with your objectives and risk tolerance.

More than one way to rebalance

You could rebalance by taking profits in select equity holdings and reinvesting in fixed income. However, that could leave you with taxable capital gains to report on your next income tax return, unless your holdings are in a registered account.

A more tax-friendly way to rebalance is simply to direct new funds to underweight areas in your portfolio. This strategy has an added benefit in that underweight asset classes may be undervalued and thus represent a good investment opportunity.

Stay on top of changing markets

A regular investment program, where you automatically direct cash to your portfolio, is an ideal way to take advantage of current market conditions and keep your portfolio on track.

The next time we review your holdings, let's review the areas that are outperforming and consider the best places to allocate new cash. ■

1 S&P Dow Jones Indices

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