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FOCUS ON INVESTING

Tone-up time for your portfolio

Getting in shape is arguably one of the most frequent New Year's resolutions. But it's not just people who can benefit from a New Year's tune-up. Here are three exercises we can do now to ensure your investment portfolio is in top shape.

Balance. The key to good physical fitness is balance. The same is true for your financial fitness. To achieve balance in your investment portfolio, we start by reviewing your goals and the current value of your individual securities, which may have changed over the course of the year. We can then fine-tune your holdings for the coming year and beyond.

Reduce. Rest assured, this kind of slimming doesn't involve any hard-to-keep resolutions. Rather, as part of the balancing process, we may want to prune back any securities that no longer match your objectives. We can also look at crystallizing gains from any that may have outperformed.

Strengthen. Here's another exercise that's easier than you might think. That's because one of the simplest, most effective ways to add strength to your portfolio is to beef up (or start) pre-authorized contributions. While we're at it, we can also make a plan for how best to deploy this year's contributions and any excess cash balances. For example, we can use that cash to top up your existing holdings or look at other investments or sectors that might complement your current holdings. ■

Mutual funds for the brave new world

The world is in motion — physically, economically, and politically. Here at home, we've just elected a new prime minister, and the U.S. will be going through its election process come November.

As if to further affirm that change is afoot, growth in the investment markets seems to be shifting away from the developing world and back toward the more stalwart economies of Europe, North America, and Asia.

But there are many shifting factors that can affect investment markets — and investment decisions. For example, lower commodity prices, especially oil, may have an impact on the economic growth of oil-producing countries (including Canada).

So how do we navigate this brave new world? Step one is to make sure your portfolio is calibrated to capitalize on the rich tapestry of global opportunities.

Opportunities abound

In the United States, even the possibility that the Federal Reserve (the Fed) will raise interest rates in 2016 isn't dampening investor enthusiasm. Rather, it's akin to taking the training wheels off a bike: If the Fed raises rates, it believes the economy can grow with-out fueling inflation and without intervention.

For the U.K., the Organisation for Economic Co-Operation and Development (OECD) expects the positive growth established in 2014 to gain pace through to 2016. Among positive indicators are wage growth and rising consumer demand.[1]

Meanwhile, the eurozone continues to recover from the turmoil in Greece. There is even optimism that the refugee crisis could usher in a sustained period of economic growth. While there are short-term costs to providing immediate necessities, the migrants are generally young, able-bodied, and capable of filling the gaps in the current European labour force.

Even Japan is beginning to see increased traction from its ongoing fiscal stimulus measures, which include labour market reforms and higher wages. In addition, ongoing weakness in the yen is positive for exporters.

There's a fund for that

There are three ways mutual fund investors can gain crucial exposure to these potential-rich economies.

1. Broad-based global equity funds. Broadly diversified global funds give us a way to capitalize on "big picture" prospects for the overall global economy. The fund manager and research team determine the countries, companies, and currencies with best prospects and invest accordingly.

2. Region-specific funds. For investors keen on specific economies, these funds can be a gateway to opportunity. Options range from single-country funds (U.S. growth, for example) to entire regions (such as Europe).

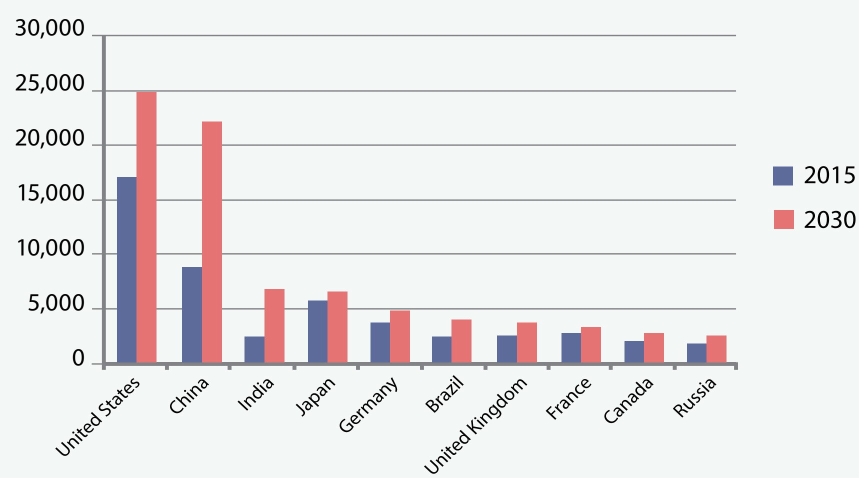
3. Sector-specific funds. Rather than focusing on geography, you might prefer a fund that focuses on a specific industry sector. Choose from funds that concentrate on infrastructure, pharmaceuticals and health care, IT, financial services, agriculture, green/environmental companies, and numerous others. All of these funds can help shield you from home-country bias and excess exposure to our own commodity-dependent economy.

As with all investments, we'll want to ensure any new additions to your portfolio dovetail with your existing holdings and are appropriate for your time frame and tolerance for risk. ■

1 OECD, Economic outlook, analysis and forecasts, November 2015

A lot can happen in 15 years

Fifteen years can pass in just about the blink of an eye; ask anyone whose child is about to graduate high school. The chart below shows projected GDP for the world's 10 largest economies in 2015 and 2030.



Real GDP in billions of 2010 U.S. dollars. Source: US Department of Agriculture.

ESTATE PLANNING

Protect your TFSA

Most of us know about the importance of designating qualified beneficiaries for our Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs). But what about your Tax-Free Savings Account (TFSA)? You can — and should — take steps to protect those assets in much the same way as your other registered plans.

The first thing to note is that the value of the TFSA at death is paid out, tax-free, no matter who receives it: your spouse, your child, a friend, your estate. But there are additional steps you can take to safeguard more of your plan's assets.

Name your spouse as successor holder. When you name your spouse as the successor holder of your TFSA, the plan assets can transfer directly — and intact — to your spouse's TFSA. The plan's securities don't need to be sold, there are no tax implications, and the contribution doesn't affect your spouse's own TFSA contribution room. As well, the capital in the TFSA will continue to accrue on a tax-free basis and there's no income tax upon its eventual withdrawal.

Designate a beneficiary. If you don't have a spouse (or don't want the assets to pass to your spouse), you can name a beneficiary, such as one of your children. That person's ability to direct the TFSA inheritance to his or own TFSA will depend on his or her contribution room.

If you don't designate a successor holder or a beneficiary, the full value of your TFSA will become part of your estate. While the value at death is tax-free, the amount may be subject to probate fees depending on your province of residence. Note also that any growth within the TFSA between the time of death and the time the TFSA is formally closed or transferred will be taxed as ordinary income unless you name your spouse as successor holder.

As with all beneficiary designations, it's a good idea to review your TFSA designation regularly. In addition, you may want to seek professional tax advice to ensure your assets pass as you expect. ■

INVESTMENT PLANNING

Investment options for kids or grandkids

You may have been shocked at just how much your kids raked in over this past holiday season. Clearly, giving cash in lieu of "stuff" is becoming more commonplace. Between those gifts and extra hours on the job in December, your young tycoons might be sitting on a sizeable sum. What can they do with that money besides fritter it away? They can invest it (or at least some of it).

Mutual funds are ideal in these situations because they offer instant diversification, you don't need any investment experience, and there's no need for ongoing management. There are many funds with brands that youth will recognize and may already support with their purchasing power.

And unlike a bank account, the balance isn't connected to their debit card. Needless to say, this reduces the likelihood that their investment will be spent at the mall or online.

If your young person is over the age of majority, he or she can hold that mutual fund in a TFSA and enjoy all the same tax-saving benefits you do.

If your youth is a minor, you'll need to open the account "in trust" for him or her. Interest and dividends earned in an in-trust account will be attributed back to you for tax purposes, but capital gains are not. If capital gains are realized down the road, they'll be taxed in your child's hands, at a rate that's probably much lower than your own.

If you're looking at a significant amount to invest for your child, you may want to consider setting up a formal trust. The benefit here is that you get to dictate the trust's parameters, such as when the beneficiary can access the funds or how they can be spent. Note, however, that there would be setup fees as well as ongoing expenses in administering the trust.

We'd be happy to explain your options and help you make the choice that's best for you and your child. ■

Thinking early retirement? We can help make it happen

It happens. You run into an old friend, who isn't "old" at all: He's just about the same age as you. He recently retired and can't stop talking about how great it is. Pretty soon, there's a seed germinating in your head. Would it be possible for me to retire sooner than planned?

There are a lot of variables to consider if you want to move your planned retirement date forward. Let's take a closer look…

Key questions

The following questions can help determine what changes you might need to make in order to make early retirement a reality.

How much sooner would you like to retire? If you're angling for a five-year window, the options we'll explore will be significantly different than if you're on a 15-year track.

How much do you have now? Odds are, you're short of what you'll need or you'd be retired already! So let's talk about "power saving." The idea here is to save as much of your discretionary income as possible each year until your retirement — ideally, 15% to 25%. This might mean making some changes in your lifestyle today, but the results could be well worth it.

How much will you need? Many retirement calculators suggest budgeting 80% of your pre-retirement income to maintain your accustomed standard of living. But a recent survey of U.S. retirees by global investment giant T. Rowe Price found that, nearly three years into retirement, respondents were living comfortably on just 66% of their pre-retirement income.[1]

Do you still have expenses related to your kids or their education? If so, we need to incorporate this into your plan.

How much debt are you carrying? Debt doesn't have to be an early-retirement show-stopper. If you still have a large mortgage, for example, downsizing could give you the double benefit of freeing up cash to invest and reducing your debt load.

Next steps

Now that you've identified some of the challenges to retiring early, the question becomes how to overcome them. What can we do to add to your nest egg today and maintain it for a longer period of time?

The answer is typically a combination of increased contributions and more growth-oriented investments. Simply, the more you can set aside and the sooner, the faster your savings will grow, particularly when we make the most of your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). Outside of registered plans, we'll take a strategic approach to minimize tax consequences.

When considering the growth-oriented options that are best for you, your risk-comfort level will be a key factor, as will your time horizon. Our goal is to get as much growth as possible while keeping volatility within your comfort zone.

If you'd like to talk about the possibility of early retirement, we'd be happy to review your plan and see what kind of adjustments might be needed. ■

1 T. Rowe Price, "First Look: Assessing the New Retiree Experience," 2014.

TFSA or RRSP? It depends…

Choosing between your Registered Retirement Savings Plan (RRSP) and your Tax-Free Savings Account (TFSA) can be especially confusing in January and February, when so much of the media seems to insist that you maximize your RRSP. But is this really your best option?

If you're counting on a tax refund, maybe. But what if you look further out?

Withdrawals taxed differently

Both plans provide valuable growth and tax-minimizing opportunities. But there's a key difference: When you withdraw money from your TFSA, there's no tax owing.

RRSP contributions are made with pre-tax income so you pay income tax on the money when it's withdrawn. The assumption is that you'll take the money out during retirement, when your income is lower and you are presumably in a lower tax bracket. If this is likely to be your situation, then your RRSP may be a worthy priority.

Thinking ahead

But what if you have significant assets or a generous pension (or both)? You might not be in a lower tax bracket come retirement. And your RRSP withdrawals could be taxed at a rate as high as or even higher than they might have been during your working years.

In this case, your TFSA might warrant priority. At retirement, your withdrawals won't count as income, won't be taxed, and will not affect your eligibility for income-tested government benefits like Old Age Security.

We can evaluate your RRSP, your TFSA, and your tax situation (both current and projected) to help determine your optimal investment into each plan. ■

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