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FINANCIAL STRATEGIES
INVESTMENTS • TAX • INSURANCE • WILLS • ESTATES

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FOCUS ON INVESTING

Have confidence your retirement income will last

During your portfolio-building years, you are likely to have a bias to equities. With a long time horizon and regular additions of capital, you have an opportunity to maximize growth potential.

As you get closer to retirement, however, it's natural to begin tilting your portfolio away from equities and towards fixed income. Not only will you be setting up an income stream, you'll enjoy more stable returns and gain protection from the impact of a market downturn.

The hesitation factor

It's not uncommon, however, for some investors to feel uneasy. They fear that paring back equities will reduce their growth potential, possibly to the point where they'll need to draw down principal. So what's the right amount of risk to take off the table?

Let's run the numbers. How would 3%, 4% or 5% returns affect the amount of money you have available throughout your retirement? If you need 5% returns to sustain your lifestyle, we can structure your portfolio to achieve them. If it turns out 3% returns are sufficient, why take on more risk than necessary?

The gradual approach

Any adjustments to your portfolio don't have to (and shouldn't) happen all at once, of course. By gradually reducing risk, we can allow a portion of your investments to continue to benefit from stronger growth potential.

Let's start building risk reduction into your plan. Schedule a retirement income checkup with us to do the math, making sure you're exposed to the minimum amount of risk needed to reach your goals. ■

Europe's stock may be rising

MUTUAL FUNDS

The tide may be turning for investors in Europe. After several years of challenging economic news, there's a sense of renewed optimism.

A survey of investment managers released in September 2015[1] found that nearly half (49%) of respondents believe European equities are undervalued — or trading at attractive prices.

Economies in the Eurozone are benefiting from the European Central Bank's (ECB's) decision to buy about 60 billion euros in bonds monthly, which started in March 2015. In December 2015, the ECB announced that the program would continue until at least March 2017.[2] That's a lot of economic stimulation, which would support Eurozone companies.

Risks remain, of course, and need to be monitored. These include ongoing economic struggles in Greece, the still simmering conflict between Ukraine and Russia, and the impact of China's slowing imports on global trade and commodity prices. We're also keeping an eye on real investment — money used to buy tangible, productive assets such as equipment and machinery — which is critical for companies to grow.

What is the most prudent way to seize investment opportunities in Europe? Mutual funds are a good place to start.

Focus on Europe

Some European equity funds concentrate on a specific country — for example, the United Kingdom or Germany. More common in Canada are funds that invest across a wider European region. We can still narrow your focus — say, to the Eurozone — but the fund manager has greater flexibility to choose the best investments across countries.

Within the European equity fund category, we can tailor our approach to suit your needs:

- **Investment style.** Growth funds focus on companies positioned to achieve high earnings growth, while value funds seek out businesses trading at a discount to their intrinsic worth.
- **Capitalization.** Some funds focus on large-cap companies that may offer more stability and steady earnings. Others focus on mid-cap businesses that may have greater growth potential.
- **Dividends.** If income generation is a priority for you, we can look for Eurozone funds that pay dividends.

Focus on the world

Also worth considering are global funds, which offer different levels of exposure to Europe as well as other regions. These funds may focus on equities, fixed-income investments, or a mix of both.

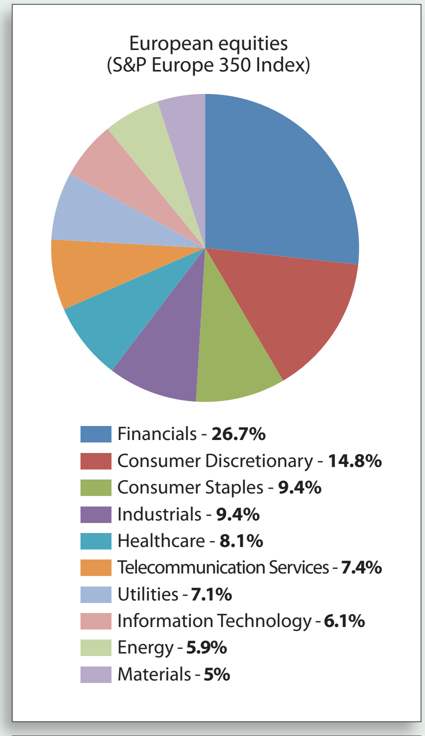
If you'd like to consider tapping into investment opportunities in Europe, we can evaluate individual funds to find the best for your portfolio. ■

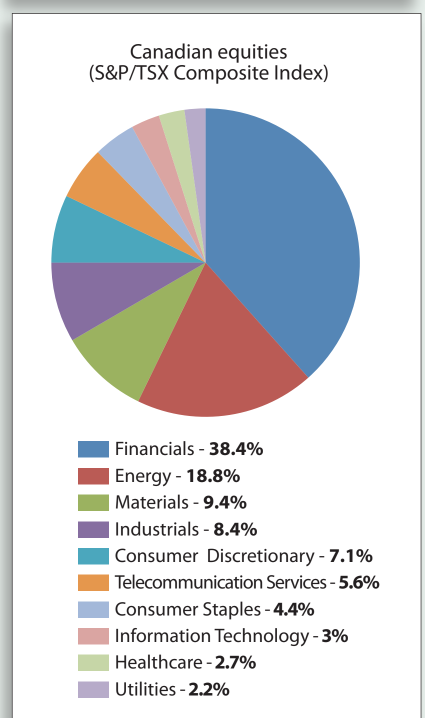
1 Northern Trust, *Investment Manager Survey Report*, Third Quarter 2015.

2 ECB press conference, December 2015.

Enhance diversification

Funds that focus on European equities may offer greater exposure to sectors that are underrepresented in Canada, such as consumer discretionary, consumer staples and healthcare.





Source: S&P Dow Jones Indices, December 15, 2015

INVESTMENT STRATEGY

TFSAs – contribute early, and allocate

The maximum contribution for Tax-Free Savings Accounts (TFSA) was reduced to $5,500 as of January 2016, but your TFSA still remains a valuable savings tool. By depositing your maximum contribution early in the year, and by choosing the best investments for your situation, you can make the most of its benefits.

Sooner is better. You don't have to wait until you have cash in hand to contribute. You can transfer in-kind investments — mutual fund units, securities, federal and provincial savings bonds — that you currently hold in a non-registered account. If the asset has increased in value since you purchased it, the transfer will trigger a capital gain, which is taxable, but it may be possible to offset it with a capital loss from 2016 or a previous year.

Allocation is critical. Because a TFSA is called a "savings account," many investors keep TFSA money in short-term, fixed-income investments. However, if you have a longer time horizon for your TFSA assets, let's talk about the mix of investments (some secure and some with greater growth potential) that's optimal for you. All earnings in a TFSA are tax-free, including capital gains. ■

DEBT MANAGEMENT

Manage debt more efficiently to free up money for other goals

We all have debt at different points in our lives. When we were studying, many of us took out student loans. We use loans to buy cars, mortgages to buy houses, credit cards for convenience and lines of credit to bridge cash flow gaps. With so many different debts, it's easy to lose track of the costs to our disposable income — our ability to invest and our future lifestyle.

The good news is that it's often possible to manage debt much more efficiently. Start freeing up your money for other goals with these three debt reduction strategies.

1. Tackle highest-rate debt first

Chances are you're paying down multiple debts at a time — mortgage, credit cards, department store cards, car loans, and so on. While you need to maintain minimum payments to avoid charges and late fees, you can be strategic by focusing extra payments on the debt that has the highest interest rate first. Paying down a debt that costs 8% is the equivalent of earning an 8% return on investment.

2. Make repayments automatic

Sometimes the most obvious strategies are overlooked — such as setting up regular payments to reduce debt. Automating debt payments integrates them into your budget and ensures that you make steady progress towards your debt reduction objectives.

3. Consolidate to lower rates

A poll conducted by a major Canadian financial institution found that almost half of Canadian households have credit card debt.[1] Further, some credit cards charge interest rates of 20% or more, which is a significant drain on your resources.

To reduce your interest costs, consider using a lower-rate secured line of credit to pay down any outstanding balance on your credit cards. At a lower rate, your payments will reduce the balance more quickly.

The table below illustrates just how much you might save by consolidating debt on a secured line of credit.

With debt as with investing, it's not an all or nothing proposition. Every dollar in debt you chip off puts you in a stronger financial position — today and in the future. ■

1 BMO Credit Card Report 2015

How much could you save?

Mix of debts	Annual cost	Consolidated debt	Annual cost
$12,000 car loan at 8%	$960		
$2,500 credit card balance at 20%	$500	$17,000 secured line of credit at 4%	$680
$2,500 department store credit card balance at 28%	$700		
Total annual cost of debt	**$2,160**		**$680**

Sidestep these biases to improve returns

We all have biases, and some can affect investment decisions and have a negative impact on returns. However, being aware of your investment biases can help you avoid them.

Home bias

Familiarity keeps many investors' portfolios concentrated in Canada. This restricts opportunities, diversification and growth potential. While it's true that Canada has many strong businesses, they represent a small fraction of what's available globally. Furthermore, a large proportion of our most successful companies are concentrated in just three sectors: energy, materials and financial services.

There are ways to benefit from greater geographic diversification while respecting your comfort zone. For example, we can seek out Canadian companies that operate internationally and that are, therefore, exposed to other countries' economic growth. We can also look just south of the border to the U.S. market, which shares many of the Canadian market's characteristics but provides access to a broader range of companies.

Loss aversion

Let's say someone offers you two choices. You can take a crisp $100. Or you can gain $200 and then lose $100. The net result is the same: you're $100 richer. But most people would choose the first option because losing money hurts. This bias makes some investors shy away from growth opportunities to avoid losses. Others refuse to get rid of underperforming investments because they're in a loss position, even though there may be better opportunities elsewhere.

The key here is to set and maintain an appropriate asset allocation. Your portfolio mix is designed based on a "macro" view of your personal situation — one that balances your desire for growth with your need for security. By following your asset allocation, we can ensure you aren't positioned too conservatively or too aggressively. And regular rebalancing based on analytical analysis, rather than fear of losses, can help you make wise buy-and-sell decisions.

Follow the leader

Simon says… buy today's hot stock! There's a comfort, maybe even a euphoria, that comes from following the herd. After all, everyone else can't be wrong. Or can they?

Often, by the time a rising investment makes the news, it's gone beyond hot and become overheated. As a result, a lot of investors may pay more than what the stock is actually worth based on fundamental values.

We prefer to follow a disciplined approach to investing that incorporates multiple checks against the temptation to follow the herd. For example, regular rebalancing is designed to take some profits off the table and ensure that your portfolio doesn't skew towards the latest short-term fad.

So, the next time you notice a bias at work, and talk to us. Together, we can protect your mutual Fund portfolio from bias-driven decision- making. ■

Boost yields with corporate bonds

Interest rates have been so low for so long that it's hard to imagine they can drop any more. As of mid-December 2015, yields for 10+ year Government of Canada bonds yields[1] averaged just 2.10%.

For fixed-income investors seeking higher yields, corporate bonds may be the answer.

What are corporate bonds?

Corporate bonds are debt securities issued by a company to raise funds. In essence, you "lend" the company your money, and the company agrees to pay you interest on a set schedule and to repay the loan on a specific date.

Because corporate bonds are backed by private enterprise, not the government, they are considered to have more risk — that's why they offer higher yields. However, just because they are riskier than government bonds doesn't mean they are high risk.

Managing risk

Investment-grade bonds are issued by long-standing blue-chip companies with an established history of meeting their debt obligations. High-yield bonds, on the other hand, are issued by companies that may be facing challenges such as high debt, unstable management, or takeover risk. International bonds are generally riskier than Canadian bonds because they're subject to different regulations and economic conditions.

With appropriate risk management, corporate bond mutual funds may help boost your fixed income yields. Contact us to discuss the opportunities. ■

1 Bank of Canada, Selected Bond Yields, Dec. 15, 2015