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Money Ideas

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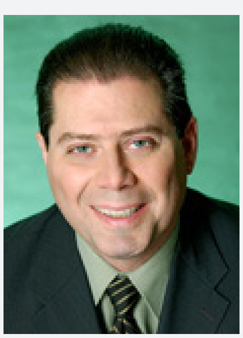

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▶ RETIREMENT STRATEGIES

These funds can help for a lifetime of retirement savings

Whether you're 30 years from retirement or three, a diversified, well-managed portfolio of mutual funds can help provide the mix of security, income, and growth you need to reach your retirement goals. But what that portfolio looks like will change over time, as these three scenarios illustrate.

The building years

"Go for growth" is likely to be your investing mantra at this stage of life. Thanks to kids, mortgages, and a propensity for accumulation, these years tend to be typified more by spending than saving. However, time is on your side. With a long investment horizon, you can focus on growth-oriented equity mutual funds, knowing that you'll have plenty of time to ride out any temporary market downturns. You'll also benefit the most from compound investment growth.

Whatever else is going on at this busy stage of life, consider including an optimized cross-section of domestic and international equity funds that have the potential for long-term capital appreciation.

Peak earning years

At this stage in your life, you may be mortgage-free, or close to it, and be earning the highest salary of your career. Your children have left home and (hopefully) are independent. With more income and fewer expenses, these are typically your biggest earnings years and, not coincidentally, your biggest tax-paying years.

For most people at this stage, there is still a lot of time for the growth potential of equity funds. It goes without saying that this is also the time for us to make doubly sure you're taking full advantage of tax-advantaged accounts, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Pre-retirement years

With retirement approaching, you'll want to start gradually shifting your fund portfolio away from capital appreciation and toward capital preservation and income generation.

Now may be the time to start moving into the funds that will provide your retirement income stream. This doesn't mean selling off all your growth-oriented funds. But by starting well in advance, you can enjoy the luxury of slowly rebalancing. Even if your anticipated retirement is 10 or 12 years away, we can talk about what's next and set up the steps to implement your plans seamlessly.

Whatever life stage you're in, remember that we're here to help. As your life evolves, we can make sure your portfolio stays aligned to your changing needs and objectives.

Building a strong portfolio starts with your core

Anyone with a penchant for fitness has probably heard about how important a strong "core" is to overall body strength. 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, at the same time offering the potential for attractive long-term investment returns within your risk tolerance.

Core in all 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. Consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

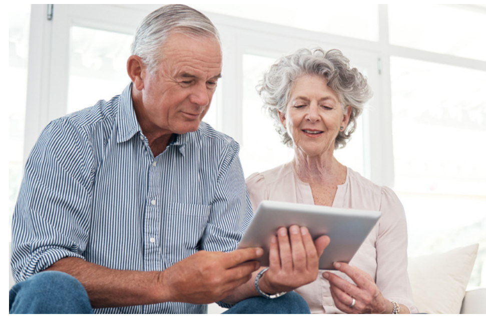
Global funds. The changing shape of world markets may also call for non-Canadian investments to form part of your core. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

How big is your core?

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 common.

Keep in mind that 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.

Beyond the core

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. ◂

Here's a tax-smart way to rebalance your fund portfolio

The Canada S&P/TSX Toronto Stock Market Index reached an all-time high of 16567.42 in July of 2018, just one example in a series of record-setting returns in equity markets around the world. Indeed, the MSCI World Equity Index added $8 trillion in value in 2017.[1] For equity fund 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 equity funds or the equity portion of your portfolio may mean that it no longer has the 50/50 split that aligns with your objectives and risk tolerance.

Options 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 money 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 mutual fund portfolio, is an ideal way to take advantage of current market conditions and keep your portfolio on track. If you're adding to your non-registered investments soon, let's review the areas that are outperforming and consider the best places to allocate new cash. ◂

[1] Trading Economics, cited in *Financial Post*, December 29, 2017

RRSPs

Planning to skip RRSPs this year? Count the cost first!

March 1, 2019 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 2018 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 contribution 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.

Your options

Perhaps the biggest cost of all is shortchanging your own retirement plans. If you have conflicting demands on your finances keeping you from contributing to your mutual fund RRSP portfolio, it may be time for a review. We can help you find an approach that keeps you on track to meet your retirement goals. ◀

REGISTERED PLANS

These are the rules for 2019

Staying on top of the rules and deadlines for your registered plans, such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) can help you maximize the considerable benefits they offer. So, here are the rules to keep in mind for 2019:

RRSP contribution limit. The maximum RRSP contribution limit for the 2018 tax year is $26,230 or 18 per cent of your pre-tax earned income from the previous year. Keep in mind that any unused contribution room carries over to future years, so your individual amount may differ.

TFSA contribution limit. The TFSA contribution room limit for 2019 has been increased to $6,000. The actual amount which can be contributed by an individual includes both the current year limit and any carryover of re-contribution amounts from previous taxation years. Keeping track of TFSA contribution room can be complicated, especially if you have made withdrawals from your TFSA in the past.

RRSP deadline. The deadline for RRSP contributions for the 2018 tax year is March 1, 2019.

TFSA deadline. There is no deadline for TFSA contributions. You can contribute to your plan anytime.

Your information. You can find out your individual limits through the Canada Revenue Agency's (CRA) *MyAccount* service. ◀

FUND STRATEGIES

Dollar-cost averaging makes volatility work for you

Last year saw some big ups and big downs in the markets. The good news? When financial markets are turbulent, they present a golden opportunity to buy investments at lower prices.

An easy, effective 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 investment prices fall, the amount you regularly invest buys more shares or fund units. Over time, this can reduce your average cost and, in a rising market, increase your returns when you sell.

How dollar-cost averaging works

Here's an example to show how it works. Suppose you decide to invest $1,000 a month in the fictional 'ABC Fund'. Over a six-month period, the price fluctuates between $20 and $25, with the following results:*

Month	Price per Unit	Units Purchased
1	$22	45
2	$20	50
3	$22	45
4	$21	47
5	$23	43
6	$25	40

Total units purchased	270
Average price per unit	$22.22
Return on investment	$750.60

Setting up a dollar-cost averaging program is fast and easy. Money can be transferred automatically from your bank account or other sources to regularly buy mutual funds units. When you purchase mutual fund units, fund distributions are automatically reinvested in additional fund units, augmenting your strategy.

You can invest monthly, quarterly, or semi-annually – whatever is most convenient for you.

Talk to us about how dollar-cost averaging can work for you. We'll be happy to help you select appropriate funds and choose the frequency and amount that's right for your budget and investment goals. ◀

* *Example provided for illustration only; excludes commissions, fees, taxes.*

What's the fashion when it comes to mutual fund styles?

Did you know that your mutual fund manager has a certain style? We're not talking about how they dress, but the way they choose the investments they hold and manage on your behalf. Knowing what the various styles are can help determine the right funds and the right mix of funds for you.

Plus, diversifying your portfolio by management style can help you benefit when certain styles outperform, and protect you from volatility.

Four of the main styles are growth, value, bottom-up, and top-down investing. Let's take a look at what distinguishes each style.

Value investing. Value-fund managers seek out strong firms whose market price does not accurately reflect their intrinsic value. Essentially, the value style means buying stocks that are regarded as being "on sale."

These managers pay close attention to a company's financial information – such as debt levels, price/earnings (p/e) ratio, price/book value ratio and dividend yields – to determine whether its stock is overpriced, underpriced, or fairly valued.

Growth investing. Growth managers seek out companies whose earnings they think will grow faster than those of their industry or the overall market. Growth mutual fund managers look for firms that have high earnings growth rates, a high return on equity, high profit margins, and low dividend yields. Investments are selected to maximize capital gains potential.

Some fund managers combine the growth and value strategies into an approach known as "growth at a reasonable price," or "GARP" for short. GARP investors look for companies with consistent earnings growth above broad market levels while excluding companies that have very high valuation. The overarching goal is to avoid the extremes of either growth or value investing.

Bottom-up investing. Bottom-up managers are looking to invest for the long term. They are typically stock-pickers, looking for companies, in any sector, that have strong financial fundamentals: low debt, strong earnings, and management with a good track record. These companies should outperform their competitors in any market.

The top-down approach. Top-down fund managers look at the big picture. They analyze general economic conditions and determine which countries and industry sectors are positioned for growth and then pick individual stocks in those areas. For example, if a fund manager anticipates that the economy will grow sharply, he or she might buy stocks across the board.

Diversifying by style can add an extra layer of protection to your portfolio and help maximize its performance. Talk to us to find out more. ◀

▶ FUND BASICS

Context is key to understand fund performance

One of the things investors typically look at when assessing mutual funds is performance history. While historical performance is important, it's just part of the story.

For example, a balanced fund that returned 2% during the bear market of 2008-2009 would have been cause for celebration. That same return last year would have left you wondering what went wrong. That's why it is crucial to compare apples to apples when assessing fund performance. Here's an insider's look at some of the factors we take into consideration.

Appropriate benchmarks. A fund's returns are based on the aggregate performance of the securities it holds, less fees and expenses. But to really gauge how well it did, we need to look at the benchmarks that reflect the fund's holdings.

A broad-based Canadian equity fund might use the S&P/TSX Composite Index as its benchmark. Meanwhile, a small-cap fund, or one focusing on tech stocks, would be better served with a different benchmark.

Amongst its peers. Performance is relative, so it's instructive to consider how a fund performed versus funds of a similar nature. Don't compare the performance of a government bond fund to a technology stocks fund. A common measure of this kind of performance is quartile ranking. Look for a fund that consistently finishes in the first or second quartile of its peer group or similar-type funds.

Beyond the short term. Equally important is recognizing that short-term numbers can be misleading. Every asset class has its day in the sun and its turn in the doghouse. Returns for a five- or ten-year timeframe are a better indicator of quality than the performance of just one or two years.

Ultimately the best marker of mutual fund performance is whether an individual fund is meeting the goals that your portfolio requires of it. A portfolio review is a great way to understand how each fund and your overall portfolio is performing for you. ◀

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