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# Money Ideas

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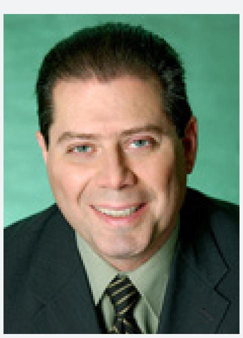
David Brodigan

Geordon Ferguson

Margôt Adam



Paul Mancuso

RETIREMENT

## Are you prepared for a longer, more active retirement?

Recent trends suggest that some of the costs associated with retirement are changing. Depending on your circumstances and expectations, these developments may mean you'll need to adjust your savings to be sure you can fund the retirement lifestyle you want.

Keep these three trends in mind when you're reviewing your plans.

**Longer retirement.** Thanks to healthier lifestyles and medical advances, people now live longer and are more active than their predecessors. They're also more likely to retire at a younger age. Whereas previous generations could expect to spend 15 to 20 years in retirement, retirees may now require savings that will last for upwards of 30 years.

**Higher health care costs.** In recent years, provincial health care budgets have been growing faster than government revenues. Individuals and employers now foot 30% of the country's total health care bill.[1] You can expect to pay still more as provincial health care plans trim coverage and governments impose or increase related taxes.

**Rising housing costs.** Recent years have seen a strong trend among retirees toward condominium living. According to the 2016 Census, 30% of Canadians over 65 now live in condominiums.[2] Condos offer convenience and security, but they also have monthly maintenance fees. And while homeowners can defer repairs and shop for bargains, condominiums typically have work done on a scheduled basis, including costly refurbishing, regardless of what individual owners might want. If there's a condo in your vision, remember to factor in these costs.

Professional advice can help you assess whether your Registered Retirement Savings Plan (RRSP) and other investments are positioned to give you the growth you need for a long, healthy — and financially secure — retirement.

Sources:

[1] Government of Canada. *Unleashing Innovation: Excellent Healthcare for Canada: Report of the Advisory Panel on Healthcare Innovation.* 2015.

[2] Government of Canada, Census of Population, 2016.

# Does your RRSP have the right fund mix?

We all recognize that our needs evolve as we grow older. But change has a way of creeping up unnoticed. That's why it's important to review your Registered Retirement Savings Plan (RRSP) on a regular basis.

A key question for mutual fund investors is: Are you holding the right mix of mutual funds in your RRSP? Is it time to begin making adjustments in preparation for the next stage of your investing life?

## Portfolio approach

First, remember that mutual funds are a way to invest in various asset categories — not an asset category on their own. An equity mutual fund invests in stocks. A fixed-income fund invests in bonds and similar holdings. A balanced fund invests in both stocks and bonds. The key point is that your fund's performance depends largely on what it's invested in.

Historically, equity funds have delivered superior returns over the long term — but with greater volatility. In your overall portfolio, money market funds and fixed-income funds can help offset that volatility.

## Juggling variables

How do we decide whether you have the right proportion of equity, fixed-income, and cash-equivalent funds in your RRSP for your current stage of life? We'll look at the following factors:

**Accumulation horizon.** The farther you are from retirement, the longer you have to recover from a setback. As a result, young people can theoretically bear more risk than older people. Check your own personal risk tolerance (see article on Page 3).

**Drawdown horizon.** How long will your retirement run? This reflects your target retirement age and life expectancy. Work life changes and health concerns for you and your spouse can easily affect your target retirement date (see article Page 1). Health issues naturally affect your longevity projection. The longer your retirement, the more capital you will need.

**Target retirement lifestyle.** How much retirement income do you want? Your lifestyle today is probably different than 10 or 20 years ago. As we age, our wants and needs change.

**Required rate of return.** If you have already accumulated a substantial amount, you may need only modest returns from your retirement savings in order to meet your future needs. On the other hand, if you're behind in your savings, you may need to consider taking on extra risk or adjusting your expectations.

**Other sources of income.** Some retirees continue to work part time. Others may receive an income from a company pension plan.

Keep in mind that all of these factors are subject to change as you progress through life's stages.

## One size fits all?

An old rule of thumb suggests setting your equity allocation by subtracting your age from 100. So you would be 70% in equity funds at age 30, 60% at 40, 50% at 50 and so on. But there's no one-size-fits-all solution. For all of the reasons above, good investment advice requires a thorough examination of your individual situation.

Indeed, one of the most valuable benefits of working with a financial professional is gaining expert insight into the mutual fund mix that best matches your unique situation. If your thinking has evolved when it comes to how you see your retirement, let's talk and review your investing strategy.

# An exit strategy for your RRSP

When is the best time to begin converting your Registered Retirement Savings Plan (RRSP) assets into retirement income? There is no one right or wrong answer, but here are your options.

## Age 71 at latest

You're not required to convert your RRSP into a source of income — usually a Registered Retirement Income Fund (RRIF) or annuity — until the end of the year in which you turn 71.

Delaying until then allows your assets to grow and compound on a tax-deferred basis. Provided you have available contribution room, you can continue to add to your RRSP in the intervening years. And if your spouse is younger than you, you may be able to contribute to a spousal RRSP beyond the end of your 71st year.

The typical retirement age, however, is 65. That's when your Old Age Security (OAS) payments will kick in, providing you meet the eligibility requirements.

## Before age 65

You might choose to retire before age 65, or circumstances (health issues, for example) might make converting sooner the best option because you need the income payments. You can then use your RRIF or annuity payments to supplement other income sources and fully enjoy your retirement lifestyle right from the start.

## Your time

With professional advice, you can avoid the extremes — withdrawing too much money too soon and depleting the funds, or waiting too long and taking so little money that you don't enjoy your retirement. A sound retirement income plan, based on your unique needs, will allow you to make the most of your retirement savings.

# Fund investors not immune from these 4 common investing traps

Mutual fund investing would be a whole lot easier if the markets moved in a rational, predictable fashion. Unfortunately, they don't. Market activity, and ultimately fund performance, is the collective result of individual investors' decisions, and investors are not always rational.

Irrational actions are the focus of researchers who study behavioural finance, or the psychological analysis of how individuals make money management decisions.

These researchers have identified four common investment traps.

1. **Fear of regret.** If we're not careful, the fear of making the wrong decision can become so powerful that we avoid decision-making altogether. For example, we might keep too much investment money parked in cash, hold on to a fund long after it should have been sold, or automatically reject new ideas. Also, after an investment turns out to be a disappointment, some people never buy another.

2. **Framing.** This is the tendency to divide our finances into distinct clusters and "frame" them by managing each cluster without regard to the others. Many people, for example, work hard at reducing their home mortgage while continuing to carry credit card debt at much higher interest rates. The rational approach would be to view their entire financial situation and then allocate money based on potential payback.

3. **Availability.** Many investors have a strong tendency to buy whatever's new and exciting — regardless of whether it's appropriate for their portfolio or even a sound investment. One example is investing in technology: technology funds or funds invested in tech stocks are often hot sellers, based on sentiment for brands, products or managers without due regard for the financial soundness of the investment or its role in the buyer's portfolio. In addition researchers have found that mutual funds or stocks tend to experience a surge in popularity right after being featured on a magazine cover or television show.

4. **Confirmation bias.** Investors who are open only to information that confirms their thinking are exhibiting confirmation bias. For example, an investor may never review or consider changing a favourite fund, even if it is no longer an appropriate choice.

It's one matter to identify these traps, but altogether another not to be swayed by them — after all we are humans, not investing robots. If you think you might be susceptible to behavioural traps in your own attitudes to investing, professional advice can help. While we can't make you any less human, we can provide an objective view of the investments and remind you of your goals and why your portfolio is built the way it is. ◀

## What is risk tolerance?

When it comes to investing there's lots of talk about "risk tolerance." But what is it? And how can we determine your individual tolerance for risk?

Put simply, risk tolerance is the amount of risk you're willing to accept when investing. For many investors, risk and risk tolerance are focused on the possibility of losing money. That's important to your investment life, because as potential returns rise, so does risk.

A key factor in dealing with risk is time horizon. With long-term objectives in place, the short-term ups and downs of financial markets don't matter as much. They're often described as "speed bumps" on the road to long-term investment success.

We can help you explore your personal risk tolerance through a series of questions designed to help determine the risks you're comfortable with. We'll pay close attention to how you react to the risk profiles of different types of investments and to events such as market volatility.

If you are feeling anxious about your investments or can't sleep because of them, that's a tell-tale sign your risk tolerance is out of whack. If that's the case, we're here to help. ◀

# Global vs International: a key fund difference in today's volatile world

Threats of trade wars is the type of news story that can make investors who hold mutual funds that invest in companies outside Canada nervous. It also means it's a good time to revisit a fundamental about fund investing: the difference between global and international funds. Here's a recap and why it matters.

### What is a Global Fund?

A global mutual fund is one that can invest in any country in the world where the managers see good opportunities – including Canada and the United States. This fact can be surprising for investors who may already hold Canadian or U.S. equity funds and might not expect a geographical overlap with their global fund. But such a mandate can make a lot of sense: allowing the managers to "search the globe" for the best opportunities – wherever they are.

With so many countries, economies and companies to work with, one global fund could be quite different from another. For example, one could concentrate solely on sophisticated economies like the United States, Japan and countries in Western Europe, while another could have a broader mix including some higher growth but more risky nations like Brazil, India or Russia. To understand the make-up of your global funds, look at the geographic weightings in the prospectus or regular fund reports.

### How do International Funds differ?

International mutual funds consist of investments in companies that could come from any country *except* Canada and the United States. Note, however, that according to the Canadian Investment Funds Standards Committee (CIFSC) at least 70% of their equity assets must be in developed countries. By definition, these funds' holdings are going to differ significantly from your Canadian, U.S, and North American equity funds. Again, check your fund's prospectus and its regular reports for details.

International funds in your portfolio provide diversification. They do so in two key ways. The first is based on the idea that the economies of different regions may behave differently at different times: Europe could be experiencing a slowdown while Asia is expanding. The second is that not all regions of the globe share the same industries: Japan may provide opportunities in advanced machinery or technology while Europe may have stronger concentrations in health sciences and financial services.

### Why it matters

In a time of trade disputes and geopolitical events, it can be good to know where you are invested. But understanding the difference between global and international fund mandates can also help you understand your own portfolio better – in these two respects.

**Diversification.** A good portfolio will be well diversified, including by geography. If you have a global fund that invests heavily in North America as well as Canadian and U.S. equity funds, you may be less diversified than you think. Perhaps an international fund may be a better choice. Conversely, if you have a portfolio with just a few funds, a global fund well-diversified across all the major regions may be an ideal core holding.

**Risk.** By understanding what's in your global and international funds, you may get a better understanding of the risk profile of your portfolio. Keep in mind that neither category is inherently riskier – risk depends on a number of variables including individual countries' economies and governance and individual company factors such as market segment and management's abilities.

Taking a portfolio approach and understanding your investments can help you tune out the "noise" in the daily news and focus on your long term goals. If you have any concerns about your investments, we are here to help. ◂

## Year-end tax tips

**Charitable Donations.** December 31 is the deadline for making a charitable donation that can be claimed for the 2019 tax year.

**Tax-Loss Selling.** You have until late December to sell a security that settles in 2019 — December 27 is the expected last buy or sell date for Canadian securities to settle in calendar year 2019, based on trade date plus two business days. However, it is recommended that you review your non-registered investment portfolio earlier.

**RRSP Conversion.** If you turned or are turning 71 this year, December 31 is the deadline for collapsing your Registered Retirement Savings Plan. However, planning for this important financial change should be done well in advance of the December deadline.

**Tax Deductions and Credits.** December 31 is the final payment date in order to receive a 2019 tax deduction or credit for expenses such as childcare, medical and tuition tax credits.