Winter 2012

Financial focus

Building wealth through tax-deferred growth

A Registered Retirement Savings Plan (RRSP) remains one of the most tax-effective ways to build wealth over the long term. The generous tax incentives, including tax-deferred returns on your investments, provide far greater compound growth potential than can be realized on investments outside a registered plan. To maximize that potential, it is crucial to select investments now that are poised for future growth.

MAINTAIN A LONG-TERM VIEW

Recent financial market volatility may have left investors feeling apprehensive about stocks and tempted them to gravitate toward low-risk, lower-return investments for retirement plans.

However, that tactic could have a detrimental long-term impact on accumulated wealth. Relying on conservative, lower-return investments for an extended period can rob RRSPs of potential in the long term and limit overall wealth accumulation.

FOCUS ON GROWTH

To take maximum advantage of the tax-sheltered compounding returns your retirement plan offers, you need to look to investments that have the potential for higher returns. Equities and equity mutual funds are historically the best route to higher long-term returns.

While stock market investments are more volatile than other types of assets — as we've certainly seen this past year — over time, they have historically outperformed other asset classes. And while volatility can be unsettling, it offers an opportunity to invest in stocks at more attractive prices and potentially increase returns further.

NEXT STEP: We can help you explore options for your RRSP contribution this year and position your investments for returns that will meet your retirement objectives.

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The key to long-term investment success is a sound financial plan — one that is based on your individual objectives, risk tolerance, and time horizon. As your Investment Advisors, we are here to help you develop and stick with the plan that's right for you.

We are equipped with the tools and information necessary to build a portfolio that will help you achieve your financial goals. Whether your concerns are saving for retirement, funding your child's education, or preserving your estate, we can help you find an appropriate, customized solution.

Should you wish to discuss any of the ideas or solutions you read about in this newsletter, we would be happy to meet with you at your convenience.

François Chartier
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Boost your portfolio's income potential in a low-rate climate

Income-oriented investors are faced with some difficult choices today. With interest rates in the United States and Canada expected to remain low for the foreseeable future, yields from government bonds and Guaranteed Investment Certificates (GICs) are not expected to provide much in the way of returns.

Fortunately, there are other conservative investment options for investors looking to enhance income from their portfolios. As always, what's right for your situation will depend on your tolerance for risk and your investment objectives.

INTEREST RATES TO REMAIN LOW

In the face of a weakening U.S. economy, the U.S. Federal Reserve stated in August 2011 that it would keep the Fed Funds rate unchanged and close to zero until 2013. Here at home, the Bank of Canada is expected to keep its key interest rate unchanged as well. While this is good news for mortgage holders, it's not as promising for fixed-income investors, who may see diminishing returns from their holdings.

INCOME-ENHANCING STRATEGIES

Whether you rely on your portfolio to provide you with an income or simply want to boost its income-producing potential, here are a few ideas worth considering.

Dividend-paying common shares. Dividend-payers can provide many benefits to investors looking to enhance the income potential of their portfolios. In an era of rock-bottom interest rates, the yield on many top-quality dividend-paying stocks is higher than the yield on 10-year Government of Canada bonds. Dividends are particularly attractive when investing outside of a registered account, as the Dividend Tax Credit makes each dollar of Canadian dividends equal to about $1.30 in interest income on an after-tax basis.

What's more, quality dividend-payers tend to increase their dividend payouts each year, which can provide your portfolio with a hedge against inflation. As demand for income grows, quality dividend-payers also have the potential to reward investors with capital gains.

It's important to remember that, like all common stocks, dividend-paying equities can experience volatility. However, as we saw during the market turmoil of 2011, some quality dividend-payers in defensive sectors such as utilities actually gained ground.

Corporate bonds. Investment-grade corporate bonds typically pay higher rates of return than government bonds of comparable maturity.

They are especially attractive in today's climate, as many large corporations have strong and stable balance sheets. They can also add diversification potential to the fixed-income portion of a portfolio, as corporate bonds are found in a number of different sectors.

The trade-off for a higher return is that the promise of future interest payments and the eventual return of your capital comes from a corporation rather than a government.

Preferred shares. Though typically less risky than common shares, preferred shares do not offer as much potential for capital gains and do not come with voting privileges. However, they do pay a fixed dividend. Today, yields on many preferred shares are higher than those of other fixed-income investments like bonds, which makes them attractive to income investors.

When held in a taxable account, dividends from preferred shares also benefit from the Dividend Tax Credit. There are many types of preferred shares available, making them worthy of consideration for a diversified fixed-income portfolio.

NEXT STEP: We can work with you to identify quality income-producing investments, in line with your goals and risk tolerance. Please give us a call today to review your portfolio and discuss ways to boost its income-producing potential.

Portfolio troubleshooting

Government debt crises, global political turmoil, and even natural disasters contributed to extreme market fluctuations in 2011. In light of this volatility, you may be feeling apprehensive about the wealth you've accumulated in your investment portfolio.

The timing is right for us, therefore, to "stress test" your portfolio, to discover how well it is positioned to weather the current environment and potential future developments.

WHAT IS A STRESS TEST?

A stress test entails a comprehensive review of all your portfolio holdings to lend insight into any vulnerabilities and identify potential problem areas. For example, we can review your holdings to ensure you're not overly exposed to any single country or industrial sector and to avoid any investment overlap in similar securities or funds.

We will also realign your asset allocation to keep your portfolio on track with your goals and risk tolerance. Over the course of 2011, market activity may have affected the value of certain of your holdings. As a result, it's possible that you may be overweight or underweight in some asset classes relative to your desired target weighting.

It's possible, too, that your personal circumstances, investment objectives, or tolerance to risk may have changed since we last touched base with you. We'll review these areas to confirm that the strategy we're following continues to be the right one for you.

MITIGATING RISK

We can then take action to fortify your investments so they can better cope with present and future uncertainties. The goal is to avoid the hazards of underestimating or ignoring the downside potential of financial markets — whether it's from unexpected developments or events that are currently unfolding.

We will also consider the possible impact of rising inflation and interest rates. Many experts expect rates to increase in 2012 and beyond. While moves are likely to be gradual, they can have an impact on performance and may influence the asset mix in your portfolio.

PORTFOLIO FINE-TUNING

We can also consider risks associated with investments in individual companies and mutual funds, which change with volatility, global developments, and perceptions of the economy. Many companies and funds prepare for current and future turbulence or crises by managing currency exposure or business exposure to more turbulent global markets.

It would be risky, however, to take an overly conservative approach, which can result in missing out on major financial market advances or attractive buying opportunities.

In the long run, the best strategy for long-term performance is a broadly diversified portfolio that provides a buffer against uncertainty and is in line with your risk tolerance, your time horizon, and your goals.

NEXT STEP: We can help you make sure your portfolio is well positioned to weather current and future volatility.

Tax Planning

New caregiver tax credit

Looking after a disabled relative exacts a high cost on Canadian families, both emotionally and financially. New increased tax relief is now available to help offset the often considerable expenses caregivers face.

Effective January 2012, a new family caregiver tax credit provides a 15% non-refundable income tax credit on expenditures of up to $2,000. This provides up to $300 in annual tax relief for caregivers of infirm dependent relatives, including spouses, common-law partners, and minor children.

In its last budget, the federal government also lifted a previous $10,000 cap on the medical expense tax credit, which allows taxpayers to claim medical and disability-related expenses incurred by financially dependent relatives. Caregivers who incur extraordinary medical and disability-related expenses will benefit beginning in the 2011 tax year, so be aware of this change when filing your 2011 tax return.

Tapping real estate's investment potential

Commercial real estate is one of the world's largest asset classes and yet it's not a top-of-mind investment for most Canadians. Investors can, however, benefit from the commercial real estate market without actually buying real property.

You can get exposure through many types of investments that focus on commercial real estate. Real-estate-related investments are a great way to diversify your portfolio because they can add growth, income, or both. They can also be an attractive inflation hedge. Historically, real estate has held its value in the face of increases in the cost of living.

You may want to consider taking advantage of the potential of this sector to boost investment returns within a diversified portfolio. Factors such as low interest rates, low office vacancy rates, and rising commercial real estate prices portend well for the future. Canadian and global commercial real estate can outperform in times of financial market turmoil, as has been the case recently.

There are many ways to invest in real estate. Some of the possibilities include real estate investment trusts (REITS), shares of companies operating in the real estate industry, and real estate mutual funds. REITs and funds that hold REITs are a good way to add both capital gains and income potential to your portfolio at a time when many fixed-income investments are generating low returns.

NEXT STEP: Let's discuss whether real estate investments could be a valuable addition to your portfolio and, if so, how to go about capitalizing on their potential.

How to retire debt-free

One of the best ways to save more for retirement is to eliminate debt. The sooner your debts are paid, the more your savings can be accelerated.

There is evidence, however, that many Canadians aren't making the connection between paying down debt and accumulating retirement wealth. A recent poll by a major Canadian financial institution showed that just one in five baby boomers aged 45 to 64 sees a connection between paying down debt and saving for retirement.

And while 42% see debt as an obstacle to achieving their financial goals, one-third of baby boomers 55 or older have not paid off their mortgage and three-quarters carry debt.

Even more disconcerting is the increasing trend to carry debt into retirement. A survey by a different financial institution found that 44% of retired Canadians are carrying debt, up from 39% the year before.

DEBT RISKS

If you choose to carry debt into your pre-retirement and retirement years, you face a number of potential risks. For example:

- You may be compelled to delay your anticipated retirement date.
- You might retire only to find that you need to return to work, whether full-time or part-time, to cover expenses, including debt repayment.
- You might have to sell assets to free up cash flow for your day-to-day expenses.
- You might have to alter your retirement lifestyle to reduce spending.

Retiring debt-free can help you enjoy greater financial security and peace of mind. It relieves you of the stress of debt repayment — a stress that increases anytime interest rates rise. Being debt-free also increases the value of the estate you can leave to your loved ones.

WHERE TO BEGIN

Unless the interest costs are tax-deductible, your highest-interest debts should be the area we target first. These typically include credit card balances and unsecured personal loans or lines of credit. These debts are costing you the most on an annual basis, so paying them off first will have the greatest effect.

If you aren't carrying any high-interest-rate consumer debt, you might look at your mortgage next. It is typically the largest debt Canadians carry and poses a barrier to maximizing retirement savings for many.

Although mortgage rates are low today, they could rise in the future, meaning higher payments and a reduction in retirement savings potential or a less comfortable retirement. Paying off your mortgage can free up significant cash that can be funneled into your Registered Retirement Savings Plan (RRSP) each month to build tax-deferred savings.

NEXT STEP: Regardless of your level of debt and proximity to retirement, we can help recommend a repayment strategy to allow you to enjoy a comfortable, worry-free retirement.

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