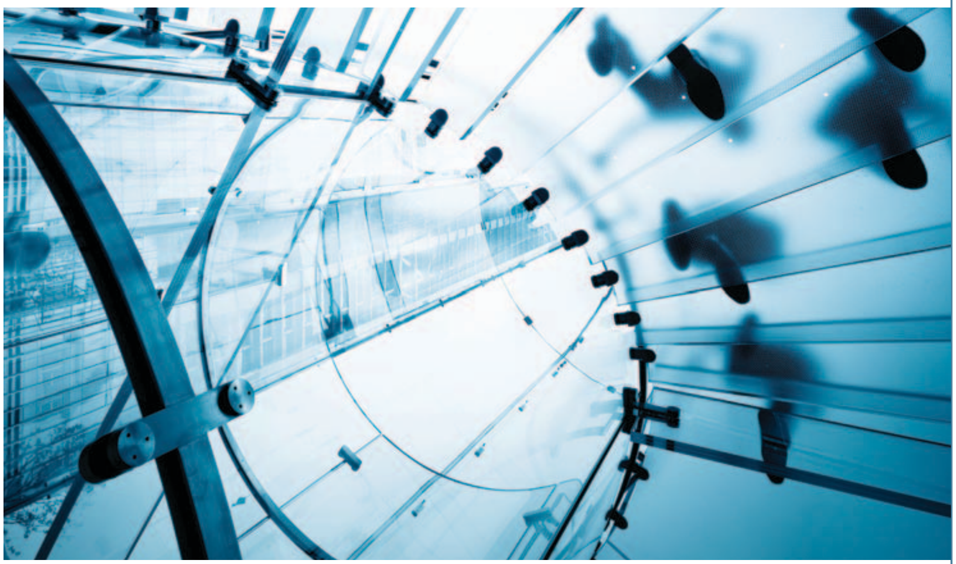
Summer 2013

# Financial focus



## How investment success can trip up investors

Meet "Jake," a hypothetical investor with a target asset allocation of 60% equities and 40% fixed income. When the stock market goes on a bull run and Jake's equity holdings grow to the point that they represent 70% of his portfolio, he's ecstatic.

But what now? Based on his success, do you think Jake is keen to sell off some of his equity holdings and use the profit to rebalance?

### THE "BUY-HIGH" TRAP

If Jake is typical of many investors out there, he's more likely to want to do the exact opposite: to let his profits ride and maybe even add money to equities.

This is where reason needs to prevail. If Jake adds to his equities, he may be buying at or near the market high. The preferred strategy is to sell high and buy low — in other words, to redeem a portion of his equity holdings and reinvest into fixed income, thereby bringing his asset allocation back where it belongs.

### LET MARKET LOGIC PREVAIL

Trying to ride a bull market to its highest point might sound exciting, but remember — that "excitement" might include watching the cooling market sink a large portion of your portfolio. After all, every hot bull run eventually runs its course. And no one can tell in advance when it will end.

**NEXT STEP: Remember that in situations like this, we are here for you. Together, we can review your investment plan and portfolio, and then determine the best course of action based on your long-term investing goals.**

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

**Team Chartier, Grandmaison**
**NATIONAL BANK FINANCIAL**
1 Place Ville-Marie
Suite 2201
Montreal, QC H3B 3M4

Telephone: (514) 390-7374
(514) 879-3659
Toll-Free: 1 866 626-0636
Fax: (514) 879-3118
Emails: francois.chartier@fbn.ca
helene.grandmaison@fbn.ca

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.

At National Bank Financial, we offer a wide range of investment planning products and services, including bonds and fixed-income securities; stocks and options; mutual funds; and RSPs, RIFs, and ESPs. What's more, our Research Department has been recognized by experts as among the best in Canada, so you can be sure that our recommendations are based on reliable analyses of companies, the markets, and economic conditions.

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
Hélène Grandmaison



# Is investing in healthcare right for you?

The U.S. healthcare sector has experienced a strong run over the past few years, and continues to be one of the strongest performing market sectors in 2013 (see Chart 1). A number of factors are supporting the strength in healthcare stocks, including robust revenue growth for large pharmaceutical companies, ongoing advances in biotechnology, and rising demand for products and services from baby boomers.

For Canadian investors, healthcare also provides diversification opportunities not found in our market, which is dominated by financials and resource stocks. As always, what's right for your portfolio will depend on your tolerance for risk and your investment objectives.

## WHAT'S BEHIND THE GAINS?

Over the past five years, healthcare has outperformed the broad U.S. stock market.

**Defensive characteristics.** Because we consume health products and services throughout the economic cycle, healthcare is perceived as a stable, consistent area of the stock market. Indeed, healthcare was a top performer coming out of the financial crisis in 2008.

**Aging populations.** Investing in healthcare is being driven by demographics as populations in the developed world continue to get older. The fact that many of the larger pharmaceutical companies also pay dividends is a plus for boomers looking to draw income from their portfolios.

**Emerging middle classes.** Growing numbers of middle class consumers in emerging markets in Asia, Eastern Europe and Latin America are also driving demand for healthcare products.

## A DIVERSE MARKET SECTOR

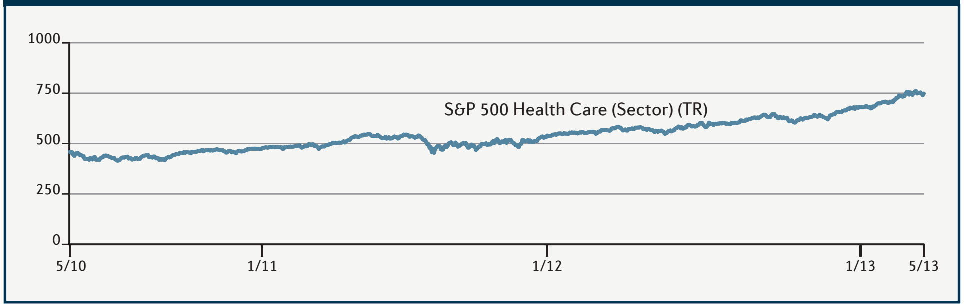
The healthcare sector is more than dividend-paying pharmaceutical companies. Biotechnology is a high-growth but volatile subsector that is pioneering advances in personalized medicine based on genetic sequencing. Healthcare providers and health benefit companies are also part of the mix.

## UNDERSTAND THE RISKS

Although the healthcare sector has had a good run, it can also exhibit more volatility than other defensive sectors. Regulatory uncertainty and patent expirations can cloud the outlook for healthcare companies, and the ongoing economic uncertainty in Europe is also a concern. Closer to home, the market is still trying to determine how the Health Care for America Plan, also known as Obama Care, will affect the landscape.

**NEXT STEP: The U.S. health care sector is quite diverse, and there are many ways for investors to take part — from purchasing shares directly to investing in exchange-traded funds and mutual funds. We can help you identify the health care exposure that's right for your portfolio. Please give us a call today to review your investment strategy.**

**Steady gains in health care** The S&P 500 Health Care Index (total returns) has posted an average annual compound return of more than 15% over the past three years, to the end of April 2013.




Source: S&P Dow Jones Indices

# Why wait to give away your estate?

Your will probably spells out which assets are going to which children or grandchildren. But depending on your situation and wishes, there may be some advantages to giving assets away now.

### TAX ADVANTAGES

For certain types of assets, there may be tax benefits to giving them away during your lifetime rather than through your will.

**No tax on cash gifts.** Giving cash has no tax implications for either you or the recipient of the gift.

**Future capital gains can be transferred to a future generation.** If you gift capital property or investments, including recreational real estate, the transfer is treated as a sale and you will need to pay the tax on any capital gains realized in the year of transfer. The upside, however, is that future capital gains will accrue to the recipient.

**Capital gains generated by gifted assets can be taxable to a minor child.** When you gift investments to a minor child, any interest or dividend income they generate continues to be taxable to you until the child turns 18. Capital gains generated by the investment, however, are taxable in the child's hands.

### THE NON-FINANCIAL BENEFITS

In addition to the potential financial advantages, there can be real emotional benefits to gifting assets during your lifetime. By giving now, you are able to see your children or grandchildren benefit from your gift — a meaningful advantage over leaving an inheritance. You'll have the satisfaction of watching them meet life goals more easily and enjoy a better quality of life.

You may also eliminate any delays that might be caused through administration of the will, and reduce probate fees and potential executor fees (note that probate fees are not a factor in Quebec, and are minimal in Alberta and the three territories).

In some cases, there's reason to distribute funds privately. A will is public, but funds given now can be transferred with discretion.

Unfortunately, heirs are sometimes known to disagree over the way estate assets are distributed. If you plan on giving now, you will be here to help settle any issues and avoid conflicts among siblings.

### THE CONCERNS

Of course, there are some potential disadvantages you need to be aware of. If you give a gift now, you relinquish all control over the gift. Not only do you no longer have a say in how it is managed — or mismanaged — but you cannot get it back, even if you need the funds yourself.

**NEXT STEP: Talk to us about your estate planning needs. We can help you consider the implications of different strategies and find the solution that's best for you and your family.**

Tax Planning

# Sound summer-job advice

When your son or daughter gets a summer job or a part-time job during the school year, he or she may be wondering when it's necessary to pay income tax. Thanks to the federal basic personal amount of $11,038 plus any applicable tax credits, your child may not owe a dime.

While working teens don't need to file a tax return if they don't owe tax, there are reasons to file anyway. By filing, your teen may be able to:

- **Build RRSP contribution room.** By filing a tax return and recording income, your daughter or son builds Registered Retirement Savings Plan (RRSP) contribution room that can be used for future contributions and tax deductions.
- **Get a tax refund.** Did the employer withhold income tax from your child's paycheques? By filing a tax return, your child can get a refund of the amounts deducted.
- **Qualify for the GST/HST credit.** Your child needs to file a tax return to qualify for the GST/HST credit. The quarterly amount is payable if your child is 19 or over; no income is required to qualify.
- **Receive student tax credits.** Post-secondary students are eligible to receive tax credits for tuition fees, education amount and textbooks, provided they file a return. Unused credits can be transferred to a supporting parent or carried forward for future use.

**NEXT STEP: Let your children know they should save their pay records and take advantage of these benefits. And if your son or daughter is 19 or over, or a post-secondary student, remember that no income is needed to file a return and benefit from the GST/HST and student tax credits.**

Investing Strategy

## Manage your RRSP like a pension fund

Your Registered Retirement Savings Plan (RRSP) strategy has been designed to ride out the bumps of volatile markets and fulfill your long-term goal of helping to fund your retirement. It is your personal pension fund.

Looking to the practices and strategies of the large pension funds can be very insightful.

### CONVENTIONAL STRATEGIES

Most pension funds position the fund for growth without assuming unnecessary levels of risk. Typically, large-cap dividend-paying companies play a key role as do U.S. and other foreign equities for enhanced diversification and growth. Emerging market investments may be included for potential outperformance.

The fixed-income portfolio is designed to provide stability and may include higher-yielding corporate and foreign bonds.

Does any of this sound familiar? Remind you of your own plan?

### STANDARD PRACTICES

Just like we do with your RRSP, pension fund managers establish an overriding plan and stick to it. They rebalance the fund on a regular basis to maintain the desired asset allocation.

And always, they invest for the long term, not making short-term changes in reaction to market movement.

**NEXT STEP: If you would like to review your "personal pension fund," please give us a call.**

Education Planning

# More than one way to save for your child's education

A Registered Education Savings Plan (RESP) is a great way to save for college or university for your kids. Depending on their career goals, however, it may not be enough.

Take the case of a student enrolling in 2012. It's estimated that a four-year degree at a Canadian university may cost more than $100,000.[1] But what if your son or daughter takes graduate studies? What if your child chooses a career path with higher tuition — like medicine, law, or dentistry, or pursues a Masters of Business (MBA)?

By complementing your child's RESP with other funding vehicles, you can help provide the education funds needed for the career of their dreams.

### LAY THE CORNERSTONE FIRST

Education savings begins with the RESP, whether it's the sole funding vehicle or the foundation of an education savings program. Your contributions grow on a tax-deferred basis and, equally important, you receive the Canada Education Savings Grant (CESG). The government matches 20% of your contributions, for up to $500 in "free money" each year, to a $7,200 lifetime maximum per child.

The maximum RESP contribution per child, however, is $50,000. Depending on your child's education path, that may not be sufficient, even with the government grants. If that is your situation, there are a number of complementary strategies you may want to consider.

### ADDITIONAL STRATEGIES

Tax-Free Savings Accounts (TFSA) — yours, your spouse's, or both — can be ideal investment vehicles for education savings. Your contributions grow tax-free and can be withdrawn for any purpose tax-free, including funding your child's education. Withdrawn amounts can be re-contributed in a later calendar year.

You may also want to consider giving your child the funds to open his or her own TFSA. Contribution room becomes available as soon as he or she is 18 years old. Earnings from the plan are not attributed to you for income tax purposes and your child can draw down the funds as needed to cover post-secondary costs. As additional contribution room comes available every year, you can also give your child money to top up the TFSA.

Another option is to set up a banking or investment account "in trust for" your child. Any interest and dividends generated will be taxable to you but capital gains will be taxable in the hands of your child.

The primary benefit of an informal trust is that there are no limits to the amount you can invest. Keep in mind that the account belongs to your child at the age of majority and he or she will be able to use the funds for any purpose.

**NEXT STEP: We can help you determine whether you want to complement your RESP with TFSAs or an in-trust account. And if you do, we'll discuss various ways to get the most from each vehicle and strategies on using the vehicles together.**

1 BMO Bank of Montreal Economics Department in conjunction with the Association of Universities and Colleges of Canada (AUCC), based on a national average for a four-year university degree including accommodations, tuition, books and meals.

Vol. 17, No. 2. © 2013.

CIPF Canadian Investor Protection Fund MEMBER

This newsletter is copyright; its reproduction in whole or in part by any means without the written consent of the copyright owner is forbidden. This newsletter has been produced by the Firm as a service for our Investment Advisors. The information and opinions contained in this newsletter are obtained from various sources and believed to be reliable, but their accuracy cannot be guaranteed. Readers are urged to obtain professional advice before acting on the basis of material contained in this newsletter. Nothing in this newsletter should be considered as a recommendation, please consult your Investment Advisor to discuss your investor profile and risk factors. National Bank Financial is a wholly owned subsidiary of the National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange (NA:TSX).

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT