Fall 2014

Financial focus

Use RESPs to teach kids about investing

With kids heading back to school in September, you may be thinking about the future education needs for your own children. Registered Education Savings Plans (RESPs) are a great way to accumulate the needed funds and benefit from government contributions.

But there's another way that RESPs can add value — as a "learning tool" to teach your children about saving and investing.

A LEARNING OPPORTUNITY

Primary and secondary schools may be adept at teaching English, math, and science, but few curriculums include even basic financial management. By reviewing RESP holdings with your kids, you can teach them about saving, investing, and long-term planning all at once.

In the process, your children will learn about the benefits of compound interest and how stocks, bonds, and mutual funds can increase in value. They'll also discover the joys of saving — a key life lesson at a stage where their main knowledge of money relates to how to spend it.

Perhaps most important of all, these discussions will encourage your kids to think about their future and can engage them in the process of getting a higher education.

NEXT STEP: Using your RESP statements, you can explain to your children why we made certain investment decisions and show how their education funds are growing to cover the projected expenses of their post-secondary education. Hopefully, this exercise will spark in them a desire to save and instill money management skills that will serve them well in the adult world.

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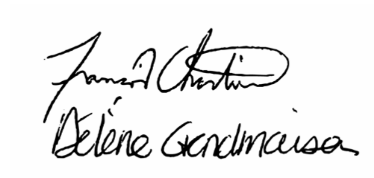
Many Canadians have taken a wait-and-see view on economic recovery — not surprising given the impact of the 2008 financial crisis on jobs, securities prices, and personal lives.

But, even though it may be a long march to shake off memories of the bears, it's wise to watch for the variety of suitable investment opportunities to be had while other investors are lying low. A market downturn is an opportune time to be in the markets because prices are reduced.

Let's talk about keeping your portfolio well-poised to potentially capture the gains of an improving climate.



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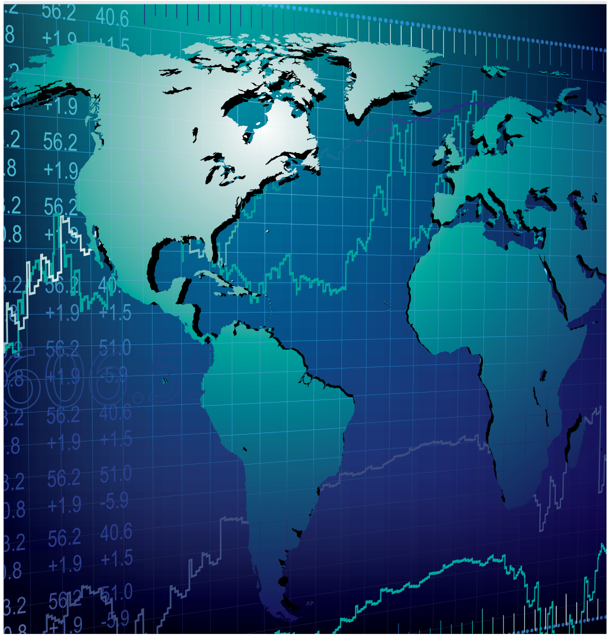
WEALTH MANAGEMENT

Canadian equities expected to benefit from global growth

After underperforming against the U.S. markets of 2013, Canadian stock markets have been on a roll in 2014, helped by renewed interest from foreign investors and continued recovery in the U.S. economy.

Canadian corporate earnings are also on the upswing. The National Bank Financial Economy & Strategy Group believes that earnings will continue to benefit from a stronger global economy, which should provide further support to Canadian equities.



RESOURCES SHINE

The S&P/TSX Composite Index hit a new all-time high in mid-June, led by the energy sector. The price of oil was on the rise as terrorist violence in Iraq had led to concerns about the country's petroleum production and exports.

National Bank Financial's Economy & Strategy Group has been positive on Canadian energy producers even before the recent tensions in the Middle East, and continues to favour energy over less volatile sectors of the market.

EARNINGS ON THE RISE

After several disappointing quarters, Canadian earnings rose almost 15% in the first quarter of 2014. Forward earnings are also being revised upward and are being supported by a number of factors. One is that the global economy is poised to accelerate in the second half of the year. Retail sales, industrial production, factory shipments, and the labour market are showing strong gains in the United States, while in China the economy is still on track to expand at nearly 7% annually, despite Beijing's recent announcement of credit restrictions in some industries. Low corporate bond yields are also supportive of stock prices, and monetary policy remains accommodative.

As corporate profits are probably the biggest factor influencing stock prices, National Bank Financial's Economy & Strategy Group remains overweight in Canadian equities, relative to fixed income. However, political and military tensions in Ukraine remain a risk to this scenario.

MODERATE GAINS FOR THE ECONOMY

In terms of the economy, Canadian domestic demand faces challenges, as debt-laden households cut back on consumption, the housing market softens, and government outlays are capped by tight fiscal policy. But we believe business investment has the potential to bounce back, helped by the improving corporate profit picture. Trade should also improve over the rest of the year, in sync with the rebounding U.S. economy. We expect the Canadian economy to grow by 2.3% in 2014, which should add to inflationary pressures as the year progresses.

NEXT STEP: We can help you review your Canadian equity exposure in light of your tolerance for risk and investment objectives. Please give us a call today to

In-trust accounts: Better than a piggybank

If you have kids, chances are they get cash gifts from grandparents, relatives, or family friends for birthdays, religious observances, and milestones, like a graduation.

Those contributions could mean hundreds of dollars, but chances are they're growing at a glacial rate in a savings account. Those gifts could do more for your child in a vehicle like an "in-trust" account.

An in-trust account is an investment account that's in your name but is for the benefit of your minor child. The advantage is that any capital gains generated by investments in the account will be taxable to your child. In most cases, there will be no tax payable. Interest income and dividends, however, will be taxed in the hands of the adult who invested the money.

There is no limit to the amount you can contribute to an in-trust account. Note, however, that once the child reaches the age of majority (18 or 19, depending on province of residence), he or she will have full access to the money in the account.

NEXT STEP: If you're interested in setting up an in-trust account for your child, please talk with us. We can help you choose appropriate investments to generate capital gains and minimize any income tax implications for you.

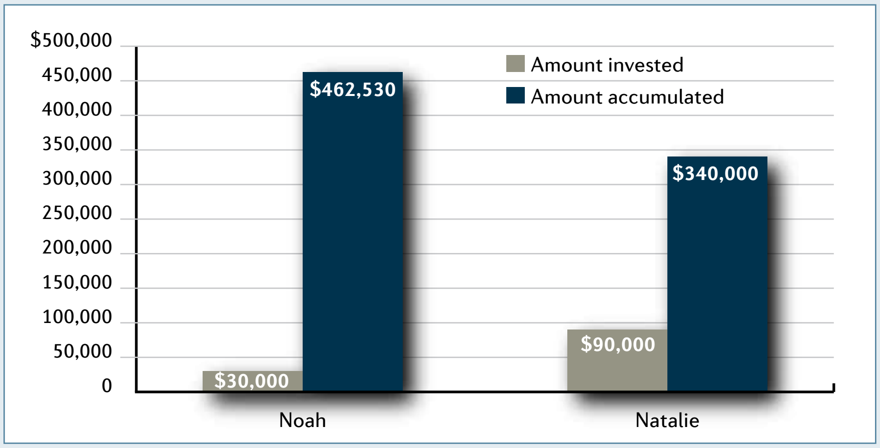
Eye-opener

Big benefits to 'Millennials' who start saving earlier

A new study[1] suggests that Millennials, the generation born after 1978, are starting to save on average at age 22. That's almost a decade earlier than their baby-boomer parents.

Clearly, the next generation grasps the importance of starting early when it comes to saving and investing. In the chart below, Noah sets aside only one third the amount of Natalie yet has over $120,000 more at age 65.

NEXT STEP: If you have children, try to make them aware of the benefits of starting early when it comes to saving. In fact, why not bring them along next time we meet? We can show them how easy it is to get started.



1 Transamerica Center for Retirement Studies®, The Retirement Readiness of Three Unique Generations: Baby Boomers, Generation X, and Millennials, April 2014

Debt Reduction

A risk-free 35% return!

Double-digit returns are rare these days. Risk-free double-digit returns are almost unheard of. However, by paying off a revolving credit card balance you can achieve the same effect.

Many credit cards charge interest on overdue balances at a rate of 25% or more. So paying them off can yield major annually savings.

That means if you owe $1,000 to your credit card provider, and are paying a 25% annual interest rate, eliminating that balance will save you $250. That's a 25% after-tax return for a risk-free $1,000 investment. Not bad — but it gets better.

Consumer credit card interest is paid in after-tax dollars. In a 33% tax bracket, you need to earn more than $375.38 to pay $250 in interest. Taking that into consideration, paying down $1,000 in revolving credit card debt generates a pre-tax return of more than 35%.

NEXT STEP: If you're carrying high-interest debt, let's review the best way to pay it down quickly and reduce your interest costs.

Global Investing

The effects of FX when investing abroad

When you hold investments denominated in a currency other than Canadian dollars, your returns depend not only on the investments' performance but also on changes in the relative value of the foreign currency.

THE IMPACT

For example, suppose you buy an investment denominated in U.S. dollars when the Canadian dollar is at par. Over the next 12 months, the investment increases by 8%. At the same time, the U.S. dollar appreciates by 5% against the loonie. If you sell the investment and convert back to Canadian dollars, your 8% gain will turn into a 13% gain (not taking into account conversion or brokerage fees).

Of course, the currency-performance pendulum swings both ways. In other words, if the U.S. dollar had lost value over that time frame, your 8% interest gain would have been eroded.

MANAGING CURRENCY FLUCTUATIONS

Currencies fluctuate for a range of reasons, including the country's fiscal position, monetary policy, and economic outlook. We take these factors into consideration when helping you select foreign investments for your portfolio. Similarly, anytime you're thinking about selling an international holding, we review the impact of currency conversion.

NEXT STEP: If you'd like to learn more about how your portfolio is managed to account for currency fluctuations, give us a call and we'll walk you through our approach.

Investment Planning

Five portfolio management tips for couples

What's the key to a successful long-term relationship? Many couples might say communication, openness, honesty, or doing things together.

Those are all items that can be applied to your investment plan — with equal success.

1. SHARE YOUR IDEAS

Getting on the same page as your partner regarding future goals as a couple can make it easier for us to map out an effective long-term investment strategy.

What are your financial priorities? When do you want to retire? Where do you want to retire? In Florida? Or in Bali? Once you have aired out these types of issues, we can discuss the steps you need to take to accomplish your goals.

2. REMEMBER TO "COMPLEMENT" YOUR SPOUSE

When both partners have different investment attitudes and beliefs, their portfolios can be designed to complement rather than conflict with one another.

For example, you may want to focus on growth while your partner places a priority on capital preservation. That gives us an opportunity to create portfolios that you are comfortable with as individuals and that provide you, as a couple, with an appropriate balance of both growth potential and security.

3. DOVETAIL DIVERSIFICATION

Diversification is a key factor in managing risk and achieving stable returns over the long term. By evaluating your portfolio in conjunction with that of your spouse, we can often identify gaps, redundancies, and rebalancing opportunities.

For example, if you are both fully invested in equities, you may, as a couple, be exposed to excessive risk. On the other hand, if you both hold only fixed-income securities or cash, you may be missing out on market growth opportunities.

4. SPLIT INCOME TO PAY LESS TAX

One of the financial benefits of having a partner is being able to take advantage of income-splitting opportunities. By shifting taxable income into the hands of the lower-earning spouse, that income will generally be taxed at a lower rate.

One effective way to split income is to use the lower-income spouse's earnings for investing while the higher-earning spouse pays all the household bills. That way, any investment income generated will be taxed in the hands of the lower-income spouse.

5. USE SPOUSAL RRSPS

A spousal Registered Retirement Savings Plan (RRSP) is another effective way for partners to split income. The higher-income earner contributes (up to his or her contribution limit) to the lower-income partner's RRSP. The higher-income earner gets the tax deduction and the spousal RRSP can grow on a tax-deferred basis and, eventually, provide an independent source of retirement funds for the lower-earning spouse.

NEXT STEP: A good way to get started in adopting a common investment approach with your partner is to bring him or her along the next time that we review your portfolio.

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