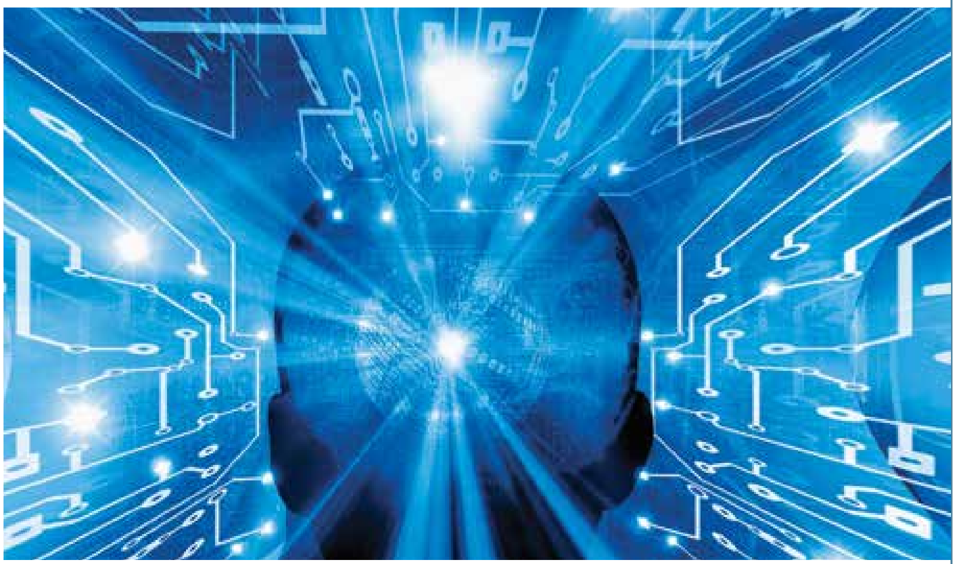
Summer 2014

Financial focus



Take an insurance checkup to achieve peace of mind

Your insurance needs reflect your responsibilities to others, especially your family. To protect them, you want to ensure that you have the right coverage in the right amounts.

Here is a quick review to help you assess your present situation.

Life insurance policies are offered as either **term** or **permanent** plans. Term plans are effective for a set time, often 10 years, and are usually renewable at a higher cost. Permanent insurance covers your entire life at a level cost. This group includes **universal** policies, which offer tax-sheltered growth. Policies vary, so get professional advice.

Disability policies typically replace 67% to 75% of income if illness or injury prevents you from working. **Critical illness** policies pay a lump sum if you have a heart attack, develop cancer, or suffer one of several other major illnesses specified in your policy.

If you rely on your employer's **group coverage**, be aware that group plans may not provide adequate coverage for everyone.

Also, keep in mind that your disability coverage ends when you leave your employer.

Group life insurance is usually convertible to an individual policy, but it may not be the best route.

You might want to consider taking out individual life and disability policies that you control and can increase without facing medical questions.

Remember it's vital to review your coverage at least every three years and anytime there's a major change in your family or career.

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The long, sunny days of summer are an ideal time to relax and reflect on your goals and how they might be evolving.

Whether you're looking long-term or near-term, saving for a new deck or for the future, we are always available to review your options with you, and to discuss how any recent life changes may affect your portfolio.

We remain committed to helping you find ways to make investments work harder – even when you're taking a summer break.

François Chartier
Hélène Grandmaison

What rising interest rates mean for your portfolio

While interest rates today remain at historical lows, there is growing consensus that rates may start rising in the United States. A rising rate environment presents both challenges and opportunities, particularly for fixed-income investors.

On the one hand, when interest rates rise, bond prices and prices of bond mutual funds typically fall. On the other hand, higher interest rates mean that investors will be able to earn better yields on new fixed-income investments.

Whether rates are headed up or down, most of us could benefit from some fixed-income exposure. Bonds add stability to a portfolio and help protect against market volatility. As always, what's right for your portfolio will depend on your tolerance for risk and your investment objectives.

A CHANGING CLIMATE

There are two main reasons why rates are expected to rise. In late April, the U.S. Federal Reserve ("the Fed") announced it would continue to reduce, or "taper," its large, bond-buying stimulus program. Reduced Fed demand for bonds has been putting downward pressure on bond prices (as bond prices fall, yields rise).

In addition, the U.S. economy appears to be on a path of accelerated growth. National Bank Financial Economy & Strategy Group believes that U.S. growth could exceed expectations in the second half of 2014, leading to a moderate rise in rates.

STRONGER ECONOMY SUPPORTS STOCKS

In a climate of stronger economic growth and gradually rising rates, NBF Economy & Strategy expects stocks to outperform bonds. Political tension in Ukraine remains a risk to this outlook, but the solid rebound in the U.S. economy could continue to support stocks.

NBF Economy & Strategy looks for growth-oriented sectors such as consumer discretionary and energy to outperform more defensive areas of the market such as consumer staples, telecommunications, and utilities.

WHAT TO DO WITH FIXED INCOME?

It is bonds, however, that cause the most concern for investors in a rising rate climate. Since longer-term bonds are most affected by higher rates, one strategy is to invest new money in shorter-term bonds. When these bonds mature, the proceeds can be used to purchase bonds paying higher interest.

Another strategy to protect against rising rates is to build a ladder of individual bonds or Guaranteed Investment Certificates (GICs). So instead of investing, say, $50,000 in one bond or GIC, you would invest $10,000 in five products that mature annually over the next five years. As each bond matures, it can then be invested in a new five-year bond at the best available rate.

NEXT STEP: We can help you review your overall investing strategy in light of the changing interest-rate climate. Please give us a call today to set up a meeting.

Note: Special rules apply to CESG for teens

If you have a Registered Education Savings Plan (RESP) or are thinking of opening one and your child is turning 15, 16, or 17 this year, there are some steps we may need to take to ensure your plan qualifies to receive the Canada Education Savings Grant (CESG).

In the year they turn 16 and 17, kids are eligible for the CESG only if:

1. Their RESPs have received at least $2,000 in contributions before they turned 15. (Note that this refers to the calendar year in which they turn 15, not the actual birthdate.) OR,
2. Their RESPs received at least $100 in contributions in any four years before the year they turned 15.

Note that the plan does not have to meet both requirements, only one. That said, if any portion of those minimum contributions was withdrawn from the account, they lose their CESG eligibility.

In other words, if you wait until your child is 16 or 17 with the intention of opening a kind of "last-minute" RESP, the plan won't be eligible for any grant money. Otherwise, as long as you've been contributing regularly, you should be okay.

Please note that these special rules apply only to eligibility for the Canada Education Savings Grant. They do not apply, for example, to RESP holders in Quebec who qualify for the Quebec Education Savings Incentive (QESI).

NEXT STEP: If you have not yet started an RESP and you have a child turning 15 this year, be sure to contact us soon. Your plan can still qualify for the CESG as long as you open it and contribute before the end of the year.

What to do if your tax return is "selected for review"

Each year, the Canada Revenue Agency (CRA) flags selected tax returns for extra scrutiny, in part to ensure compliance but also to educate taxpayers in areas prone to mistakes. In addition, you can be randomly selected whether your return is submitted on paper, electronically, or through a professional tax preparation service or accountant.

If you should receive a letter indicating your income tax return has been "selected for review," stay calm. It's not the same as an audit. It just means your tax return has been flagged for a more thorough investigation.

Being selected for review could lead to an audit, but as long as you can support your claims with proper documentation, you probably don't have anything to worry about. Even if you knowingly completed your tax return incorrectly, the Voluntary Disclosures Program enables you to come clean, correct your return, and not face legal consequences.

To see a list of the most common tax return mistakes (and those most likely to lead to an adjustment), visit the cra-arc.gc.ca and search for "Common adjustments."

NEXT STEP: If you're preparing for a review or audit and have questions about your investment income or any related tax slips, give us a call. For tax-planning advice specific to your situation, please call on a qualified tax advisor.

Investing Strategy

Familiarity breeds investment opportunity

Investment titans Warren Buffett and Peter Lynch have long championed the mantra, "Buy what you know." The theory is that if you go to Starbucks for a coffee every day, maybe you'd also consider investing in the company's stocks. The basic premise may be simple, but there's a lot of logic and thought that goes into putting this approach into effect profitably.

OPPORTUNITY AT YOUR FINGERTIPS

In your daily life, you undoubtedly have regular dealings with all kinds of publicly traded companies, including coffee shops, retailers, financial services providers, and oil companies. Your house is filled with furnishings, electronics, and food from some of the world's biggest companies. And your hometown may well be host to some big-name businesses with which you are well acquainted. The key to investing successfully is determining whether these companies are suitable for your portfolio. That's where we come in.

EVALUATING SUITABILITY

We can review your holdings to see whether you already have exposure (perhaps through a mutual fund or a conglomerate in your portfolio) to the companies or industries that have piqued your interest. We can also investigate and evaluate investments you're considering in terms of fundamentals like price, earnings history, management strength and so on. We also need to consider how this potential new investment will fit with the rest of your portfolio.

NEXT STEP: If you're interested in "buying what you know", come in and talk to us today.

Investing Strategy

Diversifying to manage the new risks of a global economy

The World Economic Forum, a top global think tank, recently released its annual list of the risks most likely to affect the global economy in the coming years.

Among those in the top 10 were: fiscal crises in key economies; food and water shortages; failure to adapt to climate change; a greater incidence of extreme weather; the collapse of a major financial institution; and the breakdown of global governance.[1]

What does all that mean? It means your investments could be susceptible to the world's dynamic (and unpredictable) markets, dramatic weather, and ever-changing political landscape. And if you're still diversifying the "old-fashioned" way, you may not have as much risk mitigation — or growth potential — as you think you do.

A MIX OF OLD AND NEW

As new global risk factors emerge, we may want to fine-tune our approach to diversification in your portfolio. Diversification may need to be more nuanced and may require a more active, hands-on approach. Finding an appropriate balance between stalwart "old economy" stocks and those from the new titans of industry is a good starting point. Depending on your objectives and comfort level with risk, we may want to consider moving into growth sectors as opportunities present themselves.

Maintaining a suitable position in cash (or its equivalents) will give you the agility to capitalize on opportunities. Note, this doesn't mean trying to time the markets, but rather, being more attentive to your portfolio and to the markets in general.

Regular portfolio reviews will help ensure that your portfolio continues to align with your objectives even in a fast-moving market. This will also give us an opportunity to consider potential new acquisitions and to consider whether your existing investments still belong in your portfolio. Buy and sell decisions will, of course, be made only in the context of your overall portfolio and will factor in any potential income tax implications.

DIVERSIFICATION 2.0

Another way we can modernize your portfolio is to look beyond asset classes to so-called sub asset classes. For example, in addition to holding both large-cap and small-cap equities, you might want to explore opportunities in mid caps, and micro caps. This may not only enhance your portfolio's diversification but may also increase its new-economy potential.

To provide protection against downturns in any one market, geographic region or industry sector, we'll watch closely for investments that have a low correlation to those you already hold. For example, Canadian and U.S. equities tend to move more or less in lockstep. Broadening your holdings to include investments that might "zig" when those securities "zag" protects you from a prolonged North American downturn. In your fixed-income portfolio, we will want to ensure you're diversified by both maturity and issuer. And, if it falls within your risk tolerance, we can look at alternatives such as emerging-market debt and high-yield bonds.

NEXT STEP: These are just some of the ideas we might explore as a whole new world of investment opportunities begins to take shape. Come in and talk to us soon.

1 World Economic Forum, Global Risks 2014

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