Winter 2014

Financial focus

Time to pump up your RRSP

Only 63% of Canadians contributed or planned to contribute to their Registered Retirement Saving Plans (RRSPs) in 2012, according to a survey conducted by a major Canadian financial institution.[1]

And while that's a healthy increase from the 38% who planned to contribute the year before, it still suggests that a large number of Canadians are not taking full advantage of this valuable vehicle.

Conflicting financial priorities stemming from the weak economy, such as everyday expenditures and paying down debt, were cited as key reasons for the shortfall, and for the fact that the average contribution fell by $1,100.

The good news is that a gradually improving economy, strong job growth, and firming equity prices may make it easier for you to refocus on your financial future this year.

RRSPs remain an excellent way to defer taxes and build up a pool of assets for retirement. Topping up contributions is especially important for baby boomers (the first of whom turned 65 in 2010), who are now increasingly under the gun to get their finances in order before they retire. If you belong to this demographic, now is the time to focus on your RRSP — the number of years you have remaining to contribute are running out.

NEXT STEP: If you haven't yet contributed your maximum for 2013, contact us immediately. The deadline to contribute and claim the deduction for 2013 is March 3, 2014. In addition to topping up your RRSP for 2013, we can set up a contribution plan for 2014 and revisit your RRSP investment strategy to make sure it continues to reflect your investor profile.

1 Survey conducted by market research firm Pollara on behalf of BMO, February 2012.

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The chances of success in any endeavors are improved when you have long-term plan, and the resources you need to carry out that plan, When it comes to investing, one of the most important resources you can have is knowledge – so that you can match the best investment products and solutions to your individual objectives. Another, as important is the discipline to realize the plan. That's where we can help. As your Wealth Management Advisors, we are equipped with the tools and information necessary to build a portfolio that will help you achieve your financial goals, and we will assist you with the implementation through the process. Whether your concerns are saving for retirement, funding your child's education, safeguarding your financial security or preserving your estate, we can help you find an appropriate, customized solution.

This newsletter is part of our services to you, to keep you informed about the latest ideas in financial planning. If you have questions about any of the topics covered in the newsletter, please don't hesitate to give us a call.

François Chartier
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WEALTH MANAGEMENT

How to navigate volatile markets

In today's interconnected world, things that happen around the globe can affect your investments here at home. Whether it's political gridlock in the U.S., natural disasters, or a currency meltdown, the world seems to move from one crisis to another.

For investors, events like these are notoriously difficult to predict. But in hindsight, we often see that changing global events usually have a short-lived impact on the markets. Consider what has recently happened in the United States.

TOUGH CLIMATE, STRONG MARKET

To the end of October 2013, the S&P 500 Index was up almost 25% (in U.S.-dollar terms). This despite the fact the U.S. government was shut down for two weeks during the fall and almost defaulted on its debt. For investors, the lesson is clear: It's better to keep your perspective and stick to your plan than try to move in and out of the market based on external events.

As always, what's right for your portfolio will depend on your tolerance for risk and your investment objectives.

PREPARING YOUR PORTFOLIO

Volatility may be the "new normal" in the markets, but for investors it's more important to focus on the things that can be controlled. Here are some ways to prepare your portfolio for any eventuality.

Diversification. Broad-based diversification — by asset class, geographic region, sector, and currency — is the best way to help protect your portfolio against unforeseen risk.

Diversification is especially important for Canadian investors, as our market is heavily concentrated in resources like energy and materials. Oil, for instance, is a commodity that is most often buffeted by external events, with prices rising and falling along with tensions in the Middle East. World markets offer exposure to sectors such as health care or technology that represent only small portions of Canada's market.

Maintain your investment plan. When you invest on a regular basis, you not only exhibit discipline, you can also benefit from dollar-cost averaging. Your regular contributions buy more when prices are low, and fewer when prices are high, which can average down the price of your investments.

Rebalance regularly. Rebalancing your investments to your target allocation is the most effective way to ensure your portfolio always reflects your investment objectives.

Stick to quality. During volatile markets, quality investments — such as stable, dividend-paying stocks — tend to be less affected by market sentiment than lower-quality speculative stocks.

Increase your regular contributions. If you've been sitting on some extra cash, or have received a raise or bonus at work, consider putting that money to work to take advantage of falling or volatile markets.

NEXT STEP: We can help you review your investing strategy in light of changing market conditions. Please give us a call today to set up a meeting.

Is it better to contribute to your RRSP or your TFSA?

Many Canadians face a tough choice at the start of each year, regarding whether to contribute to their Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA).

Both popular tax-planning tools have advantages. Which is better for you depends on a variety of factors. Your projected retirement income provides a good clue.

If your projected marginal tax rate will be lower after you retire than what it is now, an RRSP may be the better option. That's because the tax deductions you get when you contribute to an RRSP are likely to be larger than the tax you pay later when you withdraw the funds.

However, some Canadians will actually have higher incomes when they retire. For example, some retiring employees have taken to "double dipping" after they leave their first careers. This involves collecting a pension, but continuing to provide work as private contractors in their old fields of expertise. (A retired teacher continuing to take on substitute teaching jobs would be an example.) In such cases, their marginal tax rates when they retire could be higher than when they were working. For them, a TFSA may be a better option.

NEXT STEP: Ideally, you'll be able to take full advantage of both your RRSP and TFSA contribution room. But if you have limited capital available, we can help you determine an appropriate allocation for each vehicle.

How you can help keep your children out of debt

Most Canadians would shudder at the prospect of sending their kids out into the world with no financial assets. However, some kids often do worse — many are forced to leave home not just broke, but owing money as well.

The average student debt load after graduating from a four-year undergrad program now sits at around $27,000.[1] This provides a strong indication that parents are having a hard time helping their kids pay their education expenses.

Worse, those costs are rising. Canadian full-time students in undergraduate programs paid 3.3% more on average in tuition fees for the 2013/2014 academic year this fall than they did a year earlier. This follows a 4.2% increase in 2012/2013.[2]

NEXT STEP: With post-secondary costs rising, getting a head start is crucial. A first step should involve consulting us, to set up a dedicated savings plan in your kids' Registered Education Savings Plans (RESPs) or an alternative account. Your children will be far better off if they leave home merely broke — as opposed to in debt.

1 The Canadian Federation of Students.
2 Statistics Canada, The Daily, Sept. 12, 2013.

Canadians working longer to finance kids' education

According to a recent survey, 60% of Canadian parents with children under the age of 25 are putting their own retirement goals on the back burner, to help pay for a child's schooling. Fully a third of parents surveyed even took on debt to help fund their kids' education.[1]

There are several reasons that parents are forced to put themselves into this uncomfortable position. These include a tough job market, rising education costs, and increasing pressures on students to take on additional studies such as advanced degrees. However, the most important reason is that many parents wait too long before starting to put money aside.

NEXT STEP: Helping your children get the education they need to succeed doesn't have to come at the expense of your own future financial security. We can help you save effectively for both of these important goals.

1 CIBC poll, conducted by Leger Marketing, June 2013.

Equities

Consider rebalancing Canadian and U.S. exposures

Unequal equity market performance between the U.S. and Canada over the past five years may mean that you are over- or under-invested in one of these crucial markets.

U.S. OUTPERFORMANCE

While both markets have been advancing steadily, the U.S. generally outpaced the much smaller, resource-driven Canadian market.

For example, for the five-year period ended Oct. 31, 2013, and the first 10 months of 2013 (to Oct. 31, 2013), the Canadian benchmark S&P/TSX Composite Index posted gains of 6.44% and 7.27%, respectively. Over the same periods, the S&P 500 Index rose 12.7% and 23.5%.[1]

TWO WAYS TO REBALANCE

- **Sell U.S. equities and invest the proceeds in Canadian equities.** The downside to this approach is that it could have tax consequences if your holdings are in non-registered accounts. Any increase in the value of your U.S. holdings from when you purchased may be taxable as a capital gain when you sell.
- **Direct new capital to the underweight asset class.** The alternative is to re-balance your portfolio gradually, dedicating new contributions of capital to the underweight portion of your portfolio to bring it back in balance.

NEXT STEP: Make an appointment to come in and review your U.S.-Canada balance. We can help you decide whether to adjust your portfolio weightings based on recent developments as well as your particular circumstances.

1 S&P Dow Jones Indices.

Investment Strategy

The dark side of profit-taking

Stocks have been rising in value fairly steadily since the 2008 recession. Many investors have thus been wondering whether they should take some profits.

Those who are in it for the long haul may want to think twice. While registering gains may make you feel good, excessive trading is generally not the most effective investing strategy.

THE TEMPTATION TO SELL

When investment holdings increase in value, it can be tempting to book profits. However, the short-term pleasure may have a downside. For one, selling equities outside of registered plans could spark tax consequences. Any increase in the value of the securities since purchase may trigger a taxable capital gain.

Furthermore, the most effective investment strategies are longer-term in nature and rely on a proper balance between asset classes. These strategies are founded on the dictum that you can make more money through “time in the market, as opposed to market-timing.”

BEWARE MARKET TIMING

When seasoned investors sell a particular stock or mutual fund, they know they need to replace it with another or to shift those assets to fixed-income investments.

Attempts to “time” the market, however, can be costly. Market timers try to sell off equities at or near market highs, move into fixed income, and then re-enter the market when equity prices have dropped, in order to profit from the next upswing.

It’s generally not considered a viable strategy. History shows that upsurges in equity prices and mutual fund valuations happen suddenly. Those who shift too often risk missing out on key upwards movements.

FEW GOOD PARKING SPOTS

The other problem facing investors who want to take profits when markets hit new highs is to figure out where to “park” the proceeds. Persistently low interest rates mean that returns on major fixed-income instruments are generally unattractive. Furthermore, the Bank of Canada has indicated that its policy interest rate, which is currently at 1%, is likely to remain low for the foreseeable future.[1]

That does not mean, of course, that you shouldn’t hold any fixed-income assets. Fixed income plays an important role in almost any portfolio, providing stability that helps to offset equity market volatility. It just means that there are few compelling reasons to shift funds from the equities portion of your portfolio right now.

NEXT STEP: If you feel that stock valuations are getting frothy and are temped to take profits, talk things over with us. Remember, we are always available to act as your “sounding board.” We can review your portfolio, calculate gains to date, explore the income tax implications of taking profits, and look at where you might reinvest gains if you do decide that it’s time to sell.

1 Bank of Canada press release, October 20, 2013.

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