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Financial focus

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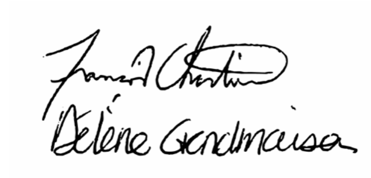
With tax season fresh in your mind, why not take time to review your investment tax strategy? There are several investment choices available that can help you reduce taxes or increase after-tax returns, so let's discuss what could work best for you.



Retirement security: It's in the numbers

During your portfolio-building years, you are likely to have a bias to equities. With a long time horizon and regular additions of capital, you have an opportunity to maximize growth potential.

As you get closer to retirement, however, it's natural to begin tilting your portfolio away from equities and towards fixed-income. Not only will you be setting up an income stream, you'll enjoy more stable returns and gain protection from the impact of a market downturn.

THE HESITATION FACTOR

It's not uncommon, however, for some investors to feel uneasy. They fear that paring back equities will reduce their growth potential, possibly to the point where they'll need to draw down principal. So what's the right amount of risk to take off the table?

Let's run the numbers. How would 3%, 4% or 5% returns affect the amount of money you have available throughout your retirement? If you need 5% returns to sustain your lifestyle, we can structure your portfolio to achieve them. If it turns out 3% returns are sufficient, why take on more risk than necessary?

THE GRADUAL APPROACH

Any adjustments to your portfolio don't have to (and shouldn't) happen all at once, of course. By gradually reducing risk, we can allow a portion of your investments to continue to benefit from stronger growth potential.

NEXT STEP: Schedule a retirement income checkup with us to do the math, making sure you're exposed to the minimum amount of risk needed to reach your goals.

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WEALTH MANAGEMENT

Investing in a slowing economy

The global economy's performance in 2015 was the slowest in the past six years, despite massive stimulus to consumers courtesy of lower energy prices and continued low interest rates. However, these positive supports to global growth were offset by China's rebalancing towards a more service-oriented economy, which proved challenging, particularly for its trading partners in emerging markets and for exporters of energy and raw materials such as Canada.

We anticipate that ongoing rebalancing in China, along with slower global trade, will again hamper economic growth in 2016. Although it may be tempting to overweight defensive market sectors, such as consumer staples and utilities (which typically do well in a slowing economy), other factors at work suggest that a diversified approach focusing on quality and including fixed income may be a more strategic way to proceed.

As always, the asset mix that's right for your portfolio will depend on your tolerance for risk and your investment objectives.

A MIXED BAG IN THE U.S.

While the U.S. economy is on a solid footing, not all is rosy. The strong U.S. dollar will continue to hamper trade in 2016, making U.S. goods and services more expensive abroad. A softer labour market may take some of the steam out of consumption and housing. However, the U.S. services sector remains strong, and if corporate investment spending ramps up — after years of underinvestment — this should also lend support to domestic growth. We expect the U.S. economy to grow by 2.3% in 2016.

CHINA'S CHANGING ECONOMY

In China, an overheated property market has prompted a reduction in construction output, while the manufacturing sector has slumped resulting in falling exports. The combined declines in industrial production and construction have depressed demand for oil and other raw materials, which continues to affect countries such as Canada, Australia and Brazil.

We expect China to grow 6.3% in 2016 – the slowest pace in 25 years. Beijing is doing what it can to soften the blow through reforms including widening its safety net to allow households to save less and consume more. The move away from a manufacturing and exporting nation to a more consumer-focused service economy is expected to be a longer term process.

DIVERSIFICATION STILL KEY

Although defensive sectors led the way early in 2015, diversification remains key to managing volatility, especially for Canadian investors, as our market is heavily concentrated in the resources and financial sectors. For instance, as businesses cut expenses in response to slower growth, many are looking to technology to give them a competitive advantage. Also, fixed income still has an important role to play in investor portfolios — both for the stability bonds offer and because interest rates may fall as central banks attempt to stimulate economies.

NEXT STEP: We can help you review your investing strategy in light of your investment objectives and time horizon. Please give us a call today to set up a meeting.

3 simple steps to pay down debt faster

We all have debt at different points in our lives. When we were studying, many of us took out student loans. We use loans to buy cars, mortgages to buy houses, credit cards for convenience and lines of credit to bridge cash flow gaps. With so many different debts, it's easy to lose track of the costs to our disposable income — our ability to invest and our future lifestyle.

The good news is that it's often possible to manage debt much more efficiently. Start freeing up your money for other goals with these three debt-reduction strategies.

1. TACKLE HIGHEST-RATE DEBT FIRST

Chances are you're paying down multiple debts at a time — mortgage, credit cards, department store cards, car loans, and so on. While you need to maintain minimum payments to avoid charges and late fees, you can be strategic by focusing extra payments on the debt that has the highest interest rate first. Paying down a debt that costs 8% is the equivalent of earning an 8% return on investment.

2. MAKE REPAYMENTS AUTOMATIC

Sometimes the most obvious strategies are overlooked — such as setting up regular payments to reduce debt. Automating debt payments integrates them into your budget and ensures that you make steady progress towards your debt reduction objectives.

3. CONSOLIDATE TO LOWER RATES

Some credit cards charge interest rates of 20% or more, which is a significant drain on your resources.

To reduce your interest costs, consider using a lower-rate secured line of credit to pay down any outstanding balance on your credit cards. At a lower rate, your payments

will reduce the balance more quickly. The table below illustrates just how much you might save. Debt management is a key part of a successful financial and investment plan. Let's explore all the strategies applicable to your situation.

Mix of debts	Annual cost	Consolidated debt	Annual cost
$12,000 car loan at 8%	$960	$17,000 secured line of credit at 4%	$680
$2,500 credit card balance at 20%	$500		
$2,500 department store credit card balance at 28%	$700		
Total annual cost of debt	**$2,160**		**$680**

TFSA strategy

The maximum contribution for Tax-Free Savings Accounts (TFSA) was reduced to $5,500 as of January 2016, but your TFSA still remains a valuable savings tool. By depositing your maximum contribution early in the year, and by choosing the best investments for your situation, you can make the most of its benefits.

Sooner is better. You don't have to wait until you have cash in hand to contribute. You can transfer in-kind investments — mutual fund units, securities, federal and provincial savings bonds — that you currently hold in a non-registered account. If the asset has increased in value since you purchased it, the transfer will trigger a capital gain, which is taxable, but it may be possible to offset it with a capital loss from 2016 or a previous year.

Allocation is critical. Because a TFSA is called a "savings account," many investors keep TFSA money in short-term, fixed-income investments. However, if you have a longer time horizon for your TFSA assets, let's talk about the mix of investments (some secure and some with greater growth potential) that's optimal for you. All earnings in a TFSA are tax-free, including capital gains.

Fixed-Income Strategy

Boost yields with corporate bonds

Interest rates have been so low for so long that it's hard to imagine they can drop any more. As of mid-December 2015, Government of Canada bond yields[1] averaged:

- 0.51% for one- to three-year bonds
- 0.68% for three- to five-year bonds
- 1.22% for five- to 10-year bonds
- 2.10% for 10+-year bonds

For fixed-income investors seeking higher yields, corporate bonds may be the answer.

Because corporate bonds are backed by private enterprise, not the government, they are considered to have more risk — that's why they offer higher yields. However, just because they are riskier than government bonds doesn't mean they are high risk.

Corporate bonds come in many shapes and sizes. Investment-grade bonds are issued by long-standing blue-chip companies with an established history of meeting their debt obligations.

High-yield bonds, on the other hand, are issued by companies that may be facing challenges such as high debt, unstable management, or takeover risk. International bonds are generally riskier than Canadian bonds because they're subject to different regulations and economic conditions.

NEXT STEP: With appropriate risk management, corporate bonds may help boost your fixed-income yields. We can help you select bonds that may provide better yields without substantially increasing risk. Contact us to discuss the opportunities.

1 Bank of Canada, Selected Bond Yields, Dec. 15, 2015.

Investment Strategy

Guard your portfolio against investment bias

We all have biases — inclinations, preferences and preconceived ideas that sometimes steer us in the wrong direction. Some biases affect investment decisions and can have a negative impact on investment returns. However, being aware of your biases can help you avoid them.

Here are some we regularly see among our clients, along with approaches we can use to build an asset allocation that feels comfortable.

HOME BIAS

Familiarity keeps many investors' portfolios concentrated in Canada. This restricts opportunities, diversification and growth potential. While it's true that Canada has many strong businesses, they represent a small fraction of what's available globally. Furthermore, a large proportion of our most successful companies are concentrated in just three sectors: energy, materials and financial services.

There is a whole world of investment opportunities that many Canadians never explore – and there are ways to benefit from greater geographic diversification while respecting your comfort zone. For example, we can seek out Canadian companies that operate internationally and that are, therefore, exposed to other countries' economic growth. We can also look just south of the border to the U.S. market, which shares many of the Canadian market's characteristics but provides access to a broader range of companies.

LOSS AVERSION

Let's say someone offers you two choices. You can take a crisp $100. Or you can gain $200 and then lose $100. The net result is the same: you're $100 richer. But most people would choose the first option because losing money hurts. This bias makes some investors shy away from growth opportunities to avoid losses. Others refuse to get rid of underperforming investments because they're in a loss position, even though there may be better opportunities elsewhere.

The key here is to set and maintain an appropriate asset allocation. Your portfolio mix is designed based on a "macro" view of your personal situation — one that balances your desire for growth with your need for security. By following your asset allocation, we can ensure you aren't positioned too conservatively or too aggressively. And regular rebalancing, based on factual analysis rather than emotion, can help keep your portfolio on track.

FOLLOW THE LEADER

There's a comfort, maybe even a euphoria, that comes from following the herd. After all, everyone else can't be wrong. Or can they? Often, by the time a rising investment makes the news, it's gone beyond hot and become overheated. As a result, a lot of investors may pay more than what the stock is actually worth.

NEXT STEP: We prefer to follow a disciplined approach to investing that incorporates multiple checks against the temptation to follow the herd. So, the next time a potential investment makes your body tense up — whether from anxiety or excitement — be aware that a bias may be at work. Recognize it for what it is, and then talk to us.

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