Winter 2016

Financial focus

Exercises for financial fitness

Getting in shape is arguably one of the most common New Year's resolutions. But it's not just people who can benefit from a New Year's tune-up. Here are three exercises to help ensure your investment portfolio is in top shape as well.

Balance. The key to good physical fitness is balance. The same is true for financial fitness. Reviewing your goals and the current value of your individual securities (which may have changed over the course of the year) will help us determine whether your portfolio is appropriately balanced. We can then fine-tune your holdings for the coming year and beyond.

Reduce. As part of the balancing process, it may be advisable to eliminate securities that no longer match your objectives. You may also want to consider taking profits in securities that have outperformed, in order to crystallize capital gains.

Strengthen. One of the simplest, most effective ways to strengthen your portfolio is to increase (or start) pre-authorized contributions. At the same time, we can determine together where those cash infusions, along with any existing cash balances, would best be allocated. For example, do you want to add to your existing holdings, or explore new investments or sectors?

NEXT STEP: With the deadline for contributing to your Registered Retirement Savings Plan for 2015 fast approaching, and possible changes to the contribution limit for Tax-Free Savings Accounts (TFSAs) lying ahead, this is an ideal time for us to regroup and plan out your strategy for the upcoming year.

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We hope you and your family had a pleasant, relaxing holiday. The year ahead promises to be an exciting one, as Canada ushers in a new Prime Minister for the first time in nine years. What policies Justin Trudeau might introduce and their impact on the economy and investment markets remains to be seen. Whatever happens, though, you can count on us to help you make sense of it all and to recommend any adjustments to your portfolio that will keep you on track with your long-term goals. After all, that's what we're here for.

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NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

A disciplined approach is key in changing markets

Global equity markets struggled in 2015, with corporate earnings growth flagging throughout much of the world. Emerging markets continue to face challenges, as China's economy slows from its torrid pace. Although Canada's economy has started to grow again, weak commodity prices and slower demand from emerging markets are still being played out.

The U.S. economy remains a bright spot on the global scene. While exporters face challenges owing to a strong U.S. dollar and weak global growth, a strong labour market is fuelling domestic consumption. Investment spending is also picking up as corporations attempt to boost productivity.

For investors, change has become the one constant in the financial markets. While it can be a challenge to deal with the volatility we've experienced over the past year, it's important to recognize that market swings are normal and relatively insignificant over the longer term.

The good news is that there are some time-tested strategies to help you navigate fluctuating markets and reach your financial goals.

DIVERSIFY

Diversification across asset classes and geographic regions is the best way to protect against market risk and volatility. This is especially important for Canadian investors, as our market is heavily concentrated in the resource and financial sectors. Over the past few years, Canadian equities have been hit by falling resource prices, which has led to underperformance relative to U.S. equities.

What's more, by sticking too close to home, you may miss out on opportunities that are better represented in the U.S. and Europe — such as information technology, health care, and consumer products. Many companies in these sectors do a great deal of their business in international markets, which provides an additional layer of diversification.

INVEST IN QUALITY

When the markets are charging ahead, investors tend to increase their risk profile by investing in stocks with the potential for higher returns. However, when volatility occurs, it is often the lower-quality, higher-risk stocks that suffer the most.

That's why investing in high-quality businesses with a history of revenue and profit generation is a sound strategy in any market climate. These companies tend to be the mainstays in the economy and often increase their dividend payouts over time. While market volatility can affect all stocks, high-quality stocks tend to weather the storm better than riskier names.

STICK TO YOUR PLAN

Your investment plan was created to help you reach your goals through all types of markets. That's why it's important to stay the course and not make rash investment decisions. If volatility has made you uncomfortable — a good test is whether it keeps you up at night — this may be a sign that we need to revisit your risk tolerance and asset allocation strategy.

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.

Expecting significant retirement income? A TFSA may be better than an RRSP

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 best 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 you are paying 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 mandates 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.

Canadians working longer to finance kids' education

Many parents are responsible and well intentioned and, as a result, have invested significant sums in their kids' Registered Education Savings Plans (RESPs). However, according to a survey by a major Canadian financial institution, 60% of Canadian parents with children under the age of 25 are putting their own retirement goals in the backseat, 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.

Make sure that does not happen to you. Talk to us about balancing your savings for your children's education and your own future.

1 CIBC poll, conducted by Leger Marketing, June 2013

How your kids or grandkids can invest

Between holiday gifts and extra hours on the job in December, your children or grandchildren may have amassed a sizeable sum. Spending it would be easy, but why not help them to invest it, for longer-term benefits?

Mutual funds can be an ideal choice in these situations because they offer instant diversification, and don't require investment experience or ongoing management. There are many funds with brands that youth will recognize and may already support with their purchasing power.

And, unlike a bank account, the balance isn't connected to their debit card. Needless to say, this reduces the likelihood that their investment will be spent at the mall or online.

If your child or grandchild is a minor, you'll need to open an account "in trust" for him or her. Interest and dividends earned in an in-trust account are attributed back to you for tax purposes, but capital gains are not. If capital gains are realized down the road, they'll be taxed in your child's hands, at a rate that's likely to be much lower than your own.

NEXT STEP: We'd be happy to explain your options and help you to make a choice that's best for you and your child.

TFSA or RRSP? It depends…

Choosing between your Registered Retirement Savings Plan (RRSP) and your Tax-Free Savings Account (TFSA) can be especially confusing in January and February, when so much of the media seem to insist that you maximize your RRSP. But is this really your best option?

WITHDRAWALS TAXED DIFFERENTLY

Both plans provide valuable growth opportunities and tax benefits. But there's a key difference: When you take money out of your TFSA, the withdrawal is tax-free.

RRSP contributions, on the other hand, are taxed upon withdrawal. The assumption is that you'll take the money out during retirement, when your income is lower and you are presumably in a lower tax bracket. If this is likely to be your situation, then your RRSP may be a worthy priority.

THINKING AHEAD

But what if you have significant assets or a generous pension (or both)? You might not be in a lower tax bracket come retirement. And your RRSP withdrawals could be taxed at a rate as high as or even higher than they might have been during your working years.

In this case, your TFSA might warrant priority. At retirement, your withdrawals won't count as income, won't be taxed, and will not affect your eligibility for income-tested government benefits like Old Age Security.

NEXT STEP: We can evaluate your RRSP, your TFSA, and your tax situation (both current and projected) to help determine your optimal contribution to each plan.

Thinking early retirement? We can help make it happen

It happens. You run into an old friend, who isn't "old" at all: He's just about the same age as you. He recently retired and can't stop talking about how great it is. Pretty soon, there's a seed germinating in your head. Would it be possible for me to retire sooner than planned? And just how much sooner?

KEY QUESTIONS

The following questions will help determine what changes might be necessary in order to make early retirement a reality.

How much sooner would you like to retire? If you're angling for a five-year window, your options will be different than if you're on a 15-year track.

How much will you need? Many retirement calculators suggest budgeting 80% of your pre-retirement income to maintain your accustomed standard of living. But a recent survey of U.S. retirees by global investment giant T. Rowe Price found that, nearly three years into retirement, respondents were living comfortably on just 66% of their pre-retirement income.[1]

How much do you have now? If you're short of what you think you'll need, you may want to think about "power saving." The idea here is to save as much of your discretionary income as possible each year until your retirement — ideally, 15% to 25%. This might mean making some changes in your lifestyle today, but the results could be well worth it.

Do you still have expenses related to your kids or their education? If so, we need to incorporate this into your plan.

How much debt are you carrying? Debt may or may not be problematic. If you still have a large mortgage, for example, you might consider downsizing sooner rather than later. This could give you the double benefit of freeing up cash to invest and reducing your debt load.

ACTION TO TAKE

Now that you've identified some of the challenges to retiring early, the question is how to overcome them. What can we do to add to your nest egg today and maintain it for a longer period of time?

The answer is typically a combination of increased contributions and more growth-oriented investments. Simply, the more you can set aside and the sooner, the faster your savings will grow, particularly when you are investing within a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA). Outside of registered plans, a strategic approach can help minimize tax consequences.

When considering the growth-oriented options that are best for you, your risk-comfort level will be a key factor as will your time horizon. Our goal is to get as much growth as possible while keeping volatility within your comfort zone.

NEXT STEP: If you'd like to talk about the possibility of early retirement, we'd be happy to review your plan and see what kind of adjustments might be needed.

1 T. Rowe Price, "First Look: Assessing the New Retiree Experience," July 29, 2014.

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