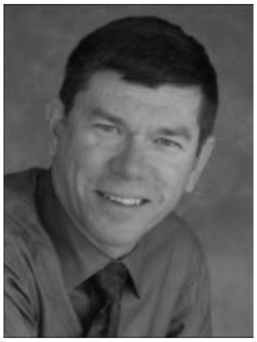
Financial Planning Guide



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FOCUS ON MUTUAL FUNDS

Emerging-market debt emerging from the shadows

In a recent poll,[1] more than 600 institutional investors in 16 different countries said that they are increasing their exposure to global bonds, particularly emerging-market debt (EMD) and local currency debt.

If the professional investors are moving en masse, could this sector be something for individual investors to consider, too?

EMD refers to bonds issued by the governments of emerging markets nations, such as Panama, Turkey, Russia, and Morocco. Like high-yield bonds, these issues offer higher-than-usual yields in exchange for the risk that the issuer might default.

An attractive alternative

With first-world bonds offering historically low yields, EMD has become an attractive alternative, particularly in light of the positive economic fundamentals and increasing political stability that many of these nations are exhibiting.

How to invest

If you're interested in these kinds of securities, global bond funds may be the most appropriate. Professional money management brings a variety of safeguards to these investments. Institutional investors:

- have access to securities that aren't available to the general public;
- enjoy much better pricing than individuals can achieve;
- have sufficient capital to diversify by country, currency, coupon payments, yields, and term-to-maturity; and
- engage research specialists, sometimes situated in the issuing country, who can accurately assess the creditworthiness of a potential investment.

Call us if you'd like to discuss whether these securities are right for your portfolio. ■

1 2012 Pyramis Global Institutional Investor Survey; released Oct. 8, 2012.

Is it time to revisit U.S. equity funds?

Investors can be forgiven for thinking that March this year has come in like a bull, rather than the usual lion, with the Dow Jones Industrial Average hitting record-after-record high.

But does this bull have legs or just horns? While only time will tell, it's worth looking at U.S. equity funds as a category and the role they might be taking in your portfolio.

The U.S. economy has faced some big challenges, but U.S. investments still offer lots of long-term benefits to Canadian investors. And mutual funds are an excellent way to invest in our neighbour and largest trading partner.

Big by every measure

The U.S. has the world's largest and most dynamic economy. The same goes for its stock market — the world's largest, most diverse array of companies, large and small. Many of the world's leading multinational corporations are U.S.-based. By investing there, you're actually obtaining exposure to economic growth and currency diversification all over the globe.

The U.S. is also a world leader in stock market regulation and corporate disclosure. And its individual stock exchanges — mainly the New York Stock Exchange and Nasdaq — lead in trading volume.

As a result of the recession, U.S. business practices have undergone a genuine metamorphosis. U.S. companies have gone to great lengths to lower their debt levels and increase their financial strength by reducing costs and trimming fat.

The wider and deeper make up of the U.S. market is especially important for Canadians since our own stock market is heavily concentrated in just three sectors: financial services, energy, and raw materials. We have little to choose from in such areas as technology, consumer goods, and manufacturing.

Including U.S. investments in your portfolio also helps to protect you from the possibility that the U.S. dollar will gain value against our loonie. While the Canadian dollar is very strong now, historically it's been subject to lots of ups and downs.

Since it's almost impossible to make accurate long-range predictions about future currency movements, it may be beneficial to hold some U.S.-dollar-denominated investments — especially if you travel frequently to the U.S. or are perhaps planning to retire there.

Why mutual funds?

Investing in the U.S. through mutual funds offers many advantages:

- Professional selection. Picking winning investments from the thousands and thousands of listed companies in the U.S. is no easy task. Professional mutual fund managers have access to vast research resources. Many rely on proven, disciplined approaches to find the best potential performers.
- Economies of scale. Because of their size, mutual funds typically pay far less than individual investors for currency conversion and brokerage fees.
- Convenience. Mutual funds are easy to invest in. Many are available with initial investments as low as $100. And you don't have to worry about the complexities of the U.S. withholding tax on investment earnings — the fund does that for you.
- Liquidity. Most mutual funds offer daily redemptions at the unit price at the close of trading for that day. With stocks, on the other hand, you might have difficulty selling at the price you want, or even selling at all, if the stock is not widely traded.

Are you already there?

If you're considering bumping up your portfolio's exposure to U.S. investments, first take into account how much you may already have. Many "Canadian" equity funds hold some foreign content, which might include U.S. companies, and certain Canadian-based companies have large operations south of the border.

Working together, we can determine the optimal U.S. allocation for your portfolio and the best mutual funds to provide it.

You be the judge

Is this a good time to invest in U.S. equities and equity funds? Here are some of the leading indicators.

- **Manufacturing.** The Institute for Supply Management (ISM) manufacturing index expanded in February for the third consecutive month. Meanwhile, the overall U.S. economy grew for the 45th consecutive month.[1]
- **Construction.** Since reaching a low in January 2011, the construction industry has added 296,000 new jobs.
- **Housing.** U.S. housing starts rose almost 24% between January 2012 and January 2013.[2] That led to 14,000 new jobs for residential specialty trade contractors in January 2013 alone.
- **Consumer confidence.** The U.S. Consumer Confidence Index hit 69.6 in February 2013, up significantly from its all-time low of 25.3 in February 2009 (the lowest measure recorded since the index was first launched in 1967)[3].

1. http://www.ism.ws/about/MediaRoom/newsreleasedetail.cfm?ItemNumber=23473
2. http://www.census.gov/construction/nrc/pdf/newresconst.pdf
3. http://www.tradingeconomics.com/united-states/consumer-confidence

TAX PLANNING

Sending the kids to camp? Keep your receipts!

As the end of school approaches, many parents scramble to get their kids signed up for as many activities as possible — in part to keep them active and, let's be honest, in part to stave off the summer chorus of "I'm booooored."

Summer programs are great for kids and there's a benefit for parents, too. The cost of many camp-type activities may qualify for a tax break. Overnight camp, art or music classes, and sports lessons may all be eligible as either a childcare expense or as part of the children's fitness or arts tax credit.

Canada Revenue Agency's determining factor here is the "degree of child care" being offered. So a week at sleepover camp for your 10-year-old would likely qualify as childcare, while your 15-year-old's stint at an elite hockey school probably would not. But that's okay, because you can almost certainly claim the hockey camp under the Children's Fitness Credit.

Our advice? Save your receipts and call us for more information, or visit the CRA web site: www.cra-arc.gc.ca. ▪

CREDIT MANAGEMENT

Debt threat?

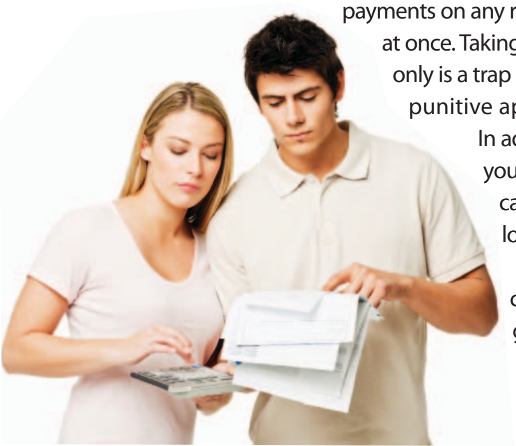
According to TransUnion, one of Canada's two credit bureaus, the average Canadian's consumer debt (i.e., non-mortgage debt) rose by more than $1,500 to a record $27,485, between 2011 and 2012. As ugly as that is, the numbers don't tell you the other insidious aspect of debt: that it robs you of your investable dollars and threatens your future goals. That's because every dollar you pay to service your debt is one less dollar you have to invest.

What kind of debt are you carrying and what is the interest rate? It's important to understand the difference between "good" debt and "bad" debt. Good debt includes borrowing for items that are likely to increase in value, such as your home, or borrowing when the interest is tax-deductible (for example, when you borrow to generate taxable investment income). Bad debt is usually high-rate consumer debt for items that have no long-term value — for example, using your credit card to pay for a vacation down south when you know you don't have the funds to pay the bill in full when it comes in.

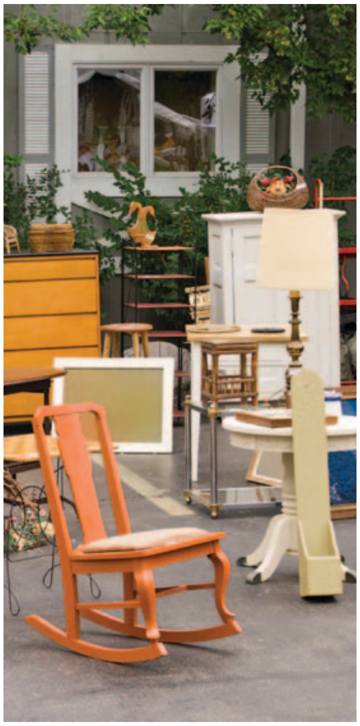
To funnel more money toward your future dreams and less to your past expenses, always try to pay more than just the minimum required monthly payments on any regular bill that you can't pay all at once. Taking care of the minimum payment only is a trap and is the slowest, most punitive approach to paying off debt.

In addition, look at amalgamating your debts — especially your credit card balances — with a single, lower-interest line of credit.

If you'd like to chat about debt consolidation strategies, please give us a call. ▪



Spring clean for the Cure?



Don't just throw out your used furniture, old clothes, or clunker car. You may be able to turn those castoffs into a charitable tax receipt.

Many charities, including the United Way, the Furniture Bank, and the Canadian Diabetes Association will accept a variety of items and even provide a tax receipt for furniture and automobiles.

Yard Sale for the Cure is another option. Sponsored by the Canadian Breast Cancer Foundation, you host a garage sale (hopefully a big one in tandem with your friends and neighbours), then donate the proceeds to the Foundation. In return, you get a charitable tax receipt. There's lots of information, advertising ideas, and sales tips at www.yardsaleforthecure.com.

Need to get rid of a derelict vehicle? Car Heaven at www.carheaven.ca will tow away your jalopy, recycle or sell the parts, and you choose a charity for the proceeds. Receipts are usually a minimum of $200 to $300. ▪

Spotlight on healthcare funds

Is this the time to consider an investment in the healthcare sector? There are a number of global trends that suggest the answer may be yes. Here are a few of the most compelling.

Baby boomers are getting older. Between 2011 and 2030, some 10,000 American baby boomers will turn 65 every day.[1]

As they get older, they're driving an unprecedented demand for medical care, products, and services. This bodes well for the entire healthcare sector: everything from hearing aids and supplements to diagnostic equipment and mobility devices.

Scientific research and development. Genomics is the exciting new life science that's creating medicines and treatments based on our own DNA (or genome). Imagine taking a drug that targets not just prostate cancer, but your specific cancer. It sounds like the stuff of the future, but it's in development right now.

Interestingly, one of the factors fueling the advent of genomics is the so-called drug patent cliff. Between 2008 and 2013, many of the world's best-selling drugs will reach the end of their patent protection, opening the door for lower-cost generics, many of which are manufactured in the emerging world.

Global demographics. Around the world, people are living longer and enjoying more disposable income than ever before. This means an increasing demand for preventative drugs and improved medical devices and treatments; in other words, even more potential for companies and investors in the healthcare sector.

A core holding

As part of a diversified portfolio, healthcare mutual funds offer a number of potential benefits, including:

Stability. Healthcare funds are often considered "defensive," because healthcare is an essential item, much like food, clothing, and shelter. While negative economic conditions are likely to affect discretionary purchases like entertainment or electronics, people always need access to medicine and healthcare-related goods and services. As a result, the price of these products and services — and the stocks of companies that provide them — tends to be more stable.

Geographic diversification. The Canadian stock market, as represented by the S&P/TSX Composite index, consists primarily of financial companies and resources. Healthcare companies, on the other hand, are more likely to be located in the United States. By including healthcare funds in your portfolio, therefore, you increase your global diversification and may also benefit from positive currency fluctuations.

Choose your focus

The healthcare sector is quite broad, including pharmaceutical firms, hospital management firms, health maintenance organizations (HMOs), and biotechnology, as well as insurance companies, drug manufacturers, and medical instrument makers. Mutual funds may focus on one particular aspect or diversify across the sector.

If you'd like more information on healthcare funds, please feel free to call me. I'd be happy to explore the role they might play in your portfolio, taking into consideration your existing holdings as well as your long-term goals and risk comfort level. ■

1Pew Research Center, "Baby Boomers Retire," Dec. 29, 2010

Right time for funds with REITs?

Real estate has long been considered a stalwart investment for long-term capital appreciation and protection against inflation. As an investment, however, it has numerous drawbacks. For one, real estate holdings can be notoriously illiquid, as anyone who's tried to sell their home in a buyer's market will attest. In addition, the types of property that are likely to generate the most reliable income stream — apartment buildings, shopping centres, commercial properties — are out of reach of the average investor.

Fortunately, income mutual funds that include Real Estate Investment Trusts (REITs) provide a convenient, easy-to-manage way to gain exposure to this sector and its potential.

REITs typically hold portfolios of income-producing real estate, such as apartments, office buildings, commercial and industrial properties, shopping centres, and the like. Because depreciation can be claimed on the properties in the portfolio, reducing taxes, REITs may provide superior yields.

Some REITs focus on a particular type of property (such as hotels or commercial property) and their holdings are not limited to Canadian properties. Within a mutual fund, they may be combined with a range of other income-producing assets, including corporate and government bonds to provide a diversified portfolio with the potential to generate both income and capital gains.

We can help you determine if this type of investment is suitable for your objectives. ■

FundEX INVESTMENTS INC