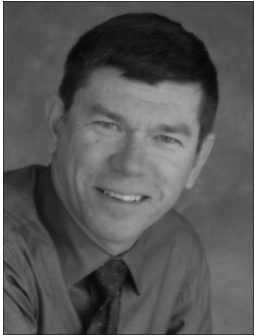


Financial Planning Guide



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FOCUS ON MUTUAL FUNDS

Three exercises to tone your fund portfolio

Is getting more exercise one of your New Year's Resolutions? It's a perennial favourite, and a good idea. While you're at it, here are three exercises to help ensure your mutual fund portfolio is in top shape.

Balance. The key to good physical fitness is balance. The same is true for your financial fitness. The new year is a great time to rebalance your portfolio because your mutual funds' year-end distributions and profit-taking may have shifted their relative weightings.

We can start by reviewing your investor profile. Have there been any changes in your life that could affect your investment objectives or time horizon?

Then, we'll look at your current holdings and fine-tune them to reflect any changes in their value. For example, if your equity funds have outperformed, your

portfolio may be subject to more volatility than you are comfortable with.

Reduce. Rest assured, this kind of reducing doesn't involve any hard-to-keep resolutions. Rather, as part of the balancing process, we may want to prune back funds that no longer fit your investor profile or crystallize gains from any that may have outperformed.

Strengthen. An ideal way to strengthen your portfolio is by beefing up (or setting up) pre-authorized contributions. We can then look at how best to deploy this year's contributions and any excess cash balances.

One place to consider is your existing funds. Adding new cash to funds in asset classes that are under-represented in your portfolio is an easy, effective way to get back to your target asset allocation. ■

Mutual funds for the brave new world



MUTUAL FUNDS

The world is in motion — physically, economically, and politically. Here at home, we've just elected a new prime minister, and the U.S. will be going through its election process come November.

As if to further affirm that change is afoot, growth in the investment markets seems to be shifting away from the developing world and back toward the more stalwart economies of Europe, North America, and Asia.

But there are many shifting factors that can affect investment markets — and investment decisions. For example, lower commodity prices, especially oil, may have an impact on the economic growth of oil-producing countries (including Canada).

So how do we navigate this brave new world? Step one is to make sure your portfolio is calibrated to capitalize on the rich tapestry of global opportunities.

Opportunities abound

In the United States, even the possibility that the Federal Reserve (the Fed) will raise interest rates in 2016 isn't dampening investor enthusiasm. Rather, it's akin to taking the training wheels off a bike: If the Fed raises rates, it believes the economy can grow without fueling inflation and without intervention.

For the U.K., the Organisation for Economic Co-Operation and Development (OECD) expects the positive growth established in 2014 to gain pace through to 2016. Among positive indicators are wage growth and rising consumer demand.¹

Meanwhile, the eurozone continues to

recover from the turmoil in Greece. There is even optimism that the refugee crisis could usher in a sustained period of economic growth. While there are short-term costs to providing immediate necessities, the migrants are generally young, able-bodied, and capable of filling the gaps in the current European labour force.

Even Japan is beginning to see increased traction from its ongoing fiscal stimulus measures, which include labour market reforms and higher wages. In addition, ongoing weakness in the yen is positive for exporters.

There's a fund for that

There are three ways mutual fund investors can gain crucial exposure to these potential-rich economies.

1. Broad-based global equity funds.

Broadly diversified global funds give us a way to capitalize on "big picture" prospects for the overall global economy. The fund manager and research team determine the countries, companies, and currencies with best prospects and invest accordingly.

2. Region-specific funds. For investors keen on specific economies, these funds can be a gateway to opportunity. Options range from single-country funds (U.S. growth, for example) to entire regions (such as Europe).

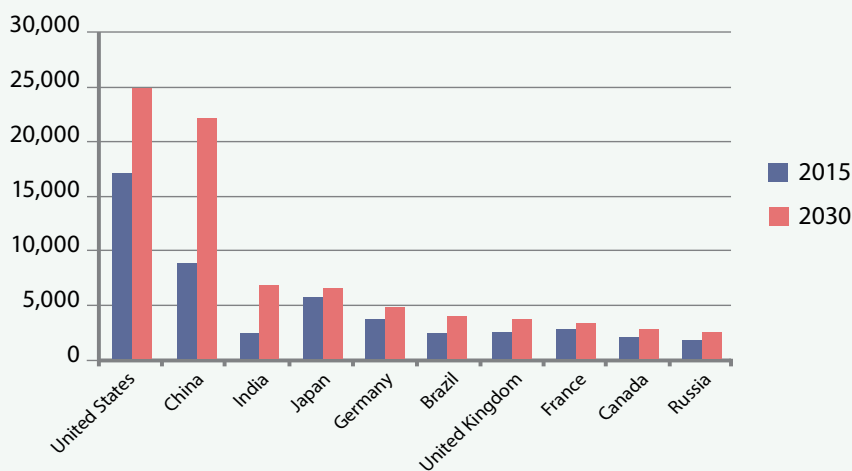
3. Sector-specific funds. Rather than focusing on geography, you might prefer a fund that focuses on a specific industry sector. Choose from funds that concentrate on infrastructure, pharmaceuticals and health care, IT, financial services, agriculture, green/environmental companies, and numerous others. All of these funds can help shield you from home-country bias and excess exposure to our own commodity-dependent economy.

As with all investments, we'll want to ensure any new additions to your portfolio dovetail with your existing holdings and are appropriate for your time frame and tolerance for risk. ■

¹ OECD, Economic outlook, analysis and forecasts, November 2015

A lot can happen in 15 years

Fifteen years can pass in just about the blink of an eye; ask anyone whose child is about to graduate high school. The chart below shows projected GDP for the world's 10 largest economies in 2015 and 2030.



Real GDP in billions of 2010 U.S. dollars. Source: US Department of Agriculture.



Protect your TFSA

Most of us know about the importance of designating qualified beneficiaries for our Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs). But what about your Tax-Free Savings Account (TFSA)? You can — and should — take steps to protect those assets in much the same way as your other registered plans.

The first thing to note is that the value of the TFSA at death is paid out, tax-free, no matter who receives it: your spouse, your child, a friend, your estate. But there are additional steps you can take to safeguard more of your plan's assets.

Name your spouse as successor holder. When you name your spouse as the successor holder of your TFSA, the plan assets can

transfer directly — and intact — to your spouse's TFSA. The plan's securities don't need to be sold, there are no tax implications, and the contribution doesn't affect your spouse's own TFSA contribution room. As well, the capital in the TFSA will continue to accrue on a tax-free basis and there's no income tax upon its eventual withdrawal.

Designate a beneficiary. If you don't have a spouse (or don't want the assets to pass to your spouse), you can name a beneficiary, such as one of your children. That person's ability to direct the TFSA inheritance to his or own TFSA will depend on his or her contribution room.

If you don't designate a successor holder or a beneficiary, the full value of your TFSA will become part of your estate. While the value at death is tax-free, the amount may be subject to probate fees depending on your province of residence. Note also that any growth within the TFSA between the time of death and the time the TFSA is formally closed or transferred will be taxed as ordinary income unless you name your spouse as successor holder.

As with all beneficiary designations, it's a good idea to review your TFSA designation regularly. In addition, you may want to seek professional tax advice to ensure your assets pass as you expect. ■

INVESTMENT PLANNING

Investment options for kids or grandkids

You may have been shocked at just how much your kids raked in over this past holiday season. Clearly, giving cash in lieu of "stuff" is becoming more commonplace. Between those gifts and extra hours on the job in December, your young tycoons might be sitting on a sizeable sum. What can they do with that money besides fritter it away? They can invest it (or at least some of it).

Mutual funds are ideal in these situations because they offer instant diversification, you don't need any investment experience, and there's no need for 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 young person is over the age of majority, he or she can hold that mutual fund in a TFSA and enjoy all the same tax-saving benefits you do.

If your youth is a minor, you'll need to open the account "in trust" for him or her. Interest and dividends earned in an in-trust account will be 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 probably much lower than your own.

If you're looking at a significant amount to invest for your child, you may want to consider setting up a formal trust. The benefit here is that you get to dictate the trust's parameters, such as when the beneficiary can access the funds or how they can be spent. Note, however, that there would be setup fees as well as ongoing expenses in administering the trust.

We'd be happy to explain your options and help you make the choice that's best for you and your child. ■



Income funds with a splash of growth

With the recent volatility in the equity markets, some investors have likened investing to walking a tightrope between choppy equity funds and the ongoing lethargy of bond and income funds. You might even think of it as a “Goldilocks” environment: Equity funds are too hot for many investors’ taste, while fixed-income funds are too cold.

So what’s the mutual fund solution that’s just right? One area to consider is income funds that also offer some growth potential.

A different kind of income fund

Some income funds are specifically structured to offer a combination of reasonable growth potential along with income. Here are three.

1. Income allocation funds. These funds invest in a variety of fixed-income securities with modest exposure (usually) to dividend-paying equities. They may also invest in similar foreign securities. In addition, some of these funds are structured to pay out tax-preferred income-making them suitable for your non-registered portfolio.

2. Monthly income funds. These are sometimes called “high-income funds,” and they may augment their fixed-income holdings with dividend-paying stocks and other equities. In some cases, the asset mix may be closer to that of a balanced fund than an income fund. For this reason, it’s especially important with these funds to get the balance right not only in picking the

right fund, but also within the context of the rest of your portfolio.

3. Global bond funds. These funds have a mandate to invest in a spectrum of foreign fixed-income securities. Their exposure to a variety of economies and currencies enables you to tap into growth opportunities outside of Canada. In addition to international diversification, they may also offer a hedge against rising interest rates in our own domestic economy.

Possible price fluctuations

Because these income funds offer some growth potential, they may experience more volatility over the short term than traditional straight-up income funds. Remember: In the investment world, higher potential returns are always accompanied by greater risk.

This is partly due to the securities they hold. These funds may hold bonds issued by companies that are more likely to default on payments than blue-chip corporations.

Effective risk-management strategies

To help reduce the impact of short-term volatility on your portfolio, you may want to consider averaging into the funds. Rather than buying with a single lump sum, we can spread your initial investment over a period of months to take advantage of dollar-cost averaging. As the price fluctuates, you’ll purchase more fund units when the price is lower and fewer when it is higher. This approach can result in a lower average cost per unit.

And, of course, you can count on us to closely scrutinize any fund you’re considering. Together, we can review the fund’s objectives and its individual securities to make sure they’ll work effectively with the rest of your portfolio. ■

RRSP or TFSA? It depends...

It’s the mutual fund investor’s annual dilemma: Contribute to your Registered Retirement Savings Plan (RRSP) or your Tax-Free Savings Account (TFSA)?

It’s rarely as simple as picking one or the other. To get the most long-term benefit from both plans, we need to take a closer look at your income and your tax bracket — both current and expected at retirement.

One essential difference

Both plans provide valuable growth and tax-minimizing opportunities. But there’s a key difference: When you withdraw money from your TFSA, there’s no tax owing.

Withdrawals from your RRSP, on the other hand, are taxed at your marginal rate. The idea is that you’ll take the money out during retirement when you are presumably in a lower tax bracket.

If this is likely to be your situation, then you may want to focus on your RRSP. You’ll get a tax deduction (and maybe a refund), earn tax-deferred growth, and if all goes according to plan, you’ll be taxed at a lower rate in retirement than you would currently pay.

Thinking ahead

But what if you have other significant assets or a generous pension, or both? Deferring all that tax could leave you with a potentially significant bill down the road. In this situation, you may want to focus on your TFSA.

Regardless of your decision — RRSP, TFSA, or both — mutual funds give us the flexibility to cherry-pick the ideal funds for your objectives and time frame. ■

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