Compliments of ExcelPlan Financial

May/June 2012

Financial Planning Guide

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FOCUS ON MUTUAL FUNDS

Power up your TFSA's potential with mutual funds

What's in your Tax-Free Savings Account (TFSA)? If you have one, chances are you're using it as nothing more than a savings account. Of course, given that it's called a "savings account," it's easy to understand why a 2012 Angus Reid Public Opinion poll found almost half of Canadians with a TFSA treat it as such. But don't be fooled.

If you are using the TFSA as a savings account or to hold Guaranteed Investment Certificates, chances are you're generating returns of less than 2% to 3% annually. If you'd like the potential to do better, it might be time to harness the full power of the TFSA.

Going for growth

You may want to consider moving from low-rate cash-type investments to mutual funds that invest in equities, fixed-income products or both. With the cumulative TFSA limit now at $20,000, you have sufficient capital available to build a diversified mutual fund portfolio with higher growth potential.

Remember, it's tax-free!

Even better, all the earnings generated by your mutual funds — whether interest, dividends, or capital gains — are completely tax-free. So are withdrawals.

Provided you're willing to accept temporary downward fluctuations and are willing to invest for the long term, equity funds have the potential to significantly increase the total value of your TFSA.

We can help you select appropriate mutual funds and build a TFSA portfolio that meets your needs for growth, income, and security. Come see us today to give your TFSA a boost. ■

Head south of the border

After six turbulent years characterized by housing woes, company bailouts, and massive debt in the U.S., economic growth seems to be gaining a toehold.

Both the Dow Jones Industrial Average and the S&P 500 Composite Index started 2012 on an uptick. For mutual fund investors looking to gain U.S. exposure, now may be an opportune time.

Reasons for optimism

Here's a look at some of the main reasons why you may want to consider U.S. equity mutual funds in 2012:

Strong job numbers. According to the U.S. Department of Labor, U.S. unemployment fell to 8.3% in January (see U.S. unemployment on the decline), its lowest level since February 2009. More than 243,000 jobs were added to the economy in the first month of the year and a further 277,000 were added in February. For an economy that's driven largely by consumer demand, this is certainly good news.

Low interest rates. Since December 2008, the benchmark U.S. interest rate has stayed at a historic low of just 0.25%. Nor does it seem likely to increase anytime soon, with the U.S. Federal Reserve Board committed to maintaining an easy monetary climate through to late 2014 to stimulate economic growth.

Corporate strength. U.S. companies have not forgotten the hard lessons learned from the credit crisis of 2008. In fact, nonfinancial companies have accumulated cash reserves of more than US$2 trillion, according to U.S. accounting behemoth Deloitte LLP. With lower labour costs and increased productivity, many larger corporations are seeing their profits increase.

Reasonable valuations. In spite of strong earnings, stock market valuations remain reasonable, with the S&P 500 trading at about 14 times earnings in the first quarter of 2012, well below its five-decade average of 16.4.

Modest growth. The Organisation for Economic Co-operation and Development (OECD) forecasts economic growth of 2.0% for the U.S. in 2012, up from 1.7% in 2011.

Canadian-dollar strength. For Canadian investors, there is an additional reason to invest in the U.S., based on the continued strength of the loonie in relation to the greenback. With the Canadian dollar trading at or above parity, Canadian investors could have an opportunity to buy U.S. dollar-denominated mutual funds at an advantageous price.

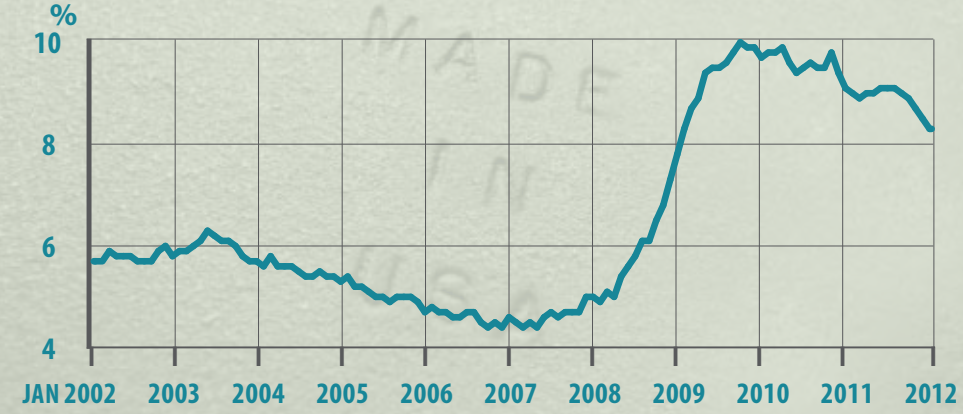
Factors to consider

While the positive signs are encouraging, the U.S. economy still faces challenges. For example, while the unemployment rate is falling, it's still relatively high in absolute terms at 8.3%. By comparison, the Canadian unemployment rate (March 2012) is 7.4%. In addition, the U.S. housing market has not yet recovered. Perhaps most worrisome of all is the enormous debt burden. The U.S. national debt is more than US$15 trillion and rising. At a household level, liabilities for the fourth quarter of 2011 were 117.5% of disposable income.

If you'd like to learn more about tapping into the investment potential of our neighbour to the south, give us a call. There's a wide range of U.S. equity funds to choose from. We can help you find the funds that are appropriate for your risk comfort level, complement your existing portfolio, and are well positioned to meet your objectives for long-term growth. ■

U.S. UNEMPLOYMENT ON THE DECLINE

After reaching a high of 10% on October 2009, unemployment in the U.S. has been declining steadily.



Source: U.S. Department of Labor, Labor Fora Statistics, employment status (seasonally adjusted), Feb. 2012

In-trust accounts: better than a piggybank

If you have kids, chances are they get cash gifts from grand-parents, relatives, or family friends for birthdays, religious observances, and milestones, like a graduation. Those contributions could mean hundreds of dollars, but, chances are, they're growing glacially in a savings account with pitiful interest rates. Those gifts could do more for your child in an "in-trust" account.

An in-trust account is an investment account that's in your name but is for the benefit of your minor child. There is no limit on the amount you can contribute to an in-trust account and, over time, those cash gifts could generate thousands of dollars that could be used for university tuition, a first car, or a down payment on a home.

The benefit is that any capital gains generated by the investment in the account will be taxable to your child when realized. With the Basic Personal Amount set at $10,822 (in 2012), a child could earn more than $21,500 in capital gains before having to pay tax on it. Interest income and dividends, however, will be taxed in the hands of the adult who contributed the money. Focusing on investments that generate capital gains (that is, equities and equity mutual funds) may minimize the income tax attributed to you.

An exception is the Universal Child Care benefit. This amount, currently $100 per month per child under the age of six, can be

invested for your child with no attribution of investment income.

Once the child reaches the age of majority (18 or 19, depending on province of residence), he or she has full access to the money in the account. Together, we can determine if an in-trust account makes sense for your family. ■

Eyeopener

RESP milestones

With tax-deferred growth and the benefit of the Canada Education Savings Grant (CESG), a Registered Education Savings Plan (RESP) is a great way to save for a child's post-secondary education. The timeline below highlights some key dates and deadlines that you won't want to miss in order to make the most of your RESP.

Birth

Contribute the maximum of $50,000, and your child's RESP can grow to more than $150,000 by the time your child is 18, assuming an annual compound return of 6%. However, you'll get only $500 in CESG if you contribute everything in one year.

Age 2

Want to generate the maximum lifetime CESG payment of $7,200? Start now and contribute $2,500 each year until your child turns 17 and you'll have about $70,000, assuming an annual return of 6%.

Age 10

Haven't started yet? It's not too late. Contribute $5,000 each year for the next seven years and you'll get CESG of $1,000 each year, thanks to the carry-forward of unused grant entitlement.

Age 16 & 17

In order to receive the CESG, RESP contributions must either total at least $2,000 before the calendar year in which the child turned 15 or be at least $100 a year in any four years preceding the year the child turned 16.

Age 18

Contributions can be made to an RESP for up to 31 years. The plan can stay in existence for a maximum of 35 years.

FOCUS ON EQUITIES | **BALANCE** | **FOCUS ON SAFETY**

Over time, the investments in your RESP should change from primarily equities (to take advantage of long-term growth potential) to fixed income and cash (as you prepare to take the money out). ■

Going green: investing in SRI funds

The green lifestyle has become mainstream. More people are reducing, reusing and recycling, buying organic produce, and shopping locally.

It's not surprising that socially responsible investment (SRI) funds have grown exponentially over the past decade. SRI assets under management in Canada have ballooned from $51 billion in 2000 to $531 billion in 2010, according to the Social Investment Organization.[1] Once a niche area with limited offerings, the SRI universe today comprises mutual funds that invest in money markets, fixed income, and Canadian, U.S., and international equities.

What are SRI funds?

Like all mutual funds, SRI funds aim to generate positive returns for investors. However, the assets they hold must also meet environmental, social, and governance standards.

To find these companies, the fund managers apply a variety of screens to potential investment candidates:

- **Positive and negative screening.** Positive and negative screens are designed to weed out companies that are involved in unsavoury practices or human rights violations. Companies may be eliminated for certain activities or funds may choose to invest in companies that are considered "best of sector," even where that sector is not considered completely "clean".
- **Community investment.** This refers to the company's local initiatives in supporting community development or providing financial support to micro-businesses.
- **Socially responsible lending.** This screen focuses on finding companies that make loans to individuals or organizations based on their SRI track record.

What about performance?

The big question, of course, is: Is it possible to be a socially responsible investor and still turn a profit?

The answer would appear to be yes. For the three-year period ended Dec. 31, 2011, the Jantzi Social Index reported an average annual return of 12.64%. Over that same period, the S&P/TSX 60 Index returned 10.95%. Longer-term annual returns (over 10 years) are similarly impressive: 6.33% for the Jantzi Social Index versus 6.81% for the S&P/TSX 60.

While SRI funds employ environmental screens, they also utilize traditional selection criteria based on financial performance. These will vary according to the type of fund as well as the investment mandate of the individual fund. This information is readily available in the fund's prospectus, which you should always review before making any investment decision.

If you're interested in adding SRI funds to your portfolio, we should talk. We can help you choose funds that fit with your risk tolerance, desire for income or growth, and time horizon as well as your principles and values. ■

[1] **Source:** Social Investment Organization Canadian Socially Responsible Investment Review 2010, released May 2011

Tax-free switching

ONE OF THE major attractions of investing through a Registered Retirement Savings Plan (RRSP) or other tax-deferred vehicle is that you can buy and sell mutual funds with no tax implications. But did you know there is also a non-registered investment that offers a similar benefit? They're called corporate class funds.

The corporate class fund provides you with the ability to move from one fund to another without triggering a taxable capital gain. By deferring those taxes, the money you would have paid to taxes continues to work for you longer.

Unlike regular mutual funds, where each fund is set up as a unique trust, corporate class funds are corporations holding a number of funds under a single corporate banner. You can move from one class of funds to another under that banner to meet your investment objectives without worrying about immediate tax consequences.

In addition, managers of corporate class funds can allocate the capital gains, dividends, and interest earned by the funds they hold to reduce the income tax implications for unitholders. For example, capital losses from one fund can be used to offset the capital gains in another, enabling fund managers to reduce the taxable distributions paid to unitholders.

Many corporate class fund families are available, offering access to a wide range of Canadian, U.S. and international equities and fixed-income investments. If you'd like to learn more, give us a call. ■