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Financial Planning Guide

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FOCUS ON MUTUAL FUNDS

Real estate funds may provide shelter

When it comes to real estate, most people think of their home. But real estate is a distinct asset class, and one that can offer a number of benefits as part of a diversified portfolio. Canadian real estate in particular has been a great sector for investors over the past few years.

Rather than becoming a landlord or trying to buy and sell properties, you can invest indirectly.

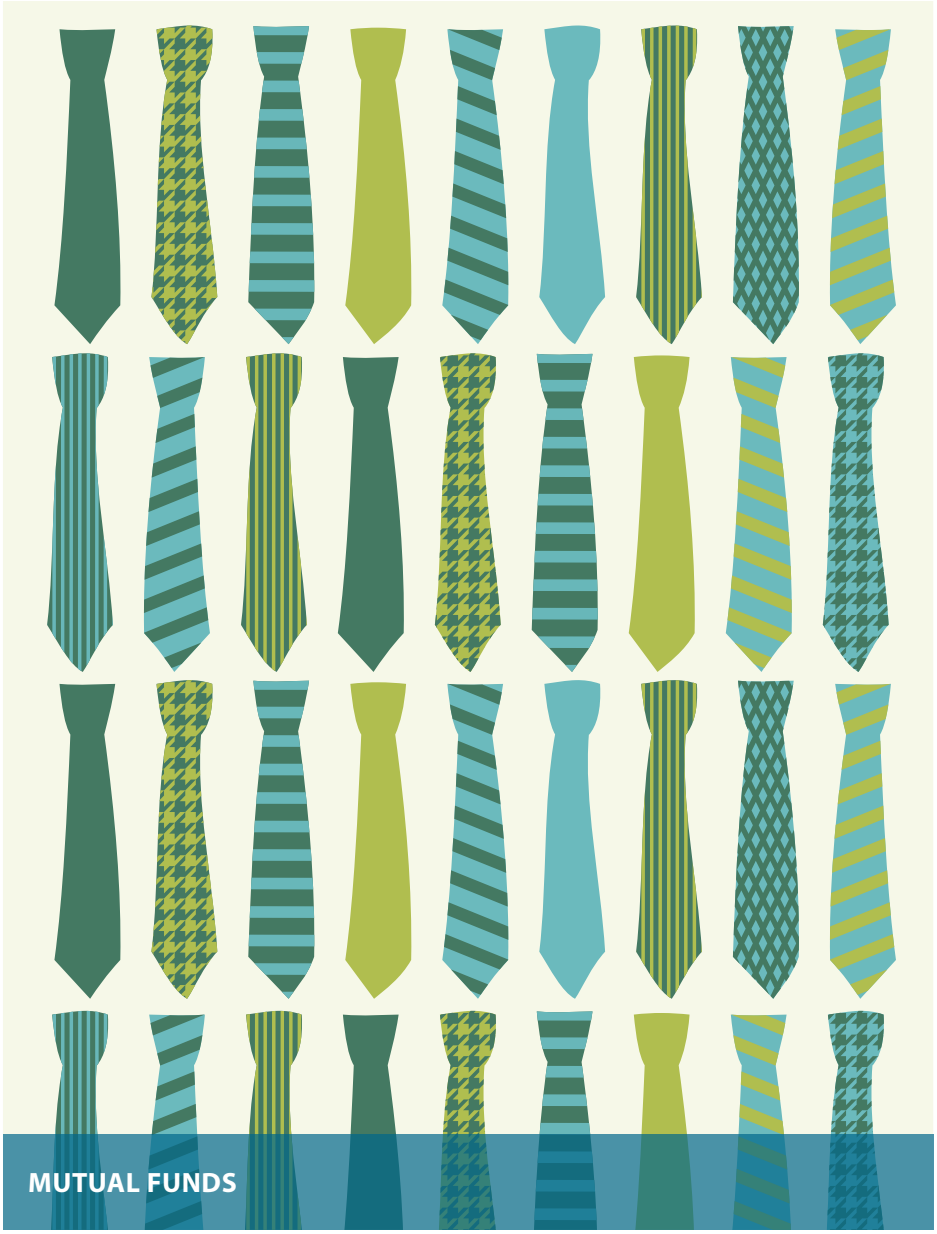
Real estate mutual funds typically invest in stocks of real estate companies and related sectors, such as construction. These may include both Canadian and foreign assets.

They may also invest in Real Estate Investment Trusts (REITs). REITs pool the money of a number of unit holders to invest in a portfolio of income-producing properties. These typically include residential rental apartments, hotels, retirement homes, industrial buildings, offices, and shopping malls.

Why invest in real estate funds? Here are three good reasons.

- **Tax deferral.** Some of the income earned may be tax-deferred thanks to the ability to claim depreciation on certain types of real property.
- **Inflation protection.** Historically, the real estate sector in general has provided an effective hedge against inflation.
- **Diversification.** Real estate as an asset class tends not to move in lockstep with other asset classes.

We can help you determine whether a real estate mutual fund would enhance your portfolio and help you choose an appropriate fund or funds. ■



Is it time to update your investment style?

You've heard the saying "opposites attract?" Well, there's a good reason for that. Whether you're talking about a business or personal relationship, the strengths and weaknesses of one individual are often balanced out and complemented by the strengths and weakness of the other person.

The same can be said about investment styles. There are different investment management styles, which can be used to enhance diversification in a mutual funds portfolio. Four of the main styles are value, growth, bottom-up, and top-down. Let's take a look at what distinguishes each style.

Value investing

Value managers seek out strong firms whose market price does not accurately reflect their intrinsic value. Essentially, the value style means buying stocks that are regarded as being "on sale."

Growth investing

Growth mutual fund managers look for firms that have a high earnings growth rates, a high return on equity, high profit margins, and low dividend yields. Investments are selected because they are expected to grow faster than the rest of the market.

Growth and value tend to react differently to the economy at any given time. For example, growth significantly outperformed value during the late 1990s, until the 2000 stock market crash. Then value outperformed for much of the next decade. By holding funds with both styles, investors are able to take advantage of the upsides of both styles.

Bottom-up investing

Bottom-up investing is a common strategy for investing for the long-term. Bottom-up managers focus on the financial fundamentals of individual companies regardless of the sector they're in. They look at things such as price earnings ratios, debt, and book value.

The top-down approach

Top-down fund managers look at the big picture. They analyze general economic conditions and determine which countries and industry sectors will benefit. For example, if a fund manager anticipates that the economy will grow sharply, he or she might buy stocks across the board.

How diversification helps

Diversifying by mutual fund management styles helps to protect your investments from volatility. Although most people think of diversification as combining asset classes, it can be beneficial to diversify by investment style as well as by asset class.

If you're looking to give your portfolio added performance protection, we can help. Talk to us to find out more and to discuss whether or not investments from any of these management styles would be a good fit for your portfolio. ■

Investment fraud: Could you be a victim?

Internet and investment scams abound. Many are pretty obvious and easy to spot, such as the grammatically incorrect email from overseas stating that there are millions of dollars sitting in a bank account that you can easily access through an official government site. Others are more ingenious, masquerading as legitimate companies or websites that can trick you into sharing your passwords and other confidential information.

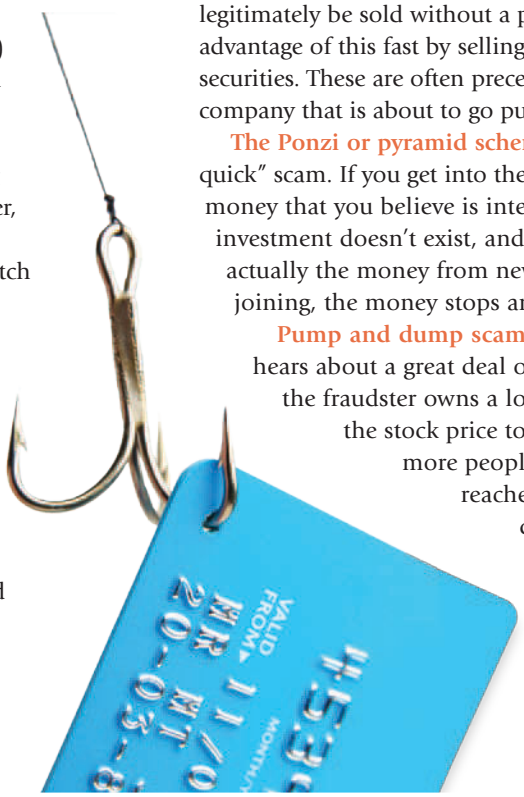
A 2007 Canadian Securities Administrators (CSA) study on investment fraud found that over a million Canadians (almost one in 20) had been the victim of investment fraud. In addition, half these victims were introduced to the fraudster through an existing relationship of trust, such as a friend, family member, or colleague.

Here are some of the most common scams to watch out for:

Advance fee scam. The investor is supposed to pay money up front for an assured return. Scamsters often go for people who've lost money from an investment by offering to help them recover their losses. All they have to do is pay a fee, which they say will be refunded. That's money you'll never see again.

Offshore investing scam. The individual here is drawn in by the possibility of getting big money and avoiding taxation by sending money to a different country.

Pension scam. This fraud is directed towards Locked-In Retirement Account (LIRA) owners by spinning a story that it's a special type of loan. It claims to let you tap into your LIRA for a loan — and avoid paying tax on it. To get the money, the individual first has to sell the investments within the account and then buy shares of a start-up company.



Exempt securities scheme. Some securities in Canada can legitimately be sold without a prospectus. Fraudsters take advantage of this fast by selling fake investments as these exempt securities. These are often preceded by a "hot tip" on a promising company that is about to go public.

The Ponzi or pyramid scheme. It's the classic "get rich quick" scam. If you get into the scheme early, you may receive money that you believe is interest cheques. But, of course, the investment doesn't exist, and the so-called interest cheques are actually the money from new investors. When people stop joining, the money stops and the scam falls apart.

Pump and dump scam. In this scam, the individual hears about a great deal on a stock — the catch is that the fraudster owns a lot of the stock, too. He gets the stock price to artificially inflate as he gets more people to buy it. Once the price reaches a certain amount, the fraudster dumps his shares and, typically, the price drops before you and other duped investors can sell it.

If you're tempted by something that seems too good to be true, even if it's from a familiar or trusted source, it probably is. If you have doubts about one of these, please call us first! ■

How to safeguard your personal info

Identity theft is one of the fastest growing crimes in North America. Criminals can find out your personal details and use them to open bank accounts, apply for credit cards, loans and even mortgages in your name.

If you've ever had your ID stolen or your online bank account hacked into, you know how stressful it can be. Here are some simple things that can go a long way towards protecting your personal information.

- Change your PIN regularly for both your debit and credit cards. The same goes for any online financial accounts such as your bank and investment accounts, as well as payment accounts such as PayPal or Amazon.
- Shred or destroy personal documents. When you're culling your files and throwing stuff into recycling, make sure you shred anything that shows your name, address, or other personal details, such as bills, receipts, and bank or credit card statements.
- Shred the pre-authorized cheques you receive in direct mail packages from credit card companies.
- Check your bank and credit card statements regularly for unfamiliar transactions.
- Use different user names and passwords for different accounts and take extra care when using public computers to access your personal information.
- Regularly get a copy of your personal credit file to check for any suspicious credit applications.
- Protect your home computer with a good anti-virus, firewall, and anti-spam software package.
- Secure your WiFi. An unsecured wireless network is open to hackers to gain access to your personal information.

If you have any questions about what you should destroy, just give us a call. ■

Why patience can be a winning fund strategy

Volatile markets over time test the patience of even the most seasoned mutual fund investors. If you've ever felt the desire to get out of the market, consider this: redeeming your mutual funds during volatile market downturns can be especially harmful to your portfolio. Historically, a mutual fund's biggest gains occur during market rebounds.

Long-term investors cultivating patience stay invested and stick to their plan because it's designed with their goals and risk tolerance in mind.

The downs and the ups

Historically, Canadian market declines are often followed by much larger rebounds:

- According to Morningstar, in 2001-02, the median fund in the Canadian equity fund category fell by nearly 20%. That was followed by four straight years of double-digit gains.
- Declines of 2% in 1998 and 1994 were followed by powerful double-digit rallies in the following years.
- The compound annual return for Canadian equity funds over the past 20 calendar years is a respectable 7%, even though seven of those 20 years represented negative returns.

We see a similar story when we look to the U.S. Despite suffering negative returns in six of the past 20 years, U.S. equity funds saw an average compound annual return of 4.7% in Canadian-dollar terms over those two decades.

Know thyself

Determining what is an acceptable level of risk for funds in your portfolio can help you feel more comfortable during periods of market upheaval.

People who hold mutual funds that are more risky than what's appropriate for their true risk tolerance are prone to react to news headlines and off-hand comments from colleagues, family, and friends, dumping their equities like so many hot potatoes. Investing by the emotion of the moment and reaching outside your comfort zone are enemies of reaching your financial goals.

The data shows that exiting the market, or trying to time the market, negatively affects returns, because it means when a fund recovers, you'll be missing out.

Missing just a few key days in the market can have a significant negative impact on long-term results. Nervous U.S. investors who missed the market's 10 best days for the 20-year period ending in 2011 earned 3.61% less per year on average than those who stayed invested through all its ups and downs.*

How can you maintain the winning fund strategy of patience? Work with us to make, update, and revisit your mutual fund portfolio on a regular basis to be sure your portfolio asset mix and allocation continue to be in line with your risk tolerance and time horizon. It pays to stay invested. ■

*Source: Standard and Poor's and Prudential Investments LLC., as of December 31, 2011

Boomers boost the geriatric sector

WHETHER THE MARKET is rocky or rising, mutual funds that hold stable-sector stocks such as healthcare stocks may be worth looking at. Here are just two reasons why:

Boomers are becoming seniors

Every year, people who were born during the gargantuan baby boom in Canada and the U.S. are turning 65 and entering retirement. In fact, according to Statistics Canada, the number of senior citizens has risen by 14.1% between 2006 and 2011.

As people age — and as the population of senior citizens grows — they typically require more healthcare. This means that the demand for healthcare products and services is likely to increase, which benefits the corporations that provide these services — good news for mutual funds that hold these companies.

People are living longer

Life expectancy in Canada continues to increase. For example, StatsCan tells us that back in 1960-62, the life expectancy for women was 74 and for men, 68. The latest data, from 2007-9 say life expectancy for women is now 83 and for men, 79.

The boomers' postponement of mortality is good for the healthcare sector. Healthcare sector mutual funds may be just the preventative medicine your portfolio could use. Call us to talk about whether they'd be appropriate for your portfolio. ■

FundEX INVESTMENTS INC.