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Financial Planning Guide

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FOCUS ON MUTUAL FUNDS

The balance advantage

You may be sitting on some cash just waiting for the right investment opportunity to come along. Or perhaps you're keeping it "safe" until you see signs you like in the market.

Instead of leaving it as cash or putting it into a money market fund, why not consider a balanced fund?

Balanced funds hold both equity and fixed income and deliver what can be called "an instant portfolio." Canadian investors clearly approve, as balanced funds are now the most popular category of mutual fund with $2.2 billion in sales reported as of April 2012.*

The appeal of balanced funds is that they can profit from both equity and bond markets. Because they hold a diversified asset mix, balanced funds are usually less volatile than pure equity funds.

For many investors, it's a comfortable way of hedging their bets. If bond markets do well, they have some exposure. If equities rise, investors have the opportunity to benefit there as well.

Because a balanced fund provides an instant portfolio, they are good for someone with a modest amount to invest. They provide a good foundational investment to help build wealth over time, with professional managers adjusting the mix of equities and bonds in their fund to reflect current market realities.

There are many balanced funds in Canada to choose from. If you're interested in taking a look at a place to park cash that actually invests it, let's talk.

*Source: IFIC and Investor Economics to April 30,2012, as reported by DundeeWealth Inc., May 2012.

Time to take on more risk in a quest for yield?

Typically, investors pursue fixed-income mutual funds to add an element of relatively steady, dependable income — without a lot of risk — to their portfolio. However, the staid comfort of "safety" sometimes comes with its own price in the form of lower potential returns, particularly in a low-interest-rate environment.

For those on a quest for yield, take a look at high-yield bond funds.

How to get high yield potential

Higher earnings potential always means higher risk. While regular fixed-income funds hold high-quality, low-risk corporate and government bonds, high-yield bond funds contain high-yield bonds.

These bonds typically offer better interest rates than traditional bonds because of the higher risk associated with the corporation issuing the bond. Perhaps the company has an existing high debt ratio or has experienced recent poor financial performance. To attract investors, the corporation offers higher rates.

High-yield bonds are rated by independent agencies (for an explanation of therating system, please see "What bond ratings mean") below investment grade, because the issuing corporation of the bond has higher risk factors.

Mutual fund strategies

On their own, high-yield bonds are risky. A high-yield bond mutual fund, however, reduces that risk somewhat by holding bonds issued by many companies. If the fund includes a mix of high-yield and traditional bonds, the risk is lower still, because the portfolio is diversified across investment-grade and below-investment-grade bonds.

High-yield bond funds can boost the return of the fixed-income segment of your portfolio. But they also increase the risk. Before deciding if high-yield bond funds are for you, here are some things to consider:

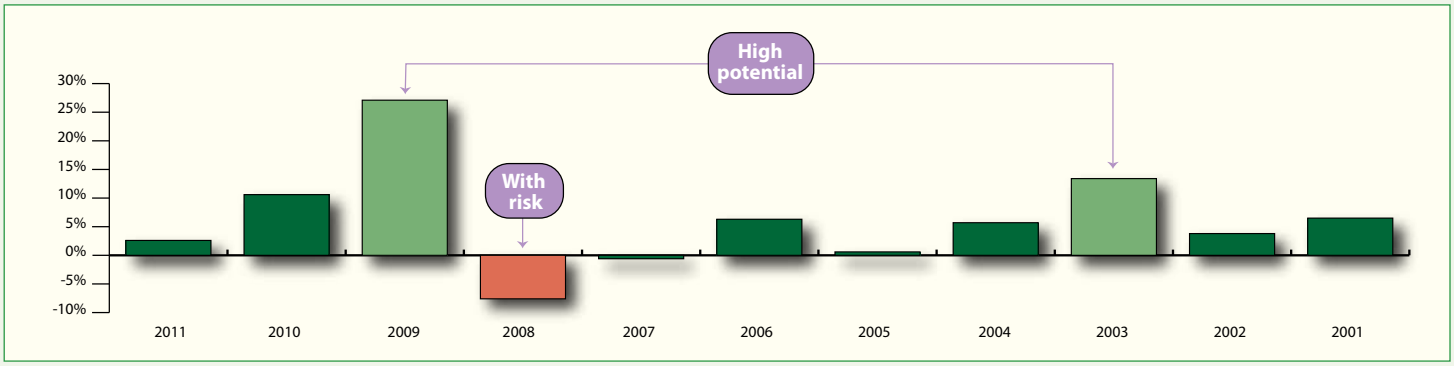
- **Your risk tolerance.** If you're willing and able to accept higher risk, you might want a fund that invests heavily in high-yield bonds, thereby increasing your potential returns. But if you're more conservative, you might want to stay with traditional bonds.
- **Your time horizon.** If you buy a bond fund that has a large proportion of high-yield issues, consider it a long-term investment. High-yield bonds can have sharp fluctuations in price in the short term.
- **Be prepared for volatility.** Remember that high-yield bonds may be among the first types of investments to suffer in an economic downturn. That's because in a declining market, many investors move their money to what they perceive to be the highest-quality, lowest-risk investments. Prices can drop quickly if investors start selling off their high-yield bonds.
- **Keep things in balance.** Bond funds should be just one part of a mutual fund portfolio that includes all asset classes. And high-yield bond funds should be just part of your total fixed-income holdings.

The potentially higher returns of high-yield bond funds can boost the overall returns of your bond holdings, while the safety of traditional bond funds can minimize the greater risk of the high-yield bonds.

High-yield bonds present an opportunity to increase your potential returns. Together, we can plan your investments to ensure that the bond segment of your portfolio continues to provide stable, reliable returns. ■

High-yield bond funds: Great potential, but there's risk too

Average annual returns for the High Yield Fixed Income mutual funds category show how these higher-volatility investments can achieve attractive returns.



Source: *Globe Fund 15-Year Mutual Fund review*, Dec. 31, 2011 (http://www.globefund.com/review/20111231/TABHYB_3.html)

RETIREMENT PLANNING

Saving for retirement? Put it in your piggy bank

It's been coined the "Piggy Bank Index" in a report* by the C.D. Howe Institute — the amount of money you need to save to have the quality of life you want in retirement. How do you determine if you're saving enough?

How much do you need to save?

If your goal is to have $1 million saved by the time you retire at age 65, how much you have to contribute every year depends upon how soon you start and how your investments perform.

To reach $1 million in savings by the time you're 65:				
at Age:	35	40	45	50
You must contribute:	$8,827/yr	$13,679/yr	$21,852/yr	$36,830/yr

Based on an 8% average annual compound return; contributions made at the end of every year.

What kind of lifestyle do you envision?

We invite you to discuss with us the kind of retirement lifestyle you want before settling in on any numbers and determining what your post-retirement income should be. Once we know your plans for the future, we can look at a number of things that affect how much you need to save, such as:

- Given the current economic outlook, what are reasonable assumptions for long-term investment returns and inflation?
- Is your life expectancy assumption reasonable? On average, Canadians are living longer than ever.
- Are you able to increase your regular savings?
- Are you thinking of post-retirement part-time work?

We can tie all these together to establish a savings and investment plan to deliver on the retirement plan you want. Together, we can help you determine how much you need to put in your retirement piggy bank. ■

**The Piggy Bank Index: Matching Canadians' Saving Rates to Their Retirement Dreams.* David A. Dodge, Alexandre Laurin, Colin Busby, March 18, 2010.

TAX PLANNING

Tax credit? Let it ride

As tempting as it may be to take advantage of every possible tax credit or deduction available to you on your annual income tax return, here are two situations in which putting off your claim might put more money in your pocket.

- **RRSP contributions**: If you anticipate that your taxable income will be increasing enough next year to potentially put you into a higher tax bracket, you could defer your Registered Retirement Savings Plan (RRSP) tax deduction in whole or in part. Depending upon how much the deduction reduces your net income in that future year, the savings can be significant.
- **Charitable donations:** You can save your donations (up to five years) and claim a whole bunch in one year to get a greater benefit. Donation amounts over $200 generate a federal tax credit of 29%; below that it's only 15%. ■

FINANCIAL CLASSROOM
Your guide to the basics and how to benefit

What bond ratings mean

Independent rating agencies assess and grade Canadian and U.S. debt issues. In Canada, you'll typically see ratings from Dominion Bond Rating Service (DBRS), Moody's Investor Services, and Standard & Poor's. Their systems assess the creditworthiness of a bond based, in a large part, on their opinion on the likelihood of default. Ratings of "BB" all the way down to "D" by DBRS are considered non-investment grade, also known as "high yield."

AAA	Highest credit quality
AA	Superior
A	Good
BBB	Adequate
BB	Speculative, non-investment-grade; "vulnerable to future events"
B	Highly speculative
CCC/CC/C	Very highly speculative
D	A financial obligation has not been met

Source: DBRS

Knowing your funds is the key to confidence

Recent research from the Investment Funds Institute of Canada (IFIC) shows that mutual funds have the highest financial investment confidence rating (80%) by mutual fund investors* — even beating out GICs.

Given that the main purpose for most (82%) mutual fund investments is to fund retirement, this high confidence rating can help empower mutual fund investors to achieve their retirement objectives.

Three reasons for confidence

So what is it about mutual funds that inspires such a high investor confidence rating? There are many reasons, but three things seem to stand out:

Working with an advisor. Four out of five investors purchase their funds from an advisor, as opposed to online or through a call centre. Advisors remain the most popular source for receiving information about mutual funds. Mutual fund investors have been confiding in advisors for 18 years, on average. Among those retired (65 years and older), the average is 23 years.

Diversification. The investments in a mutual fund are spread across a wide range of companies and industry sectors. This helps manage risk and cushion declines from individual investments within the mutual fund portfolio.

Professional money managers. With all the economic uncertainty going on in the world, investors appreciate that expert money managers are handling their funds. These managers have the expertise and resources to perform an in-depth analysis of the securities their fund purchases. They actively monitor the performance of assets in their fund and are driven to consistently deliver results for investors.

Redeem on your own terms

When you have confidence that your portfolio is appropriate for your goals, it helps you stay focused on the long term and avoid making irrational short-term investment decisions based on fear. Selling investments out of fear because they've declined can lock in losses and cause you to miss out on potential future profits.

With confidence, you're more likely to redeem your mutual funds only for valid reasons, such as:

- When you need the money.
- When you want to trigger a capital loss for tax reasons.
- When you've achieved your investment objective for a particular fund, (e.g., you had a target of 10% in mind and the fund has reached that goal).
- When you want to rebalance your portfolio.
- When you want to discuss exploring new or other opportunities for your portfolio.

Mutual funds can help with a wide range of investment strategies to suit various financial goals and degrees of risk tolerance, including your short-, medium-, and long- term needs.

We can help you choose mutual funds that will make you feel confident about your ability to achieve your financial goals. Just give us a call.

* IFIC, *The Value of Advice: Report*, November 2011.

Be a farmers' market investor

A FARMERS' MARKET brings together the freshest local produce in one convenient spot, with no distracting plethora of extra items like 15 different varieties of corn flake cereal. Instead, you'll emerge with a selection of good-quality produce, all from one place.

Portfolio funds are much like a farmers' market. They present a range of set portfolios of mutual funds that work toward different goals — all in one convenient spot. You pick the one that suits your goals, risk tolerance, and investing time horizon.

They're an all-in-one investment solution that offers you a diversified investment with a range of income, balanced and growth portfolios. Plus, professional managers tend to their portfolios as carefully as farmers tend to their crops.

Also known as a "fund of funds," these all-in-one investment solutions help simplify your choice, much like the farmers' market brings all you really need into one spot.

Rebalancing to keep your asset allocation on target is performed by professional fund managers. The ready-made diversification of portfolio funds reduces volatility. Plus, it's much easier to keep track of one portfolio fund. The downside? The management expense ratios for these funds may be higher than for a regular mutual fund.

Talk to us about whether a portfolio fund would be a good fit for you.

FundEX INVESTMENTS INC.