# Financial Planning Guide

David K. Lord, P.Eng.
Certified Financial Planner

Frank Trolio
Certified Financial Planner

ExcelPlan Financial
FundEX Investments Inc.
507 Locust Street
Burlington, ON L7S 1V3

**Telephone**: (905) 639-8008
**Toll-Free**: (800) 461-2862
**Fax**: (905) 639-2268
**E-mail**: dklord@excelplan.ca
**E-mail**: ftrolio@excelplan.ca

FOCUS ON MUTUAL FUNDS

## What to do when a fund declines in price

**"One of my mutual funds is down. Should I sell or buy more?"**

This is definitely one of the age-old investment questions. And, as is the case with so many of these dilemmas, there is no definitive right or wrong answer.

But what you *can* do is ask yourself this: If I had X dollars today, would I buy that same fund? It's your answer to this question that will allow us to assess the fund's current relevance within your overall portfolio. Then, we can map out a strategy to buy, sell, or stay the course pending future opportunities.

So, let's look at it methodically. *Would you buy this fund again?*

**Yes.** Okay, this means that at least some of the reasons you bought the fund in the first place remain valid and, despite the downturn, you still believe it has potential. Let's look at how we can capitalize on the price drop as a buying opportunity.

**No.** Let's assess if selling might be a good idea. It could be that the market outlook for the fund may no longer be favourable. Or perhaps it no longer meets your objectives. For example, it may no longer match your risk profile as an investor.

In this case, we can make a plan to sell, with the goal of minimizing actual losses while taking advantage of any tax-loss selling opportunities.

**I'm not sure.** This is just as reasonable an answer as "yes" or "no." If you're not sure, let's review your overall portfolio to ensure all of your funds continue to meet your objectives, time frame, and circumstances. ■

# Global economic engines may help drive your portfolio

**For six long years, investors have worried that the crisis in Europe was virtually unfixable. Fears that the Euro itself would be dissolved only added to the malaise. But dramatic improvements in Japan and across much of Europe have combined to make many investors feel more optimistic than ever.**

Is it even possible that Europe and Japan, two of the most downtrodden economies of the recent past, are now ripe with potential? Let's take a look at some of the signs and key indicators that may provide some insight into the potential of these regions.

## Economic indicators

The European Union is stabilizing, the economy is growing, and securities in the Eurozone may be underpriced relative to the U.S. and other developed markets. Even the so-called PIIGS of Europe (Portugal, Italy, Ireland, Greece, and Spain) are showing signs of, if not actually gaining traction, at least no longer holding back the rest of the continent.

In fact, as a group, European equity funds have returned an average 23.1% for 2013,[1] their best showing since 2006.

Meanwhile, in Japan, the new prime minister has had more success kick-starting the economy over the last 12 months than the nation has seen over the past 20 years. Exports are up, consumer spending is up, and infrastructure spending is way up and will continue to grow as the clock ticks toward the 2020 Olympics in Tokyo. The list of improvements is so long and dramatic, the global press has dubbed Prime Minister Abe's policies "Abenomics."

As 2013 drew to a close, the Bank of Japan's closely watched Tankan survey added even more fuel to the economic fire when it revealed that business sentiment among both small and mid-sized companies was positive for the first time in 22 years.[2] This suggests that Abenomics is not just taking hold among the largest companies, but that optimism and genuine reform are trickling down throughout the economy.

## Confidence indicators

How else do people signal their confidence in an economy? Well, in part, by visiting the region. Here again, we see evidence of real improvements.

International tourism is up across both Europe and Japan. In the first nine months of 2013, Europe saw a 6% jump overall, with a big spike in the UK, where visitorship was up 18%. Even beleaguered Greece welcomed 15% more foreign visitors. Japan notched up an impressive 23% increase.[3] That's a lot of people infusing these economies with cash and economic stimulation.

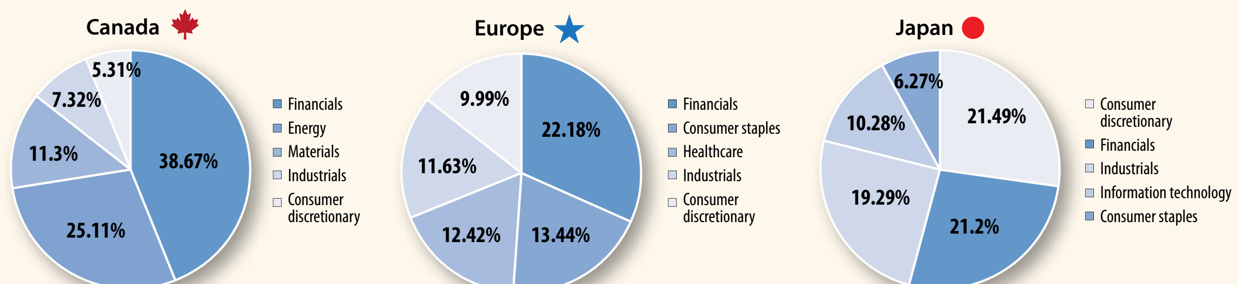
Even if your plans don't include a vacation in Europe or Japan this year, you can still participate in these economies by investing in them. Yes, there are risks, which is why it's best to invest only as part of a diversified portfolio. For most investors, professionally run, actively managed mutual funds provide an appropriate way to access the potential growth of international markets.

If you'd like to learn more about opportunities in Europe, Japan, or any international market, please speak with us. We can help you review the opportunities and select specific funds based on your objectives, time horizon, and current holdings. ■

1 To Dec. 20, 2013. Source: Morningstar.
2 The Yomiuri Shimbun, The Japan News, Dec.16, 2013.
3 UNWO Tourism Highlights, 2013 Edition.

## Boost diversification

**In addition to growth potential, adding international funds to your portfolio can enhance your portfolio's diversification. As you can see from the charts below, Canada's markets are dominated by the financials and energy sectors, while Europe has significant exposure to healthcare and industrials and Japan to information technology.**




Source: MSCI Canada Index (gross returns, Canadian dollar), MSCI Europe Index (gross returns, euro), and MSCI Japan Index (gross returns, Japanese yen), November 2013

ESTATE PLANNING

# 4 ways we can facilitate a smooth, effective family meeting

According to a recent poll from a major Canadian financial institution, more than half of Canadians are expecting an inheritance.[1] And yet, few of us actually discuss this with our families. In that same survey, 61% of Canadians whose mother or father had died with a will had never spoken to their parents about the terms of those wills.

The fact is, most of us dread talking about estate planning, family finances, and just about everything related to aging, illness, or death. Procrastinate no longer! Let's work together to take charge of having this important dialogue with your aging parents and/or your adult children. Specifically, we can help you in the following areas.

## Establishing parameters

A good place to start is by determining the specific points you want to discuss. Your will? Ownership of the family cottage or other sentimental assets? Healthcare, long-term care, or end-of-life decision-making?

Beware of overwhelming yourself or your participants by trying to do too much in one sitting. It's possible that two (or more) meetings could be more productive and constructive than one.

## Choosing attendees

Depending on the specifics of the meeting's agenda, you might want to ask your children and/or parents, siblings, or other beneficiaries to attend. It may also be appropriate to invite people from outside your immediate family — for example, your legal counsel, accountant, caregiver, or power of attorney.

## Facilitating the meeting

There are a number of ways you might choose to conduct your meeting, such as as a workshop or roundtable discussion, rather than as a presentation. You may find it useful to have us act as your facilitator, to guide the discussion and keep things on topic.

With a clear agenda and an impartial third-party facilitator, the meeting may be more productive and less emotional.

## Following up

After the meeting, we can help you reach out to the attendees to make sure your key points were clearly communicated. If there were any next steps to be carried out (for example, forms to be filled out or documents notarized), we can ensure they are being completed. ■

1 Investors Group, "Trillion Dollar Wealth Transfer — Myth or Reality?" February 2012.

ESTATE PLANNING

# Protect your executor with liability insurance

Most of us know that acting as executor for an estate carries a significant burden of responsibility. But what you might not realize is that the executor is personally liable for any errors or omissions that happen while the estate is under the executor's watch.

Given that executors frequently are trusted family members with little or no experience in the role, this opens up the possibility that your executor could be held financially responsible for mistakes or negligence in settling your estate. Likewise, if you have been named as a loved one's executor, that onus could fall on you.

In addition to seeking financial restitution for mistakes and oversights (whether intentional or not), beneficiaries may seek compensation for anything from favouritism, diminishing the value of the estate, conflict of interest, and poor decision-making, to fraud.

One way to protect your estate, your heirs, and your executor from the costly consequences of such errors is with executor insurance. This is an insurance policy that specifically covers the costs of negligence, errors, omissions, and legal fees should your executor need to go to court to defend his or her actions.

Executor insurance can be a small price to pay for peace of mind. Policies are remarkably affordable for the protection and security they offer and they are available for virtually any size of estate.

Please call our office to discuss how this kind of policy might benefit your family. ■

# Commodities: More than just crude oil and pork bellies.

**Commodities have been the bedrock of stock markets since the dawn of investing. To this day, the prices of gold, oil, corn, and hogs are part of virtually every business broadcast.**

Economists and money managers even use commodity pricing as a leading indicator of the overall economy. Copper is frequently referred to as "Dr. Copper" because it is such a prescient market gauge.

But what do commodities really represent? How risky are they? And should they be part of your investment portfolio? Here's what you need to know.

### What are commodities?

Commodities are "hard assets." That is, they are materials with an intrinsic, measurable value, such as platinum, sugar, and cotton. These differ from other investments in that they are generally accepted to be uniform in quality. One cubic foot of natural gas, for example, is the same in Canada as it everywhere else in the world, unlike say, a cell phone which has countless variations across hundreds of brands.

Commodities literally make up the fabric of our lives and have often been considered a hedge against inflation. If the cost of living is going up, chances are the prices of gold and coffee are going up, too. And, because they represent tangible goods, they may hold at least some of their value when other equities are on a downtick.

### Forecast calls for chance of highs

As emerging markets grow, so does their appetite for commodities. In China, for example, infrastructure growth is fuelling consumption of metals, including copper, aluminum, and zinc.

Global demand for silver, which waned dramatically when it fell out of favour for use in film and coins, has been reinvigorated by its use in electronics and jewellery. And platinum is hot again for the age-old reason that demand is high and supply is short.

Agricultural commodities, including corn, coffee, cattle, and wheat, are also looking good. After all, there is no alternative to eating.

### The risk factor

Despite their potential, commodities are, by definition, risky. Some come from politically unstable countries. Others are highly susceptible to changes in weather: Drought in Australia is hobbling wheat production, while warmer-than-usual winters in North America have lessened demand for natural gas.

Diversification is one of the most effective ways to manage the risks, which is why mutual funds may be a preferred avenue for gaining exposure to commodities.

In addition to funds that invest directly in certain commodities, there are also funds that focus on the companies that produce, refine, or transport energy, metals, and agricultural commodities.

If you'd like to learn more about commodities and explore the role they might play in your portfolio, give us a call. We can look into funds that offer exposure to a variety of different commodities or something that's very commodity-specific. As always, we are pleased to help you. ■



# Just how tax-efficient are your mutual funds?

**The net value of your mutual fund earnings depends in no small part on how much of that income stays in your own pocket (and away from the Canada Revenue Agency). What better time to assess the tax efficiency of your mutual funds than now, when you're probably knee-deep in tax slips and income statements? Here are two areas to consider.**

### Corporate class funds

One effective way to reduce the tax hit outside your Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA) is to hold corporate class mutual funds.

Rather than being structured as individual trusts, corporate class funds are structured as a number of funds under a single corporate umbrella. You can move from one fund to another (for example, from an equity fund to a bond fund) under the same corporate umbrella without incurring any capital gains or losses. Note, however, that if you move to a fund that belongs to a different corporate class, you will trigger a capital gain or loss.

### Does asset location still matter?

At one time, the "standard" advice was to hold interest-earning funds in registered plans and equity funds outside of those plans. These days, however, with interest rates near historic lows, this may no longer be your optimal strategy.

While financial planning decisions should never be based on income tax implications alone, taxation is something to keep in mind. For specific tax questions, professional tax advice should be obtained. ■

Mutual funds provided through FundEX Investments Inc. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual Funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. This newsletter has been written (unless otherwise indicated) and produced by Ariad Communications. Vol. 28, No. 1 © 2014 Ariad Communications. This newsletter is copyright; its reproduction in whole or in part by any means without the written consent of the copyright owner is forbidden. The information and opinions contained in this newsletter are obtained from various sources and believed to be reliable, but their accuracy cannot be guaranteed. Readers are urged to obtain professional advice before acting on the basis of material contained in this newsletter. Readers who no longer wish to receive this newsletter should contact their financial advisor. ISSN 1205-5840

FundEX INVESTMENTS INC