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Financial Planning Guide

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FOCUS ON MUTUAL FUNDS

There are alternatives to interest-earning funds

Interest rates continue to wither in the basement of the investment universe. Does that mean you should abandon your money market funds, mortgage funds, and short-term bond funds? Not at all. What it does mean is that we need to make sure you are holding these types of funds for the right reasons and in the right amounts.

In a nutshell, there are three reasons to hold low-risk, interest-generating funds. Have a look at this list. If you don't see your own objectives listed here, we need to talk. And it needs to be sooner rather than later.

Reason #1: Liquidity. Money market funds provide a readily accessible source of cash for short-term spending needs or as you wait to capitalize on other investment opportunities. Let's ensure, however, that the amount you have invested in them represents only the amount of cash you might actually need. You don't want more money than necessary in these low-return investments.

Reason #2: Income. If you're looking for a steady income stream, funds that earn interest aren't your only choice. A conservative dividend fund or balanced fund could provide you with income along with some growth without undue risk.

Reason #3: Diversification. Fixed-income funds should be an integral part of almost every investor's overall diversification strategy. But it's definitely possible to have too much of this good thing. Let's look at tweaking your holdings to incorporate international diversification, dividends, and higher-yielding bond funds as a way to achieve better growth potential. ■

Build your portfolio — with infrastructure funds

The extreme weather experienced by much of the country over this past winter has drawn attention to Canada's aging infrastructure. From power lines to potholes, major infrastructure spending is planned or under way and shows no signs of abating.

Toronto, for example, is considering a $15-billion project to bury its power lines to shield them from catastrophic ice and winds.[1] In light of ongoing issues with the Champlain Bridge (one of Canada's busiest), Montreal is fast-tracking construction of its $5-billion replacement to 2018 from 2021.[2] In B.C., the $25-billion Pacific Gateway Project is expanding the province's road, rail, and port capacity to better transport its resources.[3] On a national scale, the federal government recently announced the "New Building Canada Plan" a $70-billion, 10-year infrastructure spending spree.[4]

What do these projects mean for investors? In a word: opportunity.

Extreme makeover needed

Most of Canada's core infrastructure was built in the post-war '50s and '60s. Our collective focus (and public spending) then shifted toward social services, healthcare, and education. But this past winter has drawn attention to the almost desperate condition of infrastructure across the country.

While we all benefit as Canadian residents from improvements to our communities, we can also benefit as investors. Infrastructure projects generate jobs, stimulate economic growth, and present growth opportunities for businesses related to construction and their spinoffs.

For those with the appropriate investor profile, mutual funds that focus on infrastructure provide an efficient way to capitalize on these opportunities. As always, one of the key benefits with mutual funds is the ability to let professionals do the legwork. With infrastructure funds, skilled teams of researchers do the drilling to identify the projects and companies with the most potential and the best chance of meeting the fund's investment objectives.

Broad range of investments

The specific investments an infrastructure fund might hold are drawn from the businesses and industries involved in building, servicing, or developing infrastructure projects. These can include everything from pipelines and wind farms to real estate to companies that administer bridge and highway tolls and long-term care homes. Some funds may focus on specific areas, while others may have a broader scope.

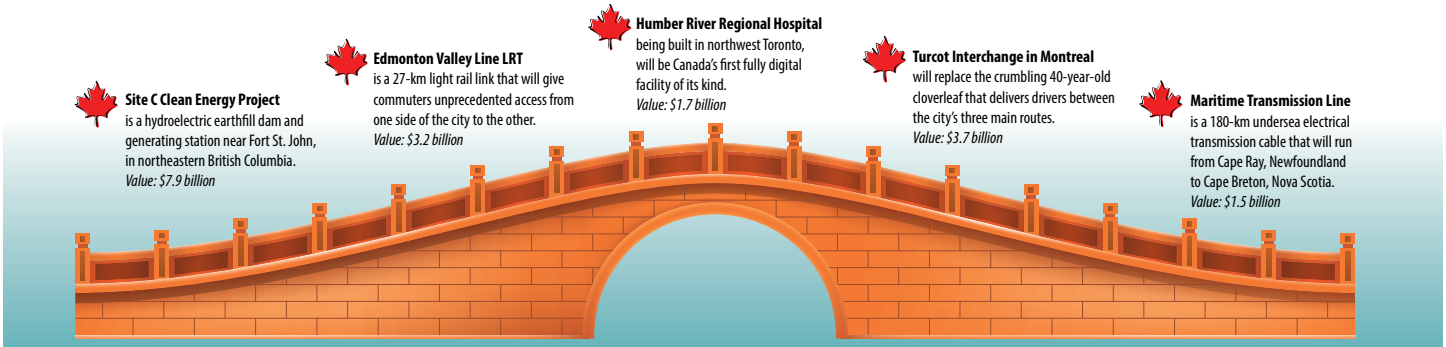
Depending on the fund's mandate and its holdings, returns can come from growth of the securities themselves, from the income the holdings generate, or a combination of the two. Some also include exposure to relevant international companies. In economies such as Brazil, where there is widespread privatization of government-controlled infrastructure, the growth potential can be significant.

We can help you decide if one of these funds would be a good addition to your asset mix, and, if so, how to best dovetail it into the rest of your portfolio. ■

1 Andrew Lupton, CBC News, "Ice storm fallout: Can't power lines go underground?" Jan. 9, 2014.
2 Transport Canada, "New Bridge for the St. Lawrence," March 3, 2014.
3 British Columbia Ministry of Transportation and Infrastructure, *Revised 2013/14-2015/16 Service Plan*.
4 Infrastructure Canada, *The New Building Canada Plan*, Feb. 27, 2014.

Bridging the infrastructure gap

Across the nation, governments at all levels are undertaking significant construction projects.



Source: *ReNew Canada* magazine, "Top 100 — Canada's Biggest Infrastructure Projects," 2014.

INVESTING

Despite its name, your TFSA is *not* a savings account

In a recent survey[1] by one of Canada's Big Five banks, cash holdings made up fully 57% of its customers' Tax-Free Savings Accounts (TFSAs). Not only that, but just 11% of respondents could even identify TFSA-eligible investments.That's unfortunate, because TFSAs can hold a wide range of investments that may provide significantly higher returns than cash.

Way more than just savings

Just because it's called a tax-free "savings account" does not mean you have to treat it like one. In fact, TFSAs are so much more flexible than a traditional savings account and the range of investments they can hold is so broad, they're suitable for just about any investment goal. How broad? Well, virtually any investment you can hold in your Registered Retirement Savings Plan (RRSP) can also be held in your TFSA.

By all means, use your TFSA as a short-term parking spot while you save up for a car or a down payment on a house. But don't forget that it's equally valuable as a long-term strategic component in your retirement plan.

Matching investments to goals

The specific investments in your TFSA should reflect the express goals you have for the money you're putting aside: cash and equivalents for short-term purposes and equity-based investments for longer-term objectives.

Let's look at the intentions you have for your TFSA money and the investments you're using to achieve them. Even if you are holding your TFSA at your bank or other financial institution, we would be pleased to review it.

While we're at it, let's see if we can't capitalize on this year's $500 bump in contribution room — for 2014, you can invest up to $5,500. If you haven't yet opened a TFSA, you could have as much as $31,000 in contribution room — that's a significant opportunity to set up a tax-free portfolio. ■

1 BMO *Annual TFSA Report,* Jan. 2, 2014.

RETIREMENT PLANNING

Considering a golden handshake?

According to Statistics Canada, workers aged 55—64 who leave their jobs do not necessarily sail off into full-time retirement. In fact, over half of them are re-employed within 10 years of leaving their job.[1]

The return of post-retirement seniors to the workforce is a genuine trend: One in six Canadian workers is currently over the age of 65, up from one in nine in 2001.[2]

Even if you're not planning to go back to work after you get your gold watch, you may change your mind. Many seniors return to the workforce voluntarily, driven by personal reasons such as boredom or the desire to take on a challenge, rather than financial necessity.

If you have been offered a severance package or suspect that one might be in the works, call us. Such a significant change affects every facet of your financial plan, including your regular investment contributions, your emergency fund, employer-sponsored health benefits, pension, and retirement savings, to name just a few.

It's especially important that we revisit your plan if your offer comes a few years before you were planning to retire. We can help you decide if you should accept it, consider how it can fit into your overall plan, and address the best way for you to transition into the retirement lifestyle you want. And should you decide to go back to work or join the ranks of the self-employed, we can help you fine-tune your plan to accommodate the additional income and support your changing goals. ■

1 Statistics Canada, *The Daily,* "Study: Employment transitions among older workers leaving long-term jobs," Jan. 28, 2014.
2 Government of Canada, *Working for seniors, Age-Friendly Workplaces: Promoting older worker participation*, May 15, 2013.

Protect your portfolio from loonie fluctuations

After several years of near-parity, the Canadian dollar began to decline in 2013, falling almost 7% over the course of the year.[1] It's a trend that has continued into 2014, and one that many analysts suggest we get used to. So what does this mean for your investments and what can you do about it?

Perhaps the most obvious sign of our falling dollar is the slowing of cross-border shopping trips. But beyond that, the dollar's value affects everything from the price of your groceries to the state of our overall economy. Here's what you need to know.

Loonie tunes

The back story on the loonie's current fortunes is not so much a reflection of any specific flaw in our domestic economy, but rather it's a byproduct of the long-awaited recovery in the U.S. from the 2008 recession. It is also a correction of sorts, bringing our dollar back in line with its intrinsic value against other world currencies and economies.

In fact, the Bank of Canada has become a vocal supporter of a lower dollar and the role it can play in helping our economy. Many Canadian industries benefit from a falling dollar, particularly companies that export their goods. These include manufacturers, natural resource producers, makers of auto parts, and domestic tourism-related businesses: in other words, some of the stalwarts of our economy.

On the other hand, import-based businesses, including apparel companies and consumer durables (appliances, sporting goods, and consumer electronics), tend to underperform when the dollar is weakening. Airlines, too, can struggle as the cost of fuel (which is priced in U.S. dollars) goes up.

Heads or tails?

Currency fluctuations can enhance your overall investment returns. If you hold U.S. dollar-denominated mutual funds, an increase in the value of the U.S. dollar against the Canadian dollar will magnify your returns. Of course, the opposite is also true.

Given Canadian-dollar weakness, this may be a good time to revisit your holdings from a currency perspective. Consider this: Just because you have a U.S. equity fund (for example) does not mean you have actual exposure to the greenback. Some funds are denominated in their foreign currency while others are not.

Holding a mutual fund denominated in the foreign currency allows you to capitalize when the value of the loonie falls relative to that currency. On the other hand, holding your mutual funds exclusively in Canadian dollars can help shield you from currency losses when the loonie is rising.

In many cases, diversification — holding mutual funds denominated in a number of currencies — may help give you the "best of all worlds." Keep in mind that your options are not limited to the U.S. Japan and Europe are two other markets with the potential to provide positive growth both from the markets themselves and from currency fluctuations.

Whatever your opinion on the direction of the loonie, let's ensure your portfolio has the level of currency diversification that's apropriate for you. ■

1 Bloomberg News, "Canada Dollar Weakens the Most Since 2008 as Economy Trails U.S.," Dec. 3, 2013.

Could you benefit from a 'fund of funds'?

At year-end, funds of funds held an astonishing 26.6% of the mutual fund industry's total assets. It's no wonder these investments represented more than 75% of all long-term fund purchases in 2013.[1] Their popularity is easy to understand: They're a streamlined, self-contained investment solution.

A fund of funds is a mutual fund that, instead of holding shares of specific companies, holds units in a variety of mutual funds. Because these funds cherry-pick their holdings from the broader fund universe, they can be considered a core holding for investors of all stripes, whether you're just starting out or looking to expand your horizons.

Get an instant portfolio. For investors who are new to mutual funds or perhaps launching an investment account for the kids or grandkids, getting adequate diversification can be a challenge. A fund of funds delivers broad diversification right out of the gate along with a risk-appropriate level of equity exposure.

Explore from a stable core. For more adventurous types, a fund of funds can also make an ideal platform from which to add additional layers to a portfolio. For example, if you're looking to diversify into higher-risk/higher-return funds such as sector- or country-specific funds, you could use a conservative fund of funds to serve as your portfolio's core and then seek out those other opportunities.

If you'd like to know more about these kinds of investments, please give us a call. ■

1 Investment Funds Institute of Canada, *IFIC Industry Overview*, Dec 2013.

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