Compliments of ExcelPlan Financial

Winter 2017

Financial Planning Guide

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

Frank Trolio
Certified Financial Planner

ExcelPlan Financial
FundEX Investments Inc.
440 Elizabeth Street, Suite 300
Burlington, ON L7R 2M1

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

Equity mutual funds take Brexit in stride

Investors took some deep breaths after Britain voted to leave the European Union last year. As expected, the markets fell dramatically in the days after Brexit. But then, in just three short weeks, major stock markets not only recovered all of their losses — they surged higher. Canadian equity mutual funds also went on to post positive returns.

In the U.S., both the S&P 500 and the Dow Jones Industrial Index rose to new all-time highs after Brexit thanks to a strong jobs report. In Japan, the Pokémon Go phenomenon propelled Japanese markets.

Brexit was a market-moving event, but so were the strong U.S. employment numbers and the Pokémon craze.

Benefits of staying the course

In Canada, mutual fund investors who stayed the course also benefited. While Brexit caused some volatility in June, Morningstar data showed that most Canadian equity funds posted positive returns for the second quarter of 2016.[1]

Investors who reacted hastily to the negative news and exited the markets would have missed out on the rebound.

Key takeaways

Trying to time the markets is a risky proposition. Perspective, a long-term view, and an eye on opportunities are key ingredients to investment success. Not surprisingly, this is also where the value of advice, combined with professionally managed mutual funds, comes in.

The mix of funds in your portfolio was selected to help you reach your long-term goals — and to shore up your portfolio in order to weather unexpected market events with confidence. ■

1 Morningstar press release, "Brexit causes volatility in June but most fund categories remain positive for the second quarter of 2016, Morningstar Canada data show," July 2016.

Mutual funds + professional advice: A winning combination for managing risk

MUTUAL FUNDS

When we think of risk, we tend to focus on the possibility of losing money in the markets. But every investment has its risks. Even investments that seem completely safe like Guaranteed Investment Certificates (GICs) come with some risk — notably, will they keep pace with the cost of living?

Here's a look at the main kinds of risk — and how mutual funds help protect against them.

Market risk

Also called market volatility, this type of risk is associated with investing in the stock market. It includes any event that can depress the markets, such as war or political turmoil, as well as events that can depress specific industries — such as the airline industry after 9/11.

Managing market risk. Diversification is the best way to protect against market risk. By holding a number of investments, we reduce the effect of a decline in any one. In fact, that's a main reason why so many investors choose mutual funds in the first place. A mutual fund provides much greater diversification than any individual investor could achieve.

In addition, we can diversify your portfolio with equity funds providing growth potential, bond funds adding stability, and cash equivalents giving you security and liquidity. If the equity portion of your portfolio is declining, cash and bonds may take up the slack.

Company-specific risk

Also called "business risk," this type of risk refers to any event or trend that affects a specific company in any industry. Examples include the failure of a major project or product, or changes in leadership.

Managing company risk. Mutual funds are one of the best ways to manage company-specific risk. Rather than buying the stock of one or two companies, a broad equity fund will invest in numerous companies.

In addition, fund managers typically conduct rigorous company analysis before they invest and on an ongoing basis afterward.

Inflation risk

Inflation risk is the risk that rising prices for goods and services will erode the value of your savings. In Canada, inflation has been low for the past few years. However, over the long term, the effects of even moderate inflation become evident.

For example, the average annual rate of inflation over the past 35 years is 3.04%. That means a basket of goods and services — including food, housing, transportation, furniture, and clothing — that cost us $100 in 1980 would set us back $294 today.[1]

Managing inflation risk. Historically, equity mutual funds have outpaced inflation better than fixed-income or money market funds. While they are subject to short-term volatility, they offer us the potential for greater growth over the long term.

Currency risk

Fluctuating currencies can affect the value of your investments when they are converted back into Canadian dollars. We have seen this in the past few years, as the Canadian dollar has fallen against the U.S. dollar.

Managing currency risk. Diversifying internationally can help reduce currency risk. A global mutual fund, for instance, will invest in a number of countries and gain exposure to a basket of currencies. This can help reduce the impact of currency fluctuations on your portfolio.

You can also take advantage of currency-neutral funds, which invest in U.S. or international markets but eliminate currency risk by hedging returns back into Canadian dollars.

Putting theory into practice

Working together, we can find the right amount of risk you're comfortable with so you can take advantage of the growth of the markets over time. ■

1 Bank of Canada Inflation Calculator.

PORTFOLIO MANAGEMENT

Canadians embracing entrepreneurship

Whether it's the ongoing popularity of shows like *Dragon's Den* and *Shark Tank* or a desire to pursue a passion, Canadians are setting out on their own in record numbers — some 2.8 million of us were self-employed in 2015, according to Statistics Canada.[1]

This figure has been rising steadily over the past decade. That's because Canadians between the ages of 55 and 64 are almost twice as likely as their 25- to 44-year-old counterparts to be unincorporated, self-employed workers.[2]

If you're considering self-employment, let's get together soon to talk about:

- Revising your budget to reflect your new situation.
- The best way to access cash if you need capital to get started.
- The potential tax benefits of being self-employed.
- How to stay on track to your retirement goals.
- Whether you need to replace any employer group benefits you'll be giving up.
- Whether we need to adjust the asset allocation in your portfolio in light of your new circumstances.

Whatever path you decide to take, we're here to support you. ■

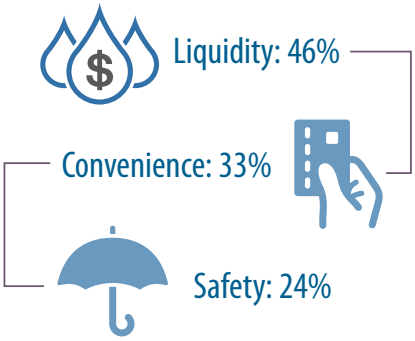
1 Statistics Canada Table 282-0012 Labour Force Survey Estimates.
2 Statistics Canada: Unincorporated self-employment in Canada, 1989 to 2010.

EYEOPENER

What's under your mattress?

A recent BlackRock Global Investor Pulse survey[1] found that Canadians are holding a whopping 60% of their portfolios in cash-type investments. Here are the top three reasons why:

Top 3 reasons investors hold cash

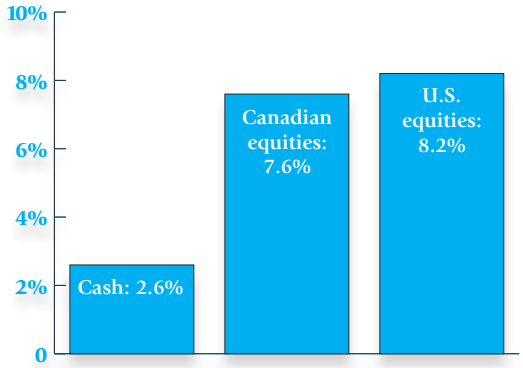


We can help you decide on the best way to put your cash to work so that you are getting the returns you need to meet your goals without taking on more risk than you're comfortable with.

What's wrong with this picture?

Just like keeping money under your mattress, focusing too much on cash-type investments can limit your opportunity for investment growth and seriously impair your ability to reach long-term savings goals, such as retirement. Just look at the comparative returns over the past 20 years:

20-year annual returns to Dec. 31, 2015[2]



1 BlackRock Global Investor Pulse: Stuck in Cash.
2 Taxtips.ca, "Historical Returns on Stocks, Bonds, T-Bills." Pre-tax returns as of Dec. 31, 2015 in Canadian dollars.

More than mutual funds investing advice

Clients like you know that you can count on us for timely investing advice and guidance in selecting funds that are appropriate for you. But some clients may not realize the financial implications of events taking place in their lives — and how we can help.

Starting a family

If you decide to have children, priorities change, and your financial plan needs to keep pace. For example, should you start contributing to a Registered Education Savings Plan (RESP)? What about contributions to other registered plans, such as Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs)?

Managing conflicting priorities with limited capital can seem overwhelming. But establishing a realistic budget will help balance your current needs with your future dreams — and we can help.

Losing a job

Another life event many of us are all too familiar with is losing a job, and it happens to the very best of us. One of the first things someone in this situation would be wise to do is to meet with their financial advisor.

Having your finances in order can help you move forward, establish a sense of control, and position you to look forward with confidence. Some of the financial aspects we can help with include:

- Reviewing the severance package from the employer and its potential income tax implications.
- Considering income needs for the next few months and deciding whether the severance will be sufficient.
- Determining the most tax-effective way to draw income from a fund portfolio if the severance is insufficient.
- Revisiting asset allocation in light of your new circumstances.

Preparing for retirement

Transitioning from a full-time career to retirement has significant personal, emotional, and financial implications. A financial advisor plays a key role in helping clients achieve their retirement dreams.

Some of the important financial considerations that can provide a foundation for a happy retirement include:

- Determining what your sources of income will be after retirement and how much you'll need to live the lifestyle you want.
- Deciding whether to convert your RRSPs to a Registered Retirement Income Fund (RRIF) when you retire, to wait until the end of the year you turn 71, or choose a date somewhere in between.
- Rebalancing your portfolio to ensure that the mutual funds you have can provide the income you need to live on now while providing the growth you need to protect you from inflation in the future.

These scenarios show just some of the many ways we can help you negotiate life's ups and downs and keep your mutual fund portfolio on track for your goals. Anytime you experience or anticipate a change in your circumstances or objectives, please don't hesitate to give us a call. ■

The *real* cost of missing the RRSP deadline

March 1, 2017, is the last day to make a contribution to your Registered Retirement Savings Plan (RRSP) that can be deducted on your 2016 tax return.

If you're thinking of skipping your contribution "just this once," you might want to think again.

Opportunity cost

If you are 55 years old and skip a single $5,000 contribution, by age 65 you will have $8,954 less in your RRSP (assuming an average annual return of 6%). If you skip a $10,000 contribution, the cost rises to $17,908.

The younger you are, the higher the cost. Using the same assumptions as above, skipping a $5,000 contribution at age 45 will cost you $16,036 by retirement. Skipping a $10,000 contribution will cost you $32,071.

Missing a contribution at age 35 has an even greater impact on your retirement funding. Skipping a single $5,000 contribution will cost you $28,717. And foregoing a $10,000 contribution? That will cost you $57,435.

Tax cost

Opportunity cost is only part of the story. Not contributing also means not being able to claim a tax deduction that could reduce your tax bill or maybe even result in a refund. And the higher your earnings, the more valuable that deduction becomes.

Contact us — before the deadline — so we can review your options and help make the most of your RRSP. ■

 ISSN 1205-5840

FundEX INVESTMENTS INC.