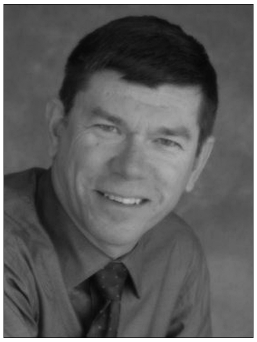
Financial Planning Guide



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Invest tax-efficiently to reach your goals

As Canadians, we are fortunate to have access to Registered Retirement Savings Plans (RRSPs), Registered Education Savings Plans (RESPs), and Tax-Free Savings Accounts (TFSAs) to help us reach our financial goals. Even better, mutual funds are a qualified investment for all three.

Tax savings boost returns

One of the smartest investing decisions you can make is to take full advantage of these tax-advantaged vehicles. But the scorecard for Canadian investors is mixed. We are saving more for our kids' post-secondary education in RESPs.[1] That's good news, especially since RESPs are linked to higher post-secondary enrolment.[2]

However, the latest data from Statistics Canada show that less than one-quarter of tax filers are contributing to an RRSP.[3] It's hard to understand why. Not only do RRSP contributions reduce your taxable income, but the investment gains in your plan grow tax-deferred — a one-two savings punch that's hard to beat.

Priorities change over time

Of course, where you are in life will play a role in how you allocate contributions across these plans. If you have a pre-teen, you may want to focus on an RESP. If you plan on early retirement, you might want to maximize RRSP contributions. And since it can be used for any purpose, a TFSA is one of the most flexible savings tools available.

We can help you choose the right mutual funds for the right account (RESP, RRSP, TFSA) in light of your overall life plan and priorities. ■

1 Employment and Social Development Canada, 2015 Canada Education Savings Program Annual Statistical Review.
2 Statistics Canada, "Which families invest in registered education savings plans and does it matter for postsecondary enrolment?" April 2017.
3 Statistics Canada, Registered Retirement Savings Plan Contributions 2015, released February 2017.

Emerging markets offer growth potential and opportunities for diversification

Emerging markets were one of the best performers in the early part of this year, led by a rebound in commodity prices. But that's just one of the factors behind a positive outlook for emerging markets. Strong growth prospects, economic reforms, and favourable demographics are also good reasons for investors to consider having some exposure to these fast-growing regions of the world.

With professional management and expertise, along with built-in diversification, mutual funds are an ideal way to take part in the growth of emerging markets.

Encouraging trends

The International Monetary Fund (IMF) expects emerging markets to grow by 4.5% in 2017 and 4.8% in 2018, helped by a recovery in manufacturing and trade and robust demand from the U.S. economy. In contrast, Canada's economy is expected to grow by 1.9% in 2017 and 2.0% in 2018.[1]

But it's not just the growth story that has investors eyeing emerging markets. The two biggest emerging nations, China and India, are embarking on much-needed reforms to their economies. In China, that includes rebalancing the economy away from trade and investment and towards domestic consumption, while India has introduced a national goods and services tax to replace the complex system of local and state taxes.

Favourable demographics also bolster the case for emerging market exposure. With about 80% of the world's population[2] and a younger demographic than developed nations, emerging market consumers are expected to experience rising standards of living and an expanding middle class. This could lead to growing consumption over the longer term and more robust economies.

Diversification opportunities

With the Canadian stock market heavily weighted in the resource sectors, emerging markets offer diversification opportunities not available at home.

At the end of April 2017, the information technology sector represented one-quarter of the MSCI Emerging Markets Index, while the consumer sectors represented 17%.[3]

This lack of correlation to Canada is important in two respects: It provides an effective way to diversify outside of Canada, and it can help investors tap in to the growing consumer culture in emerging markets.

Know the risks

As with any potential investment, it's important to understand what the risks are. For emerging market funds, these include the threat of growing U.S. protectionism and its effects on global trade. A potential conflict with North Korea is another risk to markets in Southeast Asia, as is a fluctuating U.S. dollar.

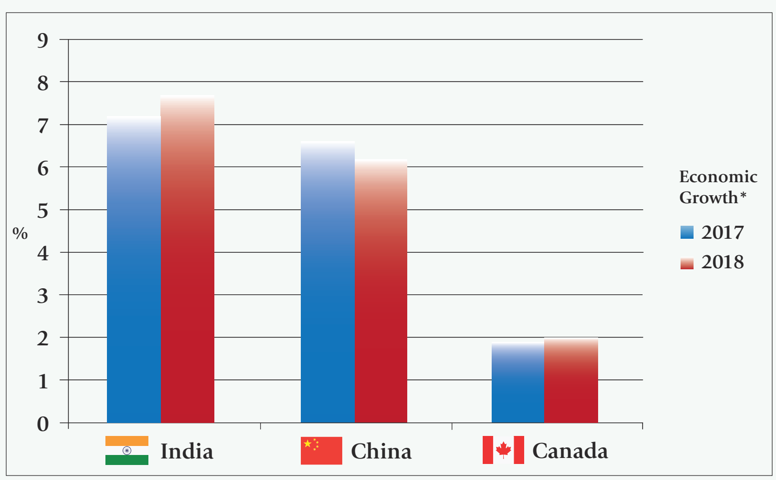
Currency risk is another factor when investing outside of Canada, although over time currency fluctuations tend to even out. Currency-neutral mutual funds are one option to consider.

Let's work together to find the right amount of exposure to emerging market funds that align with your investment objectives and risk tolerance. ■

1 International Monetary Fund, *World Economic Outlook*, April 2017.
2 Christine Lagarde, Managing Director, International Monetary Fund, "The Role of Emerging Markets in a New Global Partnership for Growth" (speech), February 2016.
3 MSCI Emerging Markets Index, April 2017.

India and China — emerging powerhouses

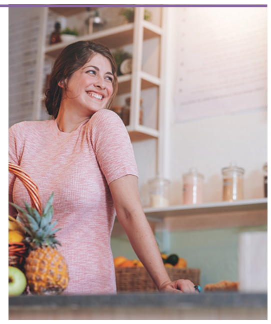
Economic growth in India and China is expected to outstrip growth in Canada by a wide margin.



*International Monetary Fund, *World Economic Outlook*, April 2017.

BUSINESS OWNERS

Why entrepreneurs need to diversify away from their business



A record number of Canadians were self-employed in 2016 — almost 2.8 million.[1] This number has been rising steadily for the past 20 years. And for good reason: Working for yourself can bring many rewards — freedom, flexibility, and the chance to follow your dreams. But it can also create challenges, especially when it comes to saving for retirement and investing.

Many entrepreneurs reinvest their earnings in their business year after year to maximize growth, relying on the proceeds of its eventual sale to fund their retirement. Assuming the sale will go as hoped is dangerous, however. What if you have trouble finding a buyer or getting the price you want? Or what if the sector you're in suffers a downturn just when you're planning to retire?

A more reliable approach is to contribute as much as you can every year to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). Setting up regular monthly or quarterly contributions is an easy and convenient way to make sure that these tax-advantaged accounts get the priority they deserve.

It's also important to diversify away from your business when you invest. For example, if your business is in technology services, it makes sense to invest in companies or investment funds outside of technology — so you're not putting everything you have in one sector.

We can help you allocate your savings and choose investments as part of a plan designed for the long-term benefit of you, your family and your business. ■

1 Statistics Canada, Self-employment, historical summary, January 2017.

EDUCATION PLANNING

RESPs linked to higher postsecondary enrolment

With their combination of tax-free growth and government grants, Registered Education Savings Plans (RESPs) are an important savings vehicle for many Canadian families. And a recent study[2] shows that children from families that had invested in an RESP by the time they were 15 years old were more likely to pursue a postsecondary education by age 19 than youth from families that had not:

Attending postsecondary

With RESP 75.4%

Without RESP 59.7%

Other factors come into play as well, including students' academic performance and their parents' level of education. Even after accounting for these variables, however, the likelihood of attending postsecondary school was six percentage points higher for those with an RESP. ■

2 Statistics Canada, "Which families invest in registered education savings plans and does it matter for postsecondary enrolment?" April 2017.

EYEOPENER
graphic evidence of how investing works

The education premium

There's no question that postsecondary education is expensive, but is it really worth it? In terms of higher lifetime wages, the answer is a resounding yes. The figures at the right[3] indicate the earnings premium of a professional undergrad degree over a high-school diploma.

Undergrad degree	Earnings premium
Engineering	117%
Computer science	86%
Commerce	74%
Nursing	71%
Architecture	65%
Occupational or physical therapist	60%
Pharmacist	58%
Education/Teacher	53%

3 Monster.ca, "Highest Paying University Degrees in Canada."

5 reasons to invest regularly

One of the most effective ways to build your wealth is also one of the simplest: Set up a regular purchase plan.

Here are five reasons to start a regular contribution plan or increase the amount you invest.

1. Benefit from market volatility

When you invest the same amount every month, you automatically buy more units when prices are down and fewer when they are up. This strategy, known as dollar-cost averaging, can lower your average cost per unit over time.

2. Eliminate emotion-based decisions

Most investors are naturally inclined to pour money into hot markets — the very time when astute investors are pulling back. When the market "corrects," there's a tendency to ride to the bottom and then bail out — the very time when astute investors are starting to buy. There is also the risk of "investing paralysis" for those who keep waiting for the right time to commit money, earning little or no return in the meantime.

When you invest automatically, you are far less likely to experience either irrational exuberance or irrational despair as market values fluctuate.

3. It's easy, convenient, and flexible

Automatic purchase plans run on autopilot — out of sight, out of mind. Many investors find that they don't even miss the money — kind of like the income tax that's deducted automatically from your paycheque.

You complete a simple form that authorizes withdrawals of a set amount from your bank account on a regular basis to purchase units of the fund or funds of your choice. You can even coordinate contributions with your cash flow by scheduling withdrawals for the same day or the day after your paycheque is deposited.

And if an unexpected expense comes up or your situation changes, there's no need to worry. You can change the amount, frequency, or cancel altogether at any time.

4. It's affordable

For a one-time, lump-sum purchase, mutual fund companies sometimes require a minimum purchase of $500 or $1,000. When you sign up for regular purchases, however, the minimum is usually much lower — possibly as low as $25 a month for mutual funds held within a Registered Retirement Savings Plan (RRSP).

5. Maximize tax-advantaged plans

An automatic investment plan is a great way to get as close as possible to the maximum contribution to your RRSP or Tax-Free Savings Account (TFSA). Many people find it easier to make 12 small monthly contributions rather than one big one.

If you'd like to set up an automatic investment plan, we can help you choose an amount that fits your budget, a frequency that fits your cash flow, and mutual funds that match your goals. ■

Comparing returns? Do it wisely

The end of the year is in sight, and we'll soon be seeing a slew of "best of" and "worst of" lists for 2017. Where your mutual funds are concerned, it's best to view these reports in the right context.

Compare apples to apples

Performance is always relative. To judge how your funds are doing and make informed investment decisions, you need to know how to make effective comparisons.

It's important to compare like funds — that is, funds that have similar objectives and a similar level of risk. For example, it's unreasonable to compare the return of a money market mutual fund to the return earned by an equity fund.

Benchmarking

The same concept applies when you're comparing fund performance against a market average. In most cases, the "average" is represented by a market index.

Make sure that the benchmark you're looking at is appropriate for the fund that you want to assess. For example, for broad-based Canadian equity funds, the S&P/TSX Composite Index may be the most appropriate index available. But if a mutual fund concentrates primarily on large, blue-chip, Canadian companies, then the S&P/TSX 60 would be a better benchmark.

Finally, please remember that we're here to help you tune out media "noise," assess performance against appropriate benchmarks, and keep your financial plan on track. ■

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