

# 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](mailto:dklord@excelplan.ca)  
**E-mail:** [ftrolio@excelplan.ca](mailto:ftrolio@excelplan.ca)



## FOCUS ON MUTUAL FUNDS

### What the headlines *really* mean for your portfolio

**A**lmost every day, the media are filled with a barrage of just-released economic numbers, financial data, and market stats. Interest rates. The Canadian dollar. The U.S. dollar. Oil prices. Housing starts. Record-setting gains (or losses) on market indices.

How many of these numbers could affect your mutual funds? Should you be concerned? Is action required? And if so, what?

#### Information overload

Our 24/7 news cycle subjects us to a near-constant stream of economic and investment-related information. Over the long term, however, all this short-term commotion generally means very little.

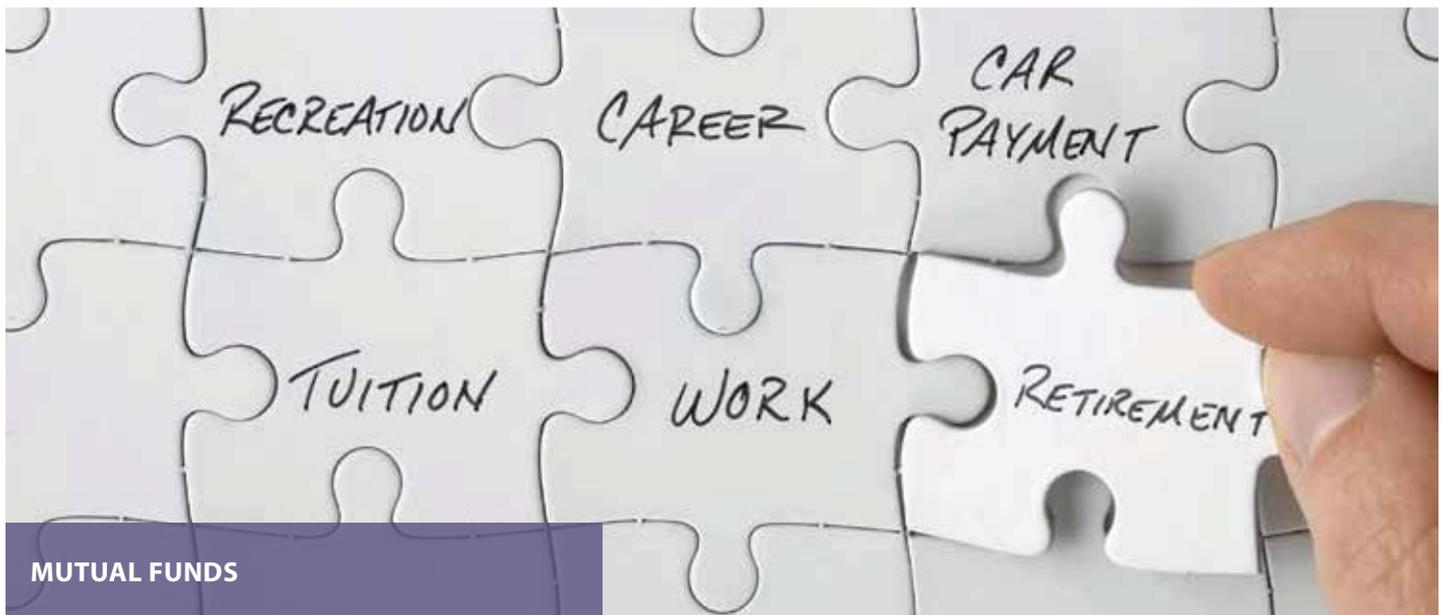
Indeed, industry insiders typically call this chatter “noise,” and mutual fund managers are skilled at shutting it out — not because it’s not important in the grand scheme, but because its relevance diminishes over time.

For non-professional investors, it’s easy to get spooked by the headline-du-jour. Hearing “The S&P/TSX loses 300 points,” can seem alarming — until you realize that, currently, this represents less than 2% of the index’s value and that these kinds of drops (and gains!) happen regularly in response to all kinds of factors, including economic forecasts, changes in interest rates, and unexpected earnings reports..

#### Tune up and tune out

If you feel uneasy about any investment news or numbers, call us. We can double-check that your funds are balanced to benefit from the full market cycle and that market forces haven’t left you over- or under-exposed to any particular sector.

Think of it as a little tune-up, to help ensure your portfolio can go the distance regardless of any speed bumps along the way. ■



# Life-stage retirement planning: It's never too early (or too late) to start

**I**n a study last year on retirement preparedness,<sup>1</sup> the Conference Board of Canada found that six out of ten Canadians didn't think they had put enough away for their senior years. Notably, those aged 55 through 64 admitted they had not saved adequately, and were worried about making ends meet through retirement.

Perhaps it's something you've worried about, too. Or if you're younger, perhaps you're wondering if you should be worrying.

What's the best way to feel confident about achieving your retirement goals? Whether you're 30 years from retirement or three, a diversified, well-managed portfolio of funds can help provide the mix of security, income, and growth you need, as these examples show.

## The building years

"Go for growth" is likely to be your investing mantra at this stage of life. Thanks to kids, mortgages, and a propensity for accumulation, these years tend to be typified more by spending than saving. However, time is totally on your side. With a long investment horizon, you can focus on growth-oriented equity mutual funds, knowing that you'll have plenty of time to ride out any temporary market downturns. You'll also benefit the most from compound investment growth.

Whatever else is going on at this busy stage of life, let's look at beefing up your holdings with funds that have the best potential for

long-term capital appreciation. Because building your nest egg is your primary objective, we need to ensure that you have an optimal cross-section of domestic and international equity funds. We might also want to investigate country- and sector-specific funds to enhance diversification and to capitalize on specific opportunities, currencies, or economies.

## Peak earning years

At this stage in your life, you may be mortgage-free (or close to it) and be earning the highest salary of your career. Your children have left home and are independent. With more income and fewer expenses, these are typically your biggest earning years and (not coincidentally) your biggest tax-paying years.

For most people at this stage, there's still lots of time for the growth potential of equity funds. That said, it's a good idea to investigate funds that can also minimize your tax bill. Corporate class mutual funds, for example, offer all the investment choices you want with the added benefits of tax-efficient distributions and easy, tax-smart asset re-allocation within the fund family.

It goes without saying that this is also the time for us to make doubly sure you're taking full advantage of tax-advantaged accounts, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAAs).

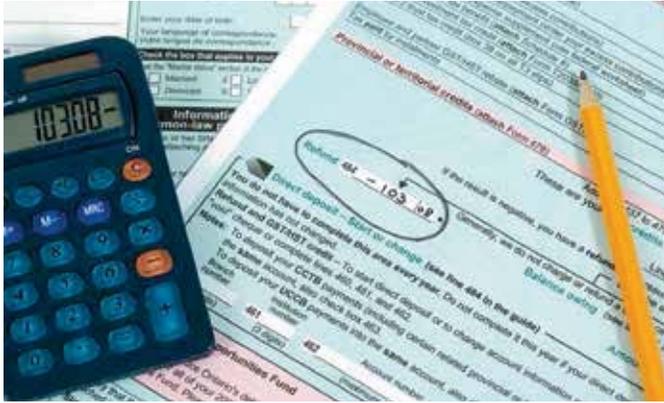
## Pre-retirement years

With retirement on the horizon, this is the stage when we want to start gradually shifting your fund portfolio away from capital appreciation and towards capital preservation and income generation. In the same way that dollar-cost-averaging (buying in small increments on a regular basis over time) is a smart way to acquire mutual funds, it's an equally smart way to transition out of them.

Now may be the time to use this approach to start moving into the funds that will provide your retirement income stream. This doesn't mean selling off all your growth-oriented funds. But by starting well in advance, you can enjoy the luxury of slowly rebalancing. Even if your anticipated retirement is 10 years away (or more), let's talk about what's next and set up the steps we'll need to implement your plans.

Whatever life stage you're in, remember that we're here to help. We can help you clarify your short-, medium- and long-term goals and craft a mutual fund portfolio to help you reach your financial objectives. Over time, as your life evolves, we can make sure your portfolio stays aligned to your changing needs and objectives. ■

<sup>1</sup> Conference Board of Canada, *A Survey of Non-Retirees and Retirees in Canada: Retirement Perspectives and Plans*, October 2014.

**TAX PLANNING****Max your credits**

It's summertime! Chances are, nothing is further from your mind than paying taxes. But by staying on top of summertime receipts, you can make sure you take full advantage of all the tax credits available to you when you file your return next April. Here are two areas in particular where you'll want to keep those receipts.

**Childcare expenses.** If you have kids in formal daycare, you probably already know about childcare tax credits. But summer programs, including day camp, art classes, summer school, and sleepover camp, may also be eligible. In fact, just about any childcare expense that enables you to work, study, carry out research, or run a business may be permissible.

**Child fitness tax credit.** Starting in 2015, the child fitness tax credit gets a lot more generous. If your kids are under 16 (18 for a child with a disability), you may be eligible to claim up to \$1,000 (double the amount you could claim last year). Best of all, the list of eligible activities is broad. So whether your son takes golf or sailing lessons or your daughter goes to soccer camp or a horseback-riding academy, save those receipts! ■

**MONEY MANAGEMENT****When a saver and a spender live under one roof**

A recent Nielsen survey<sup>1</sup> found some interesting differences between how men and women spend, and how they save. Among consumers polled, 43% of men said that now is a good time to spend, compared with just 36% of women. When a spender and a saver pair up, decision-making may become a source of stress. But it doesn't have to be that way.

Savers and spenders are simply people with different expectations. They may ultimately want the same things, but they have different timelines for those acquisitions. Believe it or not, it's entirely possible for Ms. "Live for today" to find harmony with Mr. "Save for a rainy day."

Compromise, candour, and balance are the keys. Perhaps you can agree on a savings/spending split? "If we set up a PAC that puts \$350/month into our TFSA, we can earmark \$150/month as mad money." Make it more tempting by agreeing that mad money not spent this month gets rolled into next month's slush fund. After all, even spenders can be encouraged to save, with the right enticements.

And rest assured, savers and spenders do agree on some things. In that same study, men and women both said that when it was necessary to cut back, it made sense to start by reducing holiday spending, phone plans, and gas/electricity costs. We have a lot of experience helping couples navigate their saving and spending goals. If this is a source of stress or conflict in your family, we would be pleased to help. ■

<sup>1</sup> Nielsen Insights, "Money may make the world go around, but men and women have different spending priorities," March 2015.

**EDUCATION PLANNING****Will an RESP be enough?**

A Registered Education Savings Plan (RESP) is a great way to save for a child's education. But it's not the only strategy and, depending on your child's situation, you might want to bring other effective ways to set money aside. Consider these questions...

**Is it possible your RESP payments will fall short of your child's expenses?** RESPs have age and contribution limits. If you missed out on contributing while your child was young, if your child ages out of eligibility, or if your contributions didn't meet your expectations, there are other investment vehicles that can help you reach your goal.

**Is your child considering post-graduate studies?** If your child opts for a career in medicine, law, architecture, business, or engineering, expenses will go far beyond those associated with a four-year undergraduate degree. You may want to investigate alternative investments to defray at least some of the additional costs.

**Is your child keen on an Ivy League school?** If you want your child to have the option of attending a prestigious U.S. university or studying abroad, an RESP will cover only a fraction of the cost. If any of these situations might be part of your future, we can show you how to enhance your RESP with other investments such as Tax-Free Savings Accounts (TFSA), non-registered holdings, or in-trust accounts. ■



# Why this tech surge is different

**M**arch 2000 was the beginning of the end of the Nasdaq dot-com bubble. The index closed at its all-time high that month and began what turned into a 2.5-year free-fall. Fifteen years later, in March of this year, the Nasdaq pushed past its all-time record to close above 5,000.<sup>1</sup>

But this time, experts suggest investors need not fear that the milestone signals another looming disaster. In fact, this tech market couldn't be more different from the last one.

## Rational exuberance

The phrase "irrational exuberance" was famously used to describe the frenzy of investors in the late '90s clamouring to buy into the next big dot-com start-up.

Investors were so bedazzled, they overlooked many of the most basic metrics used to gauge the quality of a stock and chose to ignore the fact that many of these companies had never earned any revenues.

Now, things are different. For one thing, eight of the top 20 companies from the peak of the bubble no longer exist.<sup>2</sup> These days, the index is underpinned by huge companies, not just giants of the tech world, but giants in the global marketplace.

To cite just one example, Apple is now the biggest company in the world, worth more than \$700 billion earlier this year. In March, it became one of only 30 companies tracked by the Dow Jones Industrial Average (the globally accepted barometer of the overall U.S. economy and general market trends).

Let's be clear: This is not an endorsement of Apple. We've used Apple as an example solely to provide some context for just how far the tech sector has come over the last 15 years.

## Solid fundamentals

As well, price/earnings ratios couldn't be more different. When the Nasdaq peaked in 2000, the average P/E ratio was an outlandish 175. This spring, it was a much more realistic 30.<sup>2</sup>

And it's not just the companies and their fundamentals that are different. The money flowing into the tech market is more spread out than it was back then. Of the largest venture capital deals in 2014, the biggest was a taxi-hailing service, followed by an online news and video provider, a firm developing virtual reality technology, and a social media company.<sup>3</sup> All based on technology, yes, but harnessing it in different ways.

## Many ways to plug in to tech

For investors looking to capitalize on this "new and improved" tech sector, mutual funds offer a truly impressive array of opportunities, all of which feature professional management, instant diversification, and affordable investment minimums.

Tech funds come in all shapes and sizes, making them suitable for many types of investors. Broadly diversified global tech funds, for example, provide exposure to a variety of companies — from start-ups to stalwarts — in different tech sectors. Small-cap tech funds offer venture-capital opportunities for risk-tolerant investors. There are even funds that focus on a specific field, such as electronics or health and biotechnology.

Whatever your preference, we can cherry-pick the fund (or funds) that will best dovetail with your objectives and your existing portfolio. ■

<sup>1</sup> Source: Nasdaq.com.

<sup>2</sup> Bloomberg.com, "Nasdaq Has Room to Rally for Analysts with Bubble Peak in Sight," February 2015.

<sup>3</sup> PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, January 2015.

# Strength in numbers? Not always

When you hold funds across a number of different accounts or at multiple institutions, you may leave yourself open to a host of potential problems.

## The danger of a divided approach

Taking a scatter-shot approach can result in fund duplication and lack of diversification. For example, if you hold both a Canadian balanced fund and a Canadian growth fund, there is almost certainly some duplication of the underlying securities.

Other drawbacks include portfolio sprawl, excessive fees, and less-than-optimal tax efficiency. In addition, managing multiple accounts can eat up more of your personal time as you grapple with multiple statements, tax slips, and account representatives.

## The strength of unity

Having all of your funds under the same umbrella, on the other hand, offers the following advantages:

- We can more easily track and manage your holdings and keep your weightings in alignment with your goals.
- We may have a clearer line of sight to potential tax-saving strategies, such as tax-loss selling.
- It makes it easier to allocate your investments into the most tax-friendly account (for example, holding income funds in a registered plan).
- Seeing all of your funds at a glance means we can truly sculpt your portfolio to your individual requirements.

Let's talk about how we can ensure all of your investments are working together as efficiently as possible. ■

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.

© 2015 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

