

Financial Planning Guide



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Having “the talk” with your kids...

Talking with your children about money ranks right up there with the birds and the bees for discomfort level. The fidgeting. The “deer in the headlights” expression. The awkward questions. And that’s just you!

But like most important lessons, starting the conversation early and revisiting it often is the best way to give your kids a lifelong respect for saving and investing.

Striking a chord

One of the best ways to reach young adults is to make the conversation relevant to the audience. And we have just the ticket to engage your fiscal apprentices: mutual funds that focus on socially responsible investing (SRI) funds. While these funds offer a rich tapestry of opportunity for all investors, they may be even more resonant for younger people.

SRI funds play to the idealistic social conscience of the younger generation. In some ways, these investments are more than just mutual funds. They’re quite literally a way to channel money directly into ventures that matter, and that make a difference, including clean energy and water initiatives, carbon capture and offsets, human rights, and micro-financing.

Call in the experts

We would be pleased to partner with you and your youngsters to look at some wealth-building strategies suitable to their short- and longer-term goals, including SRI funds. After all, parents often enlist professional help to teach their kids how to drive, ski, or play a musical instrument, so why not leave their investment education to the experts? ■

David vs. Goliath: The battle for your mutual fund portfolio



MUTUAL FUNDS

There's a battle going on in the markets that's likely having a run-off effect on your mutual fund portfolio. It's the age-old David and Goliath story and, like the fable, care to guess who's winning?

For the past five years, small-cap stocks have been quietly but successfully muscling their way past many of the bigger, brawnier companies that underpin the markets. And unlike some fights that have to be decided by judges, this match can be settled strictly by the numbers. So here they are. From August 2010 to August 2015, small caps have averaged an annual compound return of 17.35%, large caps have posted a respectable 13.2%, and the stalwart blue chips have brought up the rear with 10.45%.¹

Bigger is not always better

There's a lot to be said about the momentum and growth potential of smaller-cap stocks.

As the numbers demonstrate, there's a compelling case to be made that many investors might benefit with mutual funds drawn from across the market-cap spectrum.

Indeed, one of the biggest benefits of mutual funds is just how easy it is to give your portfolio a little taste of everything, from micro-caps to the so-called mega-caps. By embracing this diversity, not only are you enhancing your opportunities for long-term growth, but you're also broadening your exposure, reducing overall risk, and putting yourself in a position to benefit from a variety of economic scenarios.

Three reasons to think small

Here are three key reasons to consider including small-cap funds in your portfolio.

1. Strength on the upside and a cushion on the downside. Small, well-managed companies tend to have more upside

potential than larger ones. If your portfolio includes mutual funds with holdings from both sides of the spectrum, you can benefit from the up-and-comers as well as tried-and-true dividend payers. Not only can this enhance returns, it can mitigate the impact of dramatic swings from either side.

2. Merger and acquisition opportunities.

As smaller companies begin to grow, they become targets for takeovers by larger companies. This benefits the firms themselves and investors who have mutual funds with exposure to the companies on both sides of the transaction.

3. Management style diversification.

Growth and value as fund management styles can be closely linked to the market cap of the securities they hold. Growth fund managers typically buy securities they believe will experience faster-than-average growth, whether from revenue, earnings, or cash flow. Value funds typically seek out "diamonds in the rough" — that is, undervalued stocks priced lower than their fundamentals would suggest is reasonable. Almost by definition, small-cap funds tend to follow a growth approach while blue-chip funds tend to fall into the value category. By adding a domestic or international mid-cap fund to the mix, we can harness a "best of all worlds" approach in your portfolio.

Markets in Canada, the U.S. and overseas are ripe with both exciting start-ups and market stalwarts. We'd be happy to review your portfolio's holdings of domestic and foreign equity funds to make sure it's harnessing all the potential possible from across the market-cap spectrum. ■

¹ NASDAQ, S&P 500, & DOW Total Return Indices compounded annual return over the five years ended August 4, 2015. Source: Bloomberg.

Small in stature, big in potential

Over the five-year period from August 2010 to August 2015, small caps outperformed larger caps by a substantial margin. This illustration shows how a \$10,000 investment in small caps, large caps, and blue chips would have fared.¹



Original investment:
\$10,000

Invested in small caps: **\$22,265**

Invested in large caps: **\$18,594**

Invested in blue chips: **\$16,441**

Why you may want to leave your RRSP to charity



At death, registered assets can pass tax-free “in kind” to a qualified, specifically designated beneficiary (typically your spouse or a dependent child). But what if you don’t have a qualifying beneficiary? Or your child reaches the age of majority and no longer qualifies as a dependent? Or suppose you

and your spouse die at the same time. What happens then?

In that case, your registered assets will be treated as though they had been sold. Their full market value will be counted as ordinary income on your final tax return and it will be taxed at your highest marginal rate. This can have profound implications for your estate and your beneficiaries.

But if leaving a legacy to a charity or your alma mater interests you, here’s one possible solution: Consider naming a registered charity as your alternate beneficiary.

In the absence of another named beneficiary at death, the asset will be given to the charity. Your estate will get a charitable tax credit for the market value of the assets at death. As a bonus, this could allow your registered assets to bypass probate, and thus avoid probate fees in provinces where they apply.

Depending on the size of your registered plans and the value of the rest of your assets, this approach could significantly reduce your final tax bill. And it could even result in a larger residual estate than if you had left the assets directly to your child.

If you haven’t yet filled out a “multiple-beneficiary designation form,” or you’d like to discuss your options, please contact our office. ■

TAX PLANNING

Would you rather . . . pay yourself or the CRA?



If you haven’t taken full advantage of your 2015 tax- and investment-planning strategies, you could be leaving money on the table for the Canada Revenue Agency (CRA). Here are a few year-end tax tips for your consideration.

- Crystallize capital gains or losses for tax advantages. Remember that trades must settle before December 31 in order for you to claim them in 2015.
- Repay any money withdrawn from your Registered Retirement Savings Plan (RRSP) under the RSP Home Buyers’ Plan. Repayments must be made no later than March 1, 2016, to avoid taxation.
- Make any charitable donations you want to claim in 2015.
- If you have business-related purchases to make, consider doing so before year-end. These may include professional dues and membership fees.
- Capitalize on the new \$10,000 TFSA contribution limit. To ensure you’ve taken all the necessary steps to reduce your tax bill for 2015, call us for a year-end review prior to meeting with your tax advisor. ■



ESTATE PLANNING

What will happen to your online identity when you go to that #newsfeedinthesky?

The widespread adoption of social media has changed our lives in many ways. Take a moment to reflect on your own online presence. Are you on Instagram, Twitter, Tumblr, LinkedIn, Classmates? What about an online dating profile or membership in an alumni forum?

These are great ways to connect with other people. But what happens to these accounts when you pass away?

Facebook has acknowledged the significant role it plays in people’s lives, rolling out its “Legacy Contact” feature in Canada earlier this year. Legacy Contact gives you the ability to designate a person you trust to manage certain aspects of your Facebook account in the event of your death. This person could pin a memorial tribute at the



top of your wall, moderate friend requests, and curate pictures posted to your timeline.

Depending on how you fill out the legacy instructions, you can have your profile changed into a tribute page or opt to have your account deleted entirely.

While other social media may follow suit, in the interim you may want to consider leaving specific instructions with your power of attorney or executor. Most sites will remove your profile upon receiving proof of your demise, but you may prefer to be memorialized in the ether.

Bottom line: Do your family a favour and give some thought to the electronic footprints you’ll leave behind. ■

Mythbusters: Mutual funds edition

We all take risks every day. Eating, walking, and even getting out of bed seem fairly harmless, yet they're precarious enough to be measured by the U.S. National Safety Council.

This kind of information is valuable because it helps us to know what and where the risks are so we can mitigate them. And this isn't just true in your day-to-day life; it's also true in your mutual fund portfolio. Indeed, there are a lot of myths and misconceptions about risk. Here are some of the biggest culprits and how we can help protect you and your investments from them.

Myth: Risk tolerance is what drives asset allocation

Mitigating risk plays an important role in the investment selection process, but it's just one of many factors. Your time horizon and objectives must also be taken into consideration.

Because they hold a diversified selection of securities, mutual funds automatically mitigate the risks of holding just a few stocks or bonds. You can reduce risk even further by diversifying the types of funds that you hold.

Myth: Your approach to risk will not change over the years

As your goals and time horizon change, so too will your risk tolerance. One of our objectives is to ensure that these gradual changes are always reflected in your portfolio.

In other words, if you're 25 years away from retirement, your fund options are virtually unlimited. Bring on the emerging markets, the tech sectors, the single country

funds. As long as they fit with your overall objectives, you have time to ride out temporary fluctuations in value.

As you get closer to retirement, on the other hand, you will probably start to reduce some of those equity holdings while bulking up on funds with less volatility and more income potential. In other words, your portfolio will gradually shift toward dividend funds, income funds, and balanced funds.

Myth: Once bitten, twice shy

If you had an underperforming investment or one that failed to meet your expectations, it's important not to let that experience prevent you from considering a similar investment going forward. Just because a fund was lacklustre 10 years ago, doesn't necessarily make it so today. We want to be careful that a negative experience doesn't prevent you from considering funds that align with your objectives.

Myth: Men are more likely to take risks than women

While there may be some truth to this, it typically stems from bravado, not gender. In managing a portfolio for the long-term, we need to look well beyond biology, intuition, or swagger to the underlying fundamentals of what you're trying to achieve.

In the case of couples, it's essential to consider the perspective of *both* parties. If one partner is keen on China and resources, while the other wants to stick with blue chip equities and mortgages, you can count on us to seek out funds that work for both. ■

U.S. equity funds: Good buy or good riddance?

With our lacklustre loonie showing no sign of bouncing back to parity anytime soon, many investors may be reluctant to even consider U.S. purchases. The bottom line, however, is that U.S. equity funds can be a smart part of any portfolio.

Diversification by sector

The U.S. economy is buoyed by many global powerhouse companies and industry-leading titans. Not only that, but the U.S. market is much more broadly based than our domestic market.

Here at home, the market is dominated by financials, energy, and materials stocks. South of the 49th, the biggest players include entertainment giants, pharmaceuticals, tech firms, and consumer brands that are instantly recognizable around the world.

Diversification by currency

Even when the exchange rate makes for an extra-expensive Disney holiday, your portfolio can still benefit from exposure to the U.S. dollar itself. For example, investors who currently hold U.S.-dollar-denominated funds purchased when our dollars were at parity are seeing their returns increase as the Canadian dollar declines.

Unbiased investing

It's human nature to be more comfortable with things that are familiar to us. That's why there is a tendency for Canadian investors to overload on our own domestic investments, a phenomenon known as "home country bias." As your advisors, we can help you consider investment opportunities on their own merits, regardless of country of origin. ■

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