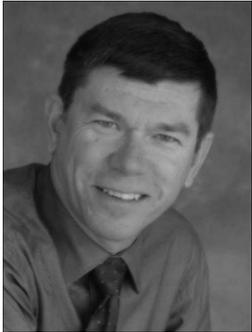


Financial Planning Guide



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FOCUS ON MUTUAL FUNDS

Feel good! About your investments

We do a lot to leave lighter footprints on the earth. We recycle. We choose fuel-efficient cars. And in increasing numbers, we invest ethically.

In Canada, more than \$1 trillion¹ is invested according to one or more responsible investing strategies. The sector is growing thanks to interest from pension plans, investment managers, and individual investors — and it's not all altruism.

Companies that emphasize responsibility towards their customers, employees, and communities may be more profitable than companies that don't. They may attract more customers because of a good reputation, charge premium prices for goods and services, and use more efficient processes to minimize their environmental impact.

In fact, a recent comparison of the Jantzi Social Index (JSI) to the S&P/TSX Composite Index found that the JSI outperformed over

three years, five years and 10 years.²

Mutual funds are one of the easiest ways to capitalize on the benefits of ethical investing. In helping you find the sustainable fund that's right for you, we'll check:

- **Mandate.** The fund's objectives should align with your priorities, without placing too many restrictions on the manager's choices.
- **Cost.** Funds that focus on responsible investing sometimes come with higher management fees. We weigh cost against value.
- **Track record.** We look at risk-adjusted returns over different time periods, and the impact of past decisions on performance.

Interested in finding out more? Talk to us about how responsible investing may give a lift to your portfolio. ■

¹ Responsible Investment Association (RIA), 2015 *Canadian Responsible Investment Trends Report*

² Sustainalytics, Jantzi Social Index November 2015 total Returns

Europe's stock may be rising



The tide may be turning for investors in Europe. After several years of challenging economic news, there's a sense of renewed optimism.

A survey of investment managers released in September 2015¹ found that nearly half (49%) of respondents believe European equities are undervalued — or trading at attractive prices.

Economies in the Eurozone are benefiting from the European Central Bank's (ECB's) decision to buy about 60 billion euros in bonds monthly, which started in March 2015. In December 2015, the ECB announced that the program would continue until at least March 2017.² That's a lot of economic stimulation, which would support Eurozone companies.

Risks remain, of course, and need to be monitored. These include ongoing economic struggles in Greece, the still simmering conflict between Ukraine and Russia, and the impact of China's slowing imports on global trade and commodity prices. We're also keeping an eye on real investment — money used to buy tangible, productive assets such as equipment and machinery — which is critical for companies to grow.

What is the most prudent way to seize investment opportunities in Europe? Mutual funds are a good place to start.

Focus on Europe

Some European equity funds concentrate on a specific country — for example, the United Kingdom or Germany. More common in Canada are funds that invest

across a wider European region. We can still narrow your focus — say, to the Eurozone — but the fund manager has greater flexibility to choose the best investments across countries.

Within the European equity fund category, we can tailor our approach to suit your needs:

- **Investment style.** Growth funds focus on companies positioned to achieve high earnings growth, while value funds seek out businesses trading at a discount to their intrinsic worth.
- **Capitalization.** Some funds focus on large-cap companies that may offer more stability and steady earnings. Others focus on mid-cap businesses that may have greater growth potential.
- **Dividends.** If income generation is a priority for you, we can look for Eurozone funds that pay dividends.

Focus on the world

Also worth considering are global funds, which offer different levels of exposure to Europe as well as other regions. These funds may focus on equities, fixed-income investments, or a mix of both.

If you'd like to consider tapping into investment opportunities in Europe, we can evaluate individual funds to find the best for your portfolio. ■

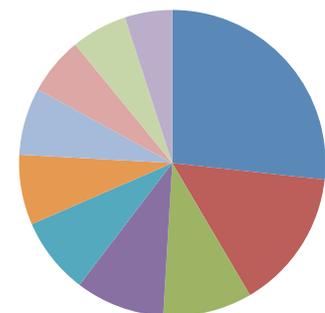
¹ Northern Trust, *Investment Manager Survey Report*, Third Quarter 2015.

² ECB press conference, December 2015.

Enhance diversification

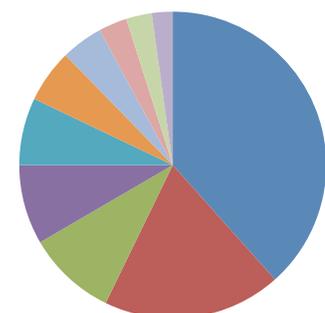
Funds that focus on European equities may offer greater exposure to sectors that are underrepresented in Canada, such as consumer discretionary, consumer staples and healthcare.

European equities (S&P Europe 350 Index)



- Financials - 26.7%
- Consumer Discretionary - 14.8%
- Consumer Staples - 9.4%
- Industrials - 9.4%
- Healthcare - 8.1%
- Telecommunication Services - 7.4%
- Utilities - 7.1%
- Information Technology - 6.1%
- Energy - 5.9%
- Materials - 5%

Canadian equities (S&P/TSX Composite Index)



- Financials - 38.4%
- Energy - 18.8%
- Materials - 9.4%
- Industrials - 8.4%
- Consumer Discretionary - 7.1%
- Telecommunication Services - 5.6%
- Consumer Staples - 4.4%
- Information Technology - 3%
- Healthcare - 2.7%
- Utilities - 2.2%

Source: S&P Dow Jones Indices, December 15, 2015

INVESTMENT STRATEGY

TFSA – contribute early, and allocate

The maximum contribution for Tax-Free Savings Accounts (TFSA) was reduced to \$5,500 as of January 2016, but your TFSA still remains a valuable savings tool. By depositing your maximum contribution early in the year, and by choosing the best investments for your situation, you can make the most of its benefits.

Sooner is better. You don't have to wait until you have cash in hand to contribute. You can transfer in-kind investments — mutual fund units, securities, federal and provincial savings bonds — that you currently hold in a non-registered account. If the asset has increased in value since you purchased it, the transfer will trigger a capital gain, which is taxable, but it may be possible to offset it with a capital loss from 2016 or a previous year.

Allocation is critical. Because a TFSA is called a "savings account," many investors keep TFSA money in short-term, fixed-



income investments. However, if you have a longer time horizon for your TFSA assets, let's talk about the mix of investments (some secure and some with greater growth potential) that's optimal for you. All earnings in a TFSA are tax-free, including capital gains. ■

DEBT MANAGEMENT

Manage debt more efficiently to free up money for other goals

We all have debt at different points in our lives. When we were studying, many of us took out student loans. We use loans to buy cars, mortgages to buy houses, credit cards for convenience and lines of credit to bridge cash flow gaps. With so many different debts, it's easy to lose track of the costs to our disposable income — our ability to invest and our future lifestyle.

The good news is that it's often possible to manage debt much more efficiently. Start freeing up your money for other goals with these three debt reduction strategies.

1. Tackle highest-rate debt first

Chances are you're paying down multiple debts at a time — mortgage, credit cards, department store cards, car loans, and so on. While you need to maintain minimum payments to avoid charges and late fees, you can be strategic by focusing extra payments on the debt that has the highest interest rate first. Paying down a debt that costs 8% is the equivalent of earning an 8% return on investment.

2. Make repayments automatic

Sometimes the most obvious strategies are overlooked — such

as setting up regular payments to reduce debt. Automating debt payments integrates them into your budget and ensures that you make steady progress towards your debt reduction objectives.

3. Consolidate to lower rates

A poll conducted by a major Canadian financial institution found that almost half of Canadian households have credit card debt.¹ Further, some credit cards charge interest rates of 20% or more, which is a significant drain on your resources.

To reduce your interest costs, consider using a lower-rate secured line of credit to pay down any outstanding balance on your credit cards. At a lower rate, your payments will reduce the balance more quickly.

The table below illustrates just how much you might save by consolidating debt on a secured line of credit.

With debt as with investing, it's not an all or nothing proposition. Every dollar in debt you chip off puts you in a stronger financial position — today and in the future. ■

¹ BMO Credit Card Report 2015

How much could you save?

Mix of debts	Annual cost	Consolidated debt	Annual cost
\$12,000 car loan at 8%	\$960	\$17,000 secured line of credit at 4%	\$680
\$2,500 credit card balance at 20%	\$500		
\$2,500 department store credit card balance at 28%	\$700		
Total annual cost of debt	\$2,160		\$680

Sidestep these biases to improve returns

We all have biases, and some can affect investment decisions and have a negative impact on returns. However, being aware of your investment biases can help you avoid them.

Home bias

Familiarity keeps many investors' portfolios concentrated in Canada. This restricts opportunities, diversification and growth potential. While it's true that Canada has many strong businesses, they represent a small fraction of what's available globally. Furthermore, a large proportion of our most successful companies are concentrated in just three sectors: energy, materials and financial services.

There are ways to benefit from greater geographic diversification while respecting your comfort zone. For example, we can seek out Canadian companies that operate internationally and that are, therefore, exposed to other countries' economic growth. We can also look just south of the border to the U.S. market, which shares many of the Canadian market's characteristics but provides access to a broader range of companies.

Loss aversion

Let's say someone offers you two choices. You can take a crisp \$100. Or you can gain \$200 and then lose \$100. The net result is the same: you're \$100 richer. But most people would choose the first option because losing money hurts. This bias makes some investors shy away from growth opportunities to avoid losses. Others refuse to get rid of

underperforming investments because they're in a loss position, even though there may be better opportunities elsewhere.

The key here is to set and maintain an appropriate asset allocation. Your portfolio mix is designed based on a "macro" view of your personal situation — one that balances your desire for growth with your need for security. By following your asset allocation, we can ensure you aren't positioned too conservatively or too aggressively. And regular rebalancing based on analytical analysis, rather than fear of losses, can help you make wise buy-and-sell decisions.

Follow the leader

Simon says... buy today's hot stock! There's a comfort, maybe even a euphoria, that comes from following the herd. After all, everyone else can't be wrong. Or can they?

Often, by the time a rising investment makes the news, it's gone beyond hot and become overheated. As a result, a lot of investors may pay more than what the stock is actually worth based on fundamental values.

We prefer to follow a disciplined approach to investing that incorporates multiple checks against the temptation to follow the herd. For example, regular rebalancing is designed to take some profits off the table and ensure that your portfolio doesn't skew towards the latest short-term fad.

So, the next time you notice a bias at work, and talk to us. Together, we can protect your mutual Fund portfolio from bias-driven decision-making. ■

Boost yields with corporate bonds

Interest rates have been so low for so long that it's hard to imagine they can drop any more. As of mid-December 2015, yields for 10+ year Government of Canada bonds yields¹ averaged just 2.10%.

For fixed-income investors seeking higher yields, corporate bonds may be the answer.

What are corporate bonds?

Corporate bonds are debt securities issued by a company to raise funds. In essence, you "lend" the company your money, and the company agrees to pay you interest on a set schedule and to repay the loan on a specific date.

Because corporate bonds are backed by private enterprise, not the government, they are considered to have more risk — that's why they offer higher yields. However, just because they are riskier than government bonds doesn't mean they are high risk.

Managing risk

Investment-grade bonds are issued by long-standing blue-chip companies with an established history of meeting their debt obligations. High-yield bonds, on the other hand, are issued by companies that may be facing challenges such as high debt, unstable management, or takeover risk. International bonds are generally riskier than Canadian bonds because they're subject to different regulations and economic conditions.

With appropriate risk management, corporate bond mutual funds may help boost your fixed income yields. Contact us to discuss the opportunities. ■

¹ Bank of Canada, Selected Bond Yields, Dec. 15, 2015

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