Money Ideas

Winter 2021

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

Frank Trolio
Certified Financial Planner

ExcelPlan Financial

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

RRSPs

It’s RRSP time. Here are two mutual fund strategies for this year

In times of economic uncertainty or market volatility, your Registered Retirement Savings Plan (RRSP) strategy can suffer as you hesitate over what the future will bring. That kind of thinking can put your long-term retirement goals at risk and, depending on your circumstances, potentially deprive you of a tax refund this year. Instead, consider these two mutual fund strategies that don’t require you to make big calls on the future:

Apply new money to your current mix. This is the status quo option. Chances are you have a diversified mutual fund portfolio that is aligned to your long-term retirement goals. If you are not ready to revisit that, simply apply this year’s contributions across that mix, maintaining the current proportions. You can put off any rebalancing until you’re comfortable making changes.

Park your money. If the above option doesn’t appeal to you this year, you can simply “park” your money by putting it into very safe or ultra-conservative funds for now. Good options are funds such as money market mutual funds or T-bill funds. You won’t earn much in the short term but your money will be secure. When the future seems more certain or you are ready for a portfolio review, simply rebalance your portfolio and allocate that money into a diversified mix aligned with your long-term retirement investing plan.

With the RRSP deadline fast approaching, now is a great time to discuss the best strategy for you this year. Let’s talk!

Why 'core and explore' is an ideal strategy for RRSP investing

If your Registered Retirement Savings Plan (RRSP) holds the bulk of your retirement savings, it's like your own personal pension plan. That means you'll want to make sure that it's there for you when you need it. But if you're too conservative with your investing strategy you may shortchange the growth you'll need for the retirement you dream of. A "core and explore" fund portfolio can help with both: a solid and substantial core of conservative investments with a little extra spice by exploring investments with a higher growth potential.

Core holdings are long-term "buy and hold" investments of low to moderate risk, at the same time offering the potential for attractive long-term investment returns within your risk tolerance.

Diversification still matters

Just as your overall mutual fund holdings should be well diversified, so should your core holdings.

Equities. Equity core holdings often consist of "large-cap" equity funds that invest in blue-chip stocks. These funds may not always win the performance race, but they have good long-term track records – ideal for the long time horizons of most RRSPs.

Fixed income. The fixed-income core of your fund portfolio should consist of moderate-risk, solid investments such as funds that invest in government bonds. Consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global funds. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

How big is your core?

How much of your total RRSP portfolio your core should represent varies with factors such as individual financial circumstances and risk tolerance. For many investors, 70% to 80% is common.

Keep in mind that the types of funds that constitute your core will depend on your personal investment characteristics. Funds that can be considered core holdings for one investor may not be suitable as a core for another investor.

Added potential

With the support of a strong core, your RRSP can benefit from the added performance potential of some more aggressive, less mainstream investments. These are generally riskier and more volatile but have the potential to add higher returns.

These might include small-capitalization and mid-cap equity funds, funds that invest in riskier securities or geographical markets, and fixed-income funds that invest in high-yield corporate bonds or higher-potential securities.

Whether you are adding new funds this RRSP season or staying the course, now's the ideal time to review the structure of your mutual fund portfolio to make sure that your own "personal pension plan" is set up for success. ◀

FUND TIME

Tips and lessons in mutual fund investing

Stock splits and mutual funds

Apple made the news last year with a 4-for-1 stock split, the fifth stock split in its history. As a mutual fund investor, do these splits matter for you and are there any benefits?

What is it? A stock split happens when the corporation, as directed by its board of directors, increases the number of outstanding shares. It does this by dividing each share into multiple ones, diminishing its stock price. This action doesn't change the company's overall market capitalization. Think of it this way: you can have $100 in a single $100 bill or in five $20 bills – either way, you still have $100.

Why does it happen? Traditionally, stock splits have been seen as a way to keep a stock accessible to small investors, Indeed, Apple cited this idea as it converted its shares priced near $400 US before the split to approximately $100 after the split.

Does it matter? The short answer for mutual fund investors is no, thanks to one of the key benefits of mutual fund investing. Mutual fund investors are able to buy fractional units of their fund. With mutual funds, investors purchase a certain dollar amount, such as $500 or $5000, and receive the proportionate amount of the Net Asset Value (NAV) of the fund. Note that some mutual funds do have minimum purchase amounts.

The bottom line. Mutual fund investing allows you the flexibility to invest amounts that are right for you, regardless of stock market prices. ◀

With health in the news, can fund investors benefit?

The investment markets in 2020 surprised us all by being resilient to the shocks that accompanied the pandemic. Nevertheless, some sectors have prospered and some struggled in this "new normal." With health care, hospitals, vaccines and treatments in the news, investors may wonder whether there is opportunity in the health care sector. For mutual fund investors, here are a variety of themes to consider in order to explore this opportunity.

A diverse market sector

Health care is a large segment within most advanced economies, comprised of a wide variety of companies providing all kinds of products and services. These include well-known areas such as pharmaceuticals, the companies researching and manufacturing drugs and other remedies, as well as health care providers running services including hospitals and clinics. Health equipment and supplies is another traditional area. The sector also includes new and innovative industries such as life science and biotech companies using science, technology and data to discover new categories of drugs, new medical technologies and new ways to deliver health care like telemedicine.

For the mutual fund investor these opportunities carry a wide spectrum of potential but also a wide degree of risks. Conservative investors may like the predictability of traditional service providers and manufacturers. Those with a greater appetite for risk may seek out the innovators but need to keep in mind that many medical discoveries don't translate into commercially successful drugs or products and the risks are considerable.

Which funds? Health care specialty funds may offer exposure to all sectors within the health care spectrum, but check the Fund Facts to understand how they are managed. Some broad-based large-cap equity funds may have significant holdings in health care, especially the large traditional companies. Conversely, some small, medium-cap and technology specialty funds may offer a way to explore the innovators.

Big countries, big players

When it comes to health care companies, not all countries are created equal. Canada, for instance, is not a major player. In fact, health care represents only about 1.3% of our large-capitalization firms in the market. Contrast this with the heavy hitters in health care like the United States and Japan where health care companies represent 14% and 13% of large-cap companies, respectively.[1]

Countries vary greatly by the sectors within health care as well. The U.S., Japan and Europe all have large pharmaceutical industries with several global powerhouses each. In biotech, the U.S. dominates, with 48.2% of the firms in the industry, while companies in the Asia Pacific area hold 24% of the market.[2] In generic drugs, three of the largest five manufacturers are located in India and Israel.[3]

Which funds? Consider global equity funds that have a large proportion of assets invested in health care companies. Similarly, it's likely that many U.S equity funds will have large health care segments in their portfolio. Remember to check the Fund Facts of these mutual funds for details on the allocations to health care, the segments and companies invested in and the risk profiles associated with investing in those funds.

Regardless of how the COVID-19 pandemic plays out, health care remains a massive industry with companies of all shapes, sizes and emphasis offering interested investors many different ways to share in the opportunities associated with caring for the people of this world. If you'd like to understand how your current portfolio is exposed to health care opportunities and explore further, let's schedule a portfolio review. ◀

[1] MarketLine Industry Profiles. Global Biotechnology December 2019. Cited in The Top Countries for Biotech Firms and Research. August 2020. https://www.thoughtco.com/ranking-the-top-biotech-countries-3973287

[2] Siblis Research. Sector Weightings, Canadian, U.S. and Japan Stock Markets. December 2019. https://siblisresearch.com/data/tsx-composite-sector-weights/

[3] European Pharmaceutical Review. Top 5 Generic Drug Makers, July 2019. https://www.europeanpharmaceuticalreview.com/article/93095/top-five-generic-drug-makers/

How did you do in 2020? Context is key

With performance numbers in for the highly unusual year that was 2020, you may be paying extra attention to your mutual funds' returns. Regardless of current circumstances the following will help you keep perspective.

Appropriate benchmarks. A fund's returns are based on the aggregate performance of the securities it holds, less fees and expenses. But to really gauge how well it did, look at the benchmarks that reflect the fund's holdings. A broad-based Canadian equity fund might use the S&P/TSX Composite Index as its benchmark. Meanwhile, a small-cap fund, or one focusing on tech stocks, would be better served with a different benchmark.

Amongst its peers. Performance is relative, so it's instructive to consider how a fund performed versus funds of a similar nature. Don't compare the performance of a government bond fund to a technology equity fund. A common measure of this kind of performance is quartile ranking: does your fund consistently finish in the first or second quartile of its peer group?

Beyond the short term. Equally important is recognizing that short-term numbers can be misleading. Every asset class has its day in the sun and its turn in the doghouse. Returns for a five- or ten-year timeframe are a better performance indicator than the returns from just one or two years.

Ultimately the best marker of mutual fund performance is whether an individual fund is meeting the goals that your portfolio requires of it. ◀

Fund investors want to know more about responsible investing

Responsible investing is increasingly catching the attention – and dollars – of Canadian mutual fund investors, according to two recent surveys. However, these investors say they need to learn more and want to talk to their advisors about it.

According to a survey conducted for the Investment Funds Institute of Canada (IFIC), just 50% of mutual fund investors say they are either "very knowledgeable" or "somewhat knowledgeable" about responsible investing.[1] Another survey, for the Responsible Investment Association (RIA), found that 75% of respondents want their financial services provider to inform them about responsible investments that are aligned with their values.[2]

The IFIC survey defines responsible investing as a strategy to incorporate environmental, social and governance (ESG) criteria into investment decisions. Key issues identified by the RIA include climate change, executive compensation, water scarcity and health and safety in supply chains.

According to the IFIC survey, 61% of mutual fund and ETF investors who do not currently own responsible investments are "somewhat likely" or "likely" to include such investments in their portfolio in the next couple of years.

Assets in Canada being managed using one or more Responsible Investing strategies amounted to $2.1 trillion by the end of 2017, representing more than 50.6% of total Canadian assets under management, according to the RIA. ◀

[1] Investment Funds Institute of Canada. *2020 Canadian Mutual and Exchange Traded Fund Survey.* Conducted May-July 2020.
[2] Responsible Investment Association. *2020 RIA Investor Opinion Survey.* Conducted September 2020.

With the new year comes new limits on your registered plans

When contributing to registered plans such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), you'll want to make sure you stay within the limits. Failure to do so could result in penalties and a bigger tax hit.

RRSP Contribution Limits. According to the Canada Revenue Agency (CRA) website, the RRSP Contribution Limit for income earned in 2020 will be $27,830, up from $27,230 the previous year. You can contribute up to 18% of your 2019 earned income or $27,830 – whichever is less.

Remember that unused contribution room carries over from previous years so, depending on your past contributions, you may have considerably more room available. To find out what your own limit is, consult your 2019 Notice of Assessment from the CRA or access it online via the CRA's MyAccount service.

TFSA Contribution Limits. The Canada Revenue Agency has announced that the limit for Tax-Free Savings Accounts for the year 2021 has been set at $6,000. The agency has maintained this annual amount since 2019. Like RRSPs, any unused contribution room is still available for use. In fact, if you were at least 18 years old in 2009 (the year TFSAs were introduced), a resident of Canada and have never contributed to a TFSA, you would have $75,500 in accumulated contribution room as of 2021.

You can find all the details of your past contributions and your current contribution room on the MyAccount service on the CRA website. ◀

FundEX INVESTMENTS INC.