

Planning Ahead



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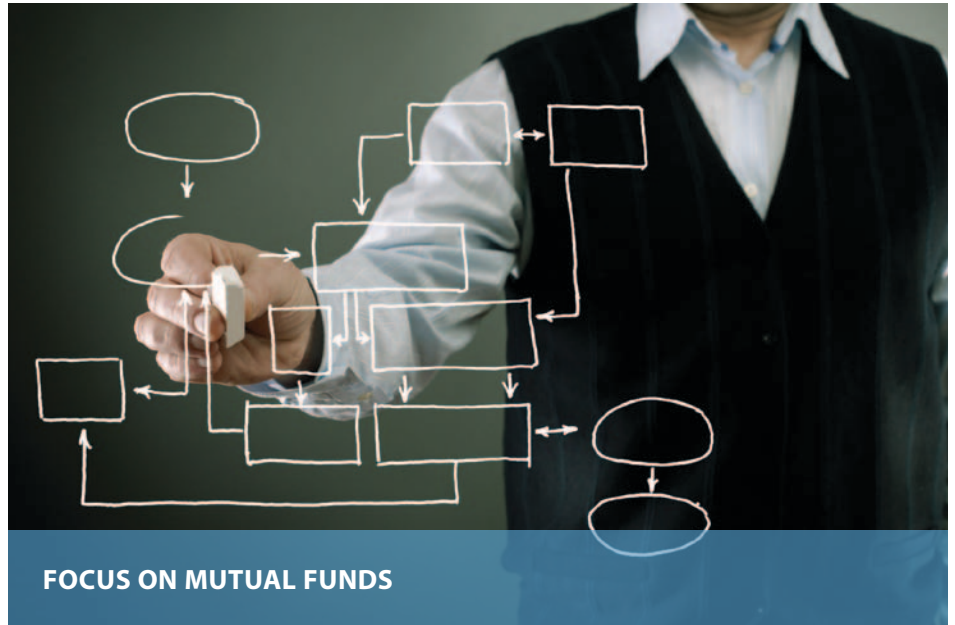
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November, 2011



Do we need to restore balance to your portfolio?

Financial market gyrations may have thrown your mutual fund portfolio out of balance. If so, a discussion of your fund holdings with the goal of ensuring that they continue to reflect your original asset allocation objectives and financial goals would be valuable. Here's why:

Are you out of alignment?

Declines in equity mutual funds during a time of rising prices for bond funds could mean you have a greater-than-intended percentage of fixed-income funds in your portfolio.

We should consider rebalancing by paring back your proportion of mutual funds that have risen in price to the point where their weighting is above what's appropriate for your goals. In addition, we would discuss investing in funds that have underperformed and represent attractive investment opportunities.

No longer moving in lockstep

For much of the past three years, investors benefited from rallies in both equity funds and bond funds because they were moving much more in tandem than is normally expected.

But with severe market gyrations in the second half of this year, these and other asset types are returning to a more typical pattern of lower correlation. Changing economic and investment conditions could mean even less correlation going forward.

This change in market behaviour shouldn't be ignored; it can not only affect the performance of your portfolio but may also influence the mutual funds we select in the future.

To uncover ways we can restore balance to your portfolio, have a conversation with us. ■



MUTUAL FUNDS

How you can turn fund losses into tax benefits

With the end of the year approaching, it's an ideal time to review the performance of your investments — in particular, mutual fund holdings that have declined in value.

Because fund performance sometimes results in a loss, depending on the markets in a given year, we need to pay as much attention to our "sell" strategy as we did to the steps that originally led us to make those investments.

The end of the year is a good time to consider selling underperforming mutual funds. We may not be able to revive them, but the right strategy can help minimize taxes and give the holdings one last crack at doing some good for your portfolio returns.

If the proceeds from those funds can be used in more promising investments, this could be the time to sell at a loss to improve your year-end tax position.

A good opportunity to 'sell low'

By redeeming fund units (outside your registered plans such as Registered Retirement Savings Plans) for less than their original cost, you will create a capital loss that can be used to offset capital gains on your income tax return. By reducing your capital gains, you reduce your tax bill. You may even be able to use that loss to reduce taxes in future or past years.

If you own money-losing mutual funds

that are likely to make a year-end distribution, you take advantage of the capital loss for tax purposes and avoid a taxable distribution by redeeming before the distribution date (generally mid-December).

We need to carefully consider which of your mutual fund holdings are candidates for tax-loss selling. These should be investments we believe have little opportunity for recovery. We also need to weigh the financial benefits of tax-loss selling in each case.

When we create a capital loss, it must first be used to offset any capital gains earned in the same tax year. Any remaining losses can be carried forward indefinitely to future years or applied to gains from the previous three years.

How it works

Here's an example of how tax-loss selling can work to your benefit.

Let's assume you invested \$80,000 in a mutual fund a few years ago (outside a registered plan) and sold that investment this year \$100,000, for a profit of \$20,000. You also sold a money-losing fund investment this year for a loss of \$10,000. (See infographic.)

You would deduct the \$10,000 loss from the \$20,000 gain, leaving you with a capital gain of \$10,000 for the year. Half that amount must be reported as a taxable capital gain on your income tax return, so you will pay tax on \$5,000.

You can use a capital loss on any eligible investment to offset a capital gain on any other eligible investment. For example,

your mutual fund loss could be used to offset gains from mutual funds, stocks, bonds, exchange-traded funds, or even investment real estate. However, capital losses can normally be used only to reduce or eliminate capital gains, not to offset other income.

There is one important caveat: When you sell a security to claim a capital loss, do not buy that security again for at least 30 days. Otherwise it will be deemed a superficial loss by the Canadian Revenue Agency and you won't be allowed to use it to reduce taxable gains.

Timing is important. Transactions need to be completed before year-end to qualify for your 2011 income tax return. Please refer to your tax professional or accountant for advice. ■

How tax-loss selling works

No tax-loss selling

\$20,000

Amount gained from selling A

x 50%

Only 50% of the gain is declared for tax purposes

\$10,000

Taxable capital gain, not using tax-loss selling

Using tax-loss selling

\$20,000

Amount gained from selling A

-\$10,000

Amount lost from selling B

\$10,000

Net gain, after applying B against A

x 50%

Only 50% of the gain is declared for tax purposes

\$5,000

Taxable capital gain, using tax-loss selling

MONEY FILE

Power up your TFSA

A November 2010 survey by BMO Financial Group showed that while more than a third of Canadians have opened a Tax-Free Savings Account (TFSA), they know little about the wide range of investments that they can hold within those plans. As a result, investors may not be taking full advantage of the tax benefits and investment return potential of TFSAs.

The survey showed that 37% had no idea what investments are eligible for their TFSAs. Only 20% knew that mutual funds were eligible and 26% knew that Guaranteed Investment Certificates (GICs) could be included in their plans. The reality is that a TFSA can hold many types of investments. Here's a look:

It's not a simple 'account'

The range of eligible investments is similar to what qualifies for inclusion in a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). That means a wide selection of individual securities, such as eligible stocks and bonds, mutual funds, real estate investment trusts (REITs), annuity contracts, foreign currency, and more.

Diversifying beyond cash or savings-type investments in your TFSA can improve long-term growth potential and returns. Because your investment returns are completely tax-sheltered in the TFSA and tax-free upon withdrawal, the more you earn in your TFSA, the more you benefit from the tax advantages. Compounding of tax-sheltered returns can greatly increase your investment profits and

leave you with a much larger pool of wealth than you would have if you invest in a taxable account.

Strategy is key

The investments you hold in your TFSA will depend on your financial goals, your risk tolerance, and other factors. We need to consider your TFSA as part of your overall investment plan, carefully balancing what you hold in your TFSA, RRSP, and non-registered investments. We also need to ensure that your investment decisions aren't driven solely by tax considerations, but that taxes are just one part of deciding how and when to invest.

We can make the most of your TFSA by exploring its full investment and tax-saving potential within your overall investment plan. ■

**MONEY TALK**

Manage the stress of an emergency

As the Canadian population ages, more of us in our 40s, 50s, and beyond are supporting the care of, or helping to care for, senior parents. There's a good chance that at some point we'll be called upon to deal with emergencies involving our aging relatives. Sometimes those emergencies require us to supply information needed for our parents' care or well-being.

When that time comes, you'll want to access that information as quickly as possible. You or your loved ones don't want to be scrambling to figure out necessary details when time is critical and stress is high.

The best way to make sure you can act quickly and confidently is to prepare in advance. Speak with your parents about their information, compile it and any documents you might need, and make sure they're easily accessible. The more knowledgeable you are, the better you'll be able to look after not just your parents, but yourself as well.

We recommend putting together the following:

Medical information

If a parent is in sudden need of medical care, supplying the right information in a hurry can be a lifesaver. Keep a list of your parents' blood types, medications, details of allergies, a history of past illnesses and surgeries, and contact information for doctors and other caregivers. You'll also want to have details of any medical

insurance plans, as well as supplemental coverage such as critical illness insurance or long-term care insurance.

Financial information

You may be called on to manage or help manage your parents' finances in an emergency. This will require access to bank account information, credit card information, details of loans and loan payments, investment information, and any other pertinent financial details and documents.

Legal documents

Quick access to important legal documents is essential for medical and financial matters. If you or another family member has power of attorney to manage your parents' healthcare or finances, copies and originals must be easily accessible. Other information you may need in an emergency includes your parents' wills, their written instructions about the level of medical treatment they want if they can't express their wishes (sometimes known as a "living will"), and insurance policies. Other estate planning information should also be readily available. The documents and information you need will depend on your parents' situation. We can help you plan a strategy for gathering the necessary documentation, speaking with your parents, and deciding where their information should be kept for immediate access. ■

Surer footing in rocky times

Recent financial market volatility has made even the most experienced mutual fund investors nervous. For those concerned about volatility persisting or even increasing in 2012, adding more stability to your portfolio is worth considering.

The fact is there are many ways to increase the stability of your portfolio.

Recipes for stability

Stock markets, in particular, have endured sharp ups and downs as a result of a hesitant economic recovery, government debt concerns, geopolitical turmoil, Japan's natural disaster, and a host of other factors. Investors were reminded of how volatile stock markets can be by the summer stock market swoon.

Certain types of mutual funds can help provide an effective antidote to this type of overall market turbulence. There are those with relatively low volatility compared with overall moves in financial markets. These funds are known for their lower price fluctuations and for providing a greater measure of safety for your investments.

Adding these funds to your holdings or increasing their representation in your portfolio could add to your added peace of mind.

Money market funds. These may not offer high returns potential in a time of historically low interest rates, but your holdings are extremely secure. Money market funds are generally considered the safest mutual fund investments and also provide liquidity for easy

access to funds when other investment opportunities arise.

Mortgage funds. These funds hold Canadian residential and commercial mortgages and are designed to provide a steady stream of income. They're considered close to money market funds in terms of security of capital. Returns vary with general interest rate conditions.

Income funds. These funds focus on providing a steady stream of income, often along with some possibility of capital gains. Some of the best choices for stability include short-term bond funds and government bond funds.

Balanced funds. Because they invest in both stocks and bonds (or other fixed-income investments), holdings in one asset class can offset volatility in the other. The result is steadier performance than that of many funds.

Increase your proportion of safety

Some of these funds are unlikely to ever lose value, while others may have the potential to decline during extreme market turbulence. However, those that decline are likely to fare better than funds that focus on more aggressive investments such as growth stocks. But there is a tradeoff for that security — they aren't likely to keep up with a booming equity market.

It's important not to go overboard on conservative investments at the expense of growth potential. The balance of security, income, and growth that's right for you will help shape our strategy. ■

Stress test your fund portfolio

WITH SO MUCH financial market volatility lately, you might be feeling nervous about the security of the wealth you've accumulated in your mutual fund portfolio.

A stress test for your fund portfolio — to see how well it is positioned to weather current and future developments — could help ease those concerns.

What is a stress test?

We conduct a stress test by reviewing all your mutual fund holdings to identify potential weak spots or problem areas. We can then take action to fortify your portfolio to better cope with today's and tomorrow's market challenges.

A stress test helps avoid the hazards of underestimating or ignoring the downside potential of financial markets, which have been more than evident in the past year.

Mitigating risk is key

We can determine whether your mutual fund portfolio is overexposed to a single country, region, asset class, or industrial sector. We can also consider risks associated with individual mutual funds. Many funds prepare for current and future turbulence or crises by managing currency exposure or business exposure to more turbulent global markets. We can position your portfolio for what lies ahead.

In the long run, our best strategy is a broadly diversified mutual fund portfolio that provides a buffer against uncertainty. Let us take a close look at your portfolio together and uncover how we can better position it for the future. ■

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