

# Planning Ahead

THE NEWSLETTER OF  
MONEY MANAGEMENT AND  
FINANCIAL PLANNING IDEAS



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FOCUS ON MUTUAL FUNDS

## Why domestic mutual funds still rock

**M**aintaining a mutual fund portfolio that is properly diversified geographically is always a priority. Mitigating risk is a key tenet of mutual fund investing. But what about investing in Canada? Is it good for your mutual fund portfolio to maintain an investing focus here at home?

In light of the way the domestic economy weathered the stormy markets of the last couple of years, the answer is a resounding “yes.” Here’s why it’s still smart to have Canadian investments as part of your mutual fund portfolio:

**Canada has the respect of the world for the quality of its financial system — our banks are cited as among the world’s best.** In fact, one of the biggest Canadian equity fund drivers is the banking sector. During the financial crisis of 2008 and 2009, Canada won accolades for its government fiscal management and a strong, regulated financial system.

**Canada has one of the fastest economic growth rates among the G7 countries.**

According to the Economist Intelligence Unit from the *Economist* magazine, Canada is the best place for doing business among the G7 over the next five years. For investors in Canadian mutual funds, this is just more good news.

**Other fine qualities that appeal to mutual fund investors.** Our abundant natural resources allow many Canadian companies to profit — and therefore keep Canadian mutual funds that invest in natural resources attractive to investors. Other factors include a fiscal environment that promotes corporate growth and profits, a low overall tax rate on new business investment, research and development tax credits, and a skilled and educated workforce.

Let’s discuss how to make the most of Canadian mutual funds in your portfolio. ■

# Two ingredients for successful investing in one package



both inside and outside of Canada, you benefit from investing opportunities for growth while mitigating risk.

## Achieve a fine balance of diversification

Geographic diversification works by spreading investment risk among different countries. The theory is that when one part of the world is experiencing rocky markets, another part of the world may be doing well.

Investors who want to diversify among asset classes and want to do so both inside and outside Canada should consider these funds. To qualify for inclusion in the global balanced category, global neutral balanced funds must follow guidelines dictating how much of their portfolios can be held in Canadian securities and the proportion that can be held in international equities.

Mutual funds are an excellent way to get a degree of international diversification that can be difficult to achieve with individual securities. You benefit from the professional portfolio management teams' knowledge of international investments, as well as their ability to keep a fund's portfolio mix in balance and right for current market conditions.

In addition to geographic and asset class diversification, an investment in these mutual funds enhances your diversification potential through ownership of the many individual investments held by your fund. This would be difficult or impossible for most investors to achieve on their own.

Before investing in a global neutral balanced fund, we should explore the objectives and portfolio composition of individual funds. While they all have a global element, some focus more on North America, while others venture further afield. Individual fund management styles can vary. Some may be "funds of funds"—funds that invest in other mutual funds to meet their investment objectives.

Let's talk about strategies for building you a successful, diversified portfolio, and whether a global neutral balanced fund would work for you. ■

## MUTUAL FUNDS

**Investing internationally and holding a diversified mix of assets in your portfolio are two of the key steps to successful investing. However, it's not always easy to know where to invest or to make individual investments around the world. A person may have limited access to markets outside North America and to the detailed information needed to make wise investment choices.**

One strategy to consider for instant geographic and asset class diversification is investing in global neutral balanced mutual funds. Here's how this investing strategy can benefit your portfolio.

### Two for one

Global neutral balanced funds offer instant geographic and asset class diversification

with a single investment. Global investing opens your portfolio to opportunities and sectors with growth potential. Asset class diversification exposes your portfolio to a wider mix of asset types that can help provide greater potential returns and manage risk.

Global neutral balanced funds are referred to as "neutral" because they're required to have a more even distribution of equities and fixed-income investments than the other two varieties of balanced funds — equity-focused and income-focused balanced funds. As their names suggest, the other two categories of balanced funds lean more heavily in one direction or the other.

By investing in both stocks and fixed-income securities (typically bonds),

**MONEY TALK**

## Do you have faith in the next generation?

Chances are you're going to pass along the bulk of your wealth to your children. You'll feel better if you know your children will be able to draw the maximum benefit from your inheritance. Unfortunately, for some, there is reason to worry they might not.

In a recent poll conducted by one of Canada's big five banks, only 58% of respondents said they were confident that their children would be able to properly manage the money left to them. But there are steps you can take to provide the information and knowledge your heirs will need to manage the money they receive wisely.

**Knowledge is key.** Your children should have the knowledge and support that will help them put your money to good use for themselves and their families. There is a wealth of books, workshops, and websites that can teach the basics of sound investment management.

**Prudence and planning make it last.** Many parents worry that their adult children will squander an inheritance by spending it away bit by bit, instead of using it wisely to provide for their own futures. Share your insight. You know from your own experience that effective wealth management means focusing on making wealth grow over time, through sound long-term investments, effective tax moves, and a host of other strategies that reinforce wealth accumulation.

**If you need us, we can help.** We can help make sure your adult children are prepared and equipped to handle an inheritance. We can offer guidance, if they require it.



By giving your children financial management knowledge, guidance, and tools, you are helping future generations as well.

You may already have considered how to leave your estate to your children. It's also important to think about how you can help them make the most of their inheritance. We'd be pleased to help you build your faith in the ability of your children to manage the money you provide for them. ■

**WHAT YOU NEED TO KNOW ABOUT...**

## Maximizing education savings

The costs of post-secondary education are rising. A Registered Education Savings Plan (RESP) can help ensure that you and your children cope with those costs.

By making the most of an RESP — including smart investing for tax-deferred growth and eligibility for government grants — we can generate investment returns to help ensure you have enough for your children's education.

**Q:** **What are the current costs and how much are they expected to go up?**

**A:** Consider this:

• A 2009 study by one of the top five banks in Canada found the total cost of a four-year degree (including living expenses and academic fees) was \$77,000.

• For those who lived at home with their parents, the cost was \$52,000.

• The study predicted that by 2027 that cost would almost double — to \$137,000 for those living away from home and \$101,000 for students who stay at home.

• Statistics Canada recently reported that undergraduate students this year paid 4% more in tuition fees than last year, and graduate students 6.6% more.

**Q:** **How can I maximize the CESG?**

To receive the maximum Canada Education Savings Grant (CESG),

**A:** you could contribute amounts annually to an RESP rather than a large sum at the outset; the grant is 20% on the first \$2,500 contributed each year, to a maximum of \$500 per year.

However, an RESP strategy isn't always cut and dried. If you have a large lump sum available (up to maximum lifetime RESP contribution limit of \$50,000), we might explore investing it all to begin earning compounding tax-sheltered returns early. You would forgo some government grant money, but you would immediately begin earning tax-deferred returns. A best strategy for managing the grant would depend on a discussion of your needs and situation.

**Q:** **Are there any advantages to a self-directed RESP?**

**A:** Flexibility! There is a lot of flexibility with a self-directed RESP,

allowing us to take full advantage of the wide range of investments you can hold in an RESP.

We can work with you to make sure your strategy maximizes the savings and investment potential of an RESP, as well as making the most effective use of government grants.



# Resetting expectations for retirement

**A**s you get older, the focus of your mutual fund portfolio should change from building wealth to preserving what you've accumulated — especially as you near retirement.

However, some may have difficulty with that shift — particularly if you've had a high risk tolerance. Instead of seeking funds that focus on high investment returns you'll be focusing more on income and security — and therefore lower returns. Here are some ideas for us to discuss to help you make that shift.

## Income funds take the spotlight

While maintaining some growth in your mutual fund portfolio will still be important, income generation and capital preservation will come to the fore.

As part of a shift in focus, we would likely concentrate more on fixed-income mutual funds, which are by nature more conservative than equity funds, and which you'll need in retirement to provide regular income.

Think of it as a tradeoff — you lower your returns expectations so your fund portfolio will be better insulated from potential losses. That's a big change from a strategy driven by the desire to earn high returns to build wealth for retirement or other purposes. But preservation of capital and high returns do not go hand in hand, and income funds are desirable for their lack of excitement.

Simply put, retirement signals the time you get to use what you've saved. Mitigating risk, generating income, and protecting your money means a greater focus on more conservative mutual funds.

For example, we might rethink how much of your fund portfolio you should have in equity mutual funds. In many cases, we will gradually increase the proportion of income funds and secure investments.

## Equity funds still play a role

However, keeping a portion of your portfolio in higher-return investments, such as equity funds, is key for protection against inflation to help maintain the purchasing power of your portfolio.

We will look at the equity allocation of your fund portfolio, and gradually make a shift from higher-risk equity funds to lower-risk equity funds like blue chips. We'll also look at the risk profile of all your other fund investments and may, for example, decrease your higher-risk bond funds to more steady fixed-income funds.

## Focus on your changing goals

Think of "going conservative" as a positive step. It will give you the peace of mind that comes from knowing that your mutual fund portfolio will last through a potentially lengthy retirement. Loss of capital is the last thing you need as you grow older, since it could jeopardize your retirement plans. You won't have the time to make up for losses, as you would have previously.

As retirement gets closer, you'll be ready to move the focus of your mutual fund portfolio further away from the accumulation stage and further into the preservation stage. Together, we can prepare you for that shift in expectations and put into place a strategy that works for you. ■

# Time to get real with inflation

WITH INFLATION STARTING to appear on the radar in North America, it's a good time to look at strategies that help to protect your mutual fund portfolio from the rising cost of living.

One mutual fund strategy we can consider to prepare for rising inflation is including real return bond mutual funds in your portfolio. Here's how this strategy can benefit your fund portfolio:

**Your purchasing power is better protected.** With real return bonds, the interest payments to the mutual fund rise along with inflation and so does the amount paid out at maturity. The purchasing power of the income you receive is protected, and the amount at maturity will be worth as much in tomorrow's dollars as it is now.

**Your registered portfolio may get a turbo boost.** We can potentially boost returns by holding real return bond funds in your Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), or other tax-sheltered accounts. Outside of registered plans, both interest payments and the increase in principal are taxable in the year they take place.

**You gain some security.** Real return bond funds also offer a measure of security because real return bonds are typically issued by federal and provincial governments; their risk of not receiving interest is negligible.

There are ways to temper the effects of inflation; we can discuss whether real return bond funds might play a part in your strategy. ■

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