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Add value to your portfolio: Think dividends

Interest rates remain near historic lows, but equities are volatile. So where can an investor find returns that are both respectable and reliable? The answer: dividends. Here are some key reasons you may want to consider holding or adding to dividend investments as we near the end of 2012.

Canadian corporations are sitting on large cash reserves. Canadian companies that have successfully weathered the economic challenges of the past few years are sitting on enormous cash reserves — some $583 billion, according to Statistics Canada. StatsCan data also shows corporate operating profits at their highest level since 2008, at $71.4 billion. As economic growth continues, cash-rich companies could begin using this cash to "reward" investors.

Dividends from strong, established companies can provide steady income. Although quarterly payments are not guaranteed, dividend-paying investments offer the potential for a steady income stream.

You'll pay less tax on your earnings. Outside of registered plans, Canadian dividends qualify for the dividend tax credit. As a result, dividend income is taxed at a lower rate than interest income.

The dividend provides downside protection. If you're concerned about volatility in the stock market, dividend stocks provide some protection. The dividend softens the effect of any decline in the price of the stock. Based on your risk comfort level and need for income, we can help you choose dividend stocks to complement the existing holdings in your portfolio and meet your needs for both income and growth. ■

MUTUAL FUNDS

Are you as diversified as you think?

Mutual funds possess a number of built-in value-added traits, one of which is immediate diversification. Every mutual fund holds a number of different stocks; a sudden downturn in any one of them should have only a minor impact on overall portfolio performance. In addition, individual investments are carefully chosen to complement one another and contribute to specific objectives of the mutual fund, whether that's growth, income, or security.

Canadian conundrum

Where you are holding Canadian funds, however, there is potential challenge to attaining true diversification. The difficulty is the relatively small size of the Canadian marketplace. The Toronto Stock Exchange (TSX) is much smaller than the New York, Tokyo, and London exchanges. In addition, it is heavily weighted in just a couple of sectors — notably financials (such as banks, insurance companies, and publicly traded investment management firms) and natural resource stocks (oil and gas and mining).

Because of the smaller Canadian market, many funds may hold a number of stocks in common, even though the funds are in different categories and managed by different companies. For example, a large Canadian bank may be one of the top 10 holdings of a Canadian large-cap dividend fund, an equity fund, and a balanced fund. Similarly, a large Canadian oil company can show up as a major holding of a Canadian resource fund, a global equity fund, and a growth and income fund.

There's nothing inherently wrong about the same stocks appearing in several of your mutual funds. It's important to be aware of it, however. Too much overlap or redundancy may mean that your exposure to a particular sector is higher than you're comfortable with.

Big-picture view

When evaluating your true level of diversification, it's essential to take a holistic approach. In other words, we need to consider your diversification across all your portfolios — registered and non-registered — including those that you might hold through an investment plan at work or with another advisor. Consolidating your accounts may make it easier for us to get an overall sense of where potential overlaps and redundancies may exist.

Your diversification picture will change over time, as the funds you hold make new investments or sell some of their holdings. In addition, it will change as you add to your holdings, as the earnings your funds generate are reinvested in additional fund units, and as you redeem fund units.

By tracking your investments regularly, we can help ensure that no one stock or sector is overrepresented in your mutual fund portfolio. ■

Different funds, same investments

These three mutual funds, which invest in different sectors of the market, hold a number of the same companies among their top 10 holdings.

TOP 10 HOLDINGS*		
Canadian Large-Cap Dividend Fund	Resource Fund	Growth and Income Fund
Toronto-Dominion Bank	Enbridge Inc.	Brookfield Asset Management Inc.
Bank of Nova Scotia	Cenovus Energy Inc.	Canada Housing Trust, 2.75% bond
Royal Bank of Canada	Suncor Energy Inc.	Bank of Nova Scotia
Enbridge Inc.	Transglobe Energy Corporation	Tim Hortons Inc.
Brookfield Asset Management Inc.	Potash Corp. of Saskatchewan Inc.	Cenovus Energy Inc.
Canadian Natural Resources Ltd.	Goldcorp Inc.	Great-West Lifeco Inc.
Potash Corp. of Saskatchewan Inc.	Agrium Inc.	Canada Housing Trust, 2.70% bond
Intact Financial Corporation	Eldorado Gold Corp. Ltd.	Government of Canada, 5.0% bond
TELUS Corporation	AuRico Gold Inc.	Province of Ontario, 4.75% bond
Cenovus Energy Inc.	Petrobank Energy and Resources Ltd.	Export Development Canada, 5.80% bond

* As of May 31, 2012. Provided for illustration only; not to be construed as an indication to buy or sell any specific mutual fund or stock.

EDUCATION SAVINGS

Opening an RESP? Make an educated choice

Most parents know that a Registered Education Savings Plan (RESP) is one of the most effective ways to save for their child's post-secondary education. The combination of tax-deferred growth and government grants makes RESPs a great choice. But not all RESPs are the same. Before you invest, it's important to be clear on exactly what it is you're getting into.

Take group RESPs, for example, or scholarship plans as they're sometimes called. While these plans can help you save for a child's education, they operate differently than the self-directed or mutual fund RESPs offered by banks, mutual fund companies, and independent brokers.

Fees, requirements, and restrictions

Group RESPs typically charge an enrollment fee as well as ongoing administration and management fees. You're required to make a regular monthly contribution. If you stop making those payments for any reason or withdraw from the plan, only your initial investment (less your enrollment fee) will be returned.

Your contributions, along with their earnings and any government grants, are pooled with the contributions, earnings, and grants of other contributors to the plan. The funds in the plan are shared by all students who become eligible to receive payments.

To ensure the funds are available to be paid out when a contributor requests, group RESPs invest in only low-risk investments such as Treasury bills, bonds, and mortgages, so growth in the plan may be modest. If you maintain your payments, the pooled approach could potentially benefit your child by providing an increased payout, thanks to those who have forfeited their enrollment fees and earnings.

Conditions on payouts

When it comes time to withdraw funds for your child's education, group RESP rules may be more restrictive than government rules regarding RESP withdrawals. Group RESPs often insist on continuous studies. If your student takes time away, changes programs, or chooses an area of study that doesn't meet the criteria, scholarship funds may cease.

To ensure that you are able to maximize your RESP savings and offer your child the greatest financial assistance possible, talk to us about your options and the most effective way to save. ■

Education by the numbers

The higher your level of education, the less likely you are to be unemployed and the more money you're likely to earn:

- **82%: The employment rate for adults with a college/university education.**
- **55%: The employment rate for adults with less than high school education.**
- **70%: The difference in earnings for university graduates over high school or trade/vocational program graduates.**

Source: Statistics Canada, Education Indicators in Canada: An International Perspective, 2011.

FINANCIAL PLANNING BASICS

What post-secondary students need to know about finances

Every September, many university and college students find themselves moving away from home and managing their money independently for the first time. It's an exciting step, but also a time when financial novices can easily get into trouble. As a parent, you can help your children develop strong financial skills.

Budgeting 101

Work together to jointly establish a school year budget that takes into account your child's earnings from any summer and part-time employment, scholarships, and government grants or loans. On the spending side, you'll need to account for tuition, textbooks, accommodation, food, transportation, and entertainment. Seeing these expenses, in black and white, against the funds available to them may encourage your children to think very carefully about discretionary expenditures.

Credit card basics

Many financial institutions offer student credit cards with low or no annual fees and low interest rates or finance charges. If this is your child's first credit card, it's important they learn how to manage it. Together, you can determine the rules for using the card, such as using it only for groceries, gas, and school supplies, and paying it off in full every month.

It's important for young adults to learn how to live within their means and take responsibility for their financial future. Part of that is helping them grasp the concept of their credit record. Just like their school grade transcript, it can have a lasting impact on their lives.

There's a lot for students to discover when they first move away. Feeling confident that they can manage their own finances gives them a head start. If you need to brush up on your own basic financial skills, like budgeting, in order to teach them to your kids, we can help. ■

China: Investing through the back door

With economic growth in developed nations expected to remain moderate (at best) for the foreseeable future, investors seeking growth may want to turn to emerging markets for superior opportunities. China, in particular, has emerged as an economic powerhouse, posting annual growth rates of 9% to 10% over the past few years.

Foreigners, however, cannot invest directly in the Chinese market. In addition, exchange-traded funds (ETFs) and mutual funds that focus on Chinese companies may exceed your appetite for risk. Fortunately, it's possible to gain exposure to China's economic growth potential by investing strategically in Canadian and international companies that have Chinese connections. This "indirect" route offers a number of potential benefits.

Stocks that are listed on established Canadian and international exchanges are subject to strictly enforced reporting requirements, ensuring that potential investors have access to full and complete disclosure of their activities and their financial reports.

Here is a look at some of the emerging trends in China and the investment opportunities they may represent.

China's industrial revolution

China has become the world's largest consumer of industrial materials. It is also the world's largest manufacturer. With such strong economic growth, China needs immense amounts of energy and resources, more than the country itself can supply.

Investment opportunity: Canadian companies that provide natural resources to Chinese operations, as well as equipment, logistics, engineering, and construction.

The urban shift

As masses of the Chinese population shift to the cities over the next 20 years, it is estimated that the country will need to build the equivalent of 10 cities the size of New York to accommodate everyone. Such extensive construction requires resources to build the cities, technology and transportation to connect them, and energy to power them.

Investment opportunity: North American and European companies that provide urban planning, energy technology, healthcare and retail property expertise.

The growing middle class

As income levels rise, consumer spending shifts from covering the basic necessities of life to buying middle-class items and "luxuries". The influx of new residents to cities results in an increased demand for consumer goods, food and restaurants, lifestyle services, and entertainment.

Investment opportunity: Companies from around the world that provide consumer goods and services along with leisure and travel services.

As part of a diversification strategy for a portion of your portfolio, investing in companies that are supplying what China needs during this period of massive change may be worth investigating. We can help you select investments that are likely to benefit from the strong economic growth of emerging markets like China. ■

Retirement may be cheaper than you thought

THE LONG-ACCEPTED rule for determining how much income you'll need in retirement is to assume 70% of your pre-retirement income. But perhaps it's time to challenge it. You may find you're spending less than you had anticipated, for the following reasons:

- **No more dependants living at home.** With your children grown and living independently, the costs for running your household — energy bills, food, water — could go down.
- **No more mortgage payments.** And even if you're still carrying a mortgage, it's likely to be much smaller than when you were in your career years.
- **No more commuting.** Since you no longer need to travel to work, your commuting costs are likely to go down. If you currently own two cars, for example, you may be able to manage with just one.
- **Lower taxes.** With no taxable employment income, you could see your marginal tax rate drop. By drawing down your assets tax-effectively, we may be able to reduce the tax bite further still.
- **Seniors' discounts.** Retirees represent an important market to retailers, which is why they're willing to offer them special incentives, ranging from in-store discounts, lower rates on car insurance, discounted travel, and a host of other deals for those over 50 or 55.

Of course, everyone's situation is different, which is why it's important for us to get together and consider what your retirement will look like. ■

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