MONEYSTRAT®
SECURITIES INC

November/December 2012
to January/February 2013

MONEYFILE
FINANCIAL STRATEGIES
INVESTMENTS • TAX • INSURANCE • WILLS • ESTATES

David Brodigan

Geordon Ferguson

Margôt Adam

Paul Mancuso

FOCUS ON INVESTING

Should you help your kids buy a home?

High housing prices, especially in major Canadian cities, are making it harder and harder to afford a family home. As a result, some parents are considering whether it might make sense to help their grown-up children get into the housing market.

If you're interested, here are a number of factors to consider:

Do the math. First of all, we can help you do the math to determine whether you can realistically afford it. Then we'll look at how much you can afford.

Don't touch your retirement. Parents who decide to help should be able to come up with the money without taking it out of their retirement funds. It's also important to determine if your kids are financially responsible enough to handle the mortgage payments on their own. If they're not, they shouldn't be owning a house.

Gift money for the down payment. Giving your son or daughter a down payment is a generous gesture, but if you have any reservations about the stability of your offspring's marriage, you may want to reconsider. If they divorce, half of the home equity could go to your former son- or daughter-in-law.

Consider lending them the money. If you decide not to give them money, consider being their lender. Structure it as a proper loan with interest payments and a repayment timeframe. Make sure to draw up a written contract.

Think twice about co-signing. If you co-sign the mortgage, your name is included on the title of the property, making you responsible if the kids default.

Talk to us and we can help you determine the most financially advantageous way for you to help your adult children open the door to their first home.

Time to take on more risk in a quest for yield?

MUTUAL FUNDS

Typically, investors pursue fixed-income mutual funds to add an element of relatively steady, dependable income — without a lot of risk — to their portfolio. However, the staid comfort of "safety" sometimes comes with its own price in the form of lower potential returns, particularly in a low-interest-rate environment.

For those on a quest for yield, take a look at high-yield bond funds.

How to get high yield potential

Higher earnings potential always means higher risk. While regular fixed-income funds hold high-quality, low-risk corporate and government bonds, high-yield bond funds contain high-yield bonds.

These bonds typically offer better interest rates than traditional bonds because of the higher risk associated with the corporation issuing the bond. Perhaps the company has an existing high debt ratio or has experienced recent poor financial performance. To attract investors, the corporation offers higher rates.

High-yield bonds are rated by independent agencies (for an explanation of therating system, please see "What bond ratings mean") below investment grade, because the issuing corporation of the bond has higher risk factors.

Mutual fund strategies

On their own, high-yield bonds are risky. A high-yield bond mutual fund, however, reduces that risk somewhat by holding bonds issued by many companies. If the fund includes a mix of high-yield and traditional bonds, the risk is lower still, because the portfolio is diversified across investment-grade and below-investment-grade bonds.

High-yield bond funds can boost the return of the fixed-income segment of your portfolio. But they also increase the risk. Before deciding if high-yield bond funds are for you, here are some things to consider:

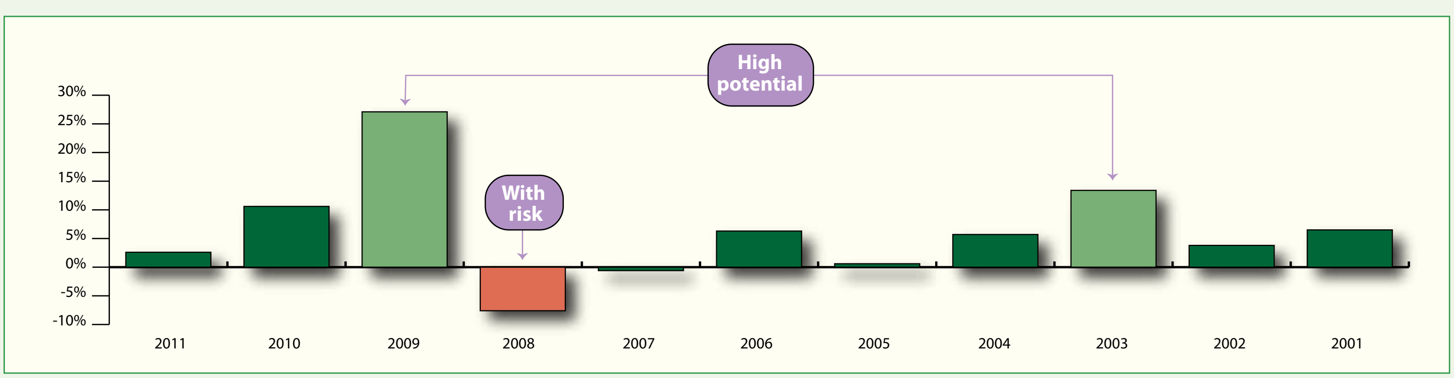
- **Your risk tolerance.** If you're willing and able to accept higher risk, you might want a fund that invests heavily in high-yield bonds, thereby increasing your potential returns. But if you're more conservative, you might want to stay with traditional bonds.
- **Your time horizon.** If you buy a bond fund that has a large proportion of high-yield issues, consider it a long-term investment. High-yield bonds can have sharp fluctuations in price in the short term.
- **Be prepared for volatility.** Remember that high-yield bonds may be among the first types of investments to suffer in an economic downturn. That's because in a declining market, many investors move their money to what they perceive to be the highest-quality, lowest-risk investments. Prices can drop quickly if investors start selling off their high-yield bonds.
- **Keep things in balance.** Bond funds should be just one part of a mutual fund portfolio that includes all asset classes. And high-yield bond funds should be just part of your total fixed-income holdings.

The potentially higher returns of high-yield bond funds can boost the overall returns of your bond holdings, while the safety of traditional bond funds can minimize the greater risk of the high-yield bonds.

High-yield bonds present an opportunity to increase your potential returns. Together, we can plan your investments to ensure that the bond segment of your portfolio continues to provide stable, reliable returns. ■

High-yield bond funds: Great potential, but there's risk too

Average annual returns for the High Yield Fixed Income mutual funds category show how these higher-volatility investments can achieve attractive returns.



Source: *Globe Fund 15-Year Mutual Fund review*, Dec. 31, 2011 (http://www.globefund.com/review/20111231/TABHYB_3.html)

RETIREMENT PLANNING

Saving for retirement? Put it in your piggy bank

It's been coined the "Piggy Bank Index" in a report* by the C.D. Howe Institute — the amount of money you need to save to have the quality of life you want in retirement. How do you determine if you're saving enough?

How much do you need to save?

If your goal is to have $1 million saved by the time you retire at age 65, how much you have to contribute every year depends upon how soon you start and how your investments perform.

To reach $1 million in savings by the time you're 65:				
at Age:	35	40	45	50
You must contribute:	$8,827/yr	$13,679/yr	$21,852/yr	$36,830/yr

Based on an 8% average annual compound return; contributions made at the end of every year.

What kind of lifestyle do you envision?

We invite you to discuss with us the kind of retirement lifestyle you want before settling in on any numbers and determining what your post-retirement income should be. Once we know your plans for the future, we can look at a number of things that affect how much you need to save, such as:

- Given the current economic outlook, what are reasonable assumptions for long-term investment returns and inflation?
- Is your life expectancy assumption reasonable? On average, Canadians are living longer than ever.
- Are you able to increase your regular savings?
- Are you thinking of post-retirement part-time work?

We can tie all these together to establish a savings and investment plan to deliver on the retirement plan you want. Together, we can help you determine how much you need to put in your retirement piggy bank. ■

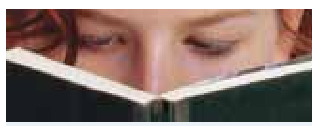
The Piggy Bank Index: Matching Canadians' Saving Rates to Their Retirement Dreams. David A. Dodge, Alexandre Laurin, Colin Busby, March 18, 2010.

TAX PLANNING

Tax credit? Let it ride

As tempting as it may be to take advantage of every possible tax credit or deduction available to you on your annual income tax return, here are two situations in which putting off your claim might put more money in your pocket.

- **RRSP contributions**: If you anticipate that your taxable income will be increasing enough next year to potentially put you into a higher tax bracket, you could defer your Registered Retirement Savings Plan (RRSP) tax deduction in whole or in part. Depending upon how much the deduction reduces your net income in that future year, the savings can be significant.
- **Charitable donations:** You can save your donations (up to five years) and claim a whole bunch in one year to get a greater benefit. Donation amounts over $200 generate a federal tax credit of 29%; below that it's only 15%. ■



FINANCIAL CLASSROOM

Your guide to the basics and how to benefit

What bond ratings mean

Independent rating agencies assess and grade Canadian and U.S. debt issues. In Canada, you'll typically see ratings from Dominion Bond Rating Service (DBRS), Moody's Investor Services, and Standard & Poor's. Their systems assess the creditworthiness of a bond based, in a large part, on their opinion on the likelihood of default. Ratings of "BB" all the way down to "D" by DBRS are considered non-investment grade, also known as "high yield."

AAA	Highest credit quality
AA	Superior
A	Good
BBB	Adequate
BB	Speculative, non-investment-grade; "vulnerable to future events"
B	Highly speculative
CCC/CC/C	Very highly speculative
D	A financial obligation has not been met

Source: DBRS

The risks of playing it safe with "new" money

It's been referred to as "The Age of Safety": an era where fear has superseded greed as the driving force behind investment decisions. Canadian investors are showing an increased desire to play it safe — particularly with new contributions.

It's as if a mental wall has been erected between the way they invested in the past — strategies that were successful and made them money — and how they want to invest today.

Even though equity markets have posted positive returns for the last three years, the fear of a dramatic drop is embedded in people's minds.

If you've noticed you now have an increased desire to invest more cautiously than in the past, it's helpful for us to explore those feelings together and look at the drawbacks of playing it safe.

The downside to playing it safe

It seems that investors' risk tolerance and objectives haven't changed, but their attitudes toward what they feel safe investing in has. Therein lies the conflict. They now want to play it safe and not lose the money they have, so they're seeking out investments, such as money market instruments, that carry little to no risk of default. As a result, they're getting little to no return.

Unfortunately, investing out of fear is not an effective strategy to achieve goals.

Here's why:

- Very simply, taking little to no risk means getting little to no return. Also, avoiding investment risk provides no protection against inflation.
- Investors are missing out on the market recovery by sitting on the sidelines and hesitating to add money out of concern that tomorrow the markets could drop — as opposed to recognizing the possibility that markets will rise.

Strategies to maximize returns

If you find yourself caught in the dilemma of two competing investment mindsets — your pre- and post-market crisis beliefs — here is a suggestion. Let's sit down together to review your risk profile. Maybe it has changed.

If so, we can adjust your investments accordingly so that your new plan will reflect your current objectives and risk tolerance.

If your risk profile hasn't changed, then the next step is to explore your safety concerns and see what's required to stick to your original investment plan. Through effective asset allocation and portfolio diversification, we can minimize your portfolio risk while helping you realize a satisfactory return to achieve your investment goals.

At the end of the day, it's essential that you feel comfortable with how your investments are being managed and don't lose sight of your long-term goals. n

Your Tax-Free Savings Account is powerful — use it!

DO YOU HAVE a Tax-Free Savings Account (TFSA)? There's a 50-50 chance your answer will be yes. That's because half of all Canadians have opened one so far, according to a recent Harris/Decima poll.*

The problem is that of those who do have a TFSA, many are not using it to its fullest potential and are therefore missing out on some of its main benefits.

Harness the flexibility

Back in 2009 when the TFSA was new and the total contribution limit was just $5,000, people tended to treat it like a bank savings account.

Each year since then, the limit has risen and it's indexed for inflation. For 2013, the limit is $5,500. As a result, the TFSA is a much more powerful savings vehicle than in its early years. The ticket is to use it for investments, not just cash savings. Think of the TFSA as a vessel for a portfolio of investments to achieve your goals for savings, income, and growth.

Returns are tax-free

The investment growth and income within your TFSA accumulates tax-free, which means you won't have to pay taxes on interest, capital gains, or dividends when you earn them or when you withdraw them.

We can help you choose the right investments for your TFSA to help achieve your savings goals. n

*Source: CIBC poll conducted by Harris/Decima, August 2012.