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FOCUS ON INVESTING

Invest in Canadian tech? Definitely worth considering

Quick: Name a Canadian tech company. Chances are, the first one that came to mind was BlackBerry, the once-mighty, now-struggling, maker of smartphones. But don't make the mistake of thinking that BlackBerry's problems are a reflection of the Canadian tech sector as a whole. It's a sector with lots of potential and plenty of reason for optimism.

Some specs on techs

It's true that BlackBerry shed more than 30% of its value in 2013. But despite this, the overall sector still posted gains of more than 35%.[1] And despite the colossal collapse of one of its key stocks, the overall index still managed its biggest gain in four years.

That's because Canadian IT entrepreneurs are prolific (in Ottawa alone, there are more than 1,900 high-tech companies[2]) and they're making noteworthy developments in social media, education software, and data mining (to name just three segments).

This is fuelling a kind of virtuous cycle of demand and investment. Canadian tech companies are producing hot products. Consumers are clamouring to buy those products. As a result, it's getting easier for startups to take their companies public or to be acquired by companies that are already publicly traded. Both scenarios are good for investors who want a piece of this compelling sector.

Not for everyone

If you're prone to cold feet or sleepless nights, these stocks may not be suitable for you. But if you are otherwise well diversified, and are interested in participating in this fast-moving, potential-laden industry, what's not to like, tweet, or tumble? ■

1 S&P/TSX Capped Information Technology Index Jan. 2–Dec. 31, 2013 (source: tmxmoney.com).
2 Investottawa.ca, International Investment Attraction.

Profiting from pipelines

Laid end to end, there are enough natural gas and liquids pipelines in Canada to circle the earth 2.5 times.[1] That's an impressive statistic that helps explain why crude oil, natural gas, and the pipelines that carry them are expected to contribute $130 billion to Canada's GDP over the next 30 years.[1] And that doesn't even include the potential growth from the major pipeline projects currently in development.

The Keystone pipeline, for example, will stretch almost 2,700 km from central Alberta to the Gulf of Mexico if completed. The Keystone XL portion would provide an exit route that could facilitate a doubling of the Alberta oil sands' current production.[2]

So while pipelines might be a hot potato politically and environmentally, they're also a potentially rich investment offering for mutual fund investors.

Super natural resources

In a recent poll, 87% of respondents said that oil and gas development are vitally important to the Canadian economy, while 53% ranked the sector as the most important.[1] That attitude is a reflection of just how robust this sector is.

Canadian crude oil output is projected to rise to 4.9 million barrels per day by 2020, up significantly from the 3.2 million produced in 2012.[1]

On the natural gas side, new technologies are on the cusp of giving Canadian companies the ability to unlock previously inaccessible gases (including ethane, propane, and butane) trapped in shale rock formations. Called "fracking," it has been a contentious issue for environmentalists, but that hasn't stopped its use. Quite the contrary: In the U.S., the use of these techniques has sparked a 32% increase in ethane production since 2008.[3]

Piping-hot opportunities

As new stores of oil and gas come online and global demand for energy climbs, pipelines play a key role. Moving all of that oil and gas to buyers across Canada, the U.S., and as far away as China is key to the industry's long-term profitability.

Pipelines, and their satellite industries, also contribute to the Canadian economy in ways you might not realize. The industry employs some 25,000 workers. The majority of those jobs are in Alberta, Ontario, and Saskatchewan, but 29% are spread across the rest of the country.[1]

Carrying increasing volumes of oil and gas doesn't just boost the coffers of the pipeline companies. Significant benefits can be expected in ancillary industries, as well. Companies that produce oil and gas will benefit from enhanced access to domestic and international markets. Refineries, petrochemical plants, and distribution companies also stand to benefit.

Resourceful investing

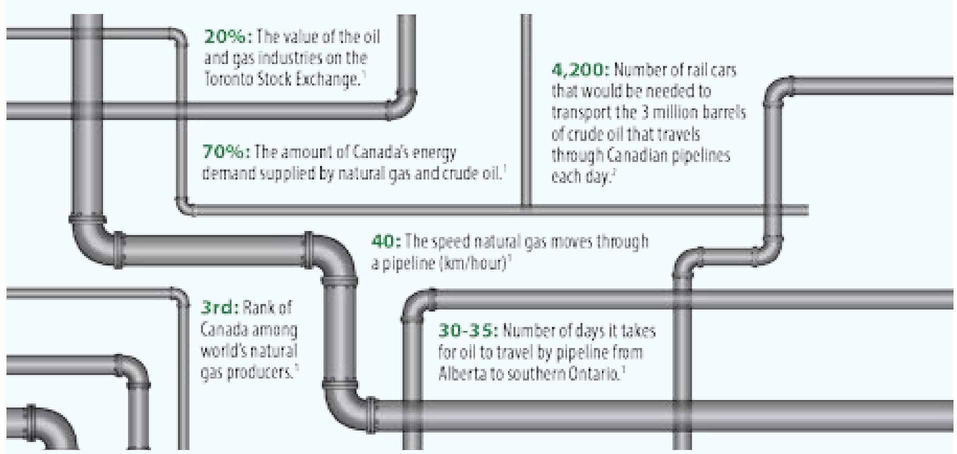
For retail investors, resource-based mutual funds provide a convenient way to access the resource sector. Fund choices range from broad-based Canadian equity and balanced funds that have modest exposure to the sector, to those that focus exclusively on the energy sector and natural resources.

If you're interested in this exciting sector, we can help you sift through the available funds to find solutions that are right for your portfolio. ■

1 Canadian Energy Pipeline Association (cepa.com).
2 The Guardian, "Keystone XL oil pipeline — everything you need to know," Jan. 31, 2014.
3 Government of Canada, National Energy Board, "Canadian Energy Dynamics 2013 — Energy Market Assessment."

Saturating our economy with potential

Just how vital are the oil and gas sectors to the Canadian economy? As you can see, they are very vital indeed.



1 Canadian Association of Petroleum Producers, Basic Statistics (capp.ca)
2 Canadian Energy Pipeline Association (cepa.com)

EDUCATION PLANNING

Attention parents of surly teens!

If you have a Registered Education Savings Plan (RESP) or are thinking of opening one and your child is turning 15, 16, or 17 this year, there are some steps we may need to take to ensure your plan qualifies to receive the Canada Education Savings Grant (CESG).

In the year they turn 16 and 17, kids are eligible for the CESG only if:

1. Their RESPs have received at least $2,000 in contributions before they turned 15 (this refers to the calendar year in which they turn 15, not the actual birthdate) OR,

2. Their RESPs received at least $100 in contributions in any four years before the year they turned 15.

Note that your plan does not have to meet both requirements, only one. That said, if any portion of those minimum contributions was withdrawn from the account, they lose their CESG eligibility.

In other words, if you wait until your child is 16 or 17 with the intention of opening a kind of "last-minute" RESP, the plan won't be eligible for any grant money. Otherwise, as long as you've been contributing regularly, you should be okay.

Please note that these special rules apply only to eligibility for the Canada Education Savings Grant. They do not apply, for example, to RESP holders in Quebec who qualify for the Quebec Education Savings Incentive (QESI).

If you have not yet started an RESP and you have a teen turning 15 this year, be sure to contact us soon. Your plan can still qualify for the CESG as long as you open it and contribute before the end of the year. ■

TAX PLANNING

Selected for review?! Don't panic

Each year, the Canada Revenue Agency (CRA) flags selected tax returns for extra scrutiny, in part to ensure compliance but also to educate taxpayers in areas prone to mistakes. You can be randomly selected whether your return is submitted on paper, electronically, or through a professional tax preparation service or accountant.

So if you receive a letter indicating your income tax return has been "selected for review," stay calm. It's not the same as an audit. It just means your tax return has been flagged for a more thorough investigation.

Being selected for review could lead to an audit, but as long as you can support your claims with proper documentation, you probably don't have anything to worry about. Even if you knowingly completed your tax return incorrectly, the Voluntary Disclosures Program enables you to come clean, correct your return, and not face legal consequences.

To see a list of the most common tax return mistakes (and those most likely to lead to an adjustment), visit cra-arc.gc.ca and search for "common adjustments."

If you're preparing for a review or audit and have questions about your investment income or any related tax slips, give us a call. For tax-planning advice specific to your situation, please call on a qualified tax advisor. ■

Diversification, 21st-century style

The World Economic Forum, a top global think tank, recently released its annual list of the risks most likely to affect the global economy in the coming years. Among those in the top 10 were: fiscal crises in key economies; food and water shortages; failure to adapt to climate change; a greater incidence of extreme weather; the collapse of a major financial institution; and the breakdown of global governance.[1]

What does all that mean? It means your investments could be susceptible to the world's dynamic (and unpredictable) markets, dramatic weather, and ever-changing political landscapes. And if you're still diversifying the old-fashioned way, you may not have as much risk mitigation — or growth potential — as you think you do.

A mix of old and new

As new global risk factors emerge, we may want to fine-tune our approach to diversification in your portfolio. Diversification may need to be more nuanced and may require a more active, hands-on approach.

Finding an appropriate balance between stalwart "old economy" stocks and those from the new titans of industry is a good starting point. Depending on your objectives and comfort level with risk, we may want to consider moving into growth sectors as opportunities present themselves.

Maintaining a suitable position in cash (or its equivalents) will give you the agility to capitalize on opportunities. Note that this doesn't mean trying to time the markets, but, rather, being more attentive to your portfolio and to the markets in general.

Regular portfolio reviews will help ensure that your portfolio continues to align with your objectives even in a fast-moving market. This will also give us an opportunity to consider potential new acquisitions and to consider whether your existing investments still belong in your portfolio. Buy and sell decisions will, of course, be made only in the context of your overall portfolio and will factor in any potential income tax implications.

Diversification 2.0

Another way we can modernize your portfolio is to look beyond asset classes to so-called sub- asset classes. For example, in addition to holding both large-cap and small-cap equities, you might want to explore opportunities in mid caps, and micro caps. This may not only enhance your portfolio's diversification but may also increase its new-economy potential. To provide protection against downturns in any one market, geographic region, or industry sector, we'll watch closely for investments that have a low correlation to those you already hold. For example, Canadian and U.S. equities tend to move more or less in lockstep. Broadening your holdings to include investments that might "zig" when those securities "zag" rotects you from a prolonged North American downturn. In your fixed-income portfolio, we will want to ensure you're diversified by both maturity and issuer. And, if it falls within your risk tolerance, we can look at alternatives such as emerging-market debt and high-yield bonds.

A tailored approach

These are just some of the ideas we might explore as a whole new world of investment opportunities begins to take shape. We can help you harness that potential, mitigate the risks, and take control of your future no matter what the fates have in store. n

1 World Economic Forum, Global Risks 2014.

Buy what you know

Investment titans Warren Buffett, and Peter Lynch have long championed the mantra, "Buy what you know." What does that mean? Well, the theory is, if you go to Starbucks for your daily jolt of java, maybe you'd also consider investing in the company's stocks. It sounds basic, but there's a lot of logic involved.

Opportunity at your fingertips

In your daily life, you undoubtedly have regular dealings with all kinds of publicly traded companies, including coffee shops, retailers, financial services providers, and oil companies. Your house is filled with furnishings, electronics, and foods from some of the world's biggest companies. And your hometown may well be host to some big-name businesses with which you are well acquainted. The challenge is determining if these companies are suitable for your investment portfolio. That's where we come in.

Evaluating suitability

Let's look at your holdings to see whether you already have exposure (perhaps through a mutual fund or a conglomerate in your portfolio) to the companies or industries that have piqued your interest. We can also evaluate the investment you're considering in terms of fundamentals like price, earnings history, and so on. We also need to consider how this potential new investment will fit with the rest of your portfolio. If your portfolio becomes too heavily concentrated in any one type of company or sector, it may upset your asset allocation. n

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