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RESPs: A great way to teach kids about investing

With kids heading back to school in September, you may be thinking about future education needs for your own children. You probably know that Registered Education Savings Plans (RESPs) are a great way to accumulate the needed funds and to benefit from government contributions. But there's another way that RESPs can add value — they also provide a good opportunity to get your kids involved.

A learning opportunity

Primary and secondary schools are great at teaching English, math, and science. But most teach next to nothing about financial management, arguably among the most important life skills. By reviewing RESP holdings with your kids, you can teach them about saving, investing, and long-term planning all at once.

In the process, your children will learn about the benefits of compound interest

and how stocks, bonds, and mutual funds can increase in value. They'll also discover the joys of saving — a key life lesson at a stage where their main knowledge of money relates to how to spend it!

Paying it forward

Learning about financial accumulation can provide your children with a broader perspective that will hopefully spark a desire in them to save and will prepare them to better manage their money when they get older.

We can use your RESP statements as a cue to explain why we made certain investment decisions, how their education funds are progressing, and how that progress meshes with their projected expenses.

But perhaps most important of all, these discussions will encourage your kids to think about their futures and can engage them in the process of getting a higher education. ■

Time to incorporate China into your fund strategy?



A recent upwards revision by the World Bank to China's gross domestic product (GDP) could see it ranked as the planet's biggest economy as early as next year. Investors seeking growth and international diversification may want to consider equity funds with exposure to this exciting emerging market.

The World Bank re-evaluated the GDP of major economies (as of 2011) in purchasing power parity (PPP) terms. Purchasing power parity values locally produced products and services (such as a Big Mac, a haircut, or a legal opinion) equally to similar purchases in other countries, even though they may be priced differently in local currency terms. This latest World Bank estimate values China's 2011 economic production at USD \$13.5 trillion¹ in PPP terms, almost twice the \$7.3 trillion market exchange rate level.

Positive trends

While size clearly matters, there are several additional trends that signal opportunity in China. China's growth rate, which the International Monetary Fund (IMF) expects to slow to 7% in 2015,² remains vastly ahead of that of the rest of the world, which is projected by the United Nations to advance by just 3.2%.³

Furthermore, the Chinese Communist Party recently announced a relaxation in its one-child policy. This is potentially great news, as the "baby bust" the policy had produced has been slowing labour force growth for the past several years. If unchecked, it could lead to stagnation and even shrinkage in coming years.

China has also announced plans to reduce currency controls, in a bid to

expand the yuan's usefulness as a reserve currency. Swap agreements have already been negotiated with Russia, Brazil, and several other Chinese trading partners. As a result, the yuan is beginning to edge out the U.S. dollar as the preferred medium of exchange in bilateral trading relationships.

How to participate

For mutual fund investors who would like to gain or increase exposure to Chinese growth potential, there are several options:

- Sector funds that focus solely on investment opportunities in China.
- Funds that invest in non-Chinese companies (particularly those based in Hong Kong, Taiwan, and Japan) that are connected to China.
- Canadian resource funds that invest in companies that export to China.

As with any investment, there are potential risks to investing in China.

Managing risk

Because of their narrow focus, sector funds as a group tend to be more volatile than more broadly diversified funds. In seeking specific funds for your portfolio, we will pay close attention to both your desire for growth and your tolerance for risk, in order to remain within your comfort zone. ■

¹ The World Bank, Purchasing Power Parities and Real Expenditures of World Economies, Summary of Results and Findings of the 2011 International Comparison Program.

² Reuters.com, "IMF cuts China's growth forecast but urges focus on reforms," June 5, 2014.

³ CIVnews.com, "UN lowers world economic growth forecasts amid cold winter, Ukraine crisis," May 21, 2014.

China poised to take the lead in economic growth

In 2011, China's gross domestic product (GDP) was only slightly less than that of the U.S., based on purchasing power parity. The International Monetary Fund expects that China could take over the top spot as early as 2015.



* 2011 purchasing power parity, in U.S. dollars.
Source: The World Bank.

Want to simplify your estate plan? Consider segregated funds

Investors typically choose segregated funds because they offer access to a range of diversified, professionally managed portfolios (similar to mutual funds) along with maturity and death benefit guarantees. But they also offer significant estate-planning benefits.

Because the death benefit goes directly to your named beneficiary(ies), it doesn't pass through your estate. As a result, it won't be subject to probate fees or taxes in provinces where they exist.

And because the segregated fund beneficiaries are never mentioned in your will (which is a public document), the bequest remains confidential. This can be an advantage in certain delicate family situations where you want to leave a legacy for

someone, but you don't want your other heirs to know about it.

If you think a segregated fund could be useful in your situation, please give us a call. ■



DEBT REDUCTION

A risk-free 35% return!

Double-digit returns are rare these days. Risk-free double-digit returns are almost unheard of. However, by paying off a revolving credit card balance, you can achieve the same effect.

Many credit cards charge interest on overdue balances at a rate of 25% or more. So paying them off can yield major savings.

That means that if you owe \$1,000 to your credit card provider, and are paying a 25% annual interest rate, eliminating that balance will save you \$250. That's a 25% after-tax return for a risk-free \$1,000 investment. Not bad — but it gets better!

Consumer credit card interest is paid in after-tax dollars. In a 33% tax bracket, you need to earn more than \$375.38 to pay \$250 in interest. Taking that into consideration, paying down \$1,000 in revolving credit card debt generates a pre-tax return of more than 35%. ■



EYEOPENER

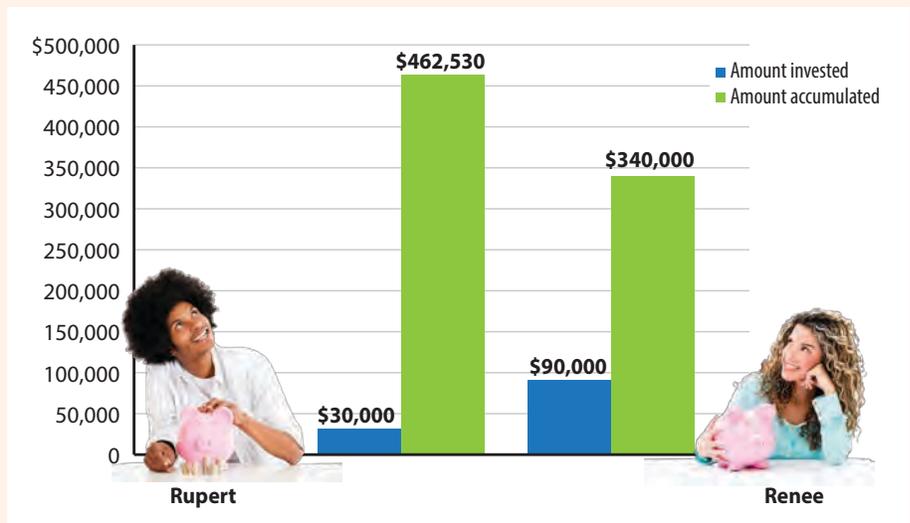
graphic evidence of how investing works

Big benefits for 'Millennials' who start saving earlier

A new study¹ suggests that Millennials, the generation born after 1978, are starting to save on average at age 22. That's almost a decade earlier than their Baby-boomer parents.

Clearly, the next generation grasps the importance of starting early when it comes to saving and investing. In this chart, for example, Rupert sets aside only one-third as much as Renee, yet has over \$120,000 more at age 65.

If you have children, try to make them aware of the benefits of starting early when it comes to saving. In fact, why not bring them along next time we meet? We can show them how easy it is to get started.



¹ Transamerica Center for Retirement Studies®, The Retirement Readiness of Three Unique Generations: Baby Boomers, Generation X, and Millennials, April 2014.

Make investment decisions as a couple

What's the key to a successful long-term relationship? Many couples might say communication, openness, honesty, or doing things together. Those are all items that can be applied to your investment plan — with equal success.

Whether you choose to pool your assets with your spouse, coordinate approaches, or simply keep one another informed about major moves, there are benefits to looking at your portfolios together rather than in isolation.

A frank and open exchange of ideas

Getting on the same page as your partner regarding future goals as a couple can make it easier for us to map out an effective long-term investment strategy.

What are your financial priorities? When do you want to retire? Where do you want to retire? In Florida? Or in Bali? Once you have aired out these types of issues, we can discuss the steps you need to take to accomplish your goals.

A complementary approach

When both partners have different investment attitudes and beliefs, their portfolios can be designed to complement rather than conflict with one another. For example, you may want to focus on growth while your partner places a priority on capital preservation. That gives us an opportunity to create portfolios that you are comfortable with as individuals and that provide you, as a couple, with an appropriate balance of both growth potential and security.

More effective diversification

By evaluating your portfolio in conjunction with that of your spouse, we can often identify gaps, redundancies, and rebalancing opportunities.

For example, if you are both fully invested in equities, you may, as a couple, be exposed to excessive risk. On the other hand if you both hold only fixed-income securities or cash, you may be missing out on market growth opportunities.

Income-splitting

By shifting taxable income into the hands of the lower-earning spouse, that income will generally be taxed at a lower rate.

One effective way to split income is to use the lower-income spouse's earnings for investing while the higher-earning spouse pays all the household bills. That way, any investment income generated will be taxed in the hands of the lower-income spouse.

A spousal Registered Retirement Savings Plan (RRSP) is another effective way for partners to split income. The higher-income earner contributes (up to his or her deduction limit) to the lower-income partner's RRSP.

Getting started

A good way to get started in adopting a common investment approach with your partner is to bring him or her along the next time that we review your portfolio. If two heads are better than one, then three heads should definitely be better than two. ■

The effects of FX when investing abroad

When you hold investments denominated in a currency other than Canadian dollars, your returns depend not only on the investment's performance but also on changes in the relative value of the foreign currency.

Currency performance can boost returns

For example, suppose you buy an investment denominated in U.S. dollars when the Canadian dollar is at par. Over the next 12 months, the investment increases by 8%. At the same time, the U.S. dollar appreciates by 5% against the loonie. If you sell the investment and convert back to Canadian dollars, your 8% gain will turn into a 13% gain (not taking into account conversion or brokerage fees).

Of course, the currency-performance pendulum swings both ways. In other words, if the U.S. dollar had lost value over that time frame, your 8% interest gain would have been eroded when you converted your U.S. dollar gains to Canadian dollars.

Managing currency fluctuations

Currencies fluctuate for a range of reasons, including the country's fiscal position, monetary policy, and economic outlook. We'll take these factors into consideration when helping you select foreign investments for your portfolio. Similarly, anytime you're thinking about selling an international holding, we'll review the impact of currency conversion. And while the exchange-rate impact is important, it's just one of the many factors we weigh in helping you make investment decisions for your portfolio. ■

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