MONEYSTRAT® SECURITIES INC

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

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FOCUS ON INVESTING

How to stay on track when markets surprise

Few people predicted the dramatic drop in the price of oil in 2014. And while the consensus is that such low prices are unsustainable, no one can predict when they'll rise again or how quickly.

In the face of such uncertainty, your planning decisions may be affected.

Canada's oil-based economy

Canada's stock market has a heavy resource presence. A decline in the price of oil typically means a drop in the TSX/S&P composite index. Whether your portfolio has been affected and to what degree will depend on the specific investments you hold.

Whether we need to make any changes to your portfolio is another matter entirely. Remember, your investments have been carefully selected to reflect your long-term objectives, so altering your portfolio in light of temporary market behaviour can run contrary to your financial well-being.

Key considerations

If your personal situation, your investment goals, time horizon, and risk tolerance have not changed, then it probably makes sense to stay focused on the long term and let your portfolio do its work.

If volatility in the oil patch has left you uneasy, however, it may be that you underestimated your risk tolerance. In that case, we can re-evaluate your investor profile and make adjustments if needed.

On the other hand, if you can handle the potential ups and downs, you may want to look at the decline in the price of oil as a buying opportunity.

Let's get together soon and go over your portfolio to make sure you're comfortable in the current environment. ■

Give your kids or grandkids a head start — by teaching them how to invest

MUTUAL FUNDS

As parents, we work hard to keep our children happy and healthy and give them the tools they need to succeed as adults. That includes teaching them about money — why it's important, where it comes from, and how to manage it wisely. Unfortunately, this is an area largely lacking in the school curriculum. Maybe that's why the Ontario Securities Commission reports that 42% of Canadian children between 20 and 29 are living with their parents, primarily for financial reasons.[1] However, you — and we — can help kids learn about investing, starting with mutual funds.

Why start with mutual funds?

Mutual funds can be a great place for young people to learn about investing and to start their own portfolio. Low minimum investments make them easily accessible, regular contributions are easy to set up, and with a huge variety to choose from, we can surely find a fund that appeals to your young investor.

Investing allows kids of all ages to start building a nest egg and gets them involved in their own planning for the future. When good habits like these are established early, a child may be more likely to carry them on into adulthood.

The following examples illustrate how even children who are too young to open their own investment account can learn from mutual fund investing.

In-trust accounts for minors

Every year, Thomas gives his granddaughter, Ellie, cash for her birthday on the understanding that she will save some and donate a portion to charity. The rest she can spend however she wants.

For her 13th birthday, however, Thomas has a surprise for Ellie. His gift is $2,500, but there's a catch — she has to invest it. He sets up a mutual fund account under his name that's "in trust for" Ellie. While any interest and dividends generated in the account will be attributed to him for tax purposes, capital gains can accrue indefinitely and when realized will be taxable in Ellie's hands.

Thomas explains how mutual funds work and helps her select the ones she wants. Every month, they go over Ellie's statement together, tracking her funds' growth.

Every year, Thomas plans to gift additional funds to Ellie for her investment account. He hopes that by the time she graduates from high school, there will be a tidy sum she can use for her post-secondary education.

Becoming an adult

Like so many young adults, Aiden, 18, is keen to see the world. His plan is to save as much as he can over the next three to five years and then spend six months travelling. But what's the best way to save?

His mother suggests that he talk to her financial advisor, who tells Aiden about Tax-Free Savings Accounts (TFSAs) and mutual funds. In a TFSA, Aiden can invest up to $10,000 a year. By choosing balanced mutual funds, he can earn a mix of interest, dividends, and capital gains that is likely to be more than the interest he could earn in a savings account — all of it tax-free. And when he's ready to take his trip, his withdrawal will also be tax-free.

Establishing a foundation for life

Marco, 24, has just landed his first "real" job. It's an entry-level position for now, but Marco is excited about the possibilities. Marco's father suggests that he start contributing to a Registered Retirement Savings Plan (RRSP). Marco agrees to talk to his dad's financial advisor to learn more.

She explains that Marco can have regular deductions made from his paycheque that can go into an RRSP. With some mutual funds, he can start investing with as little as $25 per contribution. He'll get a tax deduction for his contributions and the earnings will be tax-deferred until he takes them out.

She suggests that he may want to focus on equity funds with high growth potential. With his long time horizon, Marco can easily ride out any temporary market declines.

We're here to help

If you'd like to introduce your children or grandchildren to the benefits of investing, we can help. Next time we get together to discuss your portfolio, why not bring the kids along? ■

1 Ontario Securites Commission, GetSmarterAboutMoney.ca, "Dealing with your teen's bad money habits."

MONEY SKILLS

Millennial kids

When are your kids old enough to start thinking about investment and finance? If you have young children or grandchildren, it's hard to imagine them even thinking about such things — but it's something that the millennial generation (kids born roughly between 1980 and 2000) needs to know about now.

Research shows that they'll likely start out with relatively lower-paying jobs than previous generations did.[1] They'll need to rely on their own financial planning acumen more than ever — saving for retirement as the social safety net of earlier years weakens.

Canada's Task Force on Financial Literacy echoes that sentiment: "As more financial decisions are faced by Canadians at younger and younger ages, grasping financial principles early in life is crucial to being better prepared."[2]

Don't hesitate to talk about money with your kids. Start out easy and build on concepts. The Financial Consumer Agency of Canada recommends[3] that 15- to 18-year-olds should:

- Understand the pros and cons of different payment options, such as cash, debit cards, and credit cards.
- Know about different kinds of basic investments, such as GICs, stocks, bonds, and mutual funds.
- Understand the time-value of money (its past, present and future worth), and how it can grow.
- Know how to "live within their means."

Talking about money doesn't make you a dreary parent. In fact, it's an opportunity for you to show your kids how money can help make dreams come true. And remember, we're here to help. Why not bring your son or daughter along next time you come in to see us? We can review your portfolio and give your young one some insight into the steps you've taken to create a secure future for yourself and your family. ■

1 Andrew Langille, *Canadian Business*, "Millennials' job plight is more than simple unemployment," January 2015.
2 Report of Canada's Force on Financial Literacy, December 2010.
3 Financial Consumer Agency of Canada (fcac.gc.ca), "Teaching children about money."

TAX PLANNING

Important tax changes for testamentary trusts

In January 2016, the taxation of testamentary trusts (trusts created through a will) will change. Up until now, they have been taxed at the same graduated tax rates as an individual. After January 1, 2016, all income in a testamentary trust will be taxed at the highest tax rate applicable in each province.

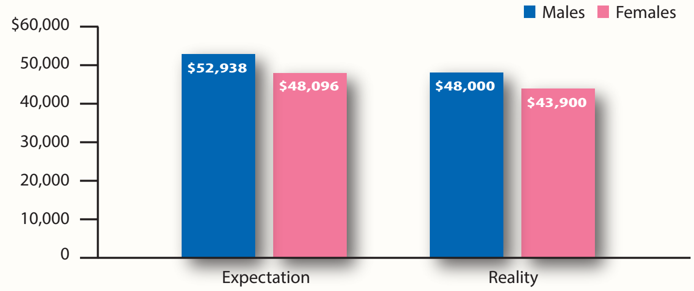
Even without the advantageous tax treatment, a testamentary trust can fulfil an important role in your estate plan. Trusts enable you to maintain some control over where and to whom your money will go. They help make sure that assets are managed wisely, and they can avoid costly and time-consuming probate. In some situations, they can also be used to split income among estate beneficiaries. These benefits won't change in January.

These changes do have implications, though, which it's important to understand so you can make fully informed decisions. If you currently act as a trustee or are named as executor for a will that contains a trust, you may want to speak with a tax advisor about how the changes might affect the beneficiaries of the trust. Similarly, if you have set up or are thinking about setting up a trust in your will, it's probably a good time for a professional review of your entire estate plan. ■

EYEOPENER
graphic evidence of how investing works

Reality gap

In a poll conducted by one of the Big 5 banks, Canadian graduates said that they expected to earn an annual salary of more than $50,000. Many of them may be disappointed, though. Data from Statistics Canada reveals the reality: the average salary two years after graduating from post-secondary school is just $45,000.



Sources: Pollara/BMO Student Survey, September 2013, and Statistics Canada

INVESTMENT PLANNING

Tax-Free Savings Accounts — what the new rules mean

Tax- Free Savings Accounts (TFSAs) are a popular way to invest and save, but not as popular yet as they might become. The 2015 federal budget boosted the contribution limit for TFSAs to $10,000 a year from $5,500.

How significant is the increase? Very! Contributing $10,000 a year to a TFSA for 10 years and earning 5.5% annually, you would earn $35,835. The same $10,000 split every year between a TFSA with the old limit and a taxable account (based on a 21.6% combined federal/provincial tax rate) would earn just $32,127, or 12% less.[1]

Get started

With all their attractions, you might think that every Canadian would be maximizing their TFSA. Surprisingly, that's not the case. Government data reveal that only 40% of eligible adults even have a TFSA, and of those who do, fewer than 20% (17.8%) have maximized their contributions.[2]

Expand your horizons

TFSAs can hold a wide variety of investments, including Guaranteed Investment Certificates (GICs), mutual funds, bonds, and equities. By moving beyond very conservative assets that generate only interest, you can earn potentially higher returns.

As a result, TFSAs can be a great place to save for longer-term goals. They can also be considered a viable alternative — or even better, a valuable complement — to a Registered Retirement Savings Plan (RRSP).

TFSAs and seniors

For older Canadians, TFSAs have some unique benefits:

No earned-income requirement. In order to contribute to an RRSP, you need to have reported earned income the previous year. With a TFSA, there's no such requirement, making them a great choice for seniors who are no longer working.

No age limit for contributing. You must convert your RRSP to some form of retirement income by the end of the year you turn 71. With TFSAs, there's no upper age limit. You can keep contributing — and earning tax-free returns — all your life.

Withdrawals are not considered taxable income. TFSA withdrawals won't affect your eligibility for income-linked government benefits like Old Age Security.

Repository for RRIF payments. If you convert your RRSP to a Registered Retirement Income Fund (RRIF), you must withdraw a specified minimum every year. By depositing it into your TFSA (up to your contribution limit), you can continue generating tax-free returns.

Revisit your strategy

The higher limit changes the role that TFSAs can play in your overall financial strategy. Talk to us about how your TFSA fits into your plan and whether we should look to increase (or start) a regular contribution plan to help you contribute up to the maximum. ■

1 Government of Canada, 2015 Budget, Chart 4.1.6, "Tax savings from increasing the TFSA annual contribution limit to $10,000."
2 Government of Canada, 2015 Budget, Table 4.1.1, "Tax-Free Savings Account Statistics, 2013."

INVESTMENT STRATEGY

Your home: More than a roof, more than an investment

In May 2015, the Canadian Real Estate Association reported that the average home price in Canada was $450,889, an 8.1% increase from May of last year.[1] With skyrocketing prices in some Canadian cities, the temptation is to think of your home as a major asset class and to treat it as simply another portion of your portfolio.

Should you sell to realize gains?

For some homeowners, it may make sense to consider selling and downsizing. Doing so presents an opportunity to cash in the equity you've built in your home and use it to pay down debt, invest, or increase your retirement savings. It can be especially attractive given that any capital gain on your principal residence is tax-free.

But your home is a lot more than an investment. Where you live is inevitably tied in with how you live, and with your lifestyle.

Other ways to tap into equity

If you need additional capital, there are other effective ways to tap into your home's equity without selling. You might refinance to increase your mortgage, take out a secured line of credit, or even consider a reverse mortgage.

Before taking any of these routes — or listing your house for sale — talk to us. We can help you look at the entire picture and create a plan that supports both your financial and your life goals. ■

1 Canadian Real Estate Association (crea.ca), National Average Price Map.

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