MONEYSTRAT® SECURITIES INC

MONEYFILE

FINANCIAL STRATEGIES

INVESTMENTS • TAX • INSURANCE • WILLS • ESTATES

Summer 2016

David Brodigan

Geordon Ferguson

Margôt Adam

Paul Mancuso

FOCUS ON INVESTING

Sitting on cash? You could be short-changing yourself

According to a widely reported study released by a Canadian investment bank earlier this year, Canadians are sitting on $75 billion in excess savings. That's a lot of money that could otherwise be invested if we weren't so apprehensive about investment markets. The reality is, if you're sitting on the sidelines, you could be missing out.

How much cash is too much?

The problem with too much cash is that it can impede your ability to meet your longer-term objectives. Even if it's earning interest, rates are so low you may not be able keep up with the cost of living, let alone accumulate the capital required to fund your goals and lifestyle aspirations.

How much cash is too much depends on your specific goals and your time horizon. The longer you can stay invested, the more time you have to ride out the temporary ups and downs of the stock market and benefit from the growth potential that only equities can provide.

Two tips for managing risk

Two important tactics can help mitigate the risks associated with volatility:

- **Diversification.** By holding assets from different market sectors and industries, your portfolio is less likely to feel the effects of a temporary downturn in any one.
- **Regular investing.** A pre-authorized investment program (PAC) deploys your cash in an efficient manner and actually makes market fluctuations work for you: You automatically buy more when prices are low and less when prices are high.

If you'd like to review your cash position and current opportunities for growth, please give us a call. ■

Tuck it in 'buckets'

What are you investing for? Travel? Dream house? Sabbatical? Starting a business? Chances are, there are lots of things you hope to experience, and your mutual funds are there to help. How? By taking a bucket approach.

You see, your mutual fund portfolio isn't just one big bucket of accumulating assets. Rather, it's three (or more) buckets, each with its own timeline, objectives, and appropriate mutual funds, as illustrated below:

Bucket	1. Short-term goals	2. Mid-term goals	3. Long-term goals
Approximate time horizon	Under 5 years	6 to 15 years	More than 15 years
Typical goals	• New car • Family vacation • Home renovations • Parental leave	• Children's post-secondary education • Taking a sabbatical • Purchasing a vacation home	• Retirement
Investment characteristics	• Security • Accessibility • Highest available interest earnings	• Growth and income • Moderate volatility • Tax-efficiency	• Maximum growth potential • Moderate to high volatility • Protection from inflation
Types of funds to consider	**Money market funds** • Invest in short-term, fixed-income securities, such as treasury bills, certificates of deposit, and other highly secure debt issues **Fixed-income funds** • Hold investments that pay a fixed rate of return on a regular basis, such as bonds issued by governments or corporations **Dividend funds** • Invest in companies with a proven history of earning income that is distributed to investors as dividends	**Balanced funds** • Designed to provide a mix of income and growth **Equity funds** • Growth-oriented for capital gains potential • Income-oriented for dividends • Taxed less heavily than interest income (outside of registered plans) **Target date funds** • Automatically rebalanced over time to provide ready access to cash at a specified date, such as child's entry to university **Global equity funds** • Provide diversification, access to opportunities in other markets	**Equity funds** • Broad-based Canadian, U.S., international funds to provide diversification and growth potential **Sector/specialized funds** • Higher potential growth (subject to greater volatility) **Portfolio funds** • Provide a one-decision, diversified, professionally managed portfolio of funds

Whatever your specific goals and time lines are, we can create and monitor a mutual fund portfolio to help you reach them. And while the bucket approach is one way to match specific funds to specific goals, we keep a close watch on all the buckets — to ensure your funds are working effectively together, continue to reflect your investor profile, and are structured to be as tax-efficient as possible. ■

EDUCATION

Sharpen your pencils: post-secondary students and 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, it is important to help your children develop strong financial skills. Here's how.

Budgeting basics

Work together to jointly establish a school year budget that takes into account their 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 smarts

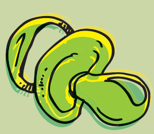
Many financial institutions offer student credit cards with low or no annual fees and low interest rates or finance charges. If this is their first credit card, it's important they learn how to manage it. Together, you can determine the rules for using the card, such as using it only for groceries, gas 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 academic 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 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. ■

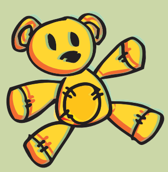
EYEOPENER

RESP milestones



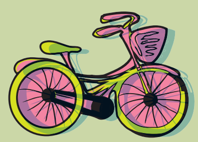
Birth

Contribute the maximum of $50,000, and your RESP will grow to more than $150,000 by the time your child is 18, assuming an annual return of 6%. However, you'll get only $500 in CESG.



Age 2

Want to generate the maximum lifetime CESG payment of $7,200? Start now and contribute $2,500 each year until your child turns 17, and you'll have more than $88,000 assuming an annual return of 6%.



Age 10

Haven't started yet? It's not too late. Contribute $5,000 each year for the next seven years and you'll get CESG of $1,000 each year, thanks to the carry-forward of unused grant entitlement.

Age 16 & 17

In order to receive the CESG, RESP contributions must either total at least $2,000 before the end of the year in which the child turned 15 or be at least $100 a year in any of the four years preceding the year the child turned 16.

Age 18

Contributions can be made to an RESP for up to 31 years. The plan can stay in existence for a maximum of 35 years.

FOCUS ON EQUITIES — BALANCE — FOCUS ON SAFETY

With tax-deferred growth and the benefit of the Canada Education Savings Grant (CESG), Registered Education Savings Plans (RESPs) are a great way to save for a child's post-secondary education. The above time line highlights some key dates and deadlines that you won't want to miss in order to make the most of your RESP.

Over time, the investments in your RESP should change from primarily equities and equity funds (to take advantage of long-term growth potential) to fixed income and cash (as you prepare to take the money out). ■

Pass go. Collect $200. Lessons from Monopoly

If you've ever played Monopoly, you know that the luck of the dice can influence your progress, but not as much as the shrewdness of your competitors. To this day, the 80-year-old board game can offer insight on how to bring a winning strategy to your investments.

Come to the table with a plan

In the early rounds of a game, before you have a big cash reserve, you have to pick and choose which properties you're going to buy. What's your strategy? Go with a colour block? Try for the railroads or the utilities? Buy everything you land on until you run out of money?

Whatever your approach, if you have at least an idea of what you're trying to accomplish, it's easier to stay focused on your goal — winning the game — and not get discouraged when you land on Boardwalk with a hotel or you're dinged for unexpected property repairs.

Maintain a reserve of cash

In the game, as in real life, you can be hit with increased housing costs, luxury taxes, and school fees. If you don't keep a cash reserve, you could run out of money and be out of the game.

Cash is also the key to taking advantage of opportunities when they become available — like snapping up that last railroad before your opponent can.

Understand the cost of credit

If you're short of money in Monopoly, you can mortgage your properties. The bank will give you 50% of the price you paid — but you can no longer collect rent. When you get back on your feet, you can unmortgage it for the amount of the loan — plus 10%.

There's an important lesson here in cash management. It's expensive to borrow money: Sometimes it's worth it (your home, your kids' education); other times (that trip to Vegas), not so much.

Think ahead

When you get a matching set of properties in the game, you make money by investing in them with houses and hotels. You may have to save up to afford it, but it's worth it for the future payoff.

Likewise, a disciplined approach with your investment portfolio can be worth foregoing indulgences along the way.

Buy strategically

Railroads cost $200. If you own all four, you can charge $200 in rent. On the other hand, a $200 property (like New York Avenue) has the potential to net you $1,000 if you put a hotel on it. But of course, you have to own its sister properties and spend money for the houses and hotels.

The point is that both purchases have the potential for growth. Which approach is best? That will depend on you and what you're trying to achieve.

Beyond the board game

We may not be able to help you win at Monopoly, but we can certainly help you with your investing and money management decisions in real life. ■

Divergence and your investments

In the context of investing, divergence refers to investments that move independently of one another.

It's important because too much lack of divergence can hamper long-term growth potential. If your holdings are too dependent on a particular sector or phase within the market cycle, it can leave you vulnerable to protracted downturns.

There are numerous ways to apply divergence to investment assets, including:

- **Industry sector.** Historically, certain market sectors are naturally divergent. For example, the financial and energy sectors are affected by different factors than information technology or pharmaceuticals.

- **Business cycle.** Holding both cyclical and non-cyclical equities can help even out overall return. Examples include utilities stocks (which people need no matter what the economy or markets are doing) and manufacturing stocks (people tend to buy more goods during upswings).

- **Geography.** Exposure to equity markets in the U.S., Japan, and Europe, to cite just three, can offer divergence from our domestic economy and currency.

If you'd like to know more about how divergence applies to your portfolio, we'd be happy to go over your holdings with you in detail. ■

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