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David Brodigan


Geordon Ferguson


Margôt Adam


Paul Mancuso

FOCUS ON INVESTING

U.S. markets reach new highs after Brexit

Investors took some deep breaths after the United Kingdom voted to leave the European Union last year. As expected, the markets fell dramatically in the days after Brexit. But then, in just three short weeks, major world stock markets not only recovered all of their losses — they surged higher.

Strong jobs numbers lift U.S. markets

In the U.S., both the S&P 500 and the Dow Jones Industrial Index rose to new all-time highs after Brexit thanks to a strong jobs report — and the employment gains continued well into the summer. In Japan, the Pokémon Go phenomenon propelled Japanese markets.

Brexit was a market-moving event, but so were the robust U.S. employment numbers and the Pokémon Go craze. Any investors who reacted hastily to the negative news and exited the markets would have missed out on the post-Brexit gains.

Timing the markets is risky

Brexit proves once again that perspective and a longer-term view are the key ingredients to investment success.

Trying to time the markets is a risky proposition. If you wait for the best time to reinvest, chances are you'll wind up sitting on the sidelines while the markets climb.

Remember, the asset mix in your portfolio was selected not only to help you reach your long-term goals but also to help you weather unexpected market events with confidence. And if you're ever feeling uncertain, we're happy to review your portfolio to ensure it's still meeting your needs. ■

Mutual funds + professional advice: A winning combination for managing risk

MUTUAL FUNDS

When we think of risk, we tend to focus on the possibility of losing money in the markets. But every investment has its risks. Even investments that seem completely safe like Guaranteed Investment Certificates (GICs) come with some risk — notably, will they keep pace with the cost of living?

Here's a look at the main kinds of risk — and how mutual funds help protect against them.

Market risk

Also called market volatility, this type of risk is associated with investing in the stock market. It includes any event that can depress the markets, such as war or political turmoil, as well as events that can depress specific industries — such as the airline industry after 9/11.

Managing market risk. Diversification is the best way to protect against market risk. By holding a number of investments, we reduce the effect of a decline in any one. In fact, that's a main reason why so many investors choose mutual funds in the first place. A mutual fund provides much greater diversification than any individual investor could achieve.

In addition, we can diversify your portfolio with equity funds providing growth potential, bond funds adding stability, and cash equivalents giving you security and liquidity. If the equity portion of your portfolio is declining, cash and bonds may take up the slack.

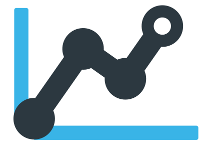
Company-specific risk

Also called "business risk," this type of risk refers to any event or trend that affects a specific company in any industry. Examples include the failure of a major project or product, or changes in leadership.

Managing company risk. Mutual funds are one of the best ways to manage company-specific risk. Rather than buying the stock of one or two companies, a broad equity fund will invest in numerous companies.

In addition, fund managers typically conduct rigorous company analysis before they invest and on an ongoing basis afterward.

Inflation risk

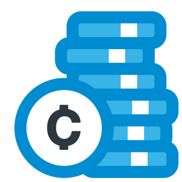


Inflation risk is the risk that rising prices for goods and services will erode the value of your savings. In Canada, inflation has been low for the past few years. However, over the long term, the effects of even moderate inflation become evident.

For example, the average annual rate of inflation over the past 35 years is 3.04%. That means a basket of goods and services — including food, housing, transportation, furniture, and clothing — that cost us \$100 in 1980 would set us back \$294 today.[1]

Managing inflation risk. Historically, equity mutual funds have outpaced inflation better than fixed-income or money market funds. While they are subject to short-term volatility, they offer us the potential for greater growth over the long term.

Currency risk



Fluctuating currencies can affect the value of your investments when they are converted back into Canadian dollars. We have seen this in the past few years, as the Canadian dollar has fallen against the U.S. dollar.

Managing currency risk. Diversifying internationally can help reduce currency risk. A global mutual fund, for instance, will invest in a number of countries and gain exposure to a basket of currencies. This can help reduce the impact of currency fluctuations on your portfolio.

You can also take advantage of currency-neutral funds, which invest in U.S. or international markets but eliminate currency risk by hedging returns back into Canadian dollars.

Putting theory into practice

Working together, we can find the right amount of risk you're comfortable with so you can take advantage of the growth of the markets over time. ■

1 Bank of Canada Inflation Calculator.

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

PORTFOLIO MANAGEMENT

Canadians embracing entrepreneurship

Whether it's the ongoing popularity of shows like *Dragon's Den* and *Shark Tank* or a desire to pursue a passion, Canadians are setting out on their own in record numbers — some 2.8 million of us were self-employed in 2015, according to Statistics Canada.[1]

This figure has been rising steadily over the past decade. That's because Canadians between the ages of 55 and 64 are almost twice as likely as their 25- to 44-year-old counterparts to be unincorporated, self-employed workers.[2]

If you're considering self-employment, let's get together soon to talk about:

- Revising your budget to reflect your new situation.
- The best way to access cash if you need capital to get started.
- The potential tax benefits of being self-employed.
- How to stay on track to your retirement goals.
- Whether you need to replace any employer group benefits you'll be giving up.
- Whether we need to adjust the asset allocation in your portfolio in light of your new circumstances.

Whatever path you decide to take, we're here to support you. ■

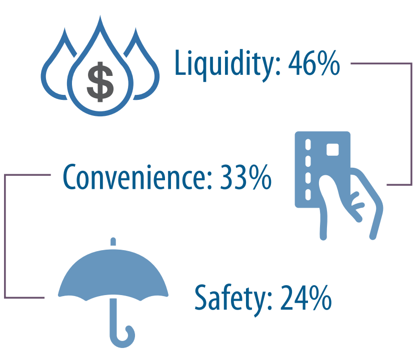
1 Statistics Canada Table 282-0012 Labour Force Survey Estimates.
2 Statistics Canada: Unincorporated self-employment in Canada, 1989 to 2010.

EYEOPENER

What's under your mattress?

A recent BlackRock Global Investor Pulse survey[1] found that Canadians are holding a whopping 60% of their portfolios in cash-type investments. Here are the top three reasons why:

Top 3 reasons investors hold cash

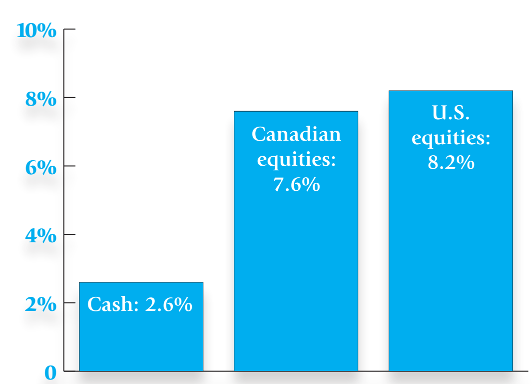


We can help you decide on the best way to put your cash to work so that you are getting the returns you need to meet your goals without taking on more risk than you're comfortable with.

What's wrong with this picture?

Just like keeping money under your mattress, focusing too much on cash-type investments can limit your opportunity for investment growth and seriously impair your ability to reach long-term savings goals, such as retirement. Just look at the comparative returns over the past 20 years:

20-year annual returns to Dec. 31, 2015[2]



1 BlackRock Global Investor Pulse: Stuck in Cash.
2 Taxtips.ca, "Historical Returns on Stocks, Bonds, T-Bills." Pre-tax returns as of Dec. 31, 2015 in Canadian dollars.

Make investment decisions as a couple

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

In fact, there are benefits to looking at your portfolios together rather than in isolation.

Communication is king

The first step is starting the conversation with your partner. What are your financial priorities? When do you want to retire?

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

A complementary approach

Investing as a couple doesn't mean you have to have identical portfolios or even the same investing profile. For most couples, that wouldn't be realistic. So, just as you and your partner may have different hobbies, passions, opinions, and beliefs, you may also have different approaches to investing. In this situation, we can design your portfolios 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 a balance of growth potential and security.

Diversification to the power of 2

Diversification is a major investment priority. 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.

Divide and conquer

One of the financial benefits of having a partner is being able to take advantage of income-splitting opportunities. 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.

Spousal Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs)can also offer effective ways to split income.

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 we review your portfolio. ■

The *real* cost of missing the RRSP deadline

March 1, 2017, is the last day to make a contribution to your Registered Retirement Savings Plan (RRSP) that can be deducted on your 2016 tax return.

If you're thinking of skipping your contribution "just this once," you might want to think again.

Opportunity cost

If you are 55 years old and skip a single $5,000 contribution, by age 65 you will have $8,954 less in your RRSP (assuming an average annual return of 6%). If you skip a $10,000 contribution, the cost rises to $17,908.

The younger you are, the higher the cost. Using the same assumptions as above, skipping a $5,000 contribution at age 45 will cost you $16,036 by retirement. Skipping a $10,000 contribution will cost you $32,071.

Missing a contribution at age 35 has an even greater impact on your retirement funding. Skipping a single $5,000 contribution will cost you $28,717. And foregoing a $10,000 contribution? That will cost you $57,435.

Tax cost

Opportunity cost is only part of the story. Not contributing also means not being able to claim a tax deduction that could reduce your tax bill or maybe even result in a refund. And the higher your earnings, the more valuable that deduction becomes.

Contact us — before the deadline — so we can review your options and help make the most of your RRSP. ■