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Invest tax-efficiently to reach your goals

As Canadians, we are fortunate to have access to Registered Retirement Savings Plans (RRSPs), Registered Education Savings Plans (RESPs), and Tax-Free Savings Accounts (TFSAs) to help us reach our financial goals.

Tax savings boost returns

One of the smartest investing decisions you can make is to take full advantage of these tax-advantaged vehicles for your investment portfolio.

But the scorecard for Canadian investors is mixed. We are saving more for our kids' post-secondary education in RESPs.[1] That's good news, especially since RESPs are linked to higher post-secondary enrolment.[2]

However, the latest data from Statistics Canada show that less than one-quarter of tax filers are contributing to an RRSP.[3] This is hard to understand. Not only do RRSP contributions reduce your taxable income, but the investment gains in your plan grow tax-deferred — a one-two savings punch that's hard to beat.

Priorities change over time

Of course, where you are in life will play a role in how you allocate investment contributions across these plans. If you have a pre-teen, you may want to focus on an RESP. If you plan on early retirement, you might want to maximize RRSP contributions. And since it can be used for any purpose, a TFSA is one of the most flexible savings tools available.

We can review your priorities in light of your overall life plan and help you choose the right investments for the right account, whether RESP, RRSP, or TFSA. ■

1 Employment and Social Development Canada, 2015 Canada Education Savings Program Annual Statistical Review.
2 Statistics Canada, "Which families invest in registered education savings plans and does it matter for postsecondary enrolment?" April 2017.
3 Statistics Canada, Registered Retirement Savings Plan Contributions 2015, released February 2017.

Emerging markets offer growth potential and opportunities for diversification

Emerging markets were one of the best performers in the early part of this year, led by a rebound in commodity prices. But that's just one of the factors behind a positive outlook for emerging markets. Strong growth prospects, economic reforms, and favourable demographics are also good reasons for investors to consider having some exposure to these fast-growing regions of the world.

With professional management and expertise, along with built-in diversification, mutual funds are an ideal way to take part in the growth of emerging markets.

Encouraging trends

The International Monetary Fund (IMF) expects emerging markets to grow by 4.5% in 2017 and 4.8% in 2018, helped by a recovery in manufacturing and trade and robust demand from the U.S. economy. In contrast, Canada's economy is expected to grow by 1.9% in 2017 and 2.0% in 2018.[1]

But it's not just the growth story that has investors eyeing emerging markets. The two biggest emerging nations, China and India, are embarking on much-needed reforms to their economies. In China, that includes rebalancing the economy away from trade and investment and towards domestic consumption, while India has introduced a national goods and services tax to replace the complex system of local and state taxes.

Favourable demographics also bolster the case for emerging market exposure. With about 80% of the world's population[2] and a younger demographic than developed nations, emerging market consumers are expected to experience rising standards of living and an expanding middle class. This could lead to growing consumption over the longer term and more robust economies.

Diversification opportunities

With the Canadian stock market heavily weighted in the resource sectors, emerging markets offer diversification opportunities not available at home.

At the end of April 2017, the information technology sector represented one-quarter of the MSCI Emerging Markets Index, while the consumer sectors represented 17%.[3]

This lack of correlation to Canada is important in two respects: It provides an effective way to diversify outside of Canada, and it can help investors tap in to the growing consumer culture in emerging markets.

Know the risks

As with any potential investment, it's important to understand what the risks are. For emerging market funds, these include the threat of growing U.S. protectionism and its effects on global trade. A potential conflict with North Korea is another risk to markets in Southeast Asia, as is a fluctuating U.S. dollar.

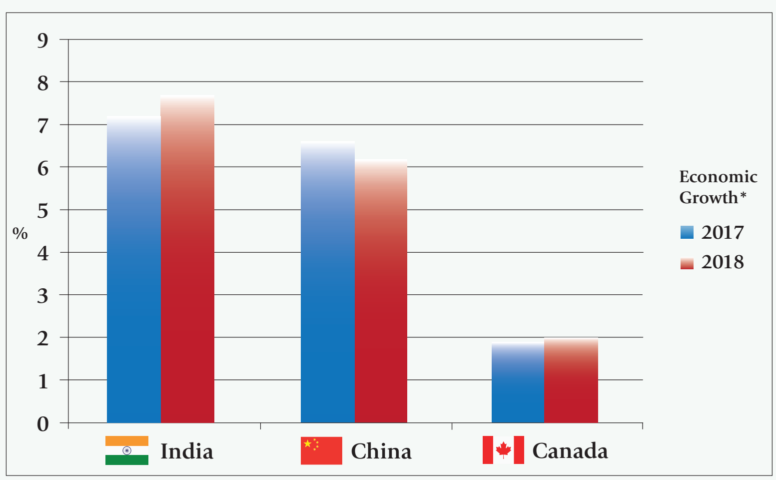
Currency risk is another factor when investing outside of Canada, although over time currency fluctuations tend to even out. Currency-neutral mutual funds are one option to consider.

Let's work together to find the right amount of exposure to emerging market funds that align with your investment objectives and risk tolerance. ■

1 International Monetary Fund, *World Economic Outlook*, April 2017.
2 Christine Lagarde, Managing Director, International Monetary Fund, "The Role of Emerging Markets in a New Global Partnership for Growth" (speech), February 2016.
3 MSCI Emerging Markets Index, April 2017.

India and China — emerging powerhouses

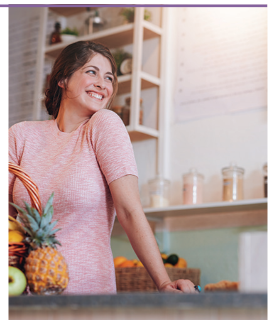
Economic growth in India and China is expected to outstrip growth in Canada by a wide margin.



*International Monetary Fund, *World Economic Outlook*, April 2017.

BUSINESS OWNERS

Why entrepreneurs need to diversify away from their business



A record number of Canadians were self-employed in 2016 — almost 2.8 million.[1] This number has been rising steadily for the past 20 years. And for good reason: Working for yourself can bring many rewards — freedom, flexibility, and the chance to follow your dreams. But it can also create challenges, especially when it comes to saving for retirement and investing.

Many entrepreneurs reinvest their earnings in their business year after year to maximize growth, relying on the proceeds of its eventual sale to fund their retirement. Assuming the sale will go as hoped is dangerous, however. What if you have trouble finding a buyer or getting the price you want? Or what if the sector you're in suffers a downturn just when you're planning to retire?

A more reliable approach is to contribute as much as you can every year to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). Setting up regular monthly or quarterly contributions is an easy and convenient way to make sure that these tax-advantaged accounts get the priority they deserve.

It's also important to diversify away from your business when you invest. For example, if your business is in technology services, it makes sense to invest in companies or investment funds outside of technology — so you're not putting everything you have in one sector.

We can help you allocate your savings and choose investments as part of a plan designed for the long-term benefit of you, your family and your business. ■

1 Statistics Canada, Self-employment, historical summary, January 2017.

EDUCATION PLANNING

RESPs linked to higher postsecondary enrolment

With their combination of tax-free growth and government grants, Registered Education Savings Plans (RESPs) are an important savings vehicle for many Canadian families. And a recent study[2] shows that children from families that had invested in an RESP by the time they were 15 years old were more likely to pursue a postsecondary education by age 19 than youth from families that had not:

Attending postsecondary

With RESP 75.4%

Without RESP 59.7%

Other factors come into play as well, including students' academic performance and their parents' level of education. Even after accounting for these variables, however, the likelihood of attending postsecondary school was six percentage points higher for those with an RESP. ■

2 Statistics Canada, "Which families invest in registered education savings plans and does it matter for postsecondary enrolment?" April 2017.

EYEOPENER
graphic evidence of how investing works

The education premium

There's no question that postsecondary education is expensive, but is it really worth it? In terms of higher lifetime wages, the answer is a resounding yes. The figures at the right[3] indicate the earnings premium of a professional undergrad degree over a high-school diploma.

Undergrad degree	Earnings premium
Engineering	117%
Computer science	86%
Commerce	74%
Nursing	71%
Architecture	65%
Occupational or physical therapist	60%
Pharmacist	58%
Education/Teacher	53%

3 Monster.ca, "Highest Paying University Degrees in Canada."

How to turn investment losses into gains

Do you have a stock that has dropped in value? Or sold one that produced spectacular gains, triggering an equally spectacular capital gains tax? If so, now is the time to consider tax-loss selling — a strategy that could significantly reduce your tax bill for 2017.

Tax-loss selling is applicable only to non-registered accounts. In registered accounts, such as Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), and Tax-Free Savings Accounts (TFSAs), there are no tax implications to selling.

Outside of registered accounts, however, capital losses can be used to reduce taxable capital gains. Here's how it works:

- Current-year losses must first be used to reduce capital gains in the same year.
- Excess losses can be applied against previous capital gains — up to three years from the current tax year — or held indefinitely to offset future capital gains.
- To claim a loss for 2017, the trade must settle before the end of the year. Settlement typically takes three business days, so to play it safe, you may want to sell before Christmas.

Beware the superficial loss rule

Sometimes, you might want to claim a tax loss but still believe in the value of the underlying fund or investment. Can you sell the investment, claim the loss, and then buy back in?

The answer is no. Your loss will be denied if you have bought the same stock within 30 days before or after the sale on which you are claiming the tax loss.

Calculating the loss

Calculating the size of your capital loss may not be as straightforward as you think. Essentially, it's the difference between your adjusted cost base (purchase price) and your selling price. The calculation gets more complicated when you have made multiple purchases at a range of prices or reinvested mutual fund distributions or stock dividends at the current market price. These purchases may not be at the same price as your original purchase, and therefore may increase or decrease your adjusted cost base.

The situation is complicated further if you hold income trusts or mutual funds that make return of capital (ROC) distributions. These payments are not taxable in the year of receipt. Instead, they reduce your adjusted cost base, resulting in a larger capital gain (or smaller capital loss) when you eventually sell or redeem the underlying investment.

Review your situation

If you're considering tax-loss selling, we can help you find appropriate candidates and calculate your adjusted cost base so you don't pay more tax than necessary. We can also help you keep a healthy perspective. While it's important to recognize income tax implications, they should never be the driver of your investment decisions. ■

Risk-tolerance reality check

Volatility seems to have become the new norm for equity markets, and ongoing political events around the globe have added even more uncertainty to the mix. If market ups and downs are making you anxious, it may be time to re-evaluate your tolerance for risk.

The risk/return relationship

Every type of investment carries some kind of risk. Even not investing involves risk — opportunity risk, which is the risk that you could have made more money by investing than by staying on the sidelines.

Lower-risk or guaranteed investments protect capital, but you may trade off any chance of significant potential for growth. Over time, this could mean falling short of goals. To stay on track, you may need to save more, spend less, generate more income, or delay the achievement of your objective (for example, retiring at 65 instead of 60).

Keep risk in perspective

It's human nature to overestimate our ability to handle risk when times are good — and to be exceedingly fearful after a big loss. That's why it's essential to focus on the long term and keep your goals in mind. Remember, too, that holding a portfolio of diversified investments helps to reduce the impact of a temporary downturn in any one.

At the end of the day, your portfolio should take enough risk to help generate the returns needed to meet your long-term objectives — but not so much as to make you uncomfortable. If you're ever feeling uneasy, give us a call. ■