MONEYSTRAT SECURITIES INC

Money Ideas

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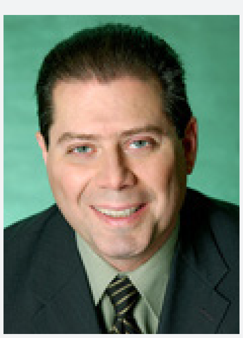
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▶ FINANCIAL STRATEGIES

Market jitters? Time for a risk 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 preserve 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 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, let's talk. ◀

Balance growth and risk for fund income that lasts in retirement

During your portfolio-building years, your mutual fund portfolio is likely to have a bias favouring equity funds. With a long time horizon and regular additions of capital, you have an opportunity to maximize growth potential with these types of funds.

As you get closer to retirement, however, it's natural to begin tilting your portfolio away from equities and towards fixed income. Not only will you be setting up an income stream from your funds, you'll enjoy more stable returns and gain some measure of protection from the impact of a market downturn.

The hesitation factor

It's not uncommon, however, for some investors to feel uneasy. They fear that paring back equities will reduce their growth potential, possibly to the point where they'll need to draw down principal. So what's the right amount of risk to take off the table?

Let's run the numbers. How would 3%, 4% or 5% returns affect the amount of money you have available throughout your retirement? If you need 5% returns to sustain your lifestyle, how can we structure your fund portfolio to achieve them? If it turns out 3% returns are sufficient, why take on more risk than necessary?

The gradual approach

Any adjustments to your portfolio don't have to (and shouldn't) happen all at once, of course. By gradually reducing risk, we can allow a portion of your investments to continue to benefit from stronger growth potential.

Retiring soon? Let's start building risk reduction into your plan. A retirement income checkup will allow us to do the math, making sure you're exposed to the minimum amount of risk needed to reach your goals. ◂

PORTFOLIO STRATEGIES

A well-built fund portfolio is designed to handle tough times

Working with investment professionals has plenty of benefits but none more appropriate to today's environment than the quality of your mutual fund portfolio construction. Everyone looks smart during smooth and rising markets. But when volatility becomes the norm, you'll appreciate these "shock absorbers" that come from a professional investment relationship.

1. A solid foundation

Your portfolio has been carefully constructed to help you stay on track toward your long-term goals through calm and turbulent times alike.

Fixed-income funds, conservatively managed balanced funds, and similar holdings help provide income and can result in relatively stable returns. Blue-chip or dividend funds, and the like, offer steady growth over the long term with their exposure to established corporations through a history of stable and increasing returns.

2. Global exposure

Canada's economy represents a tiny portion of the global economic engine (roughly 3%). By investing in global or international mutual funds, you can gain access to the growth potential of emerging markets and sectors (such as technology) not found at home.

Your international holdings also provide diversification. Exposure to other economies and currencies can help even out the bumps in our domestic markets.

3. Discipline

When markets are volatile, investors have a tendency to shy away from equity or growth-oriented mutual funds in favour of cash and cash equivalents. It is one of the investment markets' big ironies that this can actually magnify risk. Sure, Guaranteed Investment Certificates (GICs) might seem like a safe haven during times of market volatility, but persistent low interest rates may make it more difficult to reach your long-term objectives.

When your portfolio's growth component is aligned with your long-term objectives and risk comfort level, you're far less likely to be disturbed by temporary declines. In fact, you might even view them as an opportunity to add to your holdings at an attractive price.

4. Professional support

A little "hand-holding" in tough markets can really make a difference. Financial research firm DALBAR tracks the gap between actual investment market performance and the returns of American mutual fund investors. For the 30 years ended in 2014, the S&P 500 (a benchmark for American equity markets) posted an annual average return of 11.06%. By comparison, individual equity fund investors averaged just 3.79%.[1]

The major cause of this shortfall? Withdrawing from investments at low points and buying at market highs.

With an investment plan and the support of our knowledge, you are far less likely to fall into this trap.

5. Regular checkups

Managing volatility is just one of the reasons we recommend regular check-ins.

It also gives us the opportunity to discuss what's going on in the markets, review any changes in your personal circumstances, and consider any adjustments that might be appropriate for your mutual fund portfolio. ◂

[1] *DALBAR, Quantitative Analysis of Investment Behavior, 2014.*

Here comes the bride! And a personal finance checklist...

Spring is here and so is the traditional wedding season. In addition to the emotional benefits, marriage can also bring certain financial perks. Getting married, or know someone who is? Here are some areas to explore:

Spousal RRSPs. A spousal Registered Retirement Savings Plan (RRSP) is one of the most effective long-term income-splitting strategies in existence. Essentially, Spouse A contributes to an RRSP (up to his or her limit) that belongs to Spouse B. Spouse A gets the current-year tax benefit. When funds are withdrawn from the RRSP after retirement, they enter into Spouse B's taxable income.

Investing. The higher-income spouse should consider paying the household expenses. The other spouse can then invest his or her earnings and have the returns taxed at his or her lower rate.

Medical expense tax credit. Both spouses should combine their medical expenses and have the spouse with the lower income claim them. That's because the federal medical tax credit applies only to expenses that exceed $2,268 (for 2018) or 3% of taxable income, whichever is less.

Donations to charity. Combining the donations of both spouses and claiming them on one return maximizes the donation value above the $200 threshold, where the top federal tax credit applies.

Dependent spouse. Perhaps your spouse is a student or full-time homemaker, or pursues some other activity that doesn't pay much. You might be able to claim a spousal tax credit. If the low-income spouse receives stock dividends that qualify for the dividend tax credit, you can include them in your income so they don't reduce the spousal credit.

Transferable credits. Up to $5,000 in tuition tax credits can be transferred to a supporting spouse, parent, or grandparent if the student doesn't need them to reduce his or her tax bill to zero. Other amounts including the disability tax credit are also transferable.

Just in case... Unfortunately, the statistics tell us that there is a risk of divorce or separation sometime down the road.

Just before the wedding each spouse should document his or her financial holdings and valuable personal property. If there is a break-up later, provincial asset-splitting rules grant each spouse credit for what he or she brought into the marriage — but only if there is documentation. If there's a significant disparity in what you and your spouse are bringing to the marriage, you might want to consider a prenuptial agreement.

To take advantage of the planning opportunities that come with marriage, professional advice can be invaluable. ◀

▶ FINANCIAL STRATEGIES

Managing debt is the 'other side' of financial success

When investment markets are doing well, we can be lulled into thinking that's where all our financial success will come from. But there is another side to our personal balance sheets: our debts.

We all have debt at different points in our lives. When we were studying, many of us took out student loans. We use loans to buy cars, mortgages to buy houses, credit cards for convenience.

While using debt is part of modern life, managing it well can increase our financial well-being and free up money for other goals. Consider these debt management tips:

Pay highest-rate debt first

Chances are you're paying down multiple debts at a time — mortgage, credit cards, car loans, and so on. While you need to maintain minimum payments to avoid charges and late fees, you can be strategic by focusing extra payments on the debt that has the highest interest rate first. Paying down a debt that costs 8% is the equivalent of earning an 8% return on investment.

Make repayments automatic

Sometimes the most obvious strategies are overlooked — such as setting up regular payments to reduce debt. Automating debt payments integrates them into your budget and ensures that you make steady progress towards any debt reduction objectives.

Consolidate to lower rates

Some credit cards charge interest rates of 20% or more, which is a significant drain on your resources.

To reduce your interest costs, consider using a lower-rate line of credit to pay down any outstanding balance on your credit cards. At a lower rate, your payments will reduce the balance more quickly.

With debt as with investing, it's not an all or nothing proposition. Every dollar in debt you chip off puts you in a stronger financial position — today and in the future. ◀

Have a will? Smart. Keeping it updated? Even better.

When the queen of soul, Aretha Franklin, passed away last year, the news carried an all-too-familiar story: another wealthy celebrity dying without a will. Unfortunately, now advisors and family members will have to put affairs in order without the benefit of pre-planning or knowing her final wishes.

But for those of us who have remembered to prepare a will, there is a different but equally important task: keeping that will up to date as your life circumstances change.

When is it time for a review or an update? Consider one, if:

- You (or one of your beneficiaries) get married, separated, or divorced.
- Your executor or beneficiaries move to another province or country.
- You acquire real estate in a new province or country.
- You acquire new dependants — for example, if your elderly parents move in with you.
- You acquire a new potential beneficiary, such as a grandchild.
- Your executor or one of your beneficiaries passes away.
- Your executor or trustees are no longer willing or able to accept their roles.
- There is a significant change in your net worth (for example, you receive an inheritance).

Even if there have been no major changes, it's a good idea to review your will with a professional every year or two. That way, you can be confident that it continues to reflect your wishes and aligns with current tax legislation and family law. ◂

5 reasons to invest regularly — whatever the markets are doing

An understandable but mistaken idea becomes common when markets are volatile: put off or pause investing until markets look good again.

It's understandable because even the most committed investor can hesitate to invest new money when markets are in decline. It can feel like "throwing good money after bad."

But it's mistaken because investing regularly is one of the most effective ways to build your wealth. It even has some benefits especially when markets are volatile (see point 1 below).

There is a simple way to make a commitment to your future financial success: Set up a regular purchase plan. Here are five reasons to start a regular investing plan or increase the amount you invest on a regular basis.

1. Benefit from market volatility

When you invest the same amount every month, you automatically buy more fund units when prices are down and fewer when they are up. This strategy, known as dollar-cost averaging, can lower your average cost per unit over time.

2. Eliminate emotion-based decisions

Most investors are naturally inclined to pour money into hot markets — the very time when astute investors are pulling back. When the market "corrects," there's a tendency to ride to the bottom and then bail out — the very time when astute investors are starting to buy. There is also the risk of "investing paralysis" for those who keep waiting for the right time to commit money, earning little or no return in the meantime.

When you invest automatically, you are far less likely to experience either irrational exuberance or irrational despair as market values fluctuate.

3. It's easy, convenient, and flexible

Automatic purchase plans run on autopilot — out of sight, out of mind. Many investors find that they don't even miss the money — kind of like the income tax that's deducted automatically from your paycheque. You complete a simple form that authorizes withdrawals of a set amount from your bank account on a regular basis to purchase units of the fund or funds of your choice. You can even coordinate contributions with your cash flow by scheduling withdrawals for the same day or the day after your paycheque is deposited. And if an unexpected expense comes up or your situation changes, there's no need to worry. You can change the amount or, frequency, or cancel altogether at any time.

4. It's affordable

For a one-time, lump-sum purchase, mutual fund companies sometimes require a minimum purchase of $500 or $1,000. When you sign up for regular purchases, however, the minimum is usually much lower — possibly as low as $25 a month for mutual funds held within a Registered Retirement Savings Plan (RRSP).

5. Maximize tax-advantaged plans

An automatic investment plan is a great way to get as close as possible to the maximum contribution to your RRSP or Tax-Free Savings Account (TFSA). Many people find it easier to make 12 small monthly contributions rather than one big one.

If you'd like to set up an automatic investment plan, we can help you choose an amount that fits your budget, a frequency that fits your cash flow, and mutual funds that match your goals. ◂