Money Ideas

Winter 2022

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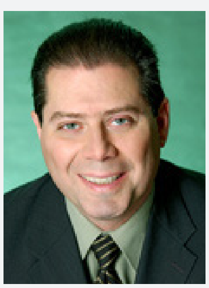

Paul Mancuso

Please accept our very best wishes for the year ahead. We hope 2022 is full of health, happy memories and, of course, financial prosperity.

If your new year resolutions mean making a life change or financial change, we can help. Let's review your goals and get you on the track to meeting them.

We appreciate your continued confidence. It's our pleasure and privilege to work with you to build the future you desire.

RRSPs

RRSP contributions should reinforce, not rearrange, your fund portfolio strategy

Are you looking to make a lump-sum contribution to your Registered Retirement Savings Plan (RRSP) this year? Maybe a top-up to increase a potential tax refund? Considering a loan to catch up on a backlog of unused contribution room? Any one-off event like this can encourage us to go off track when it comes to our portfolio strategy. We might consider this an ideal time to try some new funds or a new fund manager or company. Sometimes a recent media profile or performance report can have you reconsidering the current mix in your mutual fund portfolio. But doing so can be getting in the way of your own success. Here's why.

Remember that taking a diversified "portfolio approach" in the mix of funds you hold is designed to get you the returns you need in order to have the income you desire in retirement. Your portfolio's fund mix takes your individual tolerance for risk into account and is diversified to maximize return potential while minimizing risk of any single fund or fund type. An ill-conceived investment can upset that well-considered balance. If you're tempted to stray from this optimized approach, consider one of these two alternatives:

Invest according to your current mix – for now. This is the status quo option. Simply apply this year's contributions to the current set-up, maintaining the existing proportions for now. At your next portfolio review, consider any new investment ideas in the context of your goals and risk profile and rebalance accordingly.

Park your money safely. If the above option doesn't appeal to you, you can simply "park" your money by putting it into very safe or ultra-conservative funds for now. Good options are funds such as money market mutual funds or T-bill funds. You won't earn much in the short term, but your money will be secure. When the future seems more certain or you are ready for a portfolio review, simply rebalance your portfolio and allocate that money into a diversified mix aligned with your long-term retirement investing plan.

Your RRSP is one of the most powerful tools available to reach your retirement goals. It's always worth taking the time to review your contribution plans as well as your investing strategy. We are here to help with either or both when you're ready. ◀

Are dividend funds the way to hedge frothy markets?

Investing for dividends has appeal for lots of different kinds of mutual fund investors. Newly added to this group are investors concerned about the post-pandemic run-up in equity markets. Is a mutual fund that focuses on dividends an appropriate investment for you?

Dividends are a distribution of a company's earnings to shareholders and usually take place in one of two forms – cash or stock. Each organization's board of directors determines the actual dividend amount that the firm will pay out. Most cash dividends are paid on a quarterly basis. Meanwhile, stock dividends are generally paid at infrequent intervals.

Blue-chip quality

Companies that pay dividends must have actual earnings and cash flows to fund these cash distributions to shareholders. A company that pays a dividend has fewer retained earnings to fund organic or inorganic growth opportunities. This means that the company's management team must be selective with its financial decisions, in theory, leading to better decisions over the long run.

Also, a long history of steadily rising dividend payments indicates that a company's management is shareholder-friendly.

Downside protection. If you're concerned about volatility in the stock market, dividend funds could provide some protection. The dividend softens the effect of any decline in the price of the underlying stocks.

Dependable income. Dividends from strong, established companies can provide steady income. Although quarterly dividend payouts by the fund's holdings are not guaranteed, dividend-paying mutual funds can be a good option for a steady income stream.

Tax considerations. You have the potential to pay less tax on your earnings. Outside of registered plans, Canadian dividends qualify for the dividend tax credit. As a result, dividend income is taxed at a lower rate than interest income.

What's in a name?

It's important not just to rely on the fund's name. Many investors are surprised to learn that dividend funds can vary widely in both equity content and risk profile. Indeed, many of these funds are not structured solely to produce income, but rather focus on growth. Meanwhile, some core equity funds hold many well-known companies with a solid record of dividend payouts.

As with all investment decisions, your investment objectives will help us pinpoint the dividend fund that best suits your needs. If you'd like to understand how dividend investing is aligned with your goals, let's review your portfolio soon. ◀

FUND TIME

Tips and lessons in mutual fund investing

Currency Hedging

What is it? Currency hedging is a strategy employed by mutual fund managers to reduce the effects of currency fluctuations on your mutual fund investments.

How does it work? Any time you invest in foreign mutual funds there is an element of currency risk. For instance, if you are holding US-based investments when the value of the Loonie is falling versus the US dollar, that drop will have a negative effect on your returns when they are translated back into Canadian dollars. Currency hedging attempts to reduce the increase or decrease the value of an investment due to changes in the exchange rate. Typically, in order to do this, fund managers will set up a related investment, such as forward contracts or options, designed to offset potential losses due to currency fluctuations.

Why does it matter? Currency fluctuations can have an unwanted effect on portfolio performance. For investors with a short-term mandate or in times of considerable currency fluctuations, a currency-hedged fund may be a good choice. But it's important not to overstate its importance. Research shows that over time any short-term fluctuations in currency will have a negligible effect on overall portfolio performance. Similarly, if those funds where currency risk is present represent a small part of your overall fund holdings, currency hedging will hold much less importance. ◀

Three ways to go global with mutual funds

Are your investments suffering from "home country bias"? That's when investors favour domestic over foreign equities. It's common all over the world, but Canadian investors are famous for it despite the fact Canada only accounts 2.4% of the global stock market. But that's changing. A recent analysis found home country bias has dropped 10% in the last decade among Canadian mutual fund investors, though we still have about 30% of our portfolios in Canadian equities.[1]

So what's the problem with investing so heavily in Canada? In addition to the fact that 70% of investment opportunities lie outside our borders, there are certain kinds of companies and sectors that are not easily found in Canadian markets (see table this page). For instance, health care companies make up 13% of the US-based S&P 500® index but just 1% of the S&P/TSX Composite index.

If you're looking to take advantage of the opportunities that foreign equities may offer, mutual funds are a particularly good way to do so. Here's why:

- **Spread the risk.** Global mutual funds hold stocks in a wide variety of companies, meaning the risk is spread across many companies. The same is true for countries: a global fund invests in multiple countries, better managing the risk than investing in just one or a few.
- **Professional management.** You can rely on the investment and market expertise of the fund's management team. Assessing the risks and opportunities across the many markets of the world is something that individual investors cannot easily do.

Canadians looking to use mutual funds to access these opportunities have lots of choice – and it goes beyond just picking a few foreign equity funds. Globalization of the world's economies means that exposure to global markets can be had in a number of ways. In fact, you may already have more of this exposure than you realize. Consider these three options:

1. **A Global or International fund.** These funds invest directly in companies around the world. There is a huge variety of these funds with different focuses and mandates in countries, regions, sectors, and capitalization. Note also the difference between global and international fund definitions: generally speaking, a global fund invests in any country including the United States while an international fund avoids US-based companies.
2. **Large Cap Funds with global reach.** Multinational corporations are a mainstay of many large-capitalization funds. These companies earn revenue all over the world. For example, the consumer goods company Unilever, while headquartered in the UK and the Netherlands, operates in 190 countries and earns 58% of its revenue in emerging market countries.[2] In Canadian equity funds you will find banks, insurers, and technology firms, amongst others, serving customers all over the world.
3. **Sector Funds.** If you are looking to invest in sectors not common in our economy, then sector funds may help you find those opportunities beyond Canada. A health care sector fund, for instance, may hold a few Canadian firms but will likely be dominated by foreign companies. Be aware that sector funds are inherently riskier than broad-based funds that spread their money across a number of sectors and companies.

Are you confident that you are taking advantage of all the global opportunities available to you? Have you been letting "home country bias" get in the way? These are great topics for discussion at your next portfolio review. We can review your objectives and risk profile and optimize your foreign investing. Let's talk soon. ◂

[1] CIBC quoted by S. Barlow, *Report on Business, The Globe and Mail.* Twitter post, Sept. 21, 2021, 7:09 am. Scott Barlow on Twitter: "CIBC: "Canadian investors have more U.S. than Canadian equity holdings" https://t.co/Uda3UQQqGk" / Twitter

[2] Unilever. *Unilever Annual Report and Accounts, 2020*. Annual Report and Accounts 2020. unliver.com.

Different economies. Different stock market opportunities.

Selected sectors,
S&P/TSX Composite (Canada) vs S&P 500® (US)

Sources: S&P Dow Jones Indices. *S&P/TSX Composite Fact Sheet, S&P 500® Fact Sheet*. Sept. 30, 2021.

	Canada	United States
Health Care	1%	13.3%
Financials	31.9%	11.4%
Consumer Discretionary	3.6%	12.4%
Information Technology	11.5%	27.6%

Real estate funds not a proxy for runaway housing markets

Canadians watching housing markets' stratospheric rise may be wondering if real estate mutual funds are another way to participate in this growth.

There are over 40 real estate sector funds in the Canadian marketplace. These funds allow investors to invest in the real estate sector as a whole or specific sectors with it both in Canada and abroad. They tend to be dominated by commercial real estate companies along with some residential real estate such as apartment REITs.

Conversely, many of Canada's largest builders of family homes and condominiums are privately owned and do not trade on the stock market. In some countries large developers, both publicly traded and privately owned, do manage large portfolios of single-family homes. This phenomenon is very new to Canada and doesn't yet provide many opportunities for individual mutual fund investors.

Those considering existing real estate mutual funds should note that office and retail real estate are subject to many different economic forces than house building so investors need professional advice to understand whether these funds are appropriate for them.

While not a substitute for buying a home or an investment property, real estate mutual funds could still have a useful role in some investors' mutual fund portfolios, adding a unique form of asset class diversification. To assess whether these mutual funds may be right for you, let's set up a portfolio review. ◄

Source: FundData. Mutual Fund Search. Oct. 15, 2021. fundata.com.

RESPs are well known but not well understood

While a large majority of Canadians – 92% – are aware of Registered Education Savings Plans (RESPs), only 17% say they're knowledgeable about the contribution limits and benefits they offer, according to a recent study.

The study, which surveyed 1,510 Canadian adults online in August 2021, found that more than 80% of Canadian parents say they don't understand the benefits of this savings tool. RESPs provide several advantages for Canadians saving for their children's or grandchildren's education. The money you contribute and invest grows tax-free within an RESP. Plus the federal government supplements your contributions with the Canadian Education Savings Grant (CESG), which could provide an extra $500 in free money every year if you contribute the maximum. Proceeds from RESPs are not just for university but can be used for a wide variety of qualifying education programs at community colleges, CEGEPs, trade schools and other education institutions.

Among respondents aware of RESPs, just under half (49%) currently contribute or have contributed to one, with an average total contribution of about $22,800. If you'd like to learn more about this powerful savings tool, please contact us. ◄

Source: Cision. *Majority of Canadians are aware of RESPs, but less than half are using them.* Majority of Canadians are aware of RESPs, but less than half are using them. Sept. 9, 2021. newswire.ca.

Starting a regular investing program is a great new year's resolution

Regular investing is one of the simplest ways to make a commitment to your future financial success. Plus, it's particularly suitable for mutual fund investors. Here's why:

1. **It's easy.** Automatic purchase plans run on autopilot — out of sight, out of mind. Many investors find that they don't even miss the money.
2. **It's affordable.** For a lump-sum purchase, many mutual funds require a minimum purchase of $500 or $1,000. With regular purchases, the minimum is usually much lower — possibly as low as $25 a month.
3. **Eliminate emotion-based decisions.** Many investors are inclined to pour money into hot markets — the very time when astute investors are pulling back. When you invest automatically, you are less likely to experience either irrational exuberance or irrational despair as market values fluctuate.
4. **Maximize tax-advantaged plans.** An automatic plan is a great way to get as close as possible to the maximum contribution to your Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA). It's 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 find mutual funds that match your goals. ◄

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