Financial Planning Guide

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FOCUS ON INVESTING

As we approach year-end, the 'investment' glass is half full

Another positive year for the markets is drawing to a close. Low interest rates and positive economic growth led both Canadian and American stock markets steadily upwards over the year. For example, from the beginning of 2014 to the end of August, the S&P/TSX Composite Index rose almost 15%.[1] In the U.S., the S&P 500 in the U.S. rose 8.09%[2] and the NASDAQ Composite more than 10%[3] over the same period.

So if you've been sitting on the sidelines waiting for an opportunity to jump into the equity markets, now may be the time.

Equities for the long term

In the years following a downturn, investors often languish on the sidelines, bracing for more bad news. But that approach can cost you more than you may realize. Since the 2008 financial crisis, the markets have demonstrated impressive vigour.

As of mid-2014, the five-year average annual compound rate of return for the S&P/TSX Total Return Index was 7.85%. Foreign exchanges have done even better, with the MSCI World Index averaging 12.57% annually, and the S&P 500 averaging 16.34%.[4]

Certainly foreign investors are bullish on Canada. In the first six months of 2014, they had invested $16.3 billion in Canadian equities. The same period in 2013 saw a $3.1 billion divestment.[5]

Risk *can* be managed

Still uncomfortable with equity-market volatility? Remember that diversification and maintaining a long-term perspective are key to mitigating the effects of short-term ups and downs.

Let us help you capitalize on current opportunities and approach your investments from a glass-half-full perspective. ■

[1] Source: tmxmoney.com
[2] Source: S&P Dow Jones Indices
[3] Source: Bloomberg.com
[4] Bloomberg Professional. Data from June 29, 2009-June 30, 2014. S&P/TSX figures in C$ terms; MSCI and S&P 500 in US$
[5] Statistics Canada, "Canada's international transactions in securities," June 2014

Trends to watch as we head into 2015

MUTUAL FUNDS

It's fair to say that 2014 has been quite a year. Here's a look at some of the key investment stories of 2014 and what they might portend for mutual fund investors in 2015.

Reinvigoration in Europe

Now entering its 12th year as an economic collective, prospects for the European Union remain positive. Yes, debt levels are still high in southern Europe, but the black cloud of 2013 seems to be dissipating. Central banks across the continent continue to hold the course on rock-bottom interest rates, employment is up, inflation is low, and overall economic prospects are improving.

Admittedly, Russia's aggression in Ukraine has dampened some of the enthusiasm, but diplomacy, not to mention sanctions, could win the day for the EU.

For many mutual fund investors, a broadly diversified global equity fund will provide sufficient exposure to the European markets. If you are really bullish on the continent, and comfortable with more risk, we could consider funds that invest exclusively in the Eurozone.

BRICS and mortars

Even though the BRICS (Brazil, Russia, India, China, South Africa) account for half the world's population and one-fifth of its global economic output, their investment prospects were somewhat overshadowed this year by other emerging economies. That is, until mid-year.

That's when the BRICS launched their New Development Bank. First tabled back in 2012, the US$100 billion collaboration will almost immediately start funding infrastructure projects in its member nations and beyond. With increased domestic spending, mutual fund investors in the BRICS' economies may look forward to another year of growth potential.

Mid-year is when Brazil hosted the World Cup. The tournament was a huge success, at least for the Beautiful Game's fans and the country's 1 million foreign visitors. Its residual economic impact, however, was somewhat less rosy than predicted. Blame for at least some of this was placed on lost productivity as a result of Brazilians enjoying a day off whenever the national team played. Additionally, many of the 12 host cities gave workers time off to watch local matches. And of course, countless millions without sanctioned holidays no doubt called in sick. The powers-that-be will surely take note of this as the nation prepares to host the 2016 Olympics.

Mid-year was also when Russia's hostilities with Ukraine boiled over onto the international stage. It's possible that the combination of strong-arm global boycott, rising inflation, political and economic uncertainty could send Russia into an all-out recession. On the plus side, as of this writing, tensions appear to be easing and there may be cause for cautious optimism.

While there are a few funds that invest specifically in the BRICS economies, a more broad-based emerging markets fund might be the most well rounded way to capitalize on these economies.

Enter the dragons

Even without the rest of the BRICS, China on its own remains a compelling investment market. Sure, there was lots of hand wringing this year, with particular market noise related to the bubble in Chinese real estate. But the country just keeps on building, and companies with exposure to gold, those in the services, infrastructure, and consumption sectors look robust.

As well, with the average price/earnings ratio for the Shanghai stock market at 10.741 (versus 19.16 for the Standard and Poor's 5002), Chinese stocks may be more affordable than many of their peers. This bodes well for mutual fund investors with adequate diversification seeking to harness the dragon's firepower without getting singed.

Another noteworthy development this year has been the rise of so-called alternative funds. These hedge-style funds seek to minimize an investment's downside with strategies that can include investing in currencies, futures contracts, and arbitrage plays. There's a whole sub-genre of equity funds that invest in these types of investments. And as you'd expect, some of them are significantly more risky than others.

Opportunities abound

As you can see, there are some exciting trends taking shape for 2015 and investment opportunities for equity fund investors from conservative to aggressive. We would be pleased to review your portfolio in light of ongoing developments in the investment world at large and any changes in your own life. ■

[1] *china-stock.org, Shanghai Stock Market stat, August 26, 2014*
[2] The Wall Street Journal Data Center (online.wsj.com), August 22, 2014

ESTATE PLANNING

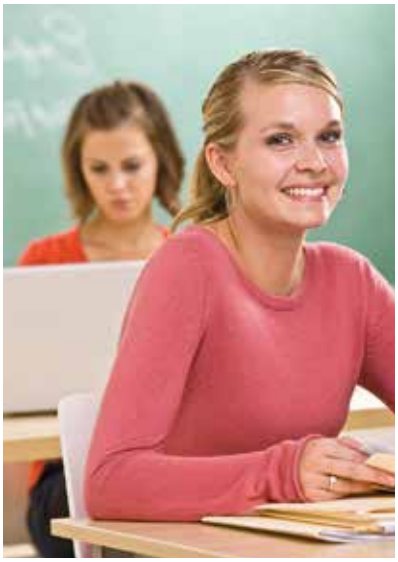
Safeguard your child's education savings

Opening a Registered Education Savings Plan (RESP) can be an effective way to help ensure that funds will be available for your child's post-secondary education. But what if you pass away before your child is able to use them?

You might think that the assets in the RESP would automatically pass to the person for whom the plan is intended (likely your child or grandchild). But that is not the case.

With most types of RESPs, those assets belong to the plan subscriber, not the plan's ultimate beneficiary. So in the event of your death, the proceeds become part of your estate.

Fortunately, we can take steps now to make sure the money does not become de-registered. One solution is to set up your plan so you and your spouse or common-law partner are joint subscribers. If one of you should die, the other can carry on as the plan's sole subscriber.*



To safeguard the plan should you and your spouse die at the same time, make a clear statement about what you wish to happen to the RESP's proceeds and name a successor subscriber in your will.

Talk to us to ensure the money will end up where it belongs: In the hands of your aspiring scholar. ■

* Please note that the concept of joint ownership with right of survivorship does not exist under Quebec Civil Law. If you live in Quebec, your executor would become subscriber or you could name a successor in your will.

TAX PLANNING

Time to assess year-end opportunities for tax-loss selling

As we approach year-end, many investors wonder about the merits of crystallizing their gains or losses for the current tax year. Of course, we would never recommend selling purely for tax purposes. But a strategic approach, with an eye on your overall financial picture, is always warranted.

For example, if you expect your income to take you into a higher bracket over the next few years, now might be a good time to take some of your gains. If you have capital losses carried forward from previous years, they can be used to reduce the tax hit further. Alternatively, you may want to consider triggering a capital loss to offset the gain.

Excess capital losses for 2014 can be carried back and applied against capital gains reported in the past three years or carried forward indefinitely. So if you are hanging on to some investments with a paper loss and you're thinking of selling, now might be the time.

In either case, let's not wait until the last minute. Let's find some time to review your portfolio, assess your capital gains and losses, and decide whether it makes sense to crystallize them this year. ■

EYEOPENER
graphic evidence of how investing works

Is your portfolio ready for the Millennials?

Move over boomers and Gen-Xers: The Millennials are taking their place among the markets' game changers. "Millennials" is the nickname for the population cohort aged 18-34. In the U.S. alone, Millennials are predicted to outnumber the baby boomers (78 million versus 56 million) in just 15 years. And how they spend, live, and invest will affect the markets for generations to come, in the same way railways flourished with the war generation and Wal-Mart soared with the Boomers.

What matters to Millennials	Investment sectors that could be affected
Hyper connectedness	Technology, social media, gadget makers
Working out, fitness	Health food stores, athletic apparel companies
Travel	Airlines, tour operators, resorts and spas
Adventure, excitement	Specialized/exotic tour planners, theme parks
Wellness	Vitamin and supplement producers, health food stores, organics

[1] The Boston Consulting Group, bcg.perspectives, "How Millennials are changing the face of marketing forever," Jan. 15, 2014

Don't let 2014 end without a look at this income-splitting strategy

From a tax perspective, one of the highlights of 2014 was the record-setting, all-time-low 1% prescribed interest rate set by the Canada Revenue Agency (CRA). Why do we consider that a highlight? Because if your spouse is in a lower income tax bracket than you, you can use this rock-bottom rate as part of a tax-smart, money-saving, income-splitting strategy. Here's how it works.

Lend your spouse money to invest

Unfortunately, you can't just give your lower-income spouse cash to invest or transfer your existing investments to him or her. If you do, the CRA's "attribution rules" kick in, with the result that any interest or investment income earned will be attributed back to you and taxed in your hands.

But what you can do is lend your spouse the money at the government's prescribed rate. As long as you charge interest on the loan — at no lower than the government's prescribed rate — any investment earnings are taxable in your spouse's hands, at his or her lower rate.

Even better, if you enter into the loan before December 31, 2014, you can lock in the interest rate on the loan — currently just 1% — for as long as you like. No matter how much you lend your spouse or how long the loan lasts, the interest rate can stay the same.

Play by the rules

As you might expect, the CRA expects some solid recordkeeping if you're going to take advantage of this strategy:

- Your spouse must pay you the interest due on the loan no later than 30 days after the end of the year. This is very important. If the interest is not paid when due, any investment income generated by the funds you lent to your spouse will be attributed back to you.
- You must report the interest income on your annual tax return and pay tax on it. Remember, however, that the prescribed rate is at an all-time low. Even a large loan will incur relatively little interest in relation to the potential benefits.
- Maintain a paper trail. Document your loan, in writing, and make sure that you and your spouse maintain separate investment accounts.

Now is the time to act

With the prescribed rate at an all-time low, logically, rates have no place to go but up. Put another way, there simply won't be a cheaper way to employ this strategy.

And with such a low rate, it should be easy to find investment opportunities within your comfort zone that can outpace the cost of borrowing.

We would be happy to help you capitalize on this investment opportunity. Call before rates start to creep back up. ■

What would you do with some extra cash?

We could all use a little extra cash, especially at this time of year. Well, believe it or not, you might have more than you realize.

Keep an ear out: Opportunity sometimes knocks quietly

Statistics Canada reports that consumer debt levels are down and household net worth is up.[1] Hopefully, these factors have helped put a little more money in your pocket.

If they haven't, however, perhaps there are other sources you can draw on. For example, maybe your kids have moved out or you've gotten a raise.

Top 3 choices for extra cash

Regardless of the source and the amount, it's important to make the most of it. Here are three ideas:

1. Pay down high-interest debt. Carrying $3,000 on a credit card at 21% annually? That's $630 a year. And at a marginal tax rate or 42%, you need to earn more than $1,000 to pay that $630. That's why one of the best uses for excess funds is paying down high-interest, non-deductible debt.

2. Contribute to registered plans. Excess funds allocated to your Registered Retirement Savings Plan (RRSP) will reduce your income taxes for the year. In your Tax-Free Savings Account (TFSA), they can grow on a tax-free basis.

3. Beef up non-registered accounts. If you've paid down debt and maxed out your registered contributions, it's time to tweak the rest of your portfolio to ensure your investments are working as hard as you are. ■

[1] Statistics Canada, "National balance sheets and financial flow accounts, first quarter 2014"

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