THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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Many Canadians have taken a wait-and-see view on economic recovery — not surprising given the impact of the financial crisis on jobs, securities prices, and personal lives.

But, even though it may be a long march to shake off memories of the bears, it's wise to watch for the variety of suitable investment opportunities to be had while other investors are lying low. A market downturn is an opportune time to be in the markets because prices are reduced.

Let's talk about keeping your portfolio well-poised to potentially capture the gains of an improving climate.

FOCUS ON MUTUAL FUNDS

Dividend funds serve more than one purpose

Many investors choose dividend funds when they're looking for an income stream. In fact, it's this feature that often makes these funds a core holding for retirees and those concerned about inflation.

The reality is that many investors could benefit from a well-chosen dividend fund. And given that average dividend rates currently exceed interest rates, now may be an opportune time to see if one of these funds might dovetail nicely with the rest of your holdings.

What's in a name?

Many of our clients 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.

To further complicate things, there are plenty of dividend-style funds out there, holding lots of dividend-producing stocks, but without the word "dividend" in their names.

Income or growth?

To select the dividend fund that's right for you, we need to start by reviewing what it is you want the fund to do. Is it to provide income? Are you looking for additional growth? Perhaps you need more diversification? Dividend funds can also fit the bill as a moderating influence in an otherwise fairly aggressive portfolio.

As with all mutual fund decisions, your specific objectives will help us pinpoint the dividend fund that best suits your objectives. It could be the fund that's really right for you isn't a so-called dividend fund at all. Let's investigate and find out. ■

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 10.74[1] (versus 19.16 for the Standard and Poor's 500[2]), 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

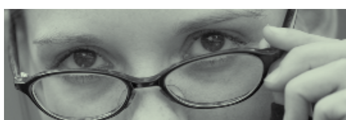
Time to assess year-end opportunities for tax-loss selling

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

Style matters, especially when you're investing

You've heard the saying "opposites attract?" Well there's a good reason for that. Whether you're talking about business or personal relationships, the strengths and weaknesses of one individual are often balanced out and complemented by the strengths and weakness of the other person.

The same can be said about investment styles. Diversifying your portfolio by management style can help you benefit when certain styles outperform and protect you from volatility.

Four of the main styles are growth, value, bottom-up, and top-down investing. Let's take a look at what distinguishes each style.

Value investing

Value-fund managers seek out strong firms whose market price does not accurately reflect their intrinsic value. Essentially, the value style means buying stocks that are regarded as being "on sale."

They pay close attention to a company's financial information, such as debt levels, price/earnings (p/e) ratio, price/book value ratio and dividend yields and to determine whether its stock is overpriced, underpriced, or fairly valued.

Growth investing

Growth managers seek out companies whose earnings they think will grow faster than those of its industry or the overall market. Growth mutual fund managers look for firms that have a high earnings growth rates, a high return on equity, high profit margins, and low dividend yields. Investments are selected to maximize capital gains potential.

Some fund managers combine the growth and value strategies into an approach known as "growth at a reasonable price," or "GARP," for short. GARP investors look for companies with consistent earnings growth above broad market levels while excluding companies that have very high valuations (value investing). The overarching goal is to avoid the extremes of either growth or value investing.

Bottom-up investing

Bottom-up managers are looking to invest for the long term. They are typically stock-pickers, looking for companies, in any sector, that have strong financial fundamentals: low debt, strong earnings, and management with a good track record. These companies should outperform their competitors in any market.

The top-down approach

Top-down fund managers look at the big picture. They analyze general economic conditions and determine which countries and industry sectors are positioned for growth and then pick individual stocks in those areas. For example, if a fund manager anticipates that the economy will grow sharply, he or she might buy stocks across the board.

Let's revisit your style

Most people think of diversification as combining asset classes. But the truth is, diversifying by style — holding both value and growth funds, as well as funds that focus on top-down and bottom-up approaches — can add an extra layer of protection to your portfolio.

Talk to us to find out more and to discuss whether or not investments from any of these management styles would be a good fit for your portfolio. ■

Why you may want a floating-rate bond fund

Most of us are familiar with the concept of a floating-rate mortgage or line of credit. As interest rates rise, so too does the rate on the loan. Likewise, when interest rates go down, the cost of borrowing will fall.

But in a bond-based mutual fund, things work a little differently. And that's where a floating-rate bond fund could be a welcome addition to your portfolio — especially now. Here's what you need to know.

Interest rates up, bond prices down

In a traditional bond fund, interest rates on the portfolio's holdings are fixed. So when overall interest rates go up, the value of those securities (and the fund that's holding them) goes down.

Floating-rate funds, on the other hand, hold securities that don't have fixed interest rates. Rather they "float" and go up or down in value along with market rates. As a result, when interest rates go up, so does the value of the securities in your fund.

Protection from rising rates

It's fair to say that floating-rate income funds invest specifically to protect investors from upward pressure on interest rates. And given that interest rates really have no place to go but up, this may be an ideal time to consider this type of fund.

Not only can they protect you from rising interest rates and excessive rate sensitivity, but they can also offer an added level of diversification for your income holdings. ■

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