THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

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Bert Griffin, BComm., CFP
Senior Investment Advisor
Insurance Representative

Manulife Securities Incorporated
Manulife Securities Insurance Inc.
Suite 700, 10050 - 112th Street
Edmonton, AB T5K 2J1
Telephone: (780) 488-9889 ext. 1
Toll-Free: 1-877-455-3222
Cellular: (780) 298-9975
Fax: (780) 482-1099
E-mail: Bert.Griffin@manulifesecurities.ca

Spring has sprung at last, and in the spirit of renewal and fresh starts, consider setting up an intuitive system for organizing bills, receipts and statements, either on your computer (be sure to always back it up!) on your paper files.

You might also consider taking this opportunity to review the Notice of Assessment you've received from the Canada Revenue Agency after filing your income tax return. If you'd like, we can review it together to chat about how you might run your financial life with a little more efficiency, tax-wise. I'm always here to help.

FOCUS ON INVESTING

Shares on a downtick? Best sit tight

Large, single-day losses can be dramatic — and often headline grabbing — but they are not necessarily signs of a bad investment. Here is some context to ease your mind the next time one of your holdings takes a sudden dip.

Stock prices move up and down in response to a variety of influences. These can include the company's reported earnings being different from what the markets anticipated, political or management turmoil, extreme weather, scandal, and so on. On their own, none of these factors is necessarily cause for panic. The market is simply adjusting the price of the company's stock because, at the moment, there are more sellers than buyers.

But if a downtick causes you to question the holding, it's reasonable to take a closer look. A decision to sell would best be made using the same reasoning that caused you to buy it in the first place: its fundamentals, future prospects, and appropriateness for your portfolio. These factors generally shouldn't be clouded by short-term price swings. But if the investment no longer meets your needs, then yes, it could be time to sell.

If it still meets your needs, it's worth considering adding more. After all, with any other product, a 15% price drop would be considered a sale and a potential opportunity to acquire more of the stock at the lower price.

If you are concerned about a sudden change in an investment's value, we would be pleased to help you gauge why the price has changed and whether it represents a potential buy or sell opportunity. ■

Is it time to revisit U.S. equity funds?

Investors can be forgiven for thinking that March this year has come in like a bull, rather than the usual lion, with the Dow Jones Industrial Average hitting record-after-record high.

But does this bull have legs or just horns? While only time will tell, it's worth looking at U.S. equity funds as a category and the role they might be taking in your portfolio.

The U.S. economy has faced some big challenges, but U.S. investments still offer lots of long-term benefits to Canadian investors. And mutual funds are an excellent way to invest in our neighbour and largest trading partner.

Big by every measure

The U.S. has the world's largest and most dynamic economy. The same goes for its stock market — the world's largest, most diverse array of companies, large and small. Many of the world's leading multinational corporations are U.S.-based. By investing there, you're actually obtaining exposure to economic growth and currency diversification all over the globe.

The U.S. is also a world leader in stock market regulation and corporate disclosure. And its individual stock exchanges — mainly the New York Stock Exchange and Nasdaq — lead in trading volume.

As a result of the recession, U.S. business practices have undergone a genuine metamorphosis. U.S. companies have gone to great lengths to lower their debt levels and increase their financial strength by reducing costs and trimming fat.

The wider and deeper make up of the U.S. market is especially important for Canadians since our own stock market is heavily concentrated in just three sectors: financial services, energy, and raw materials. We have little to choose from in such areas as technology, consumer goods, and manufacturing.

Including U.S. investments in your portfolio also helps to protect you from the possibility that the U.S. dollar will gain value against our loonie. While the Canadian dollar is very strong now, historically it's been subject to lots of ups and downs.

Since it's almost impossible to make accurate long-range predictions about future currency movements, it may be beneficial to hold some U.S.-dollar-denominated investments — especially if you travel frequently to the U.S. or are perhaps planning to retire there.

Why mutual funds?

Investing in the U.S. through mutual funds offers many advantages:

- Professional selection. Picking winning investments from the thousands and thousands of listed companies in the U.S. is no easy task. Professional mutual fund managers have access to vast research resources. Many rely on proven, disciplined approaches to find the best potential performers.
- Economies of scale. Because of their size, mutual funds typically pay far less than individual investors for currency conversion and brokerage fees.
- Convenience. Mutual funds are easy to invest in. Many are available with initial investments as low as $100. And you don't have to worry about the complexities of the U.S. withholding tax on investment earnings — the fund does that for you.
- Liquidity. Most mutual funds offer daily redemptions at the unit price at the close of trading for that day. With stocks, on the other hand, you might have difficulty selling at the price you want, or even selling at all, if the stock is not widely traded.

Are you already there?

If you're considering bumping up your portfolio's exposure to U.S. investments, first take into account how much you may already have. Many "Canadian" equity funds hold some foreign content, which might include U.S. companies, and certain Canadian-based companies have large operations south of the border.

Working together, we can determine the optimal U.S. allocation for your portfolio and the best mutual funds to provide it. ■

You be the judge

Is this a good time to invest in U.S. equities and equity funds? Here are some of the leading indicators.

- **Manufacturing.** The Institute for Supply Management (ISM) manufacturing index expanded in February for the third consecutive month. Meanwhile, the overall U.S. economy grew for the 45th consecutive month.[1]
- **Construction.** Since reaching a low in January 2011, the construction industry has added 296,000 new jobs.
- **Housing.** U.S. housing starts rose almost 24% between January 2012 and January 2013.[2] That led to 14,000 new jobs for residential specialty trade contractors in January 2013 alone.
- **Consumer confidence.** The U.S. Consumer Confidence Index hit 69.6 in February 2013, up significantly from its all-time low of 25.3 in February 2009 (the lowest measure recorded since the index was first launched in 1967)[3].

1. http://www.ism.ws/about/MediaRoom/newsreleasedetail.cfm?ItemNumber=23473
2. http://www.census.gov/construction/nrc/pdf/newresconst.pdf
3. http://www.tradingeconomics.com/united-states/consumer-confidence

TAX PLANNING

Sending the kids to camp? Keep your receipts!

As the end of school approaches, many parents scramble to get their kids signed up for as many activities as possible — in part to keep them active and, let's be honest, in part to stave off the summer chorus of "I'm booooored."

Summer programs are great for kids and there's a benefit for parents, too. The cost of many camp-type activities may qualify for a tax break. Overnight camp, art or music classes, and sports lessons may all be eligible as either a childcare expense or as part of the children's fitness or arts tax credit.

Canada Revenue Agency's determining factor here is the "degree of child care" being offered. So a week at sleepover camp for your 10-year-old would likely qualify as childcare, while your 15-year-old's stint at an elite hockey school probably would not. But that's okay, because you can almost certainly claim the hockey camp under the Children's Fitness Credit.

Our advice? Save your receipts and call us for more information, or visit the CRA web site: www.cra-arc.gc.ca.

CREDIT MANAGEMENT

Debt threat?

According to TransUnion, one of Canada's two credit bureaus, the average Canadian's consumer debt (i.e., non-mortgage debt) rose by more than $1,500 to a record $27,485, between 2011 and 2012. As ugly as that is, the numbers don't tell you the other insidious aspect of debt: that it robs you of your investable dollars and threatens your future goals. That's because every dollar you pay to service your debt is one less dollar you have to invest.

What kind of debt are you carrying and what is the interest rate? It's important to understand the difference between "good" debt and "bad" debt. Good debt includes borrowing for items that are likely to increase in value, such as your home, or borrowing when the interest is tax-deductible (for example, when you borrow to generate taxable investment income). Bad debt is usually high-rate consumer debt for items that have no long-term value — for example, using your credit card to pay for a vacation down south when you know you don't have the funds to pay the bill in full when it comes in.

To funnel more money toward your future dreams and less to your past expenses, always try to pay more than just the minimum required monthly payments on any regular bill that you can't pay all at once. Taking care of the minimum payment only is a trap and is the slowest, most punitive approach to paying off debt.

In addition, look at amalgamating your debts — especially your credit card balances — with a single, lower-interest line of credit.

If you'd like to chat about debt consolidation strategies, please give us a call.

Spring clean for the Cure?

Don't just throw out your used furniture, old clothes, or clunker car. You may be able to turn those castoffs into a charitable tax receipt.

Many charities, including the United Way, the Furniture Bank, and the Canadian Diabetes Association will accept a variety of items and even provide a tax receipt for furniture and automobiles.

Yard Sale for the Cure is another option. Sponsored by the Canadian Breast Cancer Foundation, you host a garage sale (hopefully a big one in tandem with your friends and neighbours), then donate the proceeds to the Foundation. In return, you get a charitable tax receipt. There's lots of information, advertising ideas, and sales tips at www.yardsaleforthecure.com.

Need to get rid of a derelict vehicle? Car Heaven at www.carheaven.ca will tow away your jalopy, recycle or sell the parts, and you choose a charity for the proceeds. Receipts are usually a minimum of $200 to $300.

Conflicting priorities? A solid plan can help

According to a recent study[1], 36% of respondents believe caring for an aging parent will impede their ability to save for retirement, while 48% worry that their savings will be significantly reduced by putting money aside for their children's education. Clearly, there's significant financial pressure on Canadian families.

These concerns are absolutely legitimate, but be assured: it is possible to reach all of your goals. How? By having a comprehensive plan.

Map it out

A financial plan is your roadmap to achieving your goals. Here are some of the issues it can address:

Reduce your debts. According to Statistics Canada, Canadians on average owe $164.60 for every $100 earned.[2] This isn't just a drain on current cash flow; it's a drain on future cash flow, thanks to interest costs and the likelihood that your debt load will increase over time. Let the government help pay for your children's education. Take advantage of tax-deferred Registered Education Savings Plans (RESPs) and the Canada Education Savings Grant (CESG). The CESG bumps up the first $2,500 of your annual contributions by 20% (and in some cases, by even more). And yet, only 43% of RESP holders are participating![3]

Harness the value of your home. Is downsizing part of your financial plan? Downsizing can be an effective, relatively easy way to free up money for other priorities. Maybe you don't need to make a decision today, but include it in your plan in case circumstances change.

Envision your lifestyle now, in early retirement, and in later retirement. Be honest with yourself about your plans, when you expect to transition from your working life to your retired life, and how you will spend your time. In a recent survey of already-retired Canadians, 42% said they didn't save enough during their working years and 52% wished they had started saving sooner.[4]

Provide for your family, just in case. Safeguarding family members and the lifestyle you've worked hard to provide is a top priority for most of our clients. Life insurance is a cornerstone of every successful financial plan. Critical illness insurance is also well worth investigating. If you're caring for aging parents, make sure you're getting all the government benefits and tax credits to which you are entitled. We can help.

The beauty is in the planning

The most fundamental part of your overall plan is the process of defining your goals and understanding your needs. This exercise gives purpose and focus to your investments and will go a long way toward helping you feel secure about your financial future. Call us to discuss ways to balance your financial needs and priorities. ■

1 Ipsos Reid **23rd Annual RBC RRSP Poll**, released January 2013.
2 Statistics Canada **National balance sheet and financial flow accounts**, third quarter 2012.
3 Human Resources and Skills Development Canada, **Canada Education Savings Program - Annual Statistical Review 2011.**
4 **Benefits Canada**, "Canadian retirees mostly happy," Feb. 27, 2013.

INVESTING STRATEGY

Deregister sooner, or later?

Registered Retirement Savings Plans (RRSPs) are great. However, too many registered assets at retirement can compromise your eligibility for certain government benefits — ones you worked for and paid into. Here's why.

Income-tested benefits such as Old Age Security (OAS) are based on your annual taxable net income from all sources. If you have too much income, those benefits may be clawed back or eliminated. Currently, the OAS clawback starts when your net income reaches $70,954 and the benefit is eliminated at $114,640.

Taxable income includes all monies withdrawn from your RRSP and Registered Retirement Income Fund (RRIF). So if you have a substantial RRIF, even taking the minimum annual payment could impede your ability to collect these types of benefits.

On the other hand, withdrawals from your Tax-Free Savings Account (TFSA), and withdrawls of principal from your non-registered holdings are not taxable and do not reduce any of your income-tested benefits.

So if you have a large portfolio of registered assets, it might make sense to start transitioning some of them before retirement to maintain your eligibility for these types of benefits.

A caveat: This is a complex strategy, and one that is likely to be most beneficial during years in which the additional income on your tax return won't push you into a higher tax bracket. We can help you determine what to transfer and when, for maximum benefit. ■

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