Money Ideas

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The year 2020 is upon us with all the hope and optimism that a new year offers. If you're planning a life change or financial change, we can help. Let's review your goals and get you on track to meeting them. We appreciate your continued confidence, and it's our privilege to work with you.

Happy New Year!

Credential®
Asset Management

▶ RETIREMENT

Ready for retirement? How to find out before you do it

When the time comes, will you be ready? The transition to retirement can be a real challenge for many of us. In fact, a 2019 poll by a major Canadian financial institution found that more than a quarter (27 percent) of retired Canadians regret retiring and an almost equal number (23 percent) have tried re-entering the labour market.[1]

More than just money

Many of the financial aspects of retirement are well known. Preparing to handle the psychological and emotional aspects of retirement is something else we need to consider.

In the end, retirement is about much more than money; it's about making a major transition — from a life where work plays a major role to one for which you'll need to find different sources of contentment, self-worth, and social interaction. Some of us have developed interests, hobbies or goals that will provide much of the satisfaction we now get from work. Others are just not ready yet.

One way to ensure your decisions are the right ones is to take a phased-in approach to retirement.

Test drive?

A gradual approach to leaving the workplace can allow you to acclimatize to a new life and find interests and activities that will keep you occupied and satisfied.

Consider whether you can arrange with your employer to reduce working hours or to work part time. Increasingly, employers are open to this approach because it works to their benefit as well. Some have sabbatical programs or allow time off to pursue volunteer opportunities.

If that's not feasible, consider alternatives such as a part-time consultancy or working reduced hours for another employer. If you're self-employed, you can set your own retirement agenda.

Once you've made space for non-work activities, use it to explore how you might want to spend your full retirement. Perhaps volunteering can provide greater meaning while still giving you lots of social interaction. Maybe travel for a couple of months, or try living in a warmer climate to explore whether those types of retirements are right for you.

Test driving your retirement like this can involve many of the same financial issues as full retirement: evaluating potential sources of income, reviewing your investments and more. Let's talk soon so we can test drive your finances as well to help to find the right retirement vision for you. ◀

[1] *The 2019 Retirement Income Poll, January 2019*, Maru/Blue, MaruGroup.

Six ways to keep your cool when the markets don't

When the Dow Jones Industrial Average (DJIA) dropped 800 points in one day last August, it was a reality check for investors who spent much of 2019 enjoying the Dow and other indexes flirting with all-time highs. But a timely reminder that markets can go down as well as up does little to ease the anxiety we can all feel when the markets are behaving erratically. If you sometimes fall prey to a little investing anxiety, these six "coping mechanisms" may help.

1. Ignore the noise. In a competitive media environment, the 24-hour news cycle delivers the news full of drama and hyperbole. It makes for good ratings, but don't get drawn into it when it comes to your own mutual fund portfolio. Investment decisions are best made in a less emotional environment. Panic selling, for instance, simply locks in any losses and takes you out of the market should an upturn be around the corner. As an example, it took less than five trading sessions for the Dow to recover that 800-point single-day loss.

2. Steer clear of predictions. Of all the media voices during volatile markets, the least helpful are those predicting the future. It's a skill few possess and not the basis for sound financial decisions. None of us has a crystal ball, so ignore someone in the media offering advice about the likely performance of tomorrow's markets. Remember that mutual funds offer the benefit of professional management so you can leave it to the professionals to do the analysis for you.

3. Focus on goals, not investments. It's easy to become obsessed about an investment: what about that holding, what about this fund? Instead, turn your focus onto your goals. Remind yourself why you are investing in the first place. For most of us, that's a long-term proposition. If your goal is to retire successfully in 25 years, for instance, chances are the performance or activity of any one investment this week is not putting your goals at risk. Keep a long-term perspective.

4. Keep performance in perspective. The performance of an investment should always be viewed in its proper context. A high-flying growth fund that puts up big gains may have equally big downturns. A government bond fund will rarely offer eye-popping returns. A poor quarterly performance in one of your mutual funds may be a blip in an impressive five- or 10-year return. Don't let just one number tell the whole story — keep your perspective.

5. Talk to your advisor. A research study has shown that Canadians who work with a financial advisor acquire a greater savings discipline, accumulate more assets, and the longer they get advice, the more their wealth grows.[1] In times of market turmoil, we can provide the "hand-holding" to help you focus on your goals and keep perspective. And if action is required, we can help to take it carefully and prudently.

6. Consider a portfolio review. Not because you need a change but maybe to remind yourself that you don't. In a portfolio review, we will revisit your goals and risk tolerance as well as determine where you stand in relation to your goals. In light of all this information, we can make any necessary adjustments. Knowing where you stand and that you are still on track can help relieve that investment anxiety. ◀

[1] Montmarquette, Claude. *An econometric analysis of the value of advice in Canada*. Montreal: CIRANO, 2012.

FUND STRATEGIES

Is it time to shore up your core funds?

Every mutual fund portfolio should have a nucleus of broadly diversified investments. This core is crucial to the strength of your portfolio because it provides stability. It can help your long-term investment returns grow and ease the anxiety caused by the kind of financial market volatility we've experienced over the past year.

Core holdings are long-term "buy and hold" funds of low to moderate risk for their investment type. They are generally less volatile while still offering the potential for attractive long-term investment returns within your risk tolerance. Just as your overall portfolio should be well diversified, so should your core holdings.

What types of funds?

Equities. Equity core holdings often consist of "large-cap" equity funds that invest in blue-chip stocks. These funds may not always win the performance race, but they often have good long-term track records and low volatility, and may fare better in difficult times.

Fixed income. The fixed-income core of your fund portfolio should consist of moderate-risk, solid investments such as funds that invest in government bonds. Consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global funds. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

Often a Global Balanced Fund is a typical core holding in a well-constructed portfolio.

How much is enough?

How much of your total portfolio your core should represent varies with factors such as your financial objectives, time horizon and risk tolerance. For many investors, 70% to 80% is not unrealistic.

The types of funds that constitute your core will depend on your personal investment characteristics. Funds that can be considered core holdings for one investor may not be suitable as a core for another investor.

Now may be an excellent time for a core assessment. Financial market volatility in recent months may have thrown your mutual fund asset allocation percentages out of balance, including your core investments.

Let's get together to talk about the structure of your mutual fund portfolio. We'll ensure you have the right balance of core and non-core funds to meet your financial objectives. ◀

Retirement and debt – what you need to know

Not long ago, most Canadians wouldn't have considered carrying debt into retirement. That attitude has changed. One 2018 study from a major Canadian financial institution, for example, found that 25% of Canadians are living with debt in retirement. And 20% of retirees are making mortgage payments.

Is this a good idea? The answer is: it depends. Low interest rates mean that carrying debt into retirement is much less of a burden than it was when interest rates were sky-high. However, there is still a cost, which could increase if interest rates should rise.

Factors to consider

The decision that's right for you will depend on a number of factors.

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 your retail therapy.

Are you a pre-retiree, semi-retired, or already retired? Sometimes, age matters. If you are still earning a salary, with the potential for increases, you are more likely to be able to focus on eliminating debt before you retire. If you are already retired, it becomes a question of managing your debt on a fixed income so that you can continue to live the lifestyle you want.

Do you want to leave an estate for your children or for charity? If you have no children or grandchildren and no desire to support a particular charitable endeavour, you may be quite comfortable carrying debt in retirement. When you pass away, the value of your estate can be used to repay any remaining debt.

Are you planning to downsize to a smaller home at some point? For many Canadian families, the largest debt they are ever likely to take on is the mortgage on their home. If you are carrying a mortgage and plan to stay in your home throughout your retirement, you'll need to make sure you have sufficient cash flow to cover the payments.

However, if you are planning to sell and perhaps move to a smaller home, you may realize a substantial capital gain, even after repaying the mortgage balance, which is tax-free if the home was your principal residence. You can reinvest your gain to help provide you with the income you need to achieve your retirement goals.

Each situation is different

In the end, there is no single solution that is right for everyone. There is a whole range of circumstances and many variables to take into consideration. Whatever your situation, we can help you find the solution that's best for you and your family. ◂

Source: *The Sun Life Financial Barometer survey,* conducted by Ipsos, released February 21, 2018.

Last-minute RRSP tips

1. **A different deadline.** March 2nd, 2020 is the deadline for contributions to your Registered Retirement Savings Plan (RRSP) for the 2019 tax year. (Although 2020 is a leap year, the expected February 29th deadline falls on a weekend, meaning the deadline moves to Monday, March 2nd.)
2. **Know your limit.** Review your Notice of Assessment from 2018 to find out exactly how much you can contribute. If you can't find your Notice of Assessment, contact the Canada Revenue Agency (CRA). Also keep in mind that unused RRSP contribution amounts from previous years can be carried forward to the next year.
3. **No cash? Consider in-kind contributions.** If you don't have a contribution at hand, you may be able to transfer a non-registered investment into your RRSP. Remember, there are tax implications, as it is considered a "deemed disposition" for tax purposes and you may have to pay tax as if you had sold the investment.
4. **To borrow or not to borrow?** Is an RRSP loan a good idea? It depends on a number of factors and your individual situation. The best strategy if do you borrow is to use any tax refund to immediately pay off the loan to minimize your borrowing costs and maximize your retirement savings.
5. **Contribute now, invest later.** Don't let deliberations about how to invest your contribution stop you from making that contribution. You can put the money in your RRSP now and make investment decisions later — ideally, as part of our next portfolio review, where you can take a holistic view of your options. ◂

These income funds getting attention in today's environment

With the recent volatility in the equity markets, many investors have been walking a tightrope between choppy equity funds and the uninspiring performance of many bond and income funds. One area to consider is income funds that also offer some growth potential.

Different type of income fund

These income funds are specifically structured to offer a combination of reasonable growth potential along with income:

1. Income allocation funds. These funds invest in a variety of fixed-income securities with modest exposure (usually) to dividend-paying equities. They may also invest in similar foreign securities. In addition, some of these funds are structured to pay out tax-preferred income, making them suitable for your non-registered portfolio.

2. Monthly income funds. These are sometimes called "high-income funds," and they may augment their fixed-income holdings with dividend-paying stocks and other equities. In some cases, the asset mix may be closer to that of a balanced fund than an income fund. For this reason, it's especially important with these funds to get the balance right not only in picking the right fund, but also within the context of the rest of your portfolio.

3. Global bond funds. These funds have a mandate to invest in a spectrum of foreign fixed-income securities. Their exposure to a variety of economies and currencies enables you to tap into growth opportunities outside of Canada. In addition to international diversification, they may also offer a hedge against rising interest rates in our own domestic economy.

Greater volatility

Because these income funds offer some growth potential, they may experience more volatility over the short term than traditional straight-up income funds. Remember: In the investment world, higher potential returns are always accompanied by greater risk.

This is partly due to the securities they hold. These funds may hold bonds issued by companies that are not as stable as solid blue-chip corporations. As well, they may be more tactically managed than some traditional bond funds. In other words, the fund manager may move in and out of assets more frequently in order to protect against risk or try to capture gains.

Managing the risk

To help reduce the impact of short-term volatility on your portfolio, consider the strategy of "averaging" into these funds. Rather than buying with a single lump sum, spread your initial investment over a period of months to take advantage of dollar-cost averaging. As the price fluctuates, you'll purchase more fund units when the price is lower, and fewer when it is higher. This approach can result in a lower average cost per unit.

If it's time for you to consider these "income plus a little growth" "investments, we are here to help. Together, we can review the candidate fund's objectives and its individual securities to make sure they'll work effectively with the rest of your portfolio. ◀

These cash-like funds are essential

Cash, or cash-equivalent mutual funds are perhaps an unexciting but nevertheless essential part of any portfolio. This asset class could include Money Market Funds, T-Bill Funds, Short-Term Income Funds or High-Interest Savings Funds. Here's how they help:

Provide liquidity. Liquidity means that the investment can be converted to cash at a moment's notice, without any significant loss of value. If you have an unexpected obligation or opportunity, the liquid part of your portfolio will have the funds at the ready.

Short-term savings. If you set a very short term savings goal, these funds may be the best option to save your money with no or little risk.

As a 'parking lot'. In managing your portfolio, or in your financial matters in general, you may have money "in transition," that is, in between two longer-term uses. These funds are a classic way to provide safety and perhaps a small gain while waiting.

Out of the market. In certain market conditions, it may make sense to take some money off the table and increase the cash portion of your asset mix.

Emergency savings. A prudent investment plan allows for emergencies, often a savings pool equivalent to three to six months' salary. Because we don't know when emergencies will happen, these cash-like, very liquid mutual funds can be ideal. ◀