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Winter is beginning to set in — the season of bright, warm homes, holiday parties, shopping frenzies, and travel to visit family and friends.

For many of us, a lot of planning and preparation goes into making the season happy and healthy — and solid budgeting within a sound financial plan is an important element of this. Are you financially ready for the holidays?

Along with budgeting for any additional expenses, you'll need to arrange for any investments maturing in the coming weeks or any year-end tax strategies that may need to be put into place.

Let's get together soon to ensure that you're well prepared for any additional demands on your time and your finances this winter.

FOCUS ON MUTUAL FUNDS



You can draw on savings while staying invested

When it's time to start drawing on your savings, such as in retirement, mutual funds can help you invest for income, yet keep a stronger potential for long-term growth than traditional savings vehicles.

Mutual funds let you tap income

Mutual funds offer you many ways to take what you need and keep the rest invested.

Systemic withdrawal plan: Any mutual fund can provide regular income through a systematic withdrawal plan (SWP). This means you automatically redeem units on a regular schedule, such as monthly. You can receive a set amount or a percentage of the fund's value. Redemptions in taxable accounts are treated as capital gains (or losses) and taxed at a lower rate than interest.

Income funds: A vast array of dividend, bond, mortgage, and balanced funds pay variable income, typically quarterly,

based on the fund's earnings. The type of income determines the tax bite. Canadian corporate dividends get a break. Interest and foreign corporate dividends are fully taxed. You might also receive annual distributions of tax-advantaged capital gains.

Target payout funds: These funds are designed to pay a set amount each month — typically more than a GIC — and may have an annual capital gains distribution. Earnings are taxed the same way as income funds. If the fund's earnings don't meet the target payout, it covers the gap by returning some of your capital, which is tax-free.

Tax-efficient, T-class funds: These mutual funds allow for each payout to contain a sizeable portion of tax-free return of capital.

Professional advice will assist you in determining which mutual funds are right for you. ■

INSURANCE

Set a realistic deductible to save on insurance

Are your insurance deductibles lower than what you'd pay to avoid making a claim? Increasingly, drivers and homeowners try to avoid big jumps in their insurance cost by not filing claims when they can cover the loss on their own. Marketing researchers have dubbed this the "pseudo-deductible" and suggest it means people sometimes pay more than they have to for coverage. Suppose your insurance has a \$500 deductible, but you'd cover a \$1,000 repair yourself. Why not boost the policy's deductible to \$1,000 and thereby reduce your premiums? The researchers found that going from a \$500 to \$1,000 deductible could potentially reduce home insurance premiums by as much as 10% to 15%, for instance. ■



gessed far too low, figuring as little as 20% of total income would be enough. ■

HOUSEHOLD FINANCES

Don't underestimate monthly costs when buying a house

Are you or someone in your family thinking about buying a house or condo? Have you looked into how much of your income should be allocated to cover the mortgage, property taxes, and heating? Nearly half the Canadians asked about that in a national survey guessed either too high or too low. Those expenses, plus half the monthly maintenance fee on a condo, form the "gross debt service" ratio that lenders consider in granting mortgages. The Canadian standard is that this ratio not exceed 32% of total pre-tax household income. More than a quarter of respondents

FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Tax-loss selling

This year has been a difficult one for mutual funds, but some strategies let you benefit by selling stocks or mutual funds that have lost money, so that you can reduce capital gains tax on winning investments.

What it is

How it works

Why it matters

Tax-loss selling takes advantage of the tax rule that lets capital losses offset capital gains.

Suppose you have a \$2,000 paper gain on one mutual fund and a \$2,000 loss on another. If you sell both, the loss offsets the capital gains tax due on the gain. But there's added flexibility. A capital loss first offsets capital gains from the same year. But any remaining loss can be used to recover capital gains tax paid in the past three years, or be carried forward to save tax on future gains.

Recovering tax eases the pain of a tough year and provides cash for new investment. And carrying forward unused losses can build up substantial credits to make future gains tax-free.

Be careful. If you or your spouse purchases an identical property in the 30 days preceding or following the sale and still owns that property 30 days after the sale, your capital loss will be denied. Professional advice can help determine if the investment decision to create a capital loss is suitable for you.

RETIREMENT SAVINGS

Are you leaving 'free' RRSP money on the table?

Hundreds of thousands of Canadians are giving up free RRSP money, according to two recent studies, typically leaving \$900 on the table each year by not taking full advantage of "free" money from their employers. These are people who participate in a group RRSP program at work, but who don't contribute enough to get the maximum matching contribution offered by their employer. The studies reviewed records at two major financial companies that administer group plans. At one, only 46% of those participating in group RRSPs sought matching RRSP contributions from their employers. The participation rate at the other measured just 37%, suggesting that well over half were potentially missing out on money for their retirement. ■





MUTUAL FUNDS

BRIC investments aim to catch a rising nation

Imagine if you could turn back the clock and invest in North America's great companies when they were just getting started and millions of workers in the U.S. and Canada were enjoying a dramatic rise in living standard.

That appeal is what many investors see today, as they watch the emergence of the BRIC economies — Brazil, Russia, India, and China. Today, investors can participate in these countries' growth potential through mutual funds, although it's important to also acknowledge the risks.

BRIC represents 25% of the world

The four BRIC nations represent one quarter of the world's land and 40% of its people. Already among the largest economies, they are expected to experience more powerful growth in the coming decades. India now dominates service outsourcing, Brazil and Russia have vast energy and mineral resources, and China continues to grow as a manufacturer to the world.

In some ways, the BRIC economies are playing catch-up. Previously, economic growth has suffered from inefficient state control of industry and widespread poverty. But a renewed focus on economic expansion is now creating jobs and educational opportunities and improving the lives of the middle class.

In creating new infrastructure, these countries are leapfrogging the developed world. China and India, for example, now rank first and second in per-capita world cellphone ownership, bypassing the need for landlines.

Watch for pitfalls

As great as the potential is, BRIC investing also carries risks that may influence your decisions as an investor. These are emerging markets and their entrepreneurial growth has far outpaced the development of accounting standards, corporate governance, and stock market regulation. There is also substantial political risk, as governments wield great powers. All four countries are vulnerable to political instability,

currency fluctuations, and economic problems like inflation.

China and Russia face ongoing criticism about human rights. India and neighbouring Pakistan continue to mistrust each other, and both are armed with nuclear weapons. In the past, Brazil tended to build up investors' expectations, only to fall through on delivery.

As well, all four consume a huge amount of energy and face pressure over relatively lax environmental policies.

Mutual fund managers help weigh risks

Mutual funds offer a convenient, prudent way to invest in these promising yet challenging markets. Professional analysts apply diligent standards when assessing companies and try to objectively weigh factors such as political, currency, and

environmental risks. Fund managers can access far-flung regional markets and expertise that would be difficult for individual investors to obtain on their own. And portfolio diversification reduces risk.

Some funds invest only in the four BRIC countries, by actively selecting individual stocks or using one of several established stock market indexes. Others include neighbouring countries such as South Korea and those in Eastern Europe. Most, if not all, emerging markets funds have some BRIC exposure. So do global and international funds, though to a lesser extent, through their holdings in multinational corporations that also benefit from BRIC growth.

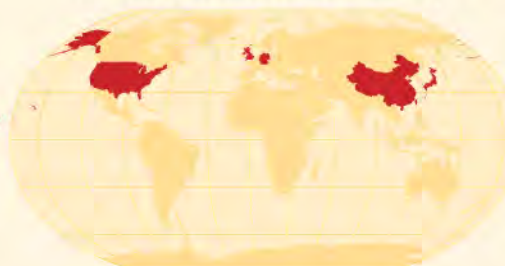
Professional advice can help you review the role of international investing in your portfolio and explore opportunities you may be interested in. ■

A new world order is on the horizon

The BRIC countries — Brazil, Russia, India, and China — are expected to be four of the world's five largest economies in 2050, according to *The Economist* magazine. Also notice how today's powers are expected to decline while Canada, Italy, and Spain get pushed right off the list.

The largest economies today...

1. USA
2. Japan
3. Germany
4. China
5. UK
6. Brazil



7. France
8. Italy
9. Spain
10. Canada
11. Russia
12. India

In 2050...

1. China
2. India
3. USA
4. Brazil
5. Russia
6. Mexico



7. Indonesia
8. Japan
9. UK
10. Germany
11. Nigeria
12. France

Rebalancing can reduce portfolio risk

Common wisdom among financial analysts holds that investment success depends less on individual securities than on your strategic asset allocation — how you divide money among the main asset classes: stocks, bonds, and cash.

But your weightings can go awry as markets rise and fall. The stock market boom of the late 1990s, for example, meant many investors ended up with far more equity exposure than they planned. In some cases, a stock target weighting of, say, 55%, rose to 80% or higher.

The danger of being overexposed. Those people were easy prey when the bear struck in 2000. If only they had moved some stock gains to bonds or cash. Bonds looked drab in 1999, but did well in 2000-2002.

That's the point of rebalancing. It can make you less vulnerable to a downturn and boost your chances of benefiting if an underperforming asset class takes off.

It's easier said than done, however. Rebalancing is psychologically challenging, since you must sell your winners and move that money to an asset class that hasn't been doing as well.

How it works. Rebalancing should be done systematically and with discipline. Here are two common approaches:

1. Use a set schedule. At predetermined intervals — for example, every three months — investments within asset classes that have experienced more growth are sold, and proceeds used to purchase investments in lower-performing asset

classes. This periodically restores the asset mix to its original proportions.

2. Use a threshold amount. Rebalancing can also be triggered when any one asset class goes off target by a certain percentage, or the total percentage change across asset classes exceeds a set limit.

Some mutual fund company programs will automatically adjust your holdings, using one or both of these methods.

Consider tax implications. Before implementing any rebalancing strategy, it's important to look at the tax implications. You don't want any unpleasant surprises when you file your tax return.

Rebalancing is easy for mutual funds held in registered plans, as there is no tax bite when you switch units. Rebalancing a taxable account is a bit more difficult. Normally, investors face capital gains tax whenever they sell a fund for more than it cost to buy. But there are two ways to rebalance without triggering tax.

One solution is to hold mutual funds that are set up within corporate structures. There is no tax due when switching among funds under the same corporate umbrella. Tax hits only when you leave the structure.

The other solution is to simply channel all new investment money to the underperforming asset groups until you are back to your basic allocation. This approach can take a little longer to get your portfolio back in balance, but it has no tax implications.

Professional advice can help you determine how to rebalance your portfolio. ■

Make the most of dividend funds

DIVIDEND MUTUAL FUNDS can offer you advantageous tax treatment, a regular income stream, the possibility for capital gains, and relatively low exposure to risk.

Here's what you need to know to get the best performance from your dividend fund investments.

Invest tax-efficiently. Because they qualify for the Dividend Tax Credit, dividends from Canadian corporations attract a lower tax rate. But this preferential tax treatment applies only to non-registered investments. Inside an RRSP or RRIF, all income is free of tax until it's withdrawn from the plan. Upon withdrawal, it's fully taxed, regardless of source.

For this reason, many Canadians prefer to hold fully taxable investments within their registered plans, while keeping tax-advantaged investments, like dividend funds, outside of their registered portfolio.

Read the fund's prospectus. In addition to looking at the historical rates of return, you need to check what the fund invests in.

Some dividend funds put an emphasis on capital gains. Other funds have a high ratio of interest-bearing securities, which attract a higher tax rate.

Read the prospectus to make sure a fund invests in securities that meet your needs.

Inquire about the frequency of distribution. If you depend on regular payments, make sure the fund delivers monthly or quarterly distributions. ■

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