Snapshots™

INVESTING 101

HollisWealth™

Snapshots™

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According to data collected and cited by the Investment Funds Institute of Canada, people who invest with the help of an Advisor accumulate more savings and feel more confident about their financial futures.

Investors who have a greater understanding of investing and the investments they choose have a greater likelihood of sticking to their financial plans over the long term. This is particularly true during times of market volatility and uncertainty.

A financial Advisor is not only familiar with competing investment companies and their products but also has the ability to objectively evaluate the merits of each – bringing tremendous value to your relationship.

Your Advisor recognizes this, which may be why your Advisor has provided you with this booklet. Take the time to read it. If you have any questions or if you would like to know more, please contact your Advisor.

WHAT IS INVESTING?

Invest a.) apply or use money, esp. for profit.

This definition from the Oxford dictionary says it all: investing is simply the act of putting money to work to make more money. Sure, we work to make money – but there are only so many hours in a day, which limits our ability to accumulate funds. That's why we put our savings to work for us, so we can pay for a child's college education or retire in comfort. Investing helps us prepare for the future.

There are two ways to put your money to work for you:

Lending: You lend your money to someone usually for a set period of time. That borrower promises to pay you, generally in the form of "interest," for the use of your money. At the end of that period, the borrower repays your principal.

Owning: You become an owner of something that you hope increases in value over time.

The magic of compound growth

Compound growth is a key aspect of saving. With compound growth, you earn interest on the money you save and on the interest that money earns. You earn interest on interest. As long as you don't withdraw any funds, over time, even a small amount of savings can add up to big money. Let's take a look at three compound growth scenarios:

- You put $25 a week ($1,300 a year) into an investment that earns 3% a year for 40 years. At the end of that time, you will have $100,489, thanks to the magic of compounding.
- If you invest $50 a week in an investment earning 3% a year for 40 years, you will have $200,977.
- If you invest $100 a week at 3% a year for 40 years, it will grow to $401,955.

This mechanism is flexible and can be approached from the other direction as well. For example: if you started at age 20, how much would you need to save each year to have $1 million at age 60, assuming a 3% return? Answer: $13,000.

So, you see, saving – even a modest amount – can result in substantial savings over time. The earlier you start saving, the better the result.

Assumptions: These hypothetical examples assume a 3% annual rate of return and continuous compounding in a Registered Retirement Savings Plan, it does not take into account any sales charges, management or fees that may be associated with holding such an investment and assumes no withdrawals or deposits during this time. This example is strictly for illustrative purposes only and is not intended to be representative of any actual or future performance of any investment available to investors. Actual client returns would be different.

TYPES OF INVESTMENTS

There are a wide variety of investments from which to choose, but we are going to focus on the two most widely used categories or "asset classes." If you choose to "own," you are most likely going to buy shares in publicly traded companies, referred to as "equities" or stocks. If you choose to purchase a bond – whether it's from a government or a company – you're in essence "lending" and because the rate of return you receive at maturity is fixed, they're referred to as fixed-income securities.

Owning (Equities)	Lending (Fixed income)
Common shares	Government bonds
Preferred shares	Corporate bonds
	Treasury bills
	Cash and cash equivalents

Owning: Equities

Companies issue and sell stock, generally on a stock exchange, to raise money so they can build and grow their businesses. As a buyer of a company's stock, you become an equity owner or "shareholder" in that business and are entitled to share in any growth of the company as the price per share of the company rises and falls.

That is the attraction of equity investing. If a company builds its business, secures its place in the market and increases its profits, chances are that over time the company's share price may also increase in value, making shareholders a profit. But owning equity is not without risk. Companies do fail and stock prices do fall, sometimes precipitously and there is no guarantee that your principal will be returned to you.

There are two types of equities: common shares and preferred shares:

Common shares: Buying common shares or "ordinary" shares gives you ownership in a company and generally entitles you to a say or vote in the company's affairs at the company's annual meeting. It also may bestow the opportunity to receive dividends, should the company's board of directors choose to pay out some of the company's profits to shareholders. More mature companies with established earnings tend to pay regular dividends; young companies tend to reinvest their profits in their growth and are unlikely to pay dividends. With common shares, therefore, shareholders look mainly to rising share prices for their potential investment returns.

Preferred shares: Preferred shares, as the name suggests, have preferred status: they come with a fixed dividend payout and the company must pay dividends to preferred shareholders before it can pay dividends to common shareholders. Even then, there is no guarantee; if circumstances warrant, the company's board may decide to suspend dividend payments altogether. All the same, investors look to preferred shares for an income stream. The shares can increase in value but the potential for gain is tempered by the dividend income. Generally, preferred shares do not entitle shareholders to vote.

Many years ago, shareholders would receive a paper certificate with the company name and number of shares printed on it. Today, there are few, if any, paper certificates as computers have eliminated the need for physical shares.

When it comes to purchasing stock, two of the most common ways are through the secondary market or over the counter. The secondary market or "stock exchange" as it is more commonly known is a big electronic auction, which matches buyers and sellers who "bid" and "ask" for existing stock at various prices. The over-the-counter market is home to "unlisted" stocks, which means there are either too few shares or they're too inexpensive to trade on a formal market such as an exchange. Unlisted stocks change hands between broker dealers who negotiate with one another to determine prices on behalf of their clients or themselves.

Lending: Fixed income

If you choose to lend your money, the borrower agrees to two things: to repay your capital or principal when the term of your loan ends and to pay you a preset amount of interest at regular intervals. And that is part of fixed income's attraction: if you hold the security to maturity, your rate of return is fairly certain. You know precisely what you will be getting back in principal and interest – assuming the borrower is creditworthy – and, for some investors, that assurance is valuable. The most recognized fixed-income investments are bonds issued by governments and corporations.

Treasury bills, cash and cash equivalents: Treasury bills (T-bills) are government-issued bonds with a term of less than one year. Cash or cash equivalents are money in hand, in a bank account or in a money market fund where it is easily accessible. The purpose of T-bills is safety and liquidity because interest rates are low, but you will get your money back, whenever you want it.

Government bonds: Governments issue bonds in various maturities greater than one year to meet their financial obligations. If you are lending your money to a government that is creditworthy – such as Canada – you can rest easy that the terms of your loan will be met. Your principal and interest will be repaid. That's why government bonds generally pay relatively low rates of return compared with other types of investments: the risk that you will lose your money is low. But governments, like people, can run into financial difficulty, making their bonds less attractive; to counter that, they issue bonds with higher interest or "coupon" rates. Remember: generally speaking the higher the interest rate, the higher the risk.

Corporate bonds: Corporate bonds are a step up on the risk scale and therefore often pay a higher coupon than a government bond. When buying a corporate bond, you are counting on the company's ability to meet the interest payments and to repay the principal. For example, will the company be around in 20 years when your bond matures? Corporations may also issue high-yield bonds or bonds with various covenants or conditions. Make sure you understand the terms and conditions of the bond before you invest. They may be called bonds but they are much more complicated and may be riskier.

More on bonds

Like stocks, which are a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings trading on primary markets, bonds trade on secondary markets. But unlike stocks, what drives bond prices up and down are interest rate movements. Bonds are said to be "interest-rate sensitive." Rising interest rates can make a bond with a low coupon rate unattractive and falling interest rates can make a bond with a high coupon rate very attractive. It all depends and a bondholder who decides to sell a bond before it matures may face a loss – or a gain. The following example is designed to help you better understand how bonds work.

Year one

In year one, Company A issues a 10-year, $1-million bond paying interest of 6% annually. According to the contract, the buyer gives Company A $1 million today; in return, Company A will pay the bondholder $60,000 a year (6% of the $1-million face value) every year for 10 years. Then, when the bond matures, Company A will return the $1 million in capital. The buyer has the comfort of knowing that Company A has a legal obligation to meet these conditions and that cash flows are secure.

Year two

In the following year, another company in the same industry, Company B, issues a nine-year bond with a face value of $1 million. This bond will mature on the same date as Company A's bond. But, as a result of economic forces, the interest rate on Company B's bond is 8%. In other words, the bond contract states that, in exchange for $1 million today, Company B will pay the bondholder $80,000 (8% of the $1-million face value) every year for nine years, and then return the $1 million principal.

Implications

Company B's bond is paying 8% or $80,000 a year, while the holder of Company A's bond must be content with the agreed-upon $60,000 in interest. Further, if the bondholder decides to sell Company A's bond, he or she will not receive $1 million for it. Any prudent investor will compare the two bonds and realize that it is more profitable to invest $1 million in a bond paying $80,000 a year for nine years than one paying $60,000. Consequently, to make Company A's bond attractive to a buyer, the bondholder will have to sell the $1-million bond at a discount, say $875,000, thereby incurring a $125,000 loss ($1 million minus $875,000).

In this example, the interest rate increased to 8% from 6% and the investor in Company A's bond experienced a loss. However, if rates had declined to 4%, it would work the other way and the investor would have realized a gain on sale. We can draw two important conclusions from this:

1. A bond held to maturity is low risk, but if a bond is sold prior to maturity, the investor realizes a loss or a gain.

2. When interest rates rise, the market value of a bond declines; when interest rates decline, the market value of a bond increases.

STRATEGIES FOR INVESTING

There are a number of strategies you can use to invest in equities or bonds. You can buy a specific share or bond outright; you can pool your resources with other investors using Mutual Funds; or, you can employ a derivatives strategy.

Buying directly: You can buy both common and preferred shares of companies that trade on stock markets through an Advisor who is licensed to sell securities. The same applies to bonds: a licensed Advisor can purchase government and corporate bonds on your behalf. In both cases, you will pay the Advisor a fee for making the transaction.

The wisdom of that strategy depends on how much money you have. Buying only one company or one bond is the investment equivalent of putting all your eggs in one basket. If you have enough money, then you can diversify your holdings. If you have a smaller amount, there are alternatives to buying directly.

Mutual Funds: Mutual Funds are perhaps the most popular investment vehicle for investors. Mutual Funds pool the money of a number of investors and a professional manager invests that money in a number of companies and/or bonds depending on the funds' objectives. These managers are trained to evaluate investment opportunities, build portfolios of their best ideas and monitor the ongoing performance of their investments. At an affordable price you gain access to the skills of a professional money manager and a diversified portfolio of mutual fund investments.

Another benefit of Mutual Funds is their ease of access. Mutual Funds are "open-ended," meaning you, generally through your Advisor, can buy units from a mutual fund company any time. Likewise, if you wish to sell your units, you may do so at any time.

Mutual Funds come in many shapes and sizes. In fact, there are almost 20,000 different Mutual Funds offered in Canada. There are funds that invest in Canadian equities, or in U.S. equities, or globally – funds that cover a wide range of geographic areas, giving you exposure to the world if you wish it. Likewise, there are Mutual Funds that focus on bonds; funds that focus on dividend-paying investments. There are balanced funds that balance their holdings between equities and bonds. You can also choose among specialty equity funds that invest in specific sectors, such as technology or healthcare, or index funds that buy only stocks that are in a specific stock market index.

Exchange-traded funds (ETFs): ETFs operate in a similar fashion to Mutual Funds in that they pool the money of a number of investors, invest in baskets of stocks and/or bonds and are affordable. Like Mutual Funds, there is a range of offerings – in equities and bonds, in diverse geographic areas, in sectors – although not nearly as many as Mutual Funds. The key difference between Mutual Funds and ETFs, however, is ETFs are exchange-traded and you purchase them through a securities-licensed Advisor for a fee.

Derivatives: You may have heard about the derivatives markets. The name comes from the fact that these investments "derive" their value from other investments; they do not have any stand-alone value. Some common derivatives are:

- Options
- Futures
- Swaps

Properly used, derivatives strategies can be an excellent way to hedge or reduce risk. But improperly used, they can be risky and money-losing. It all depends on the skill and experience of the person using them. If you want to pursue a derivatives strategy, you may want to work with an Advisor who is licensed to do so.

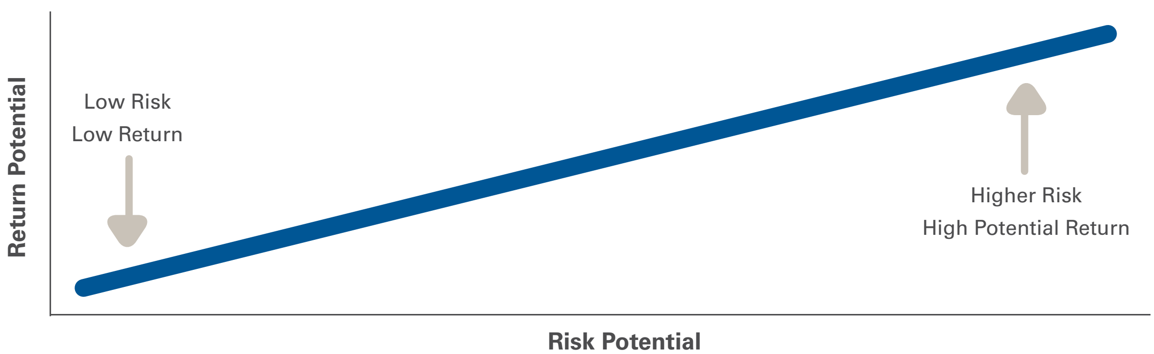
THE RELATIONSHIP BETWEEN RISK AND RETURN

Every investment decision involves some level of risk. Even the safest of investments – a Guaranteed Investment Certificate (GIC) – runs the risk that inflation and volatile interest rates will erode its value. Equity investments bring even more factors into play. The fact is, the higher the potential return, the greater the risk. In other words, if you are seeking higher returns, you will generally have to assume a higher level of risk. And if you want to protect your capital, you will generally have to accept lower returns. The key is determining how much risk you, personally, can tolerate.

How much risk is too much?

As you go higher on the return axis, there is a corresponding rise in the level of risk. The level of risk that's right for you will depend on your personal circumstances, investment time horizon and financial return potential.

Risk/Return Potential



Types of returns

Returns can take various forms – depending on the investment. Generally, equities are purchased for the potential gain on the share price or for "capital appreciation" while fixed-income investments are purchased for their ability to generate regular income.

Capital gains: Capital gains are most often created when an investment is purchased for one price and then sold for a higher price. The difference between the adjusted cost base and the proceeds of the disposition creates a capital gain. (There may also be a capital loss, if the investment is sold at a price lower than the purchase price.) Capital gains can be realized on many assets – stocks, bonds, real estate, collectibles such as antiques. Investors who purchase shares of publicly traded companies are often doing so in the expectation of earning capital gains.

Interest income: Interest income is the "rent" you receive for lending money to another party, be it another person, a bank, a corporation or a government. Ordinarily, interest is the result of a contract in which the borrower has a legal obligation to pay a specified amount over a specified period of time.

Dividend payments: Dividends are the way in which a company shares its profits with its shareholders. The board of directors assesses the company's financial situation and decides whether to pay a quarterly or annual dividend to shareholders. Unlike interest payments, the company is under no legal obligation to pay a dividend but, generally, if it has a history of paying dividends, the company will make every effort to continue payments.

Investment returns and taxation

Taxes play an important part in determining overall investment returns. The taxman treats some types of investment returns more favourably than others.

Interest income. Any interest income you receive is added to your overall income and is fully taxable at your current tax rate. Interest income is the least tax-advantaged investment return.

Dividends. Dividends are the after-tax distribution of corporate profits to shareholders. Since dividends have already been taxed at the corporate level, it is considered unfair to fully tax shareholders as well. Consequently, dividends from Canadian corporations are given preferential tax treatment in the form of a dividend tax credit reducing the tax impact of dividends. Keep in mind, taxable dividends are also "grossed up" when they are reported as income and this can impact tax credits or social benefits such as Old Age Security.

Capital gains. A capital gain (or loss) arises when you sell an asset for more (or less) than its adjusted cost base or purchase price. For tax purposes, you will bring 50% of the gain into income where it will be taxed at your current tax rate. A loss can be used to offset gains.

Types of risk

When investing, you always assume some level of risk. You should understand the risks inherent in any given investment and, even more important, how much risk you, personally, can tolerate. Your financial Advisor should undertake a Know Your Client analysis, which will help you make this determination. The amount of risk you can tolerate combined with your time horizon will help determine the types of investments that may be suitable for you.

Here are some of the risks you will encounter when investing.

Business risk: This is the risk that the business or company in which you invested will make poor business decisions and its performance will suffer, sending the company's share price down.

Default risk: This is the risk that the company or government whose bond you hold is unable to pay the agreed-upon interest and/or return your principal. Meeting its borrowing obligations is a legal obligation; the inability to meet those obligations will result in default, and you could lose your money.

Interest-rate risk: This is the risk that interest rates will change after you have locked yourself into a fixed-income investment. If interest rates go higher than the coupon rate on your bond and you choose to sell your bond prior to maturity, you may lose money. Of course, if rates go down, your bond may become more attractive and you'll make money.

Inflation risk: This is the risk that inflation will push prices of goods and services higher and your investment will lose purchasing power. For example, if your investment is earning 2% and inflation heats up and hits 3%, your money will buy less in "real" terms.

Currency risk: This is the risk that fluctuating exchange rates will have a negative impact on your investments. For example, if you invest C$1,000 in U.S. equities when the exchange rate is par ($1C buys $1US) and the Canadian dollar subsequently strengthens to $1.016 against the U.S. dollar, your US$1,000 will only be worth $984 when translated into Canadian dollars. Of course, it could work in your favour if the Canadian dollar fell in value.

Market risk: This is the risk that the stock market will suffer a short, severe contraction – commonly called a "crash" – and the market value of your shares will tumble. If you are a long-term investor and you can sit tight and not sell your shares, history tells us that over time your shares will recover their value.

Tax risk: Investors need to be able to meet tax compliance requirements. Understanding the tax attributes of your investments and their tax filing requirements is therefore important. Are the transactions reportable on the tax return (as income or as an adjustment to cost base), when are they reportable (annually or on disposition) and how will they affect taxes payable when the return is filed? Will income generated create or increase quarterly tax installment payments? Are the transactions reportable under foreign income reporting purposes? Are they reportable as avoidance transactions?

Measuring investment risk

There are many ways to measure investment risk, but the most common is “standard deviation.” Standard deviation quantifies how much a set of numbers varies from its mean, or average. The greater the variability in an investment’s return, the greater the standard deviation and the greater the risk. For example:

Company ABC and Company XYZ are in the same industry. Both companies’ stocks are currently trading at $50 a share, which is also their average price.

Over the past 20 years, although ABC had an average price of $50 a share, the price ranged between a low of $15 a share and a high of $115 a share. XYZ shares, on the other hand, had a tighter trading range, between $40 and $60 a share.

When using standard deviation as your risk measure, Company ABC is the “riskier” of the two due to its higher standard deviation.

WHAT IS ASSET ALLOCATION?

Asset allocation is an investment strategy that balances how much of each of the three asset classes – equities, fixed income and cash/cash equivalents – you have in your portfolio to give you the best performance at a comfortable level of risk. Finding the optimum risk/reward scenario takes into consideration your individual circumstances, your risk tolerance, your investment time horizon and your goals.

Each asset class has its own risk/reward profile. For example, equities have the greater potential for reward but are also higher risk; most fixed-income is lower on the risk scale and correspondingly lower on the reward scale. Cash and cash equivalents are lower still.

Rebalancing

Asset allocation is not a set-it-and-forget-it investment strategy. As time passes, one asset class will probably outperform another impacting your allocation and potentially adding risk to your portfolio. You will need to "rebalance" your portfolio back to your original allocation. When rebalancing, you could sell some of your outperforming assets and buy more of your underperforming assets. That will help you with a sell-high, buy-low strategy.

The importance of diversification

Once you've determined your asset allocation, the next step is "diversifying" or spreading your money across a number of investments within each asset class. It's the old adage: "Don't put all of your eggs in one basket." Then, if you drop one basket, you haven't broken all your eggs.

The reality is at different times some investments will outperform while others will underperform; some countries will enjoy economic growth while others stall; some industries will boom while others suffer. Diversifying your exposure – geographically, by sector, by asset class – can lower risk and strengthen the overall performance of your portfolio. Think of diversification as a risk-management technique; it can smooth out the impact of the markets' ups and downs on your portfolio.

When you diversify, look for investments and investment categories that do not behave in the same way, that have a low correlation. For example, bonds tend to be in favour when stocks are out of favour whereas bonds and cash tend to behave in a similar way.

Geographically, emerging markets will have periods when they grow faster than established markets. That happened following the Great Recession of 2008-2009; when developed markets were under pressure, China outperformed Europe and the U.S. The same goes for industries and market sectors: in periods of slow economic growth, investors look for solid performance from financials and utilities; in fast-growth phases, oil and gas stocks might outperform. The same pertains to companies; in slow growth phases, companies with large capitalization tend to do well but in periods of strong economic growth, smaller capitalized companies have their opportunity to grow.

When it comes to being on top, there are no consistent winners. Consider the chart on the following page: each colour indicates a type or class of investment. Organized by year and performance, they range from worst (at the bottom) to best (at the top). You will notice that one colour/category may be at the top of the heap for a few years in a row, then at the bottom the next. Things change, therefore, it makes sense to diversify. It means at least part of your portfolio will be in the winner's circle each year.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Emerging 30.3%	Europe 34.3%	Emerging 18.6%	Glob Bond 37.4%	Emerging 53.0%	Small Cap 20.6%	DEX 9.7%	Europe 17.3%	Small Cap 48.4%	S&P500 24.0%	High Yield 15.0%
S&P/TSX 24.1%	Emerging 32.5%	S&P/TSX 9.8%	DEX 6.4%	S&P/TSX 35.1%	S&P/TSX 17.6%	Glob Bond 8.8%	Emerging 16.1%	S&P 500 41.5%	Small Cap 14.3%	Europe 14.8%
Asia Pac 19.9%	Small Cap 18.3%	DEX 3.7%	High Yield (8.8%)	High Yield 34.6%	Emerging 13.3%	High Yield 6.7%	Asia Pac 14.5%	Europe 34.7%	High Yield 11.7%	Small Cap 11.5%
Europe 6.5%	S&P/TSX 17.3%	Asia Pac (2.8%)	Small Cap (17.9%)	Asia Pac 17.8%	Asia Pac 11.4%	S&P 500 4.4%	Small Cap 13.8%	Asia Pac 19.9%	S&P/TSX 10.6%	Glob Bond 11.3%
DEX 6.5%	Asia Pac 16.8%	Europe (3.0%)	S&P 500 (21.9%)	Europe 16.9%	High Yield 9.5%	Small Cap (2.0%)	S&P 500 13.5%	High Yield 14.8%	Asia Pac 9.3%	S&P500 10.7%
S&P 500 1.6%	S&P 500 15.7%	Glob Bond (5.9%)	Asia Pac (27.6%)	Small Cap 8.7%	S&P 500 9.4%	Europe (8.5%)	High Yield 13.1%	S&P/TSX 13.0%	DEX 8.8%	Asia Pac 10.2%
Small Cap 1.3%	High Yield 11.7%	S&P 500 (10.6%)	S&P/TSX (33.0%)	S&P 500 8.1%	DEX 6.7%	S&P/TSX (8.7%)	S&P/TSX 7.2%	Emerging 4.5%	Glob Bond 8.5%	DEX 2.8%
High Yield (0.5%)	Glob Bond 6.1%	High Yield (13.4%)	Europe (33.2%)	DEX 5.4%	Glob Bond (0.1%)	Asia Pac (13.0%)	DEX 3.6%	Glob Bond 2.6%	Emerging 7.0%	Emerging 0.4%
Glob Bond (9.8%)	DEX 4.0%	Small Cap (16.5%)	Emerging (42.0%)	Glob Bond (12.4%)	Europe (0.7%)	Emerging (16.3%)	Glob Bond (0.6%)	DEX (1.2%)	Europe 2.8%	S&P/TSX (3.5%)

Source: TSX: S&P/TSX Composite. EM: MSCI Emerging Markets. DEX: FTSE TMX Canada Universe Bond. Europe: MSCI Europe. Small Cap: Russell 2000. High Yield: Merrill Lynch High Yield Master II Bond. Global Bond: Citi World Government Bond. Asia Pacific: MSCI AC Asia Pacific.

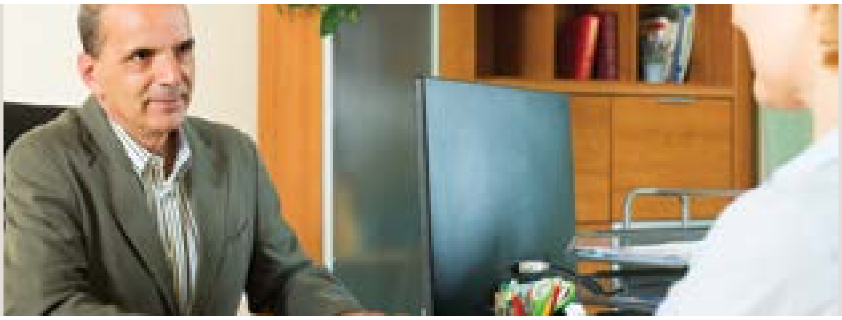
*As of August 31, 2015.

How much diversification do you need? As a rule of thumb, an all-stock portfolio should hold around 25 to 30 names. But that is costly and beyond the financial reach of many investors. This is where Mutual Funds come in – by pooling your resources with those of other investors you can enjoy the benefits of diversification at a reasonable cost.

Home-country bias

Canadian investors have a tendency to buy Canadian investments, Americans buy American. The truth is we are more comfortable with what we know. It's called "home-country bias" and the danger lies in a lack of diversification. In Canada, for example, the benchmark S&P/TSX Composite Index is highly concentrated in three areas – financial services, energy and materials – with very little exposure to technology and health sciences. Alternatively, the U.S. has large and varied technology and health sciences sectors so it makes sense to invest in both countries for reasons of diversification. This approach can be applied on a global scale in which you spread your investments across a range of countries around the world.

KNOW YOUR CLIENT/KNOW YOURSELF



Your Advisor has a legal, ethical and professional responsibility to ensure that you are investing in a way that is suitable for your investment profile, circumstances and objectives.

Consequently, your Advisor will spend time asking you questions and getting to know you; he or she will record those findings in a Know Your Client (KYC) document. Your investment purchases will be compared to that document by your financial institution's compliance officers to make sure they are consistent with your goals.

But what your Advisor knows about you is only as good as what you know about yourself. For example, if you tell your Advisor you can handle risk but at the first sign of a market drop you are panicking, no one is well served. It is up to you to know yourself.

Risk tolerance: Probably the most important component of KYC, and hence your self-knowledge, is understanding how much risk you can tolerate. So, ask yourself:

- What investment objectives best suit your needs? Preserve capital and provide some growth potential, or grow my account and preserve purchasing power?
- What is your investment time horizon?
- Does your personal and financial situation allow you to incur the risk of short-term losses without compromising your financial stability?
- Can you cover your current expenses without using the money in your investment portfolio?
- Imagine that last year you bought Mutual Funds. The markets have dropped in value since then, and your investments are down 15% in line with the markets. Would you stay invested?
- Are you OK with day-to-day fluctuations in your investments and some extended periods of low or negative returns because you want the potential to earn higher returns over the mid-to-long term?

It is a function of your personality and outlook on life. It is all about your peace of mind.

Objectives or goals: Is your goal retirement savings or is it a new car? The two require vastly different approaches and you need to be able to identify and explain your financial objectives to your Advisor. Your answers will determine how you proceed.

Age and time frame: Your age and time frame for investing will have a direct bearing on risk and investment selection. If you are 60 and saving for retirement at 65, your options are much different than for someone who is 25 and saving for retirement. You have less room to take risks and your efforts will be more concentrated on capital preservation than appreciation. Your Advisor will be able to quantify for you the impact age and time horizons will have on your ability to reach your retirement goals.

WAYS TO MAKE YOUR MONEY GROW

Now that you have a better idea of yourself as an investor and understand the basics of asset allocation and diversification, let's look at some investing strategies, to help meet your long-term financial goals.

Invest early

The sooner you start investing, the better, as it means you have more time to enjoy the effects of compounding (see page 3) and thus the smaller the dollar amounts you'll need to invest.

Here is how much you have to put aside every two weeks to reach $500,000 in savings by age 65, assuming a 3% annual return:

- At age 25, you need to set aside only $250 every two weeks.
- At age 30, you need to set aside $310 every two weeks.
- At age 35, you need to set aside $392 every two weeks.
- At age 40, you need to set aside $512 every two weeks.
- At age 45, you need to set aside $696 every two weeks.
- At age 50, you need to set aside $1,004 every two weeks.
- If you wait until 55, however, you will need to set aside $1,627 every two weeks.

Keep in mind, your savings will significantly increase if you choose to invest in a TFSA, RRSP/RRIF.

Invest regularly

It's important to view investing as a process, not a one-time event. That's why setting up an automatic investment plan and "paying yourself first" makes sense. By investing on a regular basis – weekly, bi-weekly or monthly – you not only take the guesswork out of when to invest but you also protect yourself from buying too much of any one investment when prices are high while ensuring you buy more when prices are low. You are essentially "dollar-cost averaging."

Invest for the long term

Traders trade, investors invest – and there's a big difference between the two. Traders may hold stocks for days, hours or even minutes; investors hold for the long term and tune out the day-to-day noise of the market. Saving for retirement is perhaps the most often-cited reason for investing, that can mean 20 to 30 years in the market for someone who starts investing at a young age.

Invest with tax efficiency

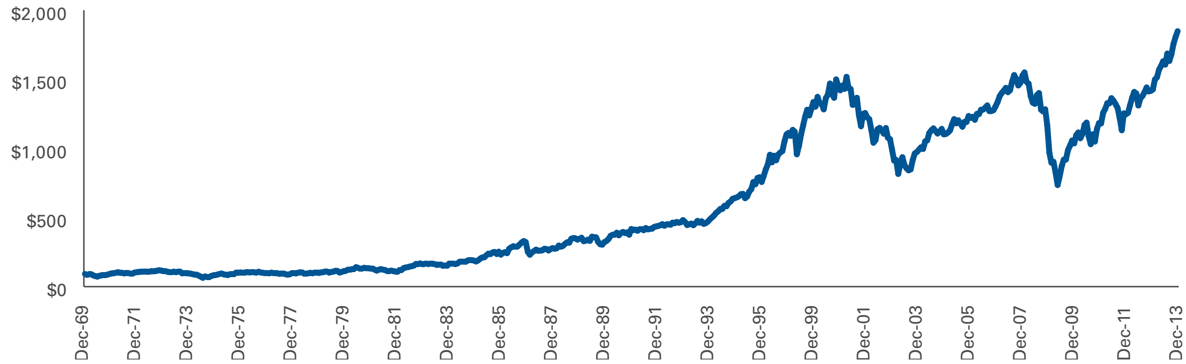
You want to make sure you start early, investing in tax-efficient accounts to multiple your earnings before taxes and think about family income splitting as you accumulate, to ensure you keep more of your investments after-tax, on withdrawal. Having a tax focus on your investment activities is one way to hedge against uncontrollable events, like short-term market fluctuations.

Focus on the big picture

Markets tend to recover over time

There have been a number of times over the past 35 years when a crisis of one variety or another shook our world. On those occasions, stock markets fell and generally fell hard. Although it took nerves of steel to live through those instances, it paid to focus on the big picture. Whether it was Black Monday in October 1987, the tech wreck of 2000 or the Financial Crisis eight years later, markets recovered – sometimes as quickly as they fell – and went on to new heights. It pays to stay the course.

S&P 500 (USD) – 1970-2013



Source: Standard & Poor's

INVESTMENT ACCOUNTS

Registered vs. non-registered

You can hold your investments in a "registered" or a "non-registered" account or you can have both, depending on your investment strategy and tax situation. A registered account is a legal structure that is registered with the federal government's Canada Revenue Agency (CRA) and is detailed in the Income Tax Act. By holding your investments in a registered account, any growth is tax-deferred until you start drawing on that account and that is not available to non-registered accounts. In the case of a Tax-Free Savings Account, the income is not taxed even on withdrawal.

The type of investments that can be held in a registered account are much the same as can be held in a non-registered account.

Registered Retirement Savings Plans (RRSPs)

RRSPs are the most popular form of registered account. They were established in 1957 to encourage Canadians without workplace pension plans to save money for retirement. You contribute annually to an RRSP based on your employment income – for example, in 2015, the contribution limit was 18% of earned income to a maximum of about $25,000 – and you receive a tax deduction when you file your income taxes. If you do not make full use of the allowable RRSP contribution limit in any given year, the unused amount will be carried forward for future potential use. This amount is called "contribution room." The following two scenarios illustrate the impacts on taxable and after-tax incomes when contributing or not to an RRSP.

Income with no RRSP contributions

Total income	$75,000
Deductions	$0
Taxable income	$75,000
Tax[1]	($16,439)
After-tax income	$58,561 ($75,000 - $16,439)

[1] Taxes for a single employee taxpayer in 2014 living in Ontario.

Income with an RRSP deduction of $15,000

Total income	$75,000
RRSP contribution	($13,500)
Taxable income	$61,500
Tax[1]	($11,871)
After-tax income	$49,629 ($61,500 - $11,871)

[1] Taxes for a single employee taxpayer in 2014 living in Ontario.

As you can see, contributing to an RRSP reduced taxes immediately payable by $4,858. You can then put your income tax refund toward next year's RRSP contribution, fuelling your retirement savings.

The other part of RRSPs' attraction: you do not pay taxes on the investments and investment returns in the account until you withdraw money from the account. The idea is that you hold the investments in the account until you retire, then when you make withdrawals, your income may be lower and you could pay a lower tax rate. However, there are a couple of points to consider when looking at RRSP contributions.

RRSPs provide tax deferral, not tax avoidance. Investment income is taxed differently depending on the source of the income. But that is not the case inside an RRSP, where there is no taxable event until money is withdrawn. Dividend income and capital gains income earned outside an RRSP receive preferential tax treatment that is not available inside an RRSP. So, some tax advantages may be lost.

To receive the full benefits of an RRSP, the deduction should be reinvested or used to pay a high-interest debt. When receiving a tax refund as a result of an RRSP contribution, every effort should be made to put the money back to work. Exactly how to put it to work will depend on individual circumstances, but the key is to try to avoid the temptation to cash the refund cheque and spend the proceeds.

Tax-Free Savings Accounts (TFSAs)

TFSAs were introduced in 2009 as an additional savings option for Canadians. As with RRSPs, these are registered accounts that provide federal tax incentives for savers. A contribution to a TFSA is made with after-tax dollars. There is no deduction on the tax return when you contribute the money.

But, in some ways TFSAs are similar to RRSPs. In both cases, the investments in these accounts grow tax free, and there are limitations as to how much can be contributed to each of the accounts and age eligibility. The investment options for a TFSA are generally as broad as for an RRSP.

However, a key difference is that when money is withdrawn from an RRSP, taxes are due. With a TSFA, the money you withdraw is free of taxes. In addition, amounts withdrawn from a TFSA – both earnings and principal – may be redeposited (beginning the year after withdrawal).

RRSP or TFSA: Which is better?

It depends on your personal circumstances. With an RRSP, you receive tax advantages up-front and pay full taxes on withdrawal; with a TFSA, your withdrawals are tax-free, but you contribute to the plan with after-tax dollars. Therefore, while accumulating savings, the RRSP can help create the new money you need to contribute to a TFSA by generating a tax refund, provided you have taxable income.

If you plan your retirement income well, so that your income tax rate will be lower at the time of withdrawal, the RRSP may therefore be preferable. This is more probable if you plan to average in those taxable withdrawals over a longer period of time and split income with a spouse. If there is no drop in income, or if you can no longer contribute to an RRSP because of your age, the TFSAs have the upper hand.

On the other hand, the amount you can contribute annually to an RRSP is usually higher (18% of earned income to a dollar maximum of approximately $25,000 vs $10,000 for a TFSA). The TFSA contribution room accumulates indefinitely as well; there is no upper age limit for contributions as is the case for the RRSP. For those who have little or no contribution room for an RRSP the TFSA is a good alternative. But, remember, to start a TFSA account, you must be a resident of Canada and over 18.

In an ideal world, you would have enough savings to maximize contributions to both plans. If this is not the case, discuss the points above with your Advisor and determine what strategy suits you best, before and after tax.

Registered Pension Plans (RPPs)

RPPs are established by employers so their employees have income in retirement. As with other registered plans, the amount that can be contributed to an RPP is limited by tax law. In many cases, your employer will provide part of the required contributions, you the remainder. Your contributions are generally deducted regularly from your paycheque. Pension administrators usually oversee the investments in these plans, but you should still make yourself familiar with your rights and obligations. There may be limitations on your withdrawal options, for example.

Employer contributions to your RPP are not taxable but your contributions are. You will be assessed a Pension Adjustment that will limit your RRSP contributions when you are a member of an RPP. Other adjustments for tax purposes may be made when you exit the plan. Like RRSPs, the income received from your RPP is added to your income. You'll want to understand pension income splitting options with your spouse, as well, to plan your withdrawal timing.

Group RRSPs

Many employers offer a Group RRSP to their employees as an alternative to a RPP. In some cases, your employer will contribute 50% of the contribution amount to the plan and you will pay the other 50%. Your contributions are generally made as regular deductions from your paycheque, a forced savings plan of sorts. You, however, usually have the freedom to direct the money to the investments that are suitable for you. Your employer's contributions will be added to your taxable income while your contributions will be deductible.

Registered Education Savings Plans (RESPs)

RESPs are a good way to save for your children's post-secondary education. As with RRSPs, investment income inside the RESP goes untaxed until it is withdrawn to pay for your child's education, at which point it will be taxed in the hands of the child. But the primary advantage of an RESP is the lifetime government grant of up to $7,200 a child on matching RESP contributions. Low income earners can also qualify for the Canadian Learning Bond. Even a modest amount of money regularly invested can make a big difference when saving for a child's education. There are separate tax rules to observe when the accumulations are not used for education purposes, which can be costly. Options should be discussed with your Advisor.

Non-Registered Accounts

A non-registered investment account simply means that the account is not registered with the CRA and does not receive special tax treatment. There is no tax-deferral of investment growth. Instead, money earned in the account will be taxed annually. Therefore income diversification is important. The mix of interest, dividends and capital gains will affect your taxes payable and, potentially, your tax credits as well. Note that capital gains on investments in non-registered accounts are taxed when the investments are disposed of. Withdrawals of capital are not taxed but may create a capital gain on eventual disposition of the securities.

If you are investing for the long term, a registered account such as a TFSA or an RRSP may be preferable but, if you are investing in high-growth equities, a non-registered account may also be appropriate.

A FINAL WORD

We hope you have found this booklet useful. The world of investing can be complex, confusing and exciting – and you can only benefit by increasing your knowledge and becoming a participant in your financial future. We want to emphasize that your Advisor is your partner in this endeavour. Your Advisor is highly trained and has access to extensive resources to ensure your needs and expectations are met. Ideally, this booklet will inspire some thoughts and discussions, enhancing the partnership between you and your Advisor.

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