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It's the start of a new year, and we all know what that means. No, we're not talking about making (or breaking) your New Year's resolutions, but rather gathering the resources you need to get your Registered Retirement Savings Plan (RRSP) contribution in before the deadline so you can deduct it from your income for the previous year.

The last day to contribute for 2017 is March 1, 2018. If you're planning to top up your RRSP, be sure to come and see us soon. While we're at it, we can set up regular contributions so you can get your money working for you sooner and avoid the scramble next year.

WealthBuilder

Winter 2018

Invest tax-efficiently to reach your goals

As Canadians, we are fortunate to have access to Registered Retirement Savings Plans (RRSPs), Registered Education Savings Plans (RESPs), and Tax-Free Savings Accounts (TFSAs) to help us reach our financial goals. Even better, mutual funds are a qualified investment for all three.

Tax savings boost returns

One of the smartest investing decisions you can make is to take full advantage of these tax-advantaged vehicles. But the scorecard for Canadian investors is mixed. We are saving more for our kids' post-secondary education in RESPs.[1] That's good news, especially since RESPs are linked to higher post-secondary enrolment.[2]

However, the latest data from Statistics Canada show that less than one-quarter of tax filers are contributing to an RRSP.[3] This is hard to understand. Not only do RRSP contributions reduce your taxable income, but the investment gains in your plan grow tax-deferred — a one-two savings punch that's hard to beat.

Priorities change over time

Of course, where you are in life will play a role in how you allocate contributions across these plans. If you have a pre-teen, you may want to focus on an RESP. If you plan on early retirement, you might want to maximize RRSP contributions. And since it can be used for any purpose, a TFSA is one of the most flexible savings tools available.

We can help you choose the right mutual funds for the right account (RESP, RRSP, TFSA) in light of your overall life plan and priorities. ■

1 Employment and Social Development Canada, 2015 Annual CESP Statistical Review.

2 Statistics Canada, "Which Families Invest in Registered Education Savings Plans and Does It Matter for Postsecondary Enrolment?" April 2017.

3 Statistics Canada, registered retirement savings plan contributions, 2015, released February 2017.

How rising interest rates affect your investments

After keeping rates at historic lows for the past decade, the Bank of Canada raised interest rates in 2017 and hinted that, with the economy close to full capacity, more rate increases may be in the cards.[1] Rising rates are most obviously felt in higher mortgage rates and borrowing costs, but they can also affect an investment portfolio. Here's what you need to know.

Winners and losers in the rate game

With Canadian economic growth picking up, the consensus is that the Bank of Canada will continue to raise interest rates. Indeed, the Bank suggested that the economy could be running at full capacity by the end of 2017, making the case for additional rate increases in 2018.

There are winners and losers in a rising interest-rate environment. The financials sector may see an uptick because rising rates often point to strength in the economy, and a stronger economy may result in fewer loan defaults, along with higher spreads on what financial companies pay out on savings accounts and what they earn on their government and corporate bonds.

In addition to the financial sector, the industrial, consumer discretionary, and technology sectors of the market typically benefit from rising rates.

Areas of the market that are more sensitive to higher rates — such as telecommunications, utilities, real estate investment trusts, and fixed income — may experience higher volatility.

How mutual funds are affected

How your fund holdings are affected by rising rates depends on a number of additional variables. Here's a rundown, by fund category.

Money market funds. Funds that hold highly secure interest-earning securities are clear winners in a rising-rate environment. If you're parking cash in a money market fund, you'll enjoy higher rates on your savings.

Bond funds. When interest rates rise, the price of previously issued bonds falls. The longer the term of the bond, the more marked the price decline. At the same time, however, newly issued bonds offer higher yields.

The effect on bond funds, however, is more complex and will vary depending on the types of bonds held and the fund manager's ability to adjust the fund's holdings. Moving to shorter maturities, for example, can help mitigate the effect of rising rates.

Regardless of the effect on the fund's unit price, it's important to remember why you have bond funds in the first place — to provide stability and generate regular income.

Dividend funds. Dividend funds that focus on utility, pipeline, and telecommunications companies may experience greater volatility as those companies will see increases in their borrowing and financing costs in a rising-rate environment. Funds with a significant weighting to financial services companies, on the other hand, may experience less volatility and could even benefit.

Growth funds. The Bank of Canada is raising rates against a backdrop of stronger economic growth, and an improving economy can boost corporate profits — which is one of the biggest factors supporting equity markets. Growth-oriented mutual funds with a higher weighting in industrials, financials, and technology companies usually stand to benefit the most.

Maintain your focus

After such a long stretch of stable or declining rates, it's common for investors to become apprehensive at the first hint of increases. Remember, however, that we chose the funds for your portfolio based on their combined ability to help you reach your long-term goals regardless of interest rate or market ups and downs.

That's why it's important to maintain your current investing regimen. If you invest automatically, for example, continue to do so. If you're concerned that rising rates may affect your personal borrowing cost, talk to us. Effective debt management is an important part of your investment plan and just one of the many components of our service to you. ■

1. Bank of Canada Monetary Policy Report, July 2017.

RETIREMENT PLANNING

$1 trillion in unused RRSP contribution room

The numbers are staggering. More than 24 million Canadians have unused Registered Retirement Savings Plan (RRSP) contribution room.[1] That works out to more than $40,000 for each tax filer. With a median annual RRSP contribution of just $3,000, it would seem Canadians are missing out on enormous tax-saving opportunities.

It's difficult to understand why. RRSPs provide a number of benefits, including tax-deductible contributions, long-term tax-deferred growth, and diversification opportunities. And unused contribution room represents the potential loss of many years of tax-free compound growth. Adding just $2,000 to your RRSP in January 2018, for example, earning 8% annually, would bump up your savings by almost $11,000 by 2040.

One of the easiest and most convenient ways to ensure you are always taking full advantage of your RRSP is to start — or increase — regular investment contributions. Once formed, these good habits are hard to break. With regular contributions, you're more likely to get closer to your maximum allowed contribution, and your money will begin to grow tax-deferred as soon as it's in your plan.

Automatic plans are easy to set up, and you can choose a withdrawal date and frequency (weekly, bi-weekly, monthly, etc.) that dovetails with your cash flow. If you're not already taking advantage of preauthorized contributions, we can help you get started. ■

1. Statistics Canada, CANSIM Table 111-0040, Registered Retirement Savings Plan (RRSP) room; accessed September 2017.

EYEOPENER

We're not as financially literate as we think we are

A recent survey[2] found that more than three quarters of Canadians (78%) believe they are financially literate: 64% rate their knowledge as "good," while 14% rate it as "excellent."

However, tests results conducted as part of the survey tell a different story — six in 10 failed a test measuring basic financial literacy. In terms of demographic groups, 52% of Boomers passed, while only 45% of Gen Xers and 31% of Millennials got a passing grade.

How would you fare?

Test your own financial knowledge with these five questions from the test. Answers appear below.

TRUE OR FALSE?	HOW RESPONDENTS FARED
1. A mortgage term refers to the length of time you need to pay off your mortgage.	51% answered incorrectly.
2. You can have multiple TFSA accounts with different banks at the same time.	20% got it wrong; 40% didn't know.
3. Applying for a credit card can negatively affect your credit score.	36% got it wrong; 17% didn't know.
4. A car that is more expensive always costs more to insure than a cheaper car.	50% got it wrong.
5. All banks charge you money to have a chequing account.	50% answered incorrectly or didn't know.

Answers: 1: False. 2: True. 3: True. 4: False. 5: False.

2. May 2017 survey conducted by Ipsos on behalf of LowestRates.ca.

INVESTING STRATEGY

Comparing returns? Do it wisely

The end of the year is in sight, and we'll soon be seeing a slew of "best of" and "worst of" lists for 2017. Where your mutual funds are concerned, it's best to view these reports in the right context.

Compare apples to apples

It's important to compare like funds — that is, funds that have similar objectives and a similar level of risk. For example, it's unreasonable to compare the return of a money market mutual fund to the return earned by an equity fund.

Benchmarking

The same concept applies when you're comparing fund performance against a market average.

Make sure that the benchmark you're looking at is appropriate for the fund that you want to assess. For example, for broad-based Canadian equity funds, the S&P/TSX Composite Index may be the most appropriate index available. But if a mutual fund concentrates primarily on large, blue-chip, Canadian companies, then the S&P/TSX 60 would be a better benchmark.

Finally, please remember that we're here to help you tune out media "noise," assess performance against appropriate benchmarks, and keep your financial plan on track. ■

INVESTMENT PLANNING

5 reasons to invest regularly

One of the most effective ways to build your wealth is also one of the simplest: Set up a regular purchase plan. Here are five reasons why.

1. Benefit from market volatility

When you invest the same amount every month, you automatically buy more units when prices are down and fewer when they are up. This strategy, known as dollar-cost averaging, can lower your average cost per unit over time.

2. Eliminate emotion-based decisions

When you invest automatically, you're far less likely to experience either irrational exuberance or irrational despair as market values fluctuate.

3. It's easy, convenient, and flexible

Automatic purchase plans run on autopilot — out of sight, out of mind. Many investors find that they don't even miss the money — kind of like the income tax that's automatically deducted from your paycheque.

And if an unexpected expense comes up or your situation changes, there's no need to worry. You can change the amount, frequency, or cancel altogether at any time.

4. It's affordable

For a one-time, lump-sum purchase, mutual fund companies sometimes require a minimum purchase of $500 or $1,000. When you sign up for regular purchases, however, the minimum is usually much lower — possibly as low as $25 a month for mutual funds held within a Registered Retirement Savings Plan (RRSP).

5. Maximize tax-advantaged plans

An automatic investment plan is a great way to get as close as possible to the maximum contribution to your RRSP or Tax-Free Savings Account (TFSA). Many people find it easier to make 12 small monthly contributions rather than one big one.

If you'd like to set up an automatic investment plan, we can help you choose an amount that fits your budget, a frequency that fits your cash flow, and mutual funds that match your goals. ■

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