

February in Review

Canadian and U.S. equities led the markets higher in February, gaining 3.98% and 3.96% respectively. Bonds were slightly lower at the end of the month, closing down -0.13%, while crude oil reversed January's losses and returned 1.57%.

Canadian economy: a mixed bag. A slew of Canadian economic data releases were announced in February, painting a mixed, but generally positive picture of the domestic economy. GDP figures for November were released, showing that output contracted due to weakness in manufacturing. Jobs data showed a higher-than-expected 35,400 jobs were added to the economy in January bringing down the unemployment rate to 6.6%, pointing to strength in the labour market.

Although the data was mostly positive, Senior Deputy Governor of the Bank of Canada, Carolyn Wilkins noted that the Canadian economy is operating below its potential. Indicating the recent decline in crude oil prices was a "setback", Wilkins is confident that a stronger U.S. economy and lower Canadian dollar would help the Canadian economy reach its potential.

U.S. economy grows, but faces headwinds. The U.S. economy expanded at a 2.2% annual rate in the fourth quarter – weaker than initial estimates of 2.6% – as imported goods increased at a faster pace than exports, possibly due to the strength of the U.S. dollar reducing foreign demand for U.S. goods. A strong dollar and its negative impact on earnings was a running theme for multinationals that generate a substantial amount of foreign revenue.

Jobs data showed that the economy added 257,000 jobs in January, against expectations of 228,000, while the unemployment rate rose from 5.6% to 5.7% as more people were looking for work.

Around the world: rate cuts, low inflation and bailout extensions. A number of central banks cut their interest rates in February in an attempt to stimulate economic growth. The Reserve Bank of Australia cut its key interest rate to 2.25% to "further support demand" in the resource rich nation. Sweden lowered a key interest rate into negative territory, going from 0.0% to -0.1% and introduced a bond-buying program to stem a "deflationary spiral". The Bank of Japan held its rates steady but cited low inflation as a concern, while the eurozone reported negative inflation of -0.6%, the lowest level since 2009.

Europe did get some good news as Greece and its European creditors came to an agreement on extending that country's bailout for four months so that both sides can attempt to work out a longer-term plan of action.

INDEX (C\$) [†]	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.05	0.17	0.92	157
Bonds (FTSE TMX Canada Universe Bond)	-0.13	4.49	10.38	1,004
Canadian equities (S&P/TSX Composite)	3.98	4.55	10.29	15,234
US equities (S&P 500)	3.96	10.47	30.11	2,632
Global Equities (MSCI World)	4.13	12.04	22.50	2,217
Emerging markets (MSCI Emerging Markets)	1.33	11.66	18.78	1,238

CURRENCIES [†]	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/ US\$	1.81	-7.08	-11.08	0.80
C\$/ Euro	2.66	0.44	8.92	0.71
C\$/ Pound	-0.77	-6.19	-3.82	0.51
C\$/ Yen	3.59	-7.24	4.10	95.59

COMMODITIES (US\$) [†]	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	-5.17	2.38	-9.11	1,213.10
Oil WTI (\$/barrel)	1.57	-8.29	-45.49	49.76
Natural Gas (\$/MMBtu)	1.75	-5.10	-31.96	2.73

[†]As at February 28, 2015. Source: Bloomberg

Did you know?

Despite only being available since 2009, today approximately 1 out of 3 Canadians have a Tax Free Savings Account (TFSA).

Source: Statistics Canada, December 2014

The More, the Merrier

Although many would argue that TFSAs and RRSPs are as different as apples and oranges, in fact, they can each be used to save for the same goal – retirement. With TFSA in it's infancy (or, perhaps youth at age 6), many have weighed in with opinions on which is better. Like many things, for most people it isn't about choosing one over the other, but rather, leveraging both to help you reach your investment goals.

With a total of \$36,500 in contribution room to 2015, the inclination to compare the TFSA to an RRSP has only grown. Here's our take:

Pay now, pay later

When comparing the RRSP to a TFSA, one of the key differences is that contributions to an RRSP provide a tax deferral opportunity.

When you make your RRSP contribution you are able to potentially reduce your taxable income* today, in your current tax bracket. However, taxes will likely be repaid in the future when you start to draw an income (likely in the form of RRIF payments).

By contrast, the same contribution to your TFSA doesn't provide you with an immediate tax deduction today, nor will it create a taxable payment in the future.

Where the plans look the same though is in the period between contribution withdrawals. During that period, no tax is paid on the income earned in either the RRSP or the TFSA.



Contribution Room

Another important differentiator between the two plans is that unlike the RRSP, TFSA contributions are not dependent on earned income. The contribution room is the same for everyone regardless of income. This can make a difference in situations where

income doesn't come from more traditional employment income.

Saving Habits Don't Need to Retire

While RRSPs must be converted to an income stream in the year that you turn 71, TFSAs have no such end date and can continue indefinitely as a place to house new deposits and shelter income.

Ultimately, you may not need to choose one over the other. In fact, the TFSA makes a great complement to an RRSP as well as other existing registered plans like the Registered Education Saving Plan (RESP), and even the Retirement Income Fund (RRIF). Just like other registered plans, a TFSA is not simply an account (as the "A" in it's name might lead you to believe), but, a plan that will allow you to invest in a wide range of options including mutual funds and GICs to help you meet your goals.

Ultimately, this new plan choice has opened a world of possibilities that are by no means limited to an either/or decision.

* Everyone's tax situation is different. Speak to your tax advisor to discuss your personal situation.

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