



In today's economic environment, it's easy to feel overwhelmed and unsure of how to move forward. But at ScotiaMcLeod, we believe it's essential to meet challenging times head-on with a rational assessment of your goals and opportunities. Your ScotiaMcLeod advisor can help you determine how the current financial crisis has impacted your personal plan and recommend ways to position your portfolio for current market conditions and your future objectives.

## Retirement: how to adapt, and where to look for opportunities

Bruce Teron, *Managing Director & Head, Retirement Programs*

**W**ith economies in every corner of the world in recession and financial markets hovering near the lowest levels in a decade, many of us are asking tough questions. Will I still reach my financial goals? When will I be able to retire? Will my retirement lifestyle live up to my expectations? Might I have to return to the workforce?

Considering that Canadians have lost as much as \$100 billion in RRSP savings alone, the answers aren't necessarily clear. Though it's inevitable that economic conditions will ultimately

improve, no one knows exactly how long this will take. Meanwhile, other uncertainties abound—from declining real estate values to rising unemployment.

But despite some very real challenges, the worst thing we can do is allow fear and doubt to prevent us from acting. The best way to relieve anxiety is to conduct a thoughtful review of your financial plan and portfolio strategy. Doing so will help you gain a realistic picture of where you stand today, and what you can do to effectively position yourself for tomorrow.

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## TIMING IS EVERYTHING

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If you're still a long way from retirement, the historical evidence strongly favours remaining invested throughout the market's ups and downs over the long term. In contrast, few investors who try to time the stock market—buying when it's low and selling when it's high—are successful. But when it comes to setting your financial planning priorities, timing can be everything.

Start by breaking down your goals and priorities into what's important to you in the short, medium and long term. This way, the asset mix of your portfolio can be tailored to multiple objectives, each with their own time horizon.

The advantage? Money earmarked for goals in the relatively near future can be invested accordingly, with the goal of minimizing volatility.

But just as importantly, you can stop worrying about the effects of volatility on money that's earmarked for goals in the more distant future. Since these funds aren't required any time soon, there's a greater opportunity to participate in a market recovery before the funds are needed.

Of course, the other important aspect of timing is simply starting to invest for goals as soon as possible. Starting early and investing regularly will significantly tip the long-term odds in your favour, regardless of short-term market conditions.

## WHAT IF TIME IS SHORT?

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If you're already at or near retirement, you may have less flexibility to wait out the current market situation. But that doesn't mean there aren't constructive

planning options that your ScotiaMcLeod advisor can help you review and implement.

For example, even though you may have immediate financial needs—such as the need to draw retirement income each month—you also have to think about the retirement years that are still ahead of you.

When it comes to peace of mind in retirement, few things are more important than knowing you have the income to cover your essential expenses. Your advisor can help assess your current and future income goals and determine whether you'll have any trouble

covering the fixed essentials, whether you'll have the money to support the lifestyle you've planned, and whether there's a risk of outliving your assets.

If an income shortfall appears likely, your advisor can work with you to take corrective

action. This might involve making changes to your asset allocation. The balance of assets in your portfolio can determine the amount of income available to you today, as well as the amount of future growth that might be available to replenish your capital and sustain your income.

Of course, dealing with an income shortfall might also require a change of plan, such as continuing some form of employment beyond the traditional retirement age. If you're concerned about the need to continue full- or part-time work in retirement, it makes sense to sit down with your advisor and work through the numbers together.

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### THREE INCOME OPPORTUNITIES

With markets down dramatically, many investors are now seeking investments that generate income—both to supplement their cash flow, and to provide greater stability to their portfolios. One of the fortunate side effects of recent market volatility is that the prices of many income-generating investments have declined, resulting in the potential to earn higher rates of income.

Here are three types of income investments you may wish to discuss with your advisor:

- Investment-grade corporate bonds can offer security of principle, but with the potential to earn a higher rate of interest income than from government bonds. For steady income and lower risk, consider making these bonds part of a laddered portfolio strategy that incorporates government and corporate bonds (see sidebar).
- Preferred shares offer the opportunity for regular dividend income, plus tax advantages when they are held outside an RRSP account. Preferred shares offer the potential for higher yields than bonds, but generally with less risk than common shares.
- Dividend-paying common shares offer a source of income plus a great opportunity to participate in future capital appreciation. Consider blue-chip companies in industries with steady, consistent cash flow, such as utilities, pipelines, and telecommunications.

Each of these areas of opportunity offer dual benefits: a source of income that can help meet your immediate cash flow needs, plus the potential to provide a buffer against market volatility, since yields rise when bond or share prices fall.

One caveat: today's higher yields are a sign of higher risk in the market. A portfolio made up of stocks and corporate bonds is not as safe as one made up

### WHAT IS A LADDERED BOND PORTFOLIO?

A laddered bond portfolio contains a selection of several bonds, each with a successively longer term to maturity. Each holding is usually of equal value, and it's common to construct the portfolio so that a portion will mature each year. To maintain the ladder, each time a bond matures, the proceeds are re-invested in longer term securities at the top of the ladder (i.e. in a new 10-year bond if you have a 10-year ladder).

There are several potential benefits to a laddered bond portfolio, including the opportunity to receive a smooth income stream, higher average yield than holding short-term bonds alone, safety of principle, and lower risk of a negative impact from changing interest rates. However, there can also be some risks, and it's important to discuss this strategy in detail with your advisor.

of government bonds and guaranteed investment certificates. The key is to strike a portfolio balance that makes sense in the context of your overall financial situation.

Your ScotiaMcLeod advisor can help you assess your holdings and risk profile in light of recent events. Each of your investments should be evaluated on its merits and its place in your portfolio. It's a good idea to rebalance your portfolio to get your asset and sector mix back to your target levels. This rebalancing may involve locking in some portfolio gains and selectively investing in securities at current market prices.

In this environment, it's crucial to proactively take control of your financial plan and make sure you're on track to the goals that matter.

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## Reflections

*"Experience is not what happens to you. It is what you do with what happens to you."*

Aldous Huxley



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