

Investment opportunities in today's markets: How one couple got their portfolios back on track

No matter what is happening in the markets and the economy, there are always opportunities for investors. The challenge is to stick to your long-term investment plan, even in the face of volatile markets. When you do, the rewards can be worth the wait.

Consider this fact: Coming out of the last three major recessions, the S&P/TSX Composite Index gained at least 48%* within five years. Investors who developed a plan that matched their objectives and stuck with it over the long term were rewarded.

Meet the Hudsons

Let's take our couple Bill and Marie Hudson, they are a good example of how to make the markets work for you over the longer term. Like many Canadians, their portfolios lost value during the past couple of years. As a result, they are now a little hesitant about keeping their savings in the markets. In fact, they are now considering moving their entire mutual fund portfolio to Guaranteed Investment Certificates (GICs).

The Hudsons arranged to meet with their *Scotia* advisor to discuss their options. Their advisor started by reviewing their goals, which have not changed: They would like to retire comfortably at 65 and maintain their current lifestyles. They would also like to save for their children's education.

Designate a TFSA beneficiary

You can now directly designate a beneficiary for your Tax-Free Savings Account (TFSA) in all Canadian Provinces and Territories, except for Quebec, just as you do for your registered Retirement Savings Plan (RSP). In Quebec, you must designate a beneficiary through your will. Contact your *Scotia* advisor or the branch where you bank to make the designation.

More conservative profiles

Their *Scotia* advisor then updated Marie's and Bill's investor profiles. The recent market downturn made both Bill and Marie realize that they are not as tolerant of risk as they thought they were. So their profiles were changed to "moderate growth" from "aggressive growth."

Bill and Marie's *Scotia* advisor then used some of the tools at her disposal to crunch the numbers and determine whether their current portfolios and savings rates would meet their retirement targets. Here's what she found:

If the Hudsons maintained their current investment approach, they would face a shortfall due to their recent market losses, even if they earned a reasonable rate of return. As a result, they would have trouble meeting their goals of a comfortable retirement and building some education savings for their children. But if the Hudsons moved their entire portfolio to GICs, the shortfall could be even higher.

Formulating an action plan

This created a great opportunity for the Hudsons to work with their *Scotia* advisor and get their portfolios back on track. Their advisor helped them formulate the following action plan:

Rebalance their portfolios to match their investor profiles. Moving to "moderate growth" portfolios provided the Hudsons with the peace of mind to stay focused on the long term. And they would still have a healthy equity component to provide them with the long-term growth potential they need to meet their goals.

* Based on the lowest percentage gain in value of the S&P/TSX Composite Index of the three periods 03/31/82 to 03/31/87, 11/30/90 to 11/30/95 and 07/31/01 to 07/31/06. Commissions, trailing commissions, management fees, and expenses may be associated with fund investments. The performance data provided assumes Quarterly rebalancing, reinvestment of income distributions and dividends. It does not take into account sales, redemption, distribution or optional charges or income tax payable by any security holder that would have reduced returns. Please read the prospectus before investing. Funds are not guaranteed, or insured, their values change frequently, and past performance may not be repeated.

Moving a portion of their investments into GICs would have been another good option, but the Hudsons preferred the simplicity of a portfolio approach.

Increase their regular RSP contributions.

By saving a little more each month in their RSPs, the Hudsons continue to benefit from dollar-cost averaging and the discipline that a regular investment plan provides.

Make lump-sum RSP contributions. Together with the increased monthly investment plans, one-time, lump-sum contributions allow the Hudsons to go a long way toward making up their retirement shortfall.

As well, they can use the returns that may result from their larger tax deductions for their children's education savings.

So without taking on any additional risk, the Hudsons were able to get themselves back on track to reach their long-term goals.

Investment opportunities come in all shapes and sizes. Talk to your *Scotia* advisor about reviewing your investment plan today. Through the use of innovative tools and programs such as the ican Invest® Program, your *Scotia* advisor can show you why now is a good time to invest for your future.

Investing in possibilities

With education costs on the rise, it's smarter than ever to invest in an RESP to give your child as many life options as possible. The average tuition at a Canadian university is currently more than \$5,000. Room and board, for a student living away from home, can add another \$6,000. Over four years, that could add up to as much as \$45,000. When you factor in the cost of inflation – 18 years' worth if your child is a newborn – you're looking at a significant amount more.

The good news is that the younger your child is, the more time you have to save. And with the assistance of tax-deferred compound growth and government grants, it's possible to give your child the gift of a paid post-secondary education and a bright future.

An RESP: the foundation of your strategy

With a Registered Education Savings Plan (RESP), you can contribute a lifetime maximum of \$50,000 per child and benefit from:

Tax-deferred compounding. Although you don't receive a tax deduction for your RESP contribution, the savings in the plan grow on a tax-deferred basis. The sooner you contribute, the longer the money in your plan can benefit from this compounding growth.

When the money is eventually withdrawn from the plan and used by your child for school, the income earned is taxed in his or her hands — not yours. The beneficiary of the plan can use the money for university, college, and other eligible courses.

Government grants. The Canada Education Savings Grant (CESG) is a federal program that tops up the first \$2,500 in eligible annual RESP contributions by 20% (more, for lower-income families) to a maximum lifetime grant of \$7,200 per beneficiary. If you contribute less than \$2,500 in any one year, the CESG entitlement can be carried forward and used for next year's contribution, to certain limits.

Contribution tip: To be eligible to receive the CESG grant for 2009, you must make your RESP contribution by December 31.

Other government incentives include the federal Canada Learning Bond (which doesn't require a deposit) and the Alberta Centennial Education Savings Plan Grant (for Alberta residents).

Making it happen

One of the best ways to make sure education savings get the priority they deserve is to set up a regular contribution plan. You can use the Scotia RESP Reality Check online at www.scotiabank.com to figure out what it's likely to cost to send your child to school and determine how much you need to save to get them there.

Speak to your *Scotia* advisor about how to make the most of your RESP and take advantage of all available financial incentives.

The big shift: From an RSP to a RIF

Moving from an RSP to a RIF involves much more than signing a few documents. You need to rethink your whole investment strategy.

The move from a registered Retirement Savings Plan (RSP) to a registered Retirement Income Fund (RIF), Life Income Fund (LIF), or Locked-In Retirement Income Fund (LRIF), is one of life's financial milestones. It marks a fundamental turning point in the way you deal with your nest egg. Until now, your goal has been to maximize tax-sheltered growth. Now you have come to the point where you will use those savings to supplement your income.



Pape's Corner

Be flexible in your planning

Before I discuss ways to do that, let me make one important point. There is no need to rush to convert your RSP just because you have retired. Legally, you have until December 31st in the year you turn 71 to make the change. I suggest you keep most of your assets in an RSP until then for greater flexibility. For instance, you are not required to make annual withdrawals from an RSP, you can continue to contribute if you have earned income or past unused contribution room, and you can take money out of your plan if and when you need it.

However, I recommend that at age 65 you open a small RIF to take advantage of the reduced tax rate on the first \$2,000 of pension income, if you are not taking advantage of this tax break already. You are allowed to have a RIF and an RSP at the same time so it's wise to take advantage of this tax break. Your *Scotiabank* advisor can provide you with the details.

Your game plan

Once the time comes to convert the rest of your RSP assets to a RIF/LIF, you need to plan the transition carefully and get professional advice. Here are six tips to setting up a successful RIF:

- 1. Choose the right plan.** There are many types of RIFs available. You can choose RIFs that invest in GICs, mutual funds, or a self-directed plan in which you control the investment decisions.
- 2. Select the right investments.** The investments you chose for your RSP may not be appropriate for

a RIF. Your goals now are to ensure your plan will produce the income you need while keeping risk to a minimum. For many people, this will mean a more conservative investing approach.

- 3. Consolidate your RSPs.** If you have several plans, bring them together in one RIF. Managing three or four RIFs can be complicated since you are required to make minimum annual withdrawals from each individual plan based on the value of the assets it holds.

- 4. Set a cash flow target.** Decide in advance how much money you will need from the plan every year (remember you must withdraw at least the minimum). Make sure your target is realistic in relation to the RIF's total assets and projected cash flow. Your *Scotiabank* advisor can help with these calculations.

- 5. Decide which age to use.** Most people don't know that you can base the annual minimum withdrawals on the age of a younger spouse. This must be done at the time the RIF is set up. Using a younger person's age is advantageous because it reduces the minimum amount you are required to withdraw each year. Of course, you can take more than the minimum at any time, if required.

- 6. Use a TFSA.** If you have to take out more money from your RIF than you need, put the extra amount into a Tax-Free Savings Account (up to \$5,000 annually). There is no age limit on these accounts and you can make withdrawals at any time without incurring tax or compromising federal government benefits and tax credits.

Gordon Pape has authored or co-authored more than 40 books on investing and personal finance. His latest book is *Tax-Free Savings Accounts: A Guide to TFSAs and How They Can Make You Rich*.



What the global recovery means for Canada

Canada became fully immersed in the global recession last fall when collapsing resource prices lowered exports. Even then, our erosion in employment, housing activity, and car sales has been less severe than in the U.S. Our jobless rate has also been significantly below U.S. levels — a rare occurrence. And, Ottawa's projected \$50 billion deficit is only 1/4 of the comparable U.S. deficit, as share of gross domestic product, or GDP.

Like the U.S., Canada's initial turnaround will be supported by many government-funded projects. It is projected that the Bank of Canada will keep interest rates extraordinarily low into 2010 and will ensure that subsequent rate increases don't jeopardize our recovery. With foreign sales accounting for one-third of Canadian GDP, the strength of Canada's rebound will be tied to commodity markets and reversing the recent slide in our U.S. sales, possibly caused by the Buy American Act.

Canada is already benefitting from higher commodity prices, in response to demand from China and other nations, but global growth through 2010 is not expected to completely reverse last year's unprecedented slide. The U.S. revival will help boost our exports, but gains may be tempered if the Loonie

approaches parity, as commodity markets strengthen. Auto exports also will be slow to recover, while the industry enters a prolonged restructure period.

The positive bottom line is that we will soon begin moving away from one of the most difficult economic setbacks of our time and into a period with unique investment opportunities.

Retirement Corner: How will you plan to spend your retirement?

Like many Canadians, you've spent many years saving and investing for retirement. But when was the last time you stepped back and thought about how you want to spend your retirement years?

The answer to this question affects your cash flow needs. That's why it's important to think through your desired retirement lifestyle as part of your financial planning.

Do you plan to spend your free time with your grandkids or travelling? Will you downsize or maintain your current home? Do you want to leave an estate? Talking through these questions with your spouse will ensure you're on the same page.

Tax Tip: Group your charitable donations to save on taxes

Canadians are very generous when it comes to charitable giving. In 2007, more than 80% of Canadians gave money to charity. To encourage giving, the federal government provides tax credits for donations to registered charities. On amounts donated over \$200, the charitable tax credit jumps to 29% from 17%. To take advantage of the higher tax credit, it makes sense to group your own donations (which can be carried forward for five years), or to have one spouse claim the family donations.

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