Scotiabank
investmentinsights
Dedicated to helping you get ahead financially.
Winter 2010

Get your retirement plan back on track

You've been through the worst of the economic uncertainty. Now that the financial outlook is brighter, you may be wondering where you are with your investments and where do you go from here. You may have made more conservative investing decisions over the last year, because of the economic environment. However, keeping your investments on that course going forward could impact the overall growth you may require to achieve your long-term goals.

Being able to enjoy the lifestyle we envision for ourselves and our family is one of the main reasons we save and invest. And, the new year is a great time to revisit your retirement plan and take charge of your own recovery strategy. Maybe you've cut your spending this past year, not yet made your Registered Retirement Savings Plan (RSP) contributions, or changed your retirement goals. All these may be sound choices, but today's recovery deserves a fresh outlook on how to move forward.

A *Scotia*® advisor is a good sounding board to help you review where you are today and the decisions you made over the last while due to the market conditions. With these simple steps, they can help you uncover opportunities to realign and revisit your plans for today's recovery.

1) Know where you are today

If you haven't already done so, sit down with your *Scotia* advisor to share your vision of how you want to spend your retirement. Have your retirement goals changed in the past year? This conversation will give your advisor a good idea of the size of the nest egg you'll need to live your dreams.

Web learning tip: The *Scotia Retirement Savings Reality Check*™ tool, available at **scotiabank.com/realitycheck**, can help you determine where you stand today, and what you'll need to save for the life you want tomorrow.

2) Review your risk tolerance

Many of us have been understandably concerned about taking on more risk during the market upheaval. So, now that the financial outlook is brighter, it's a good time to review decisions made in the past. It's important to consider what the implications of investing more conservatively may be on achieving your retirement goals. It's a good exercise to review your risk tolerance, and understand if it really matches the investments you're holding today.

Web learning tip: Using historical returns, the *Risk and Reward* tool at **scotiabank.com/helpmeinvest** shows you how adjusting your asset allocation can affect the growth potential of your portfolio.

3) Make it automatic

Build your retirement with easy, automatic RSP contributions throughout the year and watch your retirement savings grow.

Web learning tip: Try the *Pay Yourself First* tool from **scotiabank.com/helpmeinvest**. You can see how making regular RSP contributions can give you a healthy tax deduction and a better retirement. Or, if you already contribute regularly, why not use any extra cash you may have to increase the size of your regular contribution? You'll reap more of the benefits of dollar-cost-averaging to help you get back on track.

4) Stay invested

It's difficult to time market performance. Staying invested helps ensure you don't miss out on good market performance.

Web learning tip: Try the *Stay Invested* tool from **scotiabank.com/helpmeinvest** to see how missing the best performing months in the markets would have affected your investment.

5) Consider your other financial needs

Use your tax refund
Whether it's to contribute to a Registered Education Savings Plan (RESP), RSP or to pay down your mortgage, your tax refund offers a great way to make strides in reducing your debt or getting ahead with your future plans. Your *Scotia* advisor can help you decide where your money will work hardest for you.

Invest in a TFSA
Income earned in a Tax Free Savings Account (TFSA) is tax-free for life. When used in conjunction with your RSP, a TFSA is a powerful tool for saving.

Web learning tip: The *Scotia* TFSA Calculator at **scotiabank.com/tfsa** demonstrates how much you can earn, tax-free. The site also shows how different types of customers can benefit from saving with a TFSA.

scotiabank.com/helpmeinvest

Looking for topical and timely information on investing? Then check out our *Help Me Invest* website at ***scotiabank.com/helpmeinvest***. Get the information you need, your way – through videos, how-to articles, podcasts, tweets, blogs, and more. Take part in shaping the content of the site by asking our experts questions. It's easy-to-navigate, interactive, and informative. Check it out today.

Tax Tip:

The RSP contribution deadline for the 2009 tax year is March 1st, 2010.

Visit **scotiabank.com/rspdeadline** or ask your *Scotia* advisor for the actual deadlines of topping up your RSP this year.

Answering your RSP questions

RSPs have been around for more than half a century (they were launched in 1957) so you'd think that by now Canadians would understand everything about them.

Well, we don't! Every year I receive hundreds of questions about RSPs, most of them during January and February when people are thinking about their contributions. Some of the queries are as basic as, "How much can I contribute?" Check your 2009 notice of assessment from the Canada Revenue Agency for the answer to that. Others are so complex that only a top-notch accountant could answer them. Most fall somewhere in the middle. Here are some of the most common questions I receive each year.

Pape's Corner

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.*

Q *I can't decide whether to contribute to my RSP or a TFSA. Which do you suggest?*

A Both. The RSP contribution can generate a tax refund. Use some or all of that money to add to your TFSA. It's a win-win.

Q *I don't have enough cash to make my maximum RSP contribution this year. Do you recommend applying for an RSP loan to make up the difference?*

A Yes, with the caveat that you plan to repay the loan within a year. Don't let it drag on. Interest rates are low right now so the cost of an RSP loan will be minimal. Use the tax refund you'll receive to repay part of the principal immediately and budget to pay off the rest by year-end. Used properly, an RSP loan is a great way to build your savings quickly.

Q *Should I contribute to an RSP or pay down my mortgage?*

A This involves a complex calculation as there are several variables such as your tax rate, the interest rate on the mortgage, and the anticipated rate of return in the RSP. There are many on-line calculators that can help. You can find them by searching 'RSP vs. mortgage calculators' on the web.

If you don't want to do all the math, use the same approach I suggested for a TFSA: make your RSP contribution and use any refund to reduce your mortgage principal.

Q *I've heard I can overcontribute to my RSP by $2,000 without penalty. Is this right?*

A Yes. But it's $2,000 cumulative over your lifetime, not per year.

Q *Can I put stocks in an RSP?*

A Yes, but you will need to set up a self-directed plan with a brokerage firm.

Q *I have about half of my savings in an RSP. I'm 61 years old and have an adequate pension right now. What is the best way to go about withdrawing in a tax-efficient manner and when should I start?*

A You have 10 years remaining before you have to wind up the RSP – the cut-off is December 31st of the year you turn 71. If you have a good pension and don't need the RSP money now, there is little sense in incurring unnecessary taxes by starting withdrawals early. One of the basic rules of investing is to allow tax-sheltered money to grow for as long as possible. Yes, you will have to pay taxes on the RSP withdrawals at some point in the future but that's a long way off. I suggest you focus more on optimizing the return within the RSP, consistent with keeping risk at a level that is right for you.

If you have a question to submit, send it to **gordon.pape@buildingwealth.ca** and write "Investment Insights RSP question" in the subject line. I cannot send personal responses, but I will post answers to selected questions on my website: **www.buildingwealth.ca**

On the Road to Recovery

The global economy is reviving after more than a year of financial turmoil and economic news should continue moving from negative to positive in the months ahead.

While the U.S. and Canada are likely to outperform Europe and Japan over the next year, the rebound in activity will be offsetting recent steep declines. Growth in all developed nations beyond 2010 will be limited by promised reforms to global financial markets and the end of the various fiscal stimulus packages.

China and other emerging economic powerhouses will continue outpacing developed nations, driving energy and other industrial commodity prices (copper, tin, steel, etc…) higher in 2010. Over the next decade, the outperformance of these emerging growth leaders will fundamentally alter the global economic and financial landscape.

The U.S. Federal Reserve, the Bank of Canada and other central banks will likely maintain record-low interest rates into 2010, and may begin raising rates by next summer. Longer-term borrowing costs are likely to move up before then due to the large deficits resulting from unprecedented levels of fiscal stimulus.

The U.S. dollar remains vulnerable as unemployment edges toward 11% and investors rethink their conservative investment choices, triggered by the financial crisis. Rising industrial commodity prices may push the Canadian dollar to parity against the U.S. dollar.

Retirement Corner: Time to top up

Borrowing to invest and boost your RSP contribution may be a smart way to take advantage of today's lower interest rates and enjoy your retirement comfortably. Now is a great time to top up your yearly RSP contribution amount to take advantage of the tax savings. Then, use any tax refund to pay down the loan for your top-up. Talk to your *Scotia* advisor and find an affordable way to get the retirement you want.

Web learning tip: Use the *RSP Catch-Up Calculator* on **scotiabank.com** to see how borrowing to catch up with your allowable RSP contribution amount can really make a difference to your retirement.

9040013 (01/10)