

NEI

Investing Basics



NEI is firmly
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supporting
investors and
advisors, by providing
robust investor
education tools –
helping investors
make better decisions
to reach their
financial goals.

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What are equities?

When you buy stocks or shares of a company you're basically becoming a part-owner in that company - investing your money in the stock market for a fractional ownership of that business. This fractional ownership is known as equity.

IMPACT OF INVESTING IN STOCKS

By becoming a part-owner and taking equity in a company, you are now entitled to a share of any profits or growth enjoyed by the business. It also means you share risks that also come with investing, such as the risk that the value of your investment may decline.

Since the stock market allows investors to purchase pieces of ownership, or equity interest, in the form of stocks, the term equity and stock are interchangeable, with both being used to refer to the equity interest investors take in publicly held companies.

COMMON EQUITY TERMS

Common shares

When people talk about stocks, they are usually referring to common shares. These shares represent ownership in a company and a claim, usually in the form of dividends (if any), on a portion of the company's profits. A shareholder is also given voting rights regarding company matters.

Preferred shares

Preferred shares represent part ownership in a company, but don't usually come with the same voting rights as common shares. The trade-off is that preferred shareholders are ranked higher than common shareholders in the event that the company runs into financial difficulty.

Small cap/mid cap/large cap

Market capitalization is the market value of a company's outstanding shares. To calculate a company's market capitalization, multiply its current share price by the number of outstanding shares. A company with a relatively small market capitalization (commonly less than \$2 billion) is defined as a small-cap company. As a general rule, small-cap companies offer investors more opportunity for growth, but also more risk and volatility. A mid-cap company has a market capitalization between \$2 and \$10 billion, while a large-cap company typically has a market capitalization above \$10 billion, and includes many of the most prominent publicly traded companies.

Developed market

Developed market countries are the world's most advanced economically and offer investors high levels of liquidity, large capitalization and well-established, effective market regulations. As a result, these markets are typically open for business, which means any investor anywhere can participate in their equity market. Developed markets are found mostly in North America, Western Europe and Australasia.

Emerging market

An emerging market is a country that is in the process of rapid growth and development. Typically, these countries have lower per-capita incomes and less mature (and sometimes less regulated) capital markets. Examples include Brazil, Russia, India and China. Emerging markets offer attractive investment opportunities because of their growth potential, but they are also riskier than developed markets because they are not as established.

What are bonds?

Think of bonds as a formalized, marketable and tradable versions of an “IOU.” When a company or government wants to raise money, they will issue a debt instrument known as a bond. Each investor gets a chance to lend a portion of the capital required by purchasing these fixed-income securities. In return for loaning a portion of the money, each investor is promised the return of their initial loan, plus pre-determined annual or semi-annual interest payments based on the initial loan amount. A bondholder can also earn a profit by reselling a bond in the marketplace if the current price is higher than the purchase price.

SAFETY OF TREASURY BILLS

Treasury bills (T-bills), which are short-term government debt instruments, are considered the gold standard when it comes to a safe investment. As a result, the rate of T-bills is often used as a benchmark against which other, riskier returns are measured. In general there is less risk owning bonds than in owning stocks, but this can come at a cost of a lower return.

COMMON BOND TYPES

Government bonds

Bonds issued by governments (e.g., federal, provincial/state, municipal) are typically considered as higher quality than bonds issued by companies, since governments are usually more creditworthy.

Corporate bonds

A company will issue bonds to raise capital. Generally, a short-term corporate bond has a maturity of less than five years, while long term bonds mature in 12 or more years.

High-yield corporate bonds

This type of corporate bond offers a higher rate of interest than investment-grade bonds, as a way to entice investors because of its higher risk of default (i.e., failure to make timely interest or principal payments). In general, higher default risk means higher interest payments.

Investment-grade corporate bonds

Investment grade refers to the higher quality of a company's credit. When a company issues debt securities, these bonds are given a credit rating based on their default risk. The idea is that a better credit rating identifies safer investments.

Convertible bonds

A convertible bond may be redeemed for a predetermined amount at certain, specified periods of time, usually at the discretion of the bondholder. A convertible bond has a value-added component as it's a bond with a built-in stock option. However, because of this value-add most convertible bonds offer lower rates than standard bonds.

Redeemable bonds

Also known as callable bonds, these debt investments can be redeemed by the issuer prior to maturity. Usually a premium is paid to the bondholder when the bond is redeemed.

What are mutual funds?

Mutual funds are pooled investments that allow a large number of individual investors to purchase a piece of a fund, known as a unit. The money collected from all the investors is used by the professional fund manager to purchase and sell stocks, bonds or other types of securities in accordance with the mutual fund's investment objectives and risk profile.

At the fundamental level there are three fund types: equity funds that invest primarily in stocks, fixed income funds that invest primarily in bonds, and money market funds that invest in short-term debt like Treasury bills. Others still, such as funds that specialize in Responsible Investing (RI), focus on good corporate governance, as well as the social and environmental impacts of a company, thereby uncovering risks that traditional funds have trouble identifying. Within each type of fund there are further specializations. Some funds focus on specific sectors like technology or mining, some on geographical areas like Europe or Asia, some concentrate on types of investments like corporate bonds, while others offer a more balanced approach by offering a mix of equities and bonds.

GROWING WEALTH THROUGH MUTUAL FUND INVESTING

There are two ways to make money on a mutual fund investment. The first is through distributions. Depending on the type of fund, you may receive earnings in the form of dividends, interest, capital gains or other income. The more units you buy, the larger your share of ownership in that fund and the greater portion of earnings you receive. You can also earn money if you sell your fund investment for more than you paid. This type of profit is known as a capital gain.

Mutual funds allow investors to benefit from a well-diversified investment portfolio that they couldn't create themselves.

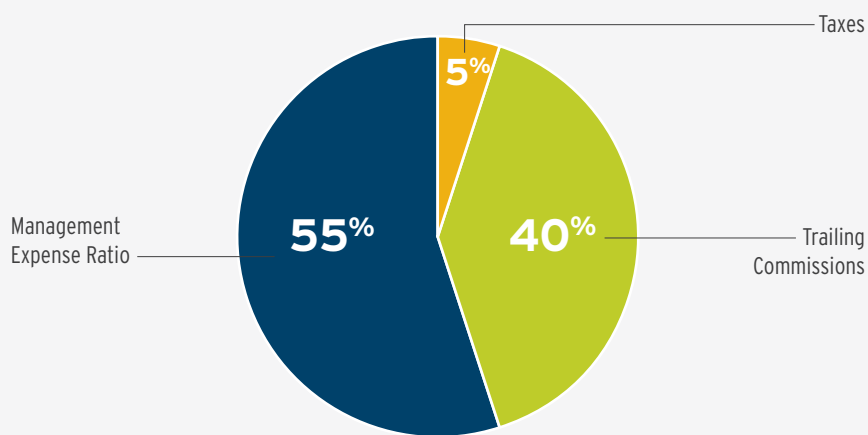


All about mutual fund fees

Mutual funds offer a number of benefits, including investment diversification and professional management, but there are costs associated with operating a fund. Generally, most mutual funds incur three types of costs: a management expense ratio (which includes administration costs), dealer fees (also referred to as trailing commissions) and taxes.

Management expenses capture the costs of running a mutual fund, which includes the portfolio management team that sets the fund's strategy, evaluates opportunities and monitors the portfolio. There are also costs for buying and selling securities, recordkeeping, administration, compliance, audit, legal services and custodial services.

An Example of Mutual Fund Fees



For more information about the risks and benefits of investing mutual funds, please read the brochure "Understanding Mutual Funds" that was prepared by OSC (www.osc.gov.on.ca/documents/en/Investors/res_mutual-funds_en.pdf)

ADVISORS PROVIDE VALUE FOR THE FEES THEY EARN

Fees are paid to the dealer of the company where your financial advisor is registered. Dealers keep detailed client records and produce account statements, while advisors may create financial plans, execute investment transactions on your behalf and continually upgrade professional competency to offer you the best financial advice possible.

Taxes (i.e., GST, HST) are charged on all related fees and services.

It's important to review a fund's fees and expenses as these costs will impact the return you get on your investment.

What are multi-manager solutions?

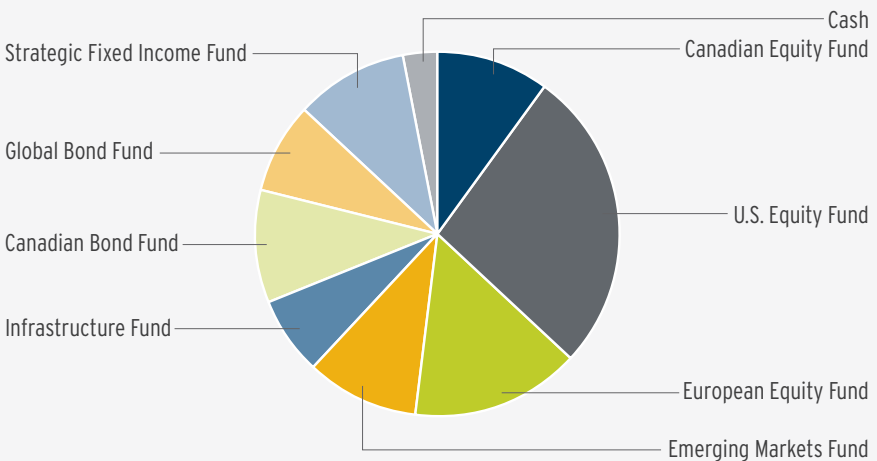
Often referred to as “one-stop” investments, multi-manager solutions are portfolios of mutual funds, and sometimes exchange traded funds, designed to help investors reach their financial goals. They ease the burdens of having to research specific investments as well as monitoring your portfolio and making adjustments when required.

Multi-manager solutions cover a wide variety of investing styles, making them effective options for investors with different risk tolerances, financial goals and investment objectives. Despite having many different funds within them, most multi-manager solutions share one or more of the following three goals: to attempt to mitigate exposure to market declines, offer the potential for capital growth and/or provide a sustainable income stream and the ability to be matched to specific time horizons, risk tolerances and goals.

BENEFITS OF MULTI-MANAGER SOLUTIONS

- Professional portfolio management
- Fully diversified portfolios
- Eligible for RRSPs, TFSAs, RESPs and RRIFs
- Ongoing monitoring and rebalancing
- Easy way to invest

SAMPLE ASSET ALLOCATION OF A MANAGED SOLUTION



Taxation of investment income

Different types of investment income are treated differently for tax purposes. For mutual fund investors, the three most likely kinds of income you will receive are interest, dividend and capital gains.

INTEREST

Interest income (typically paid by bonds and money market securities) is fully taxable at your marginal tax rate.

CAPITAL GAINS

Capital gains (encountered when you sell an investment at a profit or receive a distribution) are taxed more favourably than interest income, as only 50% of your net gain is taxable at your marginal tax rate.

DIVIDENDS

Dividend income is treated differently than interest and capital gains, and a calculator is required to figure out what you owe. The dividend calculation is complex because it protects companies and investors from double taxation. Since dividends are paid with after-tax money, the dividend “gross up” and accompanying tax credit reduce investors’ tax burden. Most mutual fund companies do the calculations for you and provide the necessary tax slips to be used on your income tax return.

Examples of How Investment Income is Taxed

Examples assume marginal tax rates (MTR) of 33% and 46%

Interest

$\$10,000 \times 33\% \text{ (MTR)} = \mathbf{\$3,300}$ taxes owed

$\$10,000 \times 46\% \text{ (MTR)} = \mathbf{\$4,600}$

Capital gains

$\$10,000 \times 50\% = \$5,000$ (taxable capital gain)

$\$5,000 \times 33\% \text{ (MTR)} = \mathbf{\$1,650}$ taxes owed

$\$5,000 \times 46\% \text{ (MTR)} = \mathbf{\$2,300}$

Dividend

$\$10,000 \times 1.38$ (dividend “gross up”) = \$13,800

$\$13,800 \times 33\% \text{ (MTR)} = \$4,554$ taxes owed before applying credit

$\$13,800 \times 25\% \text{ tax credit (15\% federal + 10\% Ontario*)} = \$3,450$ total credit

$\$4,554 - \$3,450 = \mathbf{\$1,104}$ taxes owed

$\$13,800 \times 46\% \text{ (MTR)} = \$6,348$ taxes owed before applying credit

$\$13,800 \times 25\% \text{ tax credit (15\% federal + 10\% Ontario*)} = \$3,450$ total credit

$\$6,348 - \$3,450 = \mathbf{\$2,890}$ taxes owed

Benefits of working with a financial advisor

Given that financial markets are becoming more volatile and complex, investors may find it more difficult to invest with confidence, especially if they try doing it on their own.

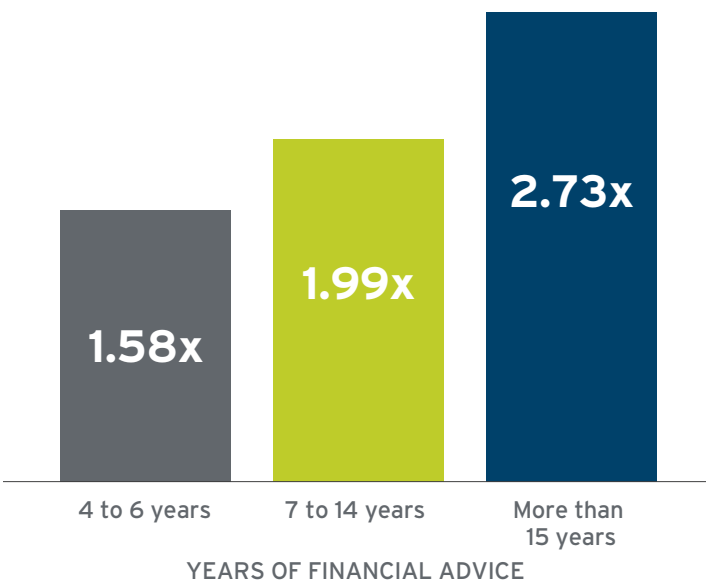
A comprehensive study by the Investment Funds Institute of Canada* found significant benefits to the advisor-investor relationship. The study's findings span from the qualitative (investors feel more confident about their financial situation) to the quantitative (investors are in a measurably stronger financial position).

GREATER CONFIDENCE

Working with an advisor leads to peace of mind and a greater sense of control over your investments. This is likely the result of having - and sticking to - a financial plan, being able to measure your success and knowing exactly where you stand in relation to your goals.

Households that receive financial advice (e.g., strategies on how to stay disciplined during times of market volatility) accumulate significantly more assets over time than households that do not receive advice.

Investors who work with a financial advisor accumulated 2.73 times more assets than investors without an advisor



*Source: IFIC Value of Advice Report, 2012

Benefits of having a financial plan

One of the most important steps you can take to achieve your long-term financial goals is to create a robust financial plan that includes, not only your investment goals, but also a complete overview of your financial life, from current net worth to estate goals.

Creating a financial plan is a significant task to take on by yourself, as it will involve both financial and emotional decisions. Seeking a third party (e.g., an advisor) is a good strategy. An advisor can ease the burden of financial calculations and investment selections, and help you stay focused on important decisions.

FIND ANSWERS TO DIFFICULT QUESTIONS

Your financial plan will help you answer important (and sometimes uncomfortable) questions. For example:

- Am I saving enough?
- Am I properly insured?
- Does my investment portfolio match my risk tolerance?
- Will my investment portfolio help adequately fund my retirement?
- Am I currently in a position of financial strength?



The importance of investing early

When it comes to investing, time is on your side. Why? In a word: compounding. While compounding is a straightforward concept - your investments have the potential to grow exponentially as your reinvested interest, dividends and capital gains start to generate their own earnings - it is hard to overstate its impact. Compounding has been called magic. Albert Einstein went so far as to call it “the eighth wonder of the world.”

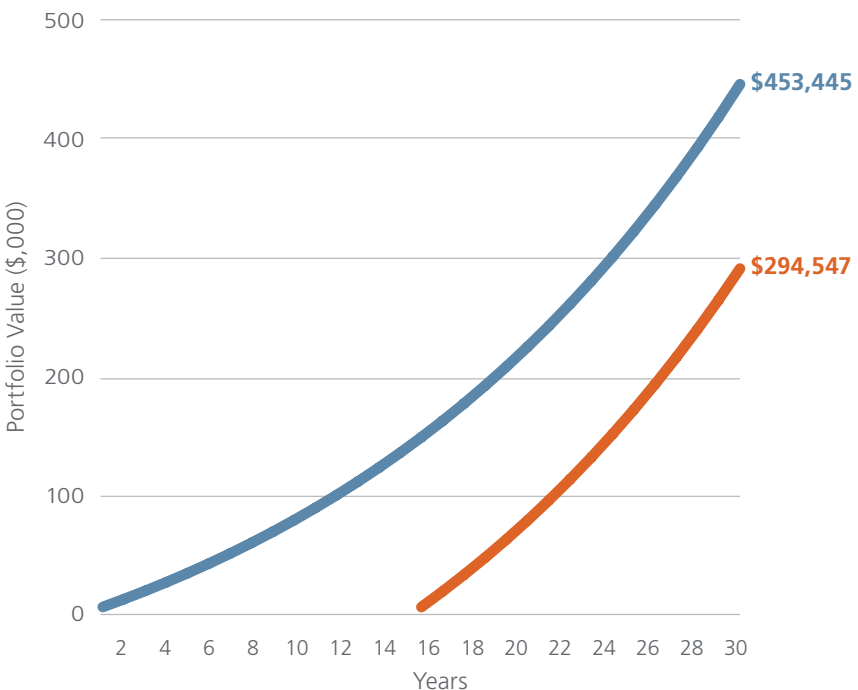
EARLY INVESTMENTS ARE MORE MEANINGFUL

In the chart below, you can see how starting early increases the power of compounding.

The blue line shows what would happen if you started investing \$6,500 per year as of today. The orange line shows what would happen if you started investing \$13,000 per year in 15 years.

In both cases, we’ve assumed a 5% return on your investments. As you can see, starting today puts you in a much better position 30 years. That’s the power of compounding!

The Value of Starting Early (hypothetical illustration)



For illustration purposes only. Not to be construed as investment advice.

Invest with discipline to meet your long-term financial goals

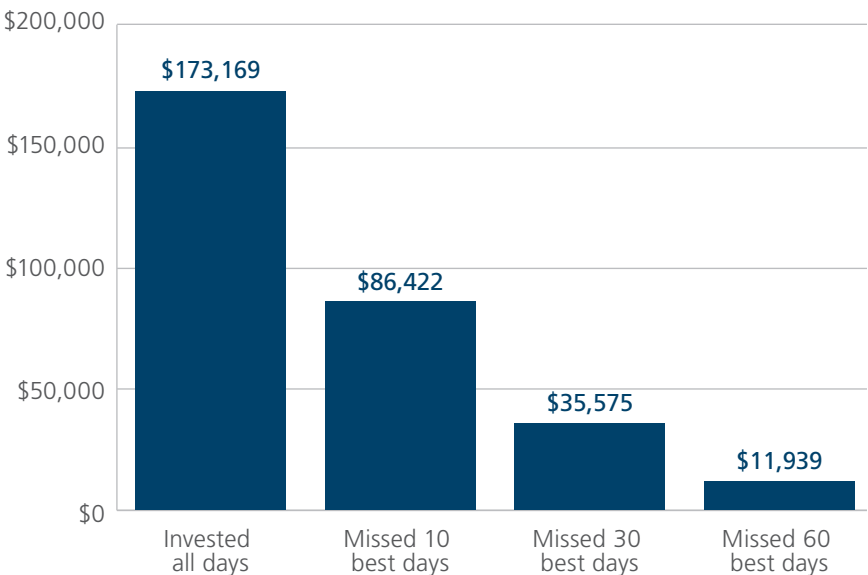
Stock markets are volatile by nature (i.e., values go up and down, sometimes dramatically), and that volatility can lead investors to make reactive decisions based more on emotions than their long-term plan.

Many common mistakes stem from the belief that investors can successfully time the market in order to miss the worst days (the days that the markets drop the most). But a problem quickly arises as investors may easily miss the best days (the days when markets post their biggest gains). What are the results?

MISSING THE BEST DAYS

In the example below, someone holding an investment of \$10,000 every day over a 28-year period would have a value of \$173,169. However, an investor that missed the market's 10 best days over the same period of time saw their initial investment grow to only \$86,422. Missing additional days in the market continues to have a dramatic impact over the 30 and 60 best days in the market. It's very difficult to know when these best days will occur - that's why staying invested is a core pillar of investing success.

Missing the Best Days in the Market has an Impact



Source: Bloomberg. The chart illustrates the performance of a hypothetical \$10,000 investment made in the S&P 500 Index from January 1988 to December 2016. The S&P 500 Index is unmanaged and unavailable for direct investment.

Easy, regular investing: DCA and PAC

For most of us, it's much easier to find smaller amounts to invest on a regular basis than large, lump-sum contributions. By investing smaller amounts over time, an investment technique known as dollar-cost averaging (DCA), you not only prioritize your savings, but can lower your average investment costs. For instance, when a mutual fund's price is low your money will buy more units; when the price is higher you'll purchase fewer units. Provided the fund gains in value over the long term, you'll profit from your purchases during short-term price declines.

Monthly Investment

Month	Monthly Investment	Unit Price	Units Purchased
January	\$ 100	\$ 10	10.00
February	\$ 100	\$ 9	11.11
March	\$ 100	\$ 8	12.50
April	\$ 100	\$ 7	14.29
May	\$ 100	\$ 6	16.67
June	\$ 100	\$ 5	20.00
July	\$ 100	\$ 5	20.00
August	\$ 100	\$ 6	16.67
September	\$ 100	\$ 7	14.29
October	\$ 100	\$ 8	12.50
November	\$ 100	\$ 9	11.11
December	\$ 100	\$ 10	10.00
Total	\$ 1,200		169.13

On December 31st (after one year)

Profit = market value of units purchased - total cost of purchasing those units

\$491.27 = \$1,691.27 - \$1,200

UNLOCK THE POWER OF DCA WITH PACs

The simplest way to take advantage of the DCA technique is by setting up a pre-authorized contribution plan (PAC), which automatically transfers a pre-determined amount of money from your bank account and puts it in your designated investment account. You can schedule PACs in a variety of ways, such as weekly, bi-weekly, semi-monthly or monthly, and you get to pick the amount of money that you want to move. Using a PAC to invest is flexible and convenient, and is typically a good way to invest regularly.

Lump Sum Investment

Month	Monthly Investment	Unit Price	Units Purchased
January	\$ 1,200	\$ 10	120.00
February	\$ 0	\$ 9	0.00
March	\$ 0	\$ 8	0.00
April	\$ 0	\$ 7	0.00
May	\$ 0	\$ 6	0.00
June	\$ 0	\$ 5	0.00
July	\$ 0	\$ 5	0.00
August	\$ 0	\$ 6	0.00
September	\$ 0	\$ 7	0.00
October	\$ 0	\$ 8	0.00
November	\$ 0	\$ 9	0.00
December	\$ 0	\$ 10	0.00
Total	\$ 1,200		120.00

On December 31st (after one year)

Profit = market value of units purchased - total cost of purchasing those units

\$0 = \$1,200 - \$1,200

What is diversification and why you need it

Let's say you put all your investing dollars into one stock. If it performs well you'll make a lot of money, but if it performs weakly you'll lose a lot. Many investors can't accept that risk, so they follow an investment strategy known as diversification. By putting money in a variety of complementary investments, you reduce the overall risk to your portfolio.

HOW PORTFOLIO DIVERSIFICATION WORKS

For diversification to work you would typically construct an investment portfolio that includes several investment categories, such as stocks, bonds

Asset-Class Winners & Losers

Annual returns of key indices (CDN\$)

2003	2004	2005	2006	2007	2008	2009
46.3%	16.4%	30.6%	31.6%	18.2%	30.0%	93.2%
30.5%	14.5%	24.1%	25.9%	10.2%	6.4%	56.7%
27.5%	12.6%	14.6%	21.2%	9.8%	5.7%	51.6%
26.7%	12.0%	13.7%	20.5%	4.5%	-17.2%	35.1%
20.5%	11.5%	10.7%	17.9%	3.7%	-21.2%	14.3%
13.4%	9.7%	8.1%	17.3%	1.1%	-27.7%	11.9%
9.6%	7.1%	6.5%	15.4%	-0.4%	-28.3%	8.0%
6.7%	6.8%	3.7%	12.9%	-5.3%	-29.2%	7.4%
5.3%	5.7%	2.3%	9.6%	-5.7%	-33.0%	5.4%
4.7%	2.8%	2.1%	4.1%	-10.5%	-41.6%	5.0%
-2.6%	-2.8%	1.9%	2.6%	-16.5%	-49.7%	4.3%

Asset Class: Representative Index

■ Global Fixed Income: Barclays Global Aggregate (C\$ Hedged)

■ US High Yield: Barclays US HY 2% Issuer Capped (C\$ Hedged)

■ All-country World: MSCI ACWI NR CAD

■ EAFE: MSCI EAFE NR

■ US Small Cap: Russell 2000

■ US Large Cap: S&P 500

Source: Morningstar. For illustration purposes only.

The above-referenced indices are unmanaged and unavailable for direct investment.

and cash, as well as some diversification within categories. The allocation to each category depends on your investment goals, risk tolerance and time horizon. Spreading your money across several investment options can help improve your return potential while managing volatility (i.e., dramatic movements in the value of your investments).

As a strategy, investment diversification is one of the basic building blocks of a solid, reliable portfolio. It can reduce the number and severity of stomach churning market declines, while taking advantage of market gains. Mutual funds are a convenient option because they take care of all the diversification decisions and oversight for you.

2010	2011	2012	2013	2014	2015	2016	
39.7%	12.3%	16.4%	48.1%	23.9%	21.6%	40.6%	High
22.0%	9.7%	15.6%	41.3%	14.3%	19.0%	21.1%	
20.2%	6.3%	14.7%	31.0%	13.5%	17.1%	17.1%	
17.6%	5.1%	13.8%	31.0%	10.6%	14.6%	16.6%	
14.7%	4.6%	13.6%	13.0%	8.8%	6.9%	8.1%	
12.7%	-1.8%	13.4%	8.2%	8.6%	3.5%	7.3%	
9.1%	-5.1%	7.2%	3.9%	7.1%	2.0%	4.1%	
6.8%	-8.7%	6.5%	0.6%	6.6%	1.6%	4.0%	
6.7%	-10.0%	3.7%	-0.5%	3.7%	-4.5%	3.7%	
5.0%	-16.4%	3.6%	-1.2%	3.2%	-8.3%	1.7%	
2.1%	-17.0%	-0.5%	-23.9%	-2.5%	-16.6%	-2.5%	Low

- Cdn Small Cap: BMO Small Cap Blended (Unweighted)
- Cdn Fixed Income: FTSE TMX Canada Universe Bond
- Emerging Markets: MSCI Emerging Markets NR

- Gold: S&P GSCI Gold
- Cdn Large Cap: S&P/TSX Composite

Talk to your advisor to learn more more about each index and how it is used to measure th value of a section of the market.

Why invest beyond our borders

Ever heard of the phrase “Home-country bias”? It’s when we concentrate on investments only within our own country, rather than seeking out global opportunities. It’s a bias that can lead to poor investment returns.

LIMITATIONS OF INVESTING ONLY IN CANADA

While Canada’s economy continues to grow, we are still a relatively small portion when you consider the rest of the world (approximately 3% or 4% of the global economy). Canada’s marketplace is also limited in its opportunities. Almost 70% of the Canada’s economy is dominated by

Developed Countries

Perhaps nothing better illustrates the importance of implementing and maintaining a diversified portfolio with allocations to multiple asset classes than Market Cycles chart. The chart below ranks the best to worst performing developed countries stock markets selected - from top to bottom - for each calendar period based on total returns. Through

	2002	2003	2004	2005	2006	2007	2008	2009
1	Australia -0.3%	Germany 64.8%	Italy 33.9%	Canada 28.9%	Spain 50.2%	Germany 35.9%	Japan -29.1%	Australia 76.8%
2	Italy -6.3%	Spain 59.2%	Australia 32.0%	Japan 25.6%	Germany 36.8%	Canada 30.2%	Switzerland -29.9%	Canada 57.4%
3	Switzerland -10.0%	Canada 55.4%	Spain 29.6%	Australia 17.5%	France 35.4%	Australia 29.8%	United States -37.1%	Spain 45.1%
4	Japan -10.1%	Australia 51.4%	Canada 22.8%	Switzerland 17.1%	Italy 34.1%	Spain 24.7%	Spain -40.1%	United Kingdom 43.4%
5	Canada -12.8	France 41.0%	United Kingdom 19.6%	France 10.6%	Australia 32.5%	France 14.0%	France -42.7%	France 33.3%
6	Spain -14.9%	Italy 39.0%	France 19.2%	Germany 10.5%	United Kingdom 30.7%	United Kingdom 8.4%	Canada -45.2%	Italy 28.0%
7	United Kingdom -15.2%	Japan 36.2%	Germany 16.7%	United Kingdom 7.4%	Switzerland 28.2%	Italy 7.3%	Germany -45.5%	United States 27.1%
8	France -20.8%	Switzerland 35.0%	Japan 16.0%	United States 5.7%	Canada 18.4%	Switzerland 6.1%	United Kingdom -48.3%	Switzerland 26.6%
9	United States -22.7%	United Kingdom 32.1%	Switzerland 15.6%	Spain 4.9%	United States 15.3%	United States 6.0%	Italy -49.2%	Germany 26.6%
10	Germany -32.9%	United States 29.1%	United States 10.7%	Italy 3.1%	Japan 6.3%	Japan -4.1%	Australia -50.0%	Japan 6.4%

Source: Morningstar.

three sectors: financials, energy and materials. If your entire portfolio was invested in Canada, then your portfolio would feel the plunge should oil and banking stocks suffer a sharp decline. Sectors such as health care and technology, which have large growth potential, are under-represented in Canada's markets.

In order to diversify outside of these sectors, investors need to look beyond Canada's borders. By investing globally you create a more balanced portfolio, which helps reduce risk and increase the opportunities for returns. Remember, there's a lot of opportunity beyond our borders.

graphical depictions of past performance fluctuations, such charts demonstrate the historical trend of alternating leadership in the financial markets, as well as highlight the potential dangers associated with attempts to chase last year's or predict next year's winners. Market Cycles charts help support the case for a balanced asset allocation plan.

2010	2011	2012	2013	2014	2015	2016	Cumulative Return
Canada 21.2%	United States 2.0%	Germany 32.1%	United States 32.6%	United States 13.4%	Japan 9.9%	Canada 25.5%	Australia 383.5%
Japan 15.6%	United Kingdom -2.5%	France 22.8%	Germany 32.4%	Canada 2.2%	Italy 3.0%	Australia 11.7%	Germany 341.0%
United States 15.4%	Switzerland -6.0%	Australia 22.3%	Spain 32.3%	Switzerland 0.7%	United States 1.3%	United States 11.6%	Canada 332.2%
Australia 14.7%	Australia -10.9%	Switzerland 21.5%	France 27.7%	Australia -3.2%	Switzerland 1.2%	France 6.0%	United States 273.0%
Switzerland 12.9%	Spain -11.2%	United States 16.1%	Switzerland 27.6%	Japan -3.7%	France 0.8%	Germany 3.5%	Switzerland 265.9%
Germany 9.3%	Canada -12.2%	United Kingdom 15.3%	Japan 27.3%	Spain -4.3%	Germany -1.3%	Japan 2.7%	Spain 232.5%
United Kingdom 8.8%	Japan -14.2%	Italy 13.5%	Italy 21.3%	United Kingdom -5.4%	United Kingdom -7.5%	United Kingdom 0.0%	France 211.1%
France -3.2%	France -16.0%	Canada 9.9%	United Kingdom 20.7%	France -9.0%	Australia -9.8%	Spain -0.5%	United Kingdom 149.8%
Italy -14.1%	Germany -17.5%	Japan 8.4%	Canada 6.4%	Italy -9.0%	Spain -15.4%	Switzerland -4.0%	Japan 114.0%
Spain -21.1%	Italy -22.2%	Spain 4.7%	Australia 4.3%	Germany -9.8%	Canada -23.6%	Italy -9.5%	Italy 63.2%

Challenges in saving for retirement

We often picture retirement as a peaceful time to focus on our passions and pursue our dreams, but even the best retirement plans can face challenges. Fortunately, you can fend off these unwelcome obstacles by understanding the risks that lie ahead and how they can impact your financial security.

It's no longer unusual for retirees to enjoy 20 or 30 years of post-work living. That makes the possibility of outliving your money is referred to as longevity risk.

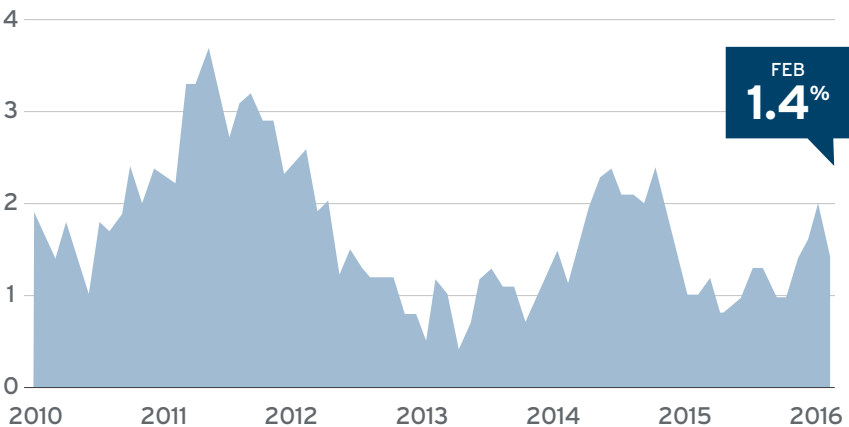
BUYING POWER DECREASES AS INFLATION INCREASES

Inflation (i.e., rising prices for goods and services) is an ongoing concern as well. Even at low rates, inflation can erode a person's buying power over time, and for retirees living on a fixed income, this can have serious consequences.

Lower interest rates – which also means less interest paid on bank accounts and guaranteed investment certificates – can also have a negative impact on retirement income. As a result, individuals may need to save more than anticipated, or take on more investment risk, to meet their retirement needs. If your investments were to decline substantially, it could negatively impact your retirement plans. It's often best to work with a financial advisor who can help you prepare well for retirement.

Canada's Annual Inflation Rate

12-month percent change



Source: Statistics Canada, 2016.

Investing for income and cash flow

Most investors want a steady stream of income from their investments once they retire. The good news is, through disciplined saving an investment, you can grow moderate savings into large investment portfolios, which translates into annual investment income.

CONSIDER THE TAX EFFICIENCY OF YOUR INCOME

One way to achieve this strategy is through income investing using tax-efficient funds. The key to maximizing this cash-flow strategy is to consider what type of earnings you will receive from your portfolio. For instance, you may want to choose funds that focus more on generating dividends than paying out interest. As the illustration shows, the tax treatment of dividends is much more favourable to investors than interest payments.

Also, some funds make use of the return of capital (ROC) for tax efficiency. With ROC, a portion of your own investment is returned to you as part of the fund's distributions, which helps provide steady cash flow while deferring your tax burden on this ROC until you sell your fund investment.

For many investors, opting for tax-efficient mutual funds and dividend-paying stocks will create an income-generating portfolio that creates reliable cash flow in retirement.

2016 Marginal Tax Rates

Taxable Income	On Canadian Dividends	On Regular Income
First \$38,210	-6.8%	20.1%
\$38,211 - \$45,282	-3.2%	22.7%
\$45,283 - \$76,421	4.4%	28.2%
\$76,422 - \$87,741	8.2%	31.0%
\$87,742 - \$90,563	10.7%	32.8%
\$90,564 - \$106,543	18.3%	38.3%
\$106,544 - \$140,388	21.6%	40.7%
\$140,389 - \$200,000	25.8%	43.7%
Over \$200,000	31.3%	47.7%

RRSPs and TFSAs as savings vehicles

The Registered Retirement Savings Plan (RRSP) has been around for 60 years to help Canadians save for retirement. You might have a workplace plan where your employer makes contributions and may match your voluntary contributions, or maybe you have your own plan. Whatever the case, RRSPs are popular because you receive an immediate tax deduction on your contribution, plus any investment growth is tax-deferred until you begin withdrawing funds.

RRSP VS TFSA

What is the annual contribution limit?

For 2017, the lesser of 18% of income earned in the previous year, or \$26,010. Annual limits will typically increase

For 2017, the limit is \$5,500 and is not based on earned income. Annual limits are subject to periodic increases tied to inflation rates

Can spousal contributions be made?

Yes, but subject to specific attribution rules

Yes, but subject to specific attribution rules

Is the contribution tax-deductible?

Yes, as contributions are made with pre-tax dollars

No, as contributions are made with after-tax dollars

Are withdrawals taxable?

The amount that is withdrawn counts as taxable income if the withdrawal takes place before conversion to a RRIF or annuity

Since accounts are funded with after-tax dollars, no tax is payable on investment growth or withdrawals

CONSIDER TFSAS IN ADDITION TO RRSPS

The Tax-Free Savings Account (TFSA) can be used to save for retirement as well, although many people also use this account to save for shorter-term goals like a home or vehicle. TFSA contributions are made with after-tax dollars, so although you won't receive a tax deduction like the RRSP, all investment growth within the account and any withdrawals are tax-free.

Each plan type has its features and benefits (see below) and can represent a good way to save for retirement.

RRSP VS TFSA

Can contributions be carried forward?

Contribution room can be carried forward indefinitely

Contribution room can be carried forward indefinitely

Can re-contributions be made after withdrawals?

Only allowed under the HBP and LLP, each of which has specific re-contribution requirements

Only allowed in subsequent years after the withdrawal (i.e., not in the same year), subject to the accountholder's existing account limits

What's the potential impact on certain government benefits?

Since RRSP withdrawals are considered income, they may be subject to clawback provisions on income-tested benefits such as GIS and OAS

No impact, since TFSA withdrawals are not considered to be income for tax purposes

Does the account ever need to be converted?

Plan must be converted to a RRIF or annuity by the end of the year the accountholder turns 71

Plan does not need to be converted or collapsed over the lifetime of the accountholder

Saving for your child's education with RESPs

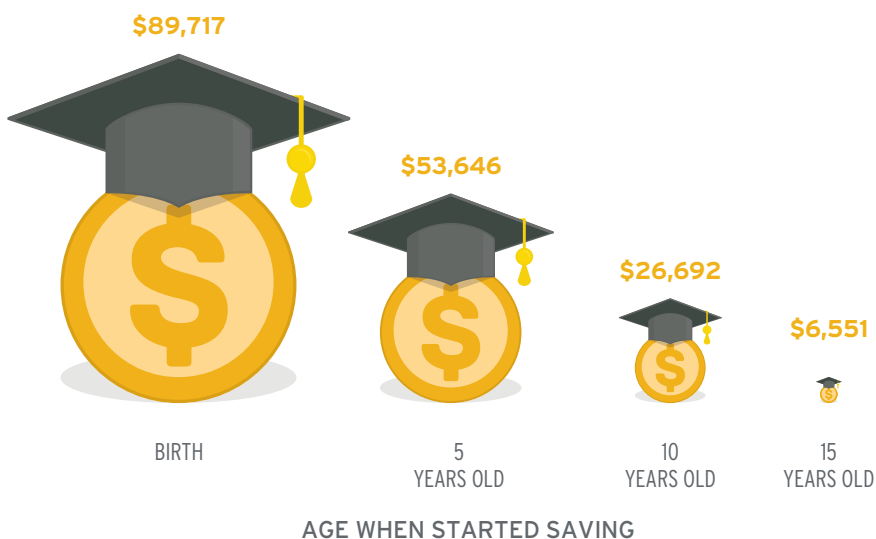
A Registered Education Savings Plan (RESP) is a special account to help parents and family members save for a child's education after high school. While anyone can open an RESP account, contributions can only be made up until the child turns 21, and is capped at a lifetime amount of \$50,000 per beneficiary.

BENEFIT FROM GOVERNMENT INCENTIVES

One advantage of using an RESP to save for your child's education is that the Government of Canada offers financial incentives, including a grant that matches as much as 20% of your own annual contribution, to a maximum of \$500 per year. The amount and type of incentive depends on your own contribution and your family circumstances.

While you can't deduct RESP contributions from your taxes, the money in the plan will grow tax-free each year, which means more money will be available for future educational costs. If you start the RESP account when your child is young, there will be many years for your investment and all the interest, dividend and capital gain earnings to grow tax-free.

Annual Investment of \$2,500 in a RESP with a 6% annual rate of return



RRIFs and SWPs for wealth decumulation

Eventually we all need to convert our retirement savings into retirement income. Typically this wealth decumulation process starts by transferring your RRSP holdings into a registered retirement income fund (RRIF) on or before December 31 of the year you turn 71. Consider the RRIF the sequel to the RRSP, but instead of making regular contributions you make regular withdrawals based on a prescribed schedule. Like an RRSP, income from a RRIF is only taxable when withdrawn.

USING SWPS TO SUPPLEMENT YOUR CASH NEEDS

Another way to generate regular cash flow is through a systematic withdrawal plan (SWP). With a SWP, you can withdraw a specific amount at regular intervals (e.g., \$500 per month) from a mutual fund, gradually drawing down on your investment to fund your retirement income needs.

If you don't spend all the money you receive from your RRIF and/or SWP, consider using the surplus to save in an investment vehicle like the Tax Free Savings Account (TFSA). Should your retirement cash flow needs change in the future, you can use these additional savings to minimize retirement portfolio withdrawals.

An Example of How a SWP Works over 10 Years

Year	Value (\$)	Growth (\$)	Annual Growth (\$)	SWP (\$)	Value (\$)
1	250,000	15,500	265,500	13,500	252,000
2	252,000	15,624	267,624	13,500	254,124
3	254,124	15,756	269,880	13,500	256,380
4	256,380	15,896	272,275	13,500	258,775
5	258,775	16,044	274,819	13,500	261,319
6	261,319	16,202	277,521	13,500	264,021
7	264,021	16,369	280,390	13,500	266,890
8	266,890	16,547	283,438	13,501	269,937
9	269,937	16,736	286,673	13,502	273,171
10	273,171	16,937	290,107	13,503	276,604

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The example above illustrates an investor who invests \$250,000 in a mutual fund portfolio with a consistent annualized total return of 6.2% and sets up a SWP to withdraw \$1,125 each month, or \$13,500 annually (5.5% per annum of the total initial portfolio value).

2017 RRIF Minimum Withdrawal Table

Age (at start of year)	Factor (%)	Age (at start of year)	Factor (%)
60	3.33%	78	6.36%
61	3.45%	79	6.58%
62	3.57%	80	6.82%
63	3.70%	81	7.08%
64	3.85%	82	7.38%
65	4.00%	83	7.71%
66	4.17%	84	8.08%
67	4.35%	85	8.51%
68	4.55%	86	8.99%
69	4.76%	87	9.55%
70	5.00%	88	10.21%
71	5.28%	89	10.99%
72	5.40%	90	11.92%
73	5.53%	91	13.06%
74	5.67%	92	14.49%
75	5.82%	93	16.34%
76	5.98%	94+	18.79%
77	6.17%	95 & over	20.00%

Source: Canada Revenue Agency

Why does responsible investing make sense?

As environmental, social and governance (ESG) best practices grow in importance worldwide, the focus of businesses has shifted somewhat to factoring ESG into their strategic plans in order to create maximum value for shareholders. This adoption among businesses means more promising responsible investing (RI) opportunities, and is a reason for investors to take notice and participate.

Irresponsible business practices that harm people and the environment can damage company reputations, as well as our investments. RI represents a strategy that takes such practices into consideration and eliminates risks that could prove costly to investors.

RI goes beyond simply screening out controversial sectors like tobacco, alcohol or gambling. It can involve a more inclusive approach that identifies companies or organizations that adopt ESG best practices, or that specifically provide a beneficial social or environmental impact, while generating a competitive financial return.

RI provides an extra layer of risk protection and is focused on generating long-term growth, while also making a positive difference in the world.

ESG forms the guiding principles of RI and helps to evaluate the sustainability, management, culture and other key characteristics of businesses.



ENVIRONMENTAL

- Innovation
- GHG emissions reduction & progressive climate policy
- Responsible water use
- Biodiversity protection
- Waste reduction



SOCIAL

- Respect human rights
- Safe and healthy workplace
- Positive impact on communities



GOVERNANCE

- Independent board of directors with diverse perspectives
- Equitable compensation linked to ESG performance
- Responsible tax strategy
- Anti-corruption
- Transparency



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