Money Ideas

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Ralph Vandervoort, C.H.S., C.L.U., Ch.F.C.
Certified Financial Planner

Phone or write today!

V Group Financial
15 Willowood Court
Toronto, Ontario
M2J 2M2

Bus: (416) 491-1515
Fax: (416) 490-0914
Email: vgroup@bell.net
Web: www.vgroup.to

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▶ INVESTING

Think tax-smart investing all year round

Tax time? From an investing perspective, there is no wrong time to consider the tax implications of choosing, organizing or selling investments for your portfolio.

Choosing investments

Remember the old adage: don't let the tax tail wag the investment dog. The best investments for you are the ones that will help you meet your goals while being appropriate for your time horizon and risk tolerance. Any tax advantage should always be a secondary concern.

Organizing investments

Do you know that different kinds of investment income are taxed differently in Canada? Interest income, often earned from Guaranteed Investment Certificates (GICs) or bank account interest, is taxed like earned income and is the least efficient from a tax perspective. Canadian Dividend income is taxed at a lower rate thanks to the Canadian Dividend Tax Credit, and income from Capital Gains is even more tax-efficient as only 50% of the gain is taxable. Equity-type investments such as stocks are most likely sources of dividend and capital gains in your portfolio.

With this in mind, it may make sense to hold investments that pay interest income in registered accounts like Registered Retirement Savings Plans (RRSPs) that defer the tax, or Tax-Free Savings Accounts (TFSAs) that eliminate the tax liability.

Selling or moving investments

Taxes can be an important consideration when you sell an investment or move it from one account to another. For instance, for most investments that have a capital appreciation, the taxable gain is only triggered when you sell it. Withdrawals from your RRSPs will also incur a tax bill, unless they are for an allowed purpose such as the Home Buyers Plan. You can also trigger a tax liability, in this case a "deemed disposition," by transferring an investment from a non-registered account into your RRSP.

If you're looking to draw a regular income stream from your investments, designing a tax-efficient draw-down strategy is key. In this case, rely on professional assistance to maximize your after-tax income.

Being tax-savvy with your investments is a key element of building your wealth over the long term and generating efficient income when you need it. It can require some specialist knowledge and a holistic view of your individual situation. Professional advice is key. ◀

Going global? Here's your mutual fund primer

It's not easy to get Canadians to invest abroad. According to one recent reported figure, 60% of the average Canadian's equities portfolio is invested in homegrown stocks. If you're ready to look further afield, there are a wide variety of mutual funds that fit the bill.

International Equity funds. International equity funds consist of investments in companies that could come from any country in the world except Canada and the United States. According to the Canadian Investment Funds Standards Committee (CIFSC), at least 70% of their equity assets must be in developed countries. International funds in your portfolio provide diversification in two key ways. The first is based on the idea that the economies of different regions may behave differently at different times: Europe could be experiencing a slowdown while Asia is expanding. The second is that not all regions of the globe share the same industries: Japan may provide opportunities in advanced machinery or technology while Europe may have stronger concentrations in health sciences and financial services.

Global Equity funds. A global mutual fund is one that can invest in any country in the world – including Canada and the United States, allowing the managers to "search the globe" for the best opportunities – wherever they are. With so many countries, economies and companies to work with, one global fund may be quite different from another. For example, one could concentrate solely on sophisticated economies like the United States and Germany, while another could have a broader mix including some higher-growth but more risky nations like Brazil, India or Russia. To understand the make-up of your global funds, look at the geographic weightings in the prospectus or regular fund reports.

Emerging Markets funds. These global funds concentrate on companies from some of the fastest growing economies in the world such as India and Indonesia. According to the CIFSC, funds in the Emerging Markets Equity category must invest at least 90% of their equity holdings in a broadly based portfolio of securities from emerging markets countries. Because of this heavy concentration in emerging markets, the risk profile of these funds is typically much greater than other global funds. As such, they should make up only a small percentage of your portfolio.

Single Country or Specialty funds. These funds concentrate their investments in just one country or region. Common examples would include Japan-only, China-only or Asia Pacific funds. Such a narrow focus allows you to get concentrated exposure to that region or country but with a commensurate increase in risk. Like Emerging Market funds, these funds are likely a small part of your overall portfolio.

Global Fixed Income funds. It's worth noting that global investing can involve bonds and other fixed-income instruments as well as equities. Similar to the equities side, there are wide variety of funds on offer including government and public sector fixed income, global corporate fixed income and even emerging market fixed income. Specialist knowledge is needed here and professional management is especially welcome, because of the unique risks of sovereign debt in a wide variety of countries and political systems.

Global Balanced funds. Just like domestic balanced funds, these funds split their investments between equities and fixed income. There are funds that are growth-oriented and tend to invest more in equities, and others that put the emphasis on fixed-income investments. Either way, these funds "balance" the risk and tend to be less risky and less volatile that other types of global funds. These funds can be ideal for first-time or smaller global investors who don't have a lot of money to diversify across many global funds but still want exposure to a variety of international equities, bonds and markets. Because the emphasis of individual funds in the global balanced category can differ so greatly, it's important to examine the funds' mandates and goals before investing.

Mutual funds are a great way to take advantage the investing opportunities the world over. Professional advice and a portfolio review is a great place to start. ◀

Confidence shaken by the market downturn? Keep perspective with this timely advice

At the beginning of 2020, mutual fund investors could be forgiven for having forgotten this truism of investing: what goes up can also go down. The bull market in stocks had begun in 2008 and, despite some hiccups, there were no bears to be found for over a decade. The arrival of the COVID-19 coronavirus changed all that – and quickly! After days and days of sell-offs, a bear market (meaning a drop of more than 20% in value) reared its head in mid-March for many of the major indexes around the world. The unit values of many mutual funds quickly followed suit.

When the daily news is full of stories of "sell-offs," it can be tempting to feel that maybe you should be joining in and getting out of your equity-based funds. But to keep perspective, and avoid panic, consider these six points:

1. Fund losses have already happened. If a market downturn leads you to sell your funds, then you will have locked in the losses that have already happened. That means there's no way to recover those losses. Of course, markets and fund values could fall further – no one can predict the future. But selling ensures that you can't participate in any recovery in prices on holdings that you have already sold.

2. Sell-offs don't discriminate. During times of market panic or broad-based selling driven by news events, sellers often don't take the time to evaluate the quality of their holdings in the same way they did when buying them. Remember, your fund managers have carefully chosen the stocks in your funds and your advisor has recommended a fund as a good quality, long-term holding for your portfolio. Ask yourself why that's not still the case. Chances are that over time the market will recognize the inherent value of that holding and its price will return to a more reasonable level.

3. Rebounds are unpredictable. Investors who stay in the market are sure to be participating when the market recovers. There are no guarantees, of course, but markets have recovered from many calamities including 9/11, the Eurozone crisis, the Great Recession of 2007, and many more. But the shape and the timing of any recovery is nearly impossible to predict. Some rebounds are "V-shaped" with a quick fall and an equally quick recovery, while others are "U-shaped," taking longer to make a comeback. If you are looking to cash out and time the recovery before getting back in, you are attempting an almost impossible task.

4. Equity funds are only one part of your portfolio. Trust the power of diversification – it is made for times like this. The point of having a diversified fund portfolio is that when one asset class like equity funds is having a tough time, the other parts, like fixed-income and cash equivalents, are mitigating those losses. Sometimes looking at the overall value of your portfolio rather than the daily close of the TSX or the S&P 500 can help you keep perspective.

5. What (and when) are you investing for? Keeping your investing time horizon in mind may help you stay the course. For instance, if you are investing for your retirement and that date is 15 years away, today's downturn may be a forgotten memory by then. You certainly have time to participate in any recovery. If you're close to retirement or have shorter-term investing goals, then your portfolio will likely reflect that with a greater share invested in less volatile investments. If you're not sure where you stand, or your goals have changed, it's probably time to revisit your investing strategy.

6. Professional managers are at work on your behalf. When you invest in mutual funds, the fund managers are monitoring and managing your investments full time, day after day. They are already dealing with many of the concerns and questions that you have at times like this. Plus, they have access to many more information sources, investment expertise and, more often than not, the lived experience of having guided clients and portfolios through previous market turmoil. Remember that you have that expertise and perspective already working for you.

Even the most experienced and knowledgeable investors need some hand-holding during tough markets. Don't hesitate to contact us to keep news and market events in perspective and to revisit how your fund portfolio is doing in relation to your long- and short-term goals. ◄

How have world epidemics affected global markets before?

As shown in the adjacent table, the effects of global epidemics and pandemics, like those of many more common viruses, tend to be short-lived when it comes to world stock markets. No two situations are alike, however, and the ramifications of COVID-19 remain to be seen.

EPIDEMIC	YEAR	MSCI WORLD INDEX		
		1 month	3 months	6 months
SARS	2003	8.64%	16.36%	21.51%
Avian Flu (H5N1)	2006	-0.18%	2.77%	10.05%
Swine Flu (H1N1)	2009	10.90%	19.73%	39.96%
Ebola	2014	-0.09%	2.37%	4.37%
Zika	2016	-6.05%	-0.88%	-0.57%
Ebola	2018	-7.42%	-13.74%	-3.49%

Note: Past performance is no guarantee of future results.

Source: *Market Watch* (marketwatch.com), February 24, 2020. https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22

▶ MUTUAL FUNDS

A splash of growth perks up these income funds

Whether you're an income investor approaching or in retirement, or one who is just a little shy of the volatility that a heavy concentration in equities can bring, income funds offer the potential of less volatility and a stream of income if needed. However, you may still need some growth in the mix to improve returns or prevent depletion of your savings. One area to consider is income funds that also offer some growth potential.

A different kind of income fund

Some income funds are specifically structured to offer a combination of reasonable growth potential along with income. Here are three.

1. Income allocation funds. These funds invest in a variety of fixed-income securities with modest exposure (usually) to dividend-paying equities. They may also invest in similar foreign securities. In addition, some of these funds are structured to pay out tax-preferred income, making them suitable for your non-registered portfolio.

2. Monthly income funds/portfolios. These are sometimes called "high-income funds," and they may augment their fixed-income holdings with dividend-paying stocks and other equities. In some cases, the asset mix may be closer to that of a balanced fund than an income fund. For this reason, it's especially important with these funds to get the balance right not only in picking the right fund, but also within the context of the rest of your portfolio.

3. Global bond funds. These funds have a mandate to invest in a spectrum of foreign fixed-income securities. Their exposure to a variety of economies and currencies enables you to tap into growth opportunities outside of Canada. In addition to international diversification, they may also offer a hedge against rising interest rates in our own domestic economy.

Possible price fluctuations

Because these income funds offer some growth potential, they may experience more volatility over the short term than traditional straight-up income funds. Remember: In the investment world, higher potential returns are always accompanied by greater risk.

This is partly due to the securities they hold. For instance, these funds may hold corporate bonds that are not rated as highly as those from solid blue-chip corporations. As well, they may be more tactically managed than some traditional bond funds. In other words, the fund manager may move in and out of assets more frequently in order to protect against risk or try to capture gains.

Portfolio approach

It's important to review the fund's objectives and its individual securities to make sure they'll work effectively with the rest of your portfolio. Together, we can ensure your portfolio balances your need for income, your desire for growth and the right level of risk so you can sleep at night. ◀

▶ TAX TIPS

Know your slips when it comes to tax time!

For the 2019 tax year, it's all over but the filing. To get ready and to ensure an accurate return, here's a review of key investment-related tax slips:

T4 slips – Generally speaking, T4 slips report the various kinds of income you received during the year which you must report when filing your taxes. The most common of these is the *T4 – Statement of Renumeration Paid* where your salary or wages are documented. If you received Pension or Annuity, OAS or CPP benefits, these will be reported on a T4A, T4A(OAS) and T4A(P) respectively. If you had income from your Registered Retirement Savings Plan (RRSP) or your Registered Retirement Income Fund (RRIF), expect a T4RSP or T4RIF. For Quebec taxpayers, your main income slip is your Relevé 1 or RL-1.

T5 Statement of Investment Income slip – These statements come from the financial institutions that you have investments with. They report your investment income including the types of income, such as interest or dividend income, which are treated differently when taxed. In Quebec, look for an RL-3.

T5008 Statement of Securities Transactions slip – If you disposed of or redeemed securities last year, the relevant information is reported here.

T3 Statement of Trust Income Allocations and Designations slip – This is the slip that details how much income you received from investment in mutual funds in non-registered accounts, from business income trusts or income from an estate for a given tax year.

RRSP Contribution Receipt – When you contribute to your RRSP, the financial institution will issue this slip. Note that depending on when you made the contribution, you may have received this slip earlier in the year. ◀

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. The indicated rate[s] of return is [are] the historical annual compounded total return[s] including changes in unit value and reinvestment of all distributions and does [do] not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing.

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HUB Capital Inc.
Mutual Fund Dealer