



Finance Forum



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Mutual Funds offered in association
with HUB Capital.

It's time to take advantage of one of the best investment and tax-saving opportunities available to Canadians: the Registered Retirement Savings Plan (RRSP).

You have until February 29, 2012, to make your RRSP contribution for the 2011 tax year. But the first thing you should do is discuss your contribution strategy with us as well. We can review your investment options with you to help you take full advantage of this great way to build tax-deferred retirement savings.

Let's talk soon. It's the best way to ensure that your retirement savings will get you where you want to go.



FOCUS ON MUTUAL FUNDS

The dangers of diversifying too much

Diversification is an effective investment strategy. But it's possible to have too much of a good thing. **Owning too many mutual funds can work against your goals. That's why it's important for us to have a clear perspective on all your holdings, including those managed through accounts with your employer, an insurance company, or independently.**

Here are four possible negative consequences of over-diversification:

Diluted returns potential. Owning one high-quality Canadian equity fund can lead to a better return potential than owning three or four funds. Too much overlap lessens your chances of beating the market and reduces the impact that any one fund can have on overall portfolio performance.

Complication. Too many funds make it difficult to track and monitor your portfolio. It's far easier to manage five funds than 15.

Working against your goals.

Confusion over multiple fund holdings may leave you with funds that don't suit your goals. If your primary objective is income, do you need a foreign equity fund? Or, if you invest in a balanced fund, do you need individual equity and bond funds as well? Even funds with similar names could be working at cross purposes, because they can have different investment strategies, goals, and investments.

Unnecessary fees. Funds that hold similar investments may have different management expense ratios. Holding a single, lower-ratio fund with the same objectives would increase returns.

Talk to us about all your holdings. We can help you pare down your portfolio to a few well-chosen funds that will provide you with the diversification you need to meet your investment objectives. ■



Build up core strength

Anyone with a penchant for fitness has probably heard about how important a strong “core” is to overall body strength. What’s true for your body is true for investments. Just as you pay attention to your body’s core, you need to take care of your core mutual fund investments. They need to be strong enough to support your investment goals.

Every mutual fund portfolio should have a nucleus of broadly diversified funds. This core is crucial to the strength of your portfolio because it provides stability. It can help your long-term investment returns grow and ease the anxiety caused by financial market volatility.

Core holdings are long-term “buy and hold” investments of low to moderate risk that we can consider leaving in your portfolio for as long as you invest. They are generally less volatile than other types of investments, at the same time offering the potential for attractive long-term investment returns within your risk tolerance.

Diversify across asset classes

Just as your overall mutual fund holdings should be well diversified, so should your core holdings.

Equities. Equity core holdings often consist of “large-cap” equity funds that invest in blue-chip stocks. These funds may not always win the performance race, but they have good long-term track records and may fare better in difficult times.

Fixed income. The fixed-income core of your fund portfolio should consist of moderate-risk, solid investments such as funds that invest in government bonds. We should consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global funds. The changing shape of world markets may also call for non-Canadian investments to form part of your core. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

How much is enough?

How much of your total portfolio your core should represent varies with factors such as individual financial objectives and risk tolerance. For many investors, 70% to 80% is not unrealistic.

The types of funds that constitute your core will depend on your personal investment characteristics. Funds that can be considered core holdings for one investor may not be suitable as a core for another investor.

Even if you already have a series of core investments, it’s a good idea for us to review your holdings from time to time to ensure they’re meeting your needs and expectations, and that the positioning continues to make sense for your goals.

Let’s talk

Now is an excellent time for a core assessment. Financial market volatility in recent months may have thrown your mutual fund asset allocation percentages out of balance, including your core investments. For example, the 2011 stock market events may now mean you have a lower percentage of core equity fund holdings and a higher percentage of fixed-income funds than your original target.

Just as a strong core for your body helps you to run further, hit harder, and play longer, a strong mutual fund core can help you tackle bigger challenges. For example, with the support of a strong core, we can focus part of your portfolio on more aggressive, less mainstream investments that are generally riskier and more volatile but have the potential to add higher returns.

These might include small-capitalization and mid-cap equity funds, funds that invest in riskier securities or geographical markets, and fixed-income funds that invest in high-yield corporate bonds or higher-potential securities.

Let’s get together to talk about the structure of your mutual fund portfolio. We’ll ensure you have the right balance of core and non-core funds to meet your financial objectives. ■

FRAUD PREVENTION

Protect yourself from identity theft

Identity theft is a growing problem. If you have a good credit rating, you're at risk of identity theft that can cause big problems in your financial and personal life. You could suffer financial losses, emotional stress, and a huge drain on your time as you try to set things right.

A study by Hamilton's McMaster University found that almost 70% of Canadians are concerned about identity theft. In the year prior to the poll, 6.5% of those surveyed were victims of identity theft. These findings suggest that some 1.7 million Canadians may be victims every year.

Protecting yourself from identity theft can save more than money. It can save you from the stress and effort required to put your life back in order. On average, identity theft victims spend more than four working weeks undoing damage to their credit.

While many people think of identity theft as credit card and debit card fraud, many cases go well beyond that, involving social insurance fraud, mail theft, hacked bank accounts, embezzlement, mortgage fraud, and a host of other life-rattling crimes.



The best way to avoid becoming a victim is to be defensive. Your first step should be to obtain your credit report at least once a year. Often identity theft isn't discovered until a credit check reveals something is amiss.

To keep your personal information safe, follow these simple steps:

- Be cautious about sharing personal or financial information online or over the phone.
- Remove any unnecessary identification from your wallet or purse and keep it in a secure location instead.
- Be careful with passwords and PINs. Don't give them out and make sure they are as strong as possible.
- During transactions, swipe or insert your card yourself. If this isn't possible, watch your card closely and always shield your PIN.
- Review your credit card statements and other financial records regularly and report any discrepancies immediately to the appropriate institution.
- Use a paper shredder when disposing of personal information or documents. ■

TAX PLANNING

Family caregiver tax credit

As more Canadians find themselves looking after disabled family members, it's good to know that new, increased tax relief is available to help offset the often considerable expenses caregivers face.

Effective January 2012, a new family caregiver tax credit provides a 15% non-refundable income tax credit on expenditures of up to \$2,000. This provides up to \$300 in annual tax relief for caregivers of infirm dependent relatives, including spouses, common-law partners, and minor children.

In its last budget, the federal government also lifted a previous \$10,000 cap on the medical-expense tax credit, which allows taxpayers to claim medical and disability-related expenses incurred by financially dependent relatives. Caregivers who incur extraordinary medical and disability-related expenses will benefit beginning in the 2011 tax year, so be aware of this change when filing your 2011 tax return. ■



WHAT'S NEW

New CPP rules



Here's some good news about Canada Pension Plan benefits. As of this year,

you no longer have to stop working to draw CPP. You can simultaneously receive and accrue CPP benefits between the ages of 60 and 70, which means you have increased potential to improve your retirement finances.

Beginning January 1 of this year, you can continue to work while collecting CPP benefits. The old rules stipulating that you had to stop working to collect early CPP benefits no longer apply.

If you're between 60 and 65, employee and employer contributions to CPP will still be required. However, if you work between the ages of 65 and 70, contributions will be optional. If you want to continue to contribute to CPP as an employee, your employer must also continue to contribute.

For residents of Quebec, similar rules apply under the Quebec Pension Plan (QPP). QPP allows for "phased" retirement between the ages of 60 and 65. To collect QPP before age 65, your estimated employment earnings for the first 12 months during which a pension is paid must not exceed \$12,075 in 2011 (other conditions apply). You will continue to contribute to the plan, which will provide you with a retirement pension supplement the following year.

Talk to us before making any decisions about early retirement and collecting CPP/QPP benefits. We can help you make the choices that will work best for your financial future. ■

Active management can help in difficult times

Squeezing every last drop of performance from your mutual fund portfolio in volatile times like the ones we are currently experiencing can make a great deal of difference to investment returns. That's why we may recommend that you consider certain actively managed funds for your portfolio.

Actively managed funds are designed to outperform financial markets. Their professional managers are tasked with buying and selling investments, in accordance with the fund's mandate, to outperform a specified index or generate the best possible returns.

Index funds, on the other hand, hold investments that mimic the makeup of an underlying index. These "passively managed" funds will always closely reflect the performance of the index on which they are based, in both good times and bad.

Focused on outperformance

Active fund managers are constantly undertaking research and analysis to ensure they have the best investments to match the fund's objectives. The flexibility of active management can be beneficial in times of market turbulence, when the ability to reposition a portfolio can be crucial to returns.

An active approach can be very effective. For example, in the second quarter of 2011, the Russell Canadian Active Manager Report showed that 68% of active managers outperformed the 5.2% loss posted by the S&P/TSX Composite Index. Active management was particularly

beneficial for dividend funds. All dividend-focused Canadian investment managers beat the S&P/TSX in the second quarter.

The benefits of flexibility

An actively managed fund has the potential to react quickly to changing market conditions — for example, changing its investment mix during market downturns or taking profits on investments when they peak. In fact, for an actively managed fund, times of volatility can represent times of opportunity. Fund managers can buy stocks, bonds, or other investments when prices fall, with the goal of enhancing returns when prices are on the upswing.

Of course, it's important to find the right funds for your portfolio. Not all actively managed funds are equal performers. And depending on the fund or fund type, the amount of risk involved can vary. It's also worth remembering that just as an actively managed fund can outperform markets, it can also underperform.

Diversification is key

In many cases, the most effective approach is to include both passively and actively managed funds. This enables you to benefit from the potential outperformance of active managers while providing a solid base that ensures some of your portfolio returns will match the market.

We can help you sort through the large universe of Canadian actively managed mutual funds to pick investments suitable for your risk tolerance, time horizon, and growth objectives. ■

How to tap your funds for more retirement income

IF YOU ARE looking for tax-advantaged income and hold mutual funds outside of Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs), you need to know about tax-efficient systematic withdrawal plans, or T-SWPs.

These plans involve creating a monthly stream of tax-advantaged income by investing in special versions of popular Canadian mutual funds designed for this purpose.

How it works

Basically, the tax magic of a T-SWP stems from the fact that income is a combination of the return of some of your original mutual fund investment capital and the returns earned by your investment.

Given the reduced tax, a T-SWP may provide more income, after tax, than you would get from many guaranteed investments. We can even structure your T-SWP to help you avoid the "clawback" on Old Age Security (OAS).

More flexibility

Unlike Guaranteed Investment Certificates (GICs) or term deposits, T-SWPs aren't locked in. You can change the level of income or redeem your fund holdings if your financial requirements change.

Let's discuss your income needs and how tax-advantaged systematic withdrawal plans can help meet them. ■

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What are you doing after work?