Assante WEALTH MANAGEMENT

Well-Advised

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The world economic outlook is improving and the growth we're seeing in the Canadian economy is good news. It means that businesses sell more, profit margins improve, and share prices rise.

We also expect that the Bank of Canada will effect a modest interest rate increase later this year. Higher rates, even if modest, will have an impact on your financial life, from mortgage rates to inflation, to your bond holdings and investments such as GICs and money market funds.

To discuss and examine the effect that economic changes have to your portfolio and financial plan, call us for a review.

FOCUS ON MUTUAL FUNDS

Mutual funds at a discount, courtesy of the loonie

These are good times for the Canadian dollar, which means it's also the ideal time to review your mutual fund investing strategy.

To take advantage of investment opportunities created by the strong loonie, consider the following strategies.

U.S. funds on sale

Whenever the Canadian dollar rises above parity, U.S. securities are available at a discount, and this includes mutual funds. Looking long term, the investments you buy today may be worth more if the U.S. dollar appreciates in the future.

Together we can screen Canadian funds that specialize in U.S. investments, such as U.S. equity funds and bond funds. You may not need to invest in a U.S.-specific fund to get exposure to the U.S. Many Canadian and international funds invest a portion of their portfolios in U.S. securities.

Learn about hedging

To protect your fund portfolio from potential currency fluctuations, ask me about mutual funds that "hedge" against currency moves. "Hedging" involves investment techniques that offset volatility in the exchange rate, with the goal of protecting investors against fluctuations and currency-associated losses. However, note that hedging can limit gains and may involve higher mutual fund fees. Some funds are available in both hedged and non-hedged versions.

For maximum currency exposure, consider U.S. dollar funds. They invest in U.S.-dollars and provide returns in U.S. dollars. These are ideal for those who might have U.S.-dollar spending needs in the future or simply want currency diversity in their portfolio.

Let's discuss the benefits of buying U.S. investments while the Canadian dollar gives you more power. ■

An unexplored avenue for yield: Emerging markets

Many investors think of emerging markets only as stock market investing opportunities. But did you know that in recent years emerging bond markets have produced consistently strong returns?

Currently, a growing selection of Canadian mutual funds can help you benefit from these returns — and at the same time increase the diversification of your fund portfolio.

More to choose from

Contrary to what many believe, emerging market bonds aren't as risky as they once were. A large percentage of emerging market bonds are higher-quality "investment grade," unlike a decade or so ago. According to a major U.S. financial institution survey, 56% of emerging markets bonds are now investment grade, up from 17% in 1998.

Plus, the difference in yields between emerging and developed markets can be considerable — often double or more for similar government bonds (see chart). For example, according to Bloomberg data, as of January 31, 2011, 10-year U.S. treasuries yielded 3.4%; meanwhile, 10-year government of Brazil bonds yielded 13%. That can make a significant difference in your portfolio's fixed-income returns.

Certainly, part of that yield difference stems from the fact that emerging market bonds must pay higher interest to compensate investors for the risk of investing in emerging countries.

Many emerging countries have environments of chronically higher interest rates, in which bonds must compete for investors' cash. Latin American economic powerhouse Brazil, where central bank rates are among the world's highest, is an excellent example. Foreign-exchange risk must also be factored into your decision.

Yet Brazil, like several other emerging economies, has had its sovereign credit ratings upgraded in recent years. The reason? Emerging market governments and central banks have become much better at managing economies and tempering boom-and-bust cycles. In fact, some emerging economies fared better than their developed counterparts during the recent recession and have since returned to much higher growth rates.

Find opportunity in mutual funds

Emerging debt markets can be difficult to navigate. We recommend the professional money management of mutual funds that invest in emerging market bonds.

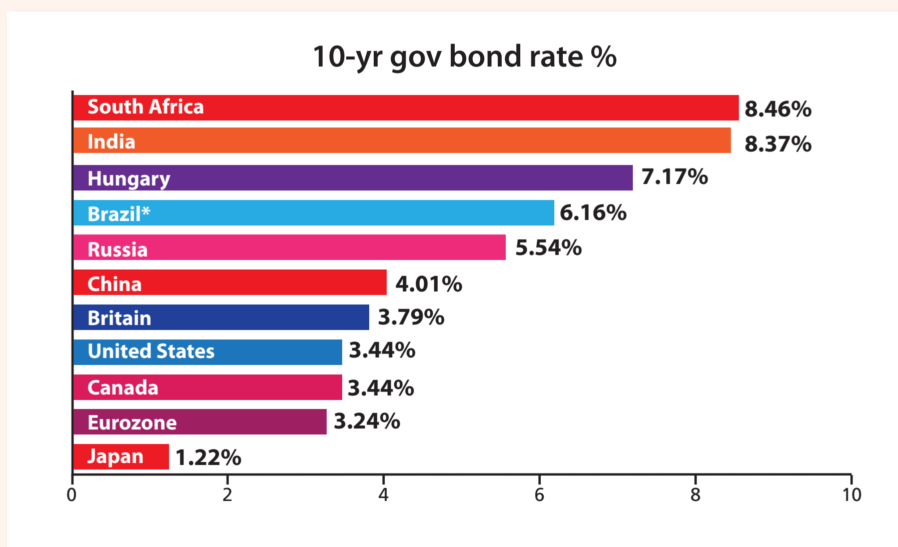
The selection of mutual funds available to Canadians is growing in recognition of the fact that emerging market securities are in demand and that they offer Canadians an alternative to traditional developed country bonds or corporate bonds.

Emerging market bond funds usually focus on bonds issued by governments, although some may hold debt issued by corporations. They typically aim for a combination of income and capital growth through potential appreciation in bond prices. We should look for funds that diversify holdings among geographic markets and bond types, to help maximize returns and manage risk. You can also get exposure through international funds that hold debt securities of both developed and emerging markets.

We'll be pleased to show you how emerging market bond funds can help boost your fixed-income returns, improve the diversification of your overall portfolio, and help you reach your financial goals. ■

Expand your horizons for yield's sake

Looking for higher yields? Consider mutual funds that hold emerging market bonds. Here are the latest rates for 10-year government bonds.



*U.S. dollar-denominated bonds

Source: *The Economist*, Economic and financial indicators, Feb. 5, 2011

RETIREMENT PLANNING

How to talk to your parents about their financial future

At some point, you'll need to have "the talk" with your parents about their finances and their financial future. Planning ahead is the only way for them to keep their financial future on a solid foundation and for you to prepare yourself to provide the help they might need as they grow older.

It's about their needs, not yours

It's not always an easy discussion to have. Parents may see your attempt to discuss their finances as an intrusion — especially in families where talking about money is taboo. They may even fear that you're trying to take control of their money.

But it's important, because one or both of your parents may become ill or incapacitated and unable to manage their finances in the future. They should be aware that without thoughtful planning, how they are cared for at that time could be entirely out of their control. It's about their needs, their comfort, and how they want to be cared for.

Don't wait for a crisis. Talking to your parents and planning ahead will help make sure their wishes are carried out and potentially eliminate squabbles among family members if your parents' wishes aren't clear.

Help them see the benefits

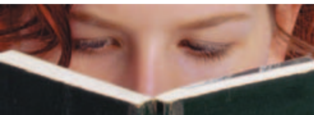
You can avoid problems and alleviate concerns by showing your parents the benefits of sharing their financial information. Let them know that it will be easier for you to help them in the future if you have the information now. Stress that it's important for them and their family, financially and emotionally.

Some discussion points to consider include:

- Do your parents have up-to-date wills? If so, where are they kept?
- Do they each have powers of attorney (both for property and health care)?
- Who are the executors in their wills, and has this decision been reviewed lately?
- Will they have enough funds to continue living comfortably?

To plan, they need to provide details of assets, liabilities, income and expenses, and details of financial accounts — or at least where accounts are held. As well, contact information for financial and legal advisors is necessary.

Don't be afraid to seek expert advice. We can prepare you for a talk with your parents about finances. And if it will help, we can be part of the discussion. ■



FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Explore your risk tolerance

Everybody talks about risk and "risk tolerance." But how can they be quantified? And how can we determine your individual tolerance for risk? It's all in your Financial Classroom:

What it is

To put it simply, risk tolerance is the amount of risk you're willing to accept when investing. For many investors, risk and risk tolerance are focused on the possibility of losing money.

How it works

Periodically, we'll review with you a series of questions to help you explore your individual risk tolerance. A key factor in dealing with risk is time horizon. Long-term investing tends to be less risky because, over time, the general direction of most asset classes is up.

At times, it's simply prudent to re-evaluate risk tolerance to reach our financial goals. For example, focusing too much on the potential for loss can introduce other investment risks, such as inflation risk, or leave you sitting on the sidelines at times of superior market performance.

With long-term objectives in place, the short-term ups and downs of financial markets don't matter as much. They're often described as "speed bumps" on the road to long-term investment success. Keeping that in mind can help ease your risk concerns.

Why it matters

Your risk tolerance affects how receptive you are to decisions involving risk. That's important to your investment life, because as potential returns rise, so does risk.

We can help you explore your personal risk tolerance through a series of questions designed to help determine the risks you're comfortable with. We can also cultivate a feel for your tolerance as we develop your investment strategy and portfolio. We'll pay close attention to how you react to different types of investments and to events such as financial market volatility.

Inflation is inevitable — prepare now

Inflation is a fact of life in Canada, and the higher inflation goes, the lower your future purchasing power. Ensuring that there is a sufficient growth element in your mutual fund portfolio is key.

Canada's Consumer Price Index shows that Canadians have had a low-inflation "holiday" for some time, creating a generation of people who did not experience or cannot recall the days of double-digit inflation.

Today, the inflation rate has almost nowhere to go but up. Many of the ingredients that fuel higher inflation are in place — among them a growing economy, massive government spending and rising food and energy prices. Inflation has already reached worrying levels in many emerging nations and parts of Europe.

Stay a step ahead

The good news is that we can manage your mutual fund investments so you stay one step ahead of inflation. We can start edging your portfolio toward funds that provide maximum inflation protection. That's something we should consider now, instead of waiting until higher inflation becomes obvious.

Inflation planning is particularly important for a secure retirement. Before you retire, we need to ensure your mutual funds help produce investment returns that stay well ahead of inflation to protect the standard of living you envision in retirement. When you retire, your funds ideally should produce high enough returns that your purchasing power isn't eroded as you grow older.

If inflation were to rise to 5% and remain at that level for the next 20 years, today's $100,000 salary or annual retirement income would be worth only $35,849 in future dollars. Or to look at it another way, in 20 years you would need $265,330 to buy what $100,000 buys today. Even if inflation were to remain at its recent levels of around 2% for 20 years — which economists concede is nearly impossible — you'd need $148,595 in 20 years to equal your $100,000 income today.

While the long-term impact of inflation can be devastating if your investments fail to keep up, inflation has a short-term impact as well. Anyone with "cash" investments such as money market mutual funds has faced the risk of losing buying power because returns from many of these investments are lower than inflation.

How can we fight inflation? Holding equity mutual funds in your portfolio is one of the most effective ways to provide an inflation buffer. That's because stock market returns have consistently beaten the inflation rate over the long term.

Other areas we can explore include mutual funds that focus on sectors that benefit from inflation, such as commodities and real estate. We can also consider real return bond funds. Real return bonds protect purchasing power over extended periods because bond principal and interest payments are adjusted to reflect the rate of inflation.

Let's get started today on helping to inflation-proof your mutual fund portfolio and your future. ■

Plug in to tech sector opportunities

WHEN WE'RE CONSIDERING ways to add more growth potential to your investment portfolio, we may want to look at technology mutual funds.

Technology companies are making a strong comeback, as many have shaped themselves into healthier, more profitable businesses than a decade ago.

Many tech companies are now generating revenues and are highly profitable. Today, solid tech funds hold companies that are mature. These companies pay dividends, expand their businesses, and make acquisitions — all important drivers of share prices.

The changing face of the technology sector means that it is attractive by both historical standards and relative to other market sectors. And the outlook remains promising. Technology spending is forecast to grow faster than the economy, and tech companies will benefit from this spending. And because most technology companies cater to global markets, they can take advantage of world economic growth.

Mutual funds are an ideal way to invest in tech. They're managed by sector experts, giving you the potential that comes from professional investment choices and diversification. Canada's technology sector is small, so many of these funds invest in the U.S. and elsewhere.

Let me show you how technology funds can add an extra element of growth to your portfolio. ■

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