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Another year is coming to a close. Such turning points often prompt reflections on the past and resolutions for the future.

Now may be the time to consider your investment personality in more depth – what appeals to you and what you fear – and make changes to your portfolio to better reflect and manage those fears and expectations.

We are here to help you find the most appropriate investments for your investment personality and to make your portfolio as tax-efficient as possible.



## Are you a tortoise or a hare?

**O**r perhaps a cat or a dog? We're not talking about the Chinese zodiac, but four basic fund investment personality types. Do you:

- Always seek the fastest route and highest potential returns, even if there may be dangers along the way? Then you're a hare, known for speed. The hare is an aggressive risk-seeker who likes to run after the hot funds, but sometimes relies too much on a late boost of speed to win the race.
- Prefer to stick to the slow-but-steady road? In the classic folktale, the tortoise plodded along, not caring about how much further ahead the hare seemed to be — or how distant the finish line was. The tortoise, classically, is risk-averse — a conservative mutual fund investor, in other words.
- Want to explore new mutual fund opportunities but retreat quickly at the

first sign of trouble? You're a cat. Cats are moderately aggressive investors, well known for their curiosity. They typically rush to the sound of flowing water but retreat abruptly when they get their paws wet.

- Stay loyal to what's worked for you in the past? Balanced fund investors are like faithful dogs. They're not likely to take on new risks and can have a hard time learning new tricks, or even looking at something as unfamiliar as, say, sector funds.

Of course, most people are a mix of all four kinds of investor animals. What's important is to recognize which one resonates with you the most.

We can help you determine the type of mutual fund investor you are so that you can take advantage of market opportunities — and still be able to sleep at night. ■

# Think these funds are boring? Think again

**T**he reputation of fixed-income funds as the dulllest and most staid of the investment classes is not entirely undeserved. After all, their steady returns and low volatility are the reasons why investors love them.

But their performance over the last 10 years has shown off a different side of fixed-income funds, displaying their potential to keep pace with equity funds — and sometimes outperform them. Here's how they did it.

## When bonds trumped equities

Over the 10-year period from 2000 to 2009, the average annual compound return for the average Canadian equity fund was 5.19%. Fixed-income funds, in spite of their much less aggressive mandate, came close to equalling that return, posting an average annual compound return of 5.03%.

Looking a little shorter-term, the average annual compound return for Canadian fixed-income funds over the past four years was 3.41%; in contrast, the return over the same time period for Canadian equity funds was 1.81%.

How did this happen? The global financial meltdown of 2008 not only affected stock markets around the world — erasing any equity mutual fund returns — but events proved to be beneficial for



bonds and bond funds. Shell-shocked investors swiftly deepened the crisis with massive equity fund redemptions and stock dumping, and moved their money into the safer havens of bonds and bond funds, and cash.

## Steady as she goes

The lesson to be learned from this story isn't that bonds and fixed-income funds are the new hot asset class. In fact, fixed-income funds are still the investments we have and hold for their steady returns and low volatility.

And speaking of volatility, just as it's atypical for fixed-income funds to trump equity funds, a meltdown on a global scale like what we saw in 2008 is also a rare, almost-

unheard-of phenomenon. Equity-based investments are key to providing growth.

While equities and equity funds collapsed during the financial crisis, the fact is they still present great growth potential for your portfolio.

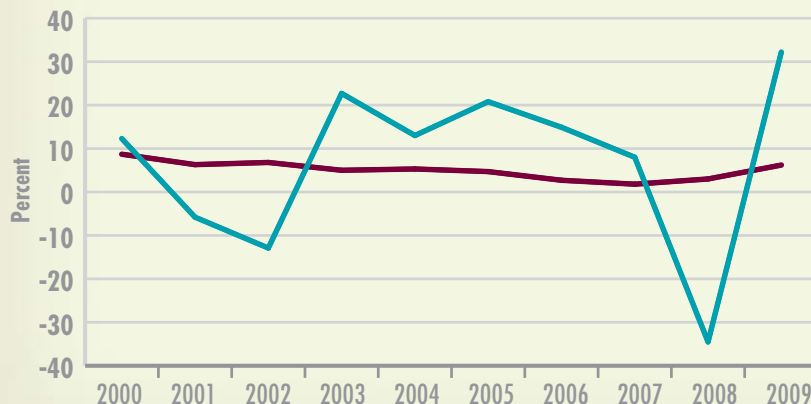
## Pillar of your portfolio

The bottom line? Both fixed-income and equity funds are key components in a diversified portfolio. You need to hold a variety of investments with a mix of assets that are appropriate to your investing goals, time horizon, and tolerance for volatility.

Looking forward, we can help you to determine the right proportion of fixed-income funds and equity funds for your portfolio. ■

## Slow and steady over the decade

Investors saw a surprising trend over the past 10 years. Fixed-income funds, long known for their steady but unremarkable growth, kept pace with volatile equity funds to deliver comparable returns over the decade. Their performance makes the case for their place in any balanced and diversified portfolio.



### Canadian equity funds

**\$1,000** invested Jan. 1, 2000 until Dec. 31, 2009 would have grown to **\$1,658**

### Canadian fixed-income funds

**\$1,000** invested Jan. 1, 2000 until Dec. 31, 2009 would have grown to **\$1,634**

Annualized returns, 2000-2009 Canadian stock funds and Canadian fixed-income funds. Source: Globefund.

## FINANCIAL PLANNING

### Are you under an inheritance illusion?

We've read a lot about Canada's \$1-trillion inter-generational wealth transfer, but some individuals may inherit far less than they expect from their parents.

#### Here are some reasons why:

Retirees have a lot of demands on their savings, which may reduce their final estate. They are living longer, out-of-pocket healthcare costs keep climbing, fewer have indexed pensions, some have suffered significant investment losses, and marital breakdown may have taken a toll.

More divorce and fewer children per family mean frail seniors are likely to be spending more on in-home care to fill gaps in support from the traditional family circle.

Seniors are increasingly tapping into their home equity through lines of credit or reverse mortgages to pay for lifestyle choices or long-term healthcare. Those bills will have to be settled before any legacies can be left for loved ones.

Some parents are tapped out after choosing to give while they are still alive and when their kids most need their help to pay for education or to buy a starter home.

While it may be tempting to make big plans for a hoped-for inheritance, focusing your energies on accumulating your own nest egg is the best strategy to achieve your goals and bring you peace of mind. ■



## INSURANCE PLANNING

### Here's an easy way to cut costs

Would you like to pay less for your insurance, whether it be life, disability, critical illness, health, home, or auto protection?

Paying annual premiums in full, rather than spreading them out over 12 monthly installments, could reduce your total costs by 8% or more in certain situations. That could add up to hundreds of dollars for some clients.

While monthly plans are convenient and spread the cost, it makes sense to pay up front if you can find the cash, perhaps from a Tax-Free Savings Account or even by getting a short-term loan from a relatively low-cost source such as a secured line of credit.

After all, if you believe that a penny saved is a penny earned, reducing premium costs by 8% or more brings you a pretty penny indeed. ■



## WHAT YOU NEED TO KNOW ABOUT...



### TFSA penalties

Confusion reigned around Tax-Free Savings Accounts (TFSAs) this year as the Canada Revenue Agency (CRA) moved to punish excess contributions with tax penalties, while considering flexibility for those who genuinely misinterpreted the rules. Here's what you need to know.

#### Q: What is the TFSA contribution limit?

A: Individuals 18 and over accumulate \$5,000 of new TFSA contribution room on January 1 each year. Deposits in one year cannot exceed that year's contribution room, *regardless of that year's withdrawals*. When you make a withdrawal, a matching amount is added to your contribution room for the *following* calendar year.

#### Q: What caused the confusion?

A: One of the key benefits of a TFSA — the freedom to withdraw money and then recontribute it — was widely misunderstood by many investors. A number of people inadvertently broke the rules by withdrawing money from their TFSA and then later recontributing it within the same calendar year, putting their total annual contribution over the limit of \$5,000.

For example, let's say you contributed \$5,000 in January, then withdrew \$1,500 in February, then recontributed that \$1,500 in March. According to the rules, you've contributed a total of \$6,500 — a no-no. You must wait until the following year to recontribute the \$1,500 you withdrew.

#### Q: What are the penalties for excess contributions?

A: The penalty is 1% per month (\$10 per month per \$1,000) on excess contributions until they are withdrawn from the TFSA. For those who make deliberate overcontributions in hopes that the gains will outweigh the penalties, any gains will be taxed at 100%.

# How to boost security as your goal gets closer

**I**deally, our investments age as we do — wisely and prudently. There is one kind of mutual fund that aims to do exactly that: target-date funds.

Whether your goal is building your retirement income or saving for a child's education, target-date funds are specifically developed to help you achieve your goals by minimizing risk and increasing security as you approach your goal date.

## Keeping pace with your timing

For most investors, their risk tolerance diminishes over time. They are approaching retirement and need to be able to live on the capital they've accumulated because their workplace earnings are likely to disappear or at least diminish considerably. In other words, they need a safety cushion to protect what they've accumulated from an unexpected equity market volatility in the years leading up to retirement.

Developing that safety cushion requires some planning, well before the expected retirement date.

## How they work

Target-date funds automatically dial down their level of risk as they approach their targeted date, such as the year of your retirement.

They are designed to be held for a set number of years to suit goals with fixed dates. These goals may also include saving for a child's education or purchasing a vacation home, for example.

Target-date funds may have time hori-

zons as short as five years or as long as 20. As the designated target date of the fund comes closer, the fund manager adjusts the asset allocation to become increasingly conservative, to protect from volatility.

For example, a 2025 fund would be heavily weighted in equities now, but would be more conservatively managed a decade from now. As it nears its 2025 target date, it would hold mostly fixed-income and cash investments.

Each fund typically is made up of a number of funds, forming a diversified portfolio.

Target-date funds appeal to investors who are looking for a single investment solution — an all-in-one, self-adjusting portfolio — for achieving their goals.

## What you need to know

How target-date funds are constructed varies greatly, so it's important to be aware of the following:

**Understand what's involved with any guarantee.** Some target-date funds offer capital guarantees. But any investment with a guarantee will sacrifice growth.

**Different funds may have different risk levels over time.** For example, some funds reduce equity exposure by a set percentage each year, while some maintain a high weighting of equities over the fund's life to maximize potential return, making them riskier.

If you're interested in exploring how a target-date fund can help you reach your investment goals, together we can determine which fund would work best for you. ■

# Year-end fund distributions may mean extra taxes

AS THE YEAR-END approaches, your thoughts may be turning to the holiday season — planning festive get-togethers with friends and family and thinking about what gifts to buy (or get!).

However, it's also time to attend to another year-end tradition — mutual fund distributions, which could result in a tax bill for you.

**What's taxable and what's not.** Distributions from mutual fund units held in a registered account, such as a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), have no tax implications. Outside of registered accounts, however, these distributions are taxable. And the tax applies whether you receive the distributions as cash or use them to purchase new holdings.

On the positive side, any income received as capital gains or dividends retains its tax-preferred status. Capital gains are taxed on only half their value and dividends from a Canadian corporation benefit from the dividend tax credit. Interest income and non-Canadian dividends, however, will be taxed at your marginal tax rate.

**Less tax means higher returns.** Now may be an opportune time for a discussion about what funds to hold in which accounts, in order to minimize your tax load. We can help you understand your tax situation and make sure your mutual fund portfolio is as tax-effective as possible. ■

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