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FOCUS ON MUTUAL FUNDS

Feel good! About your investments

We do a lot to leave lighter footprints on the earth. We recycle. We choose fuel-efficient cars. And in increasing numbers, we invest ethically.

In Canada, more than $1 trillion[1] is invested according to one or more responsible investing strategies. The sector is growing thanks to interest from pension plans, investment managers, and individual investors — and it's not all altruism.

Companies that emphasize responsibility towards their customers, employees, and communities may be more profitable than companies that don't. They may attract more customers because of a good reputation, charge premium prices for goods and services, and use more efficient processes to minimize their environmental impact.

In fact, a recent comparison of the Jantzi Social Index (JSI) to the S&P/TSX Composite Index found that the JSI outperformed over three years, five years and 10 years.[2]

Mutual funds are one of the easiest ways to capitalize on the benefits of ethical investing. In helping you find the sustainable fund that's right for you, we'll check:

- **Mandate.** The fund's objectives should align with your priorities, without placing too many restrictions on the manager's choices.
- **Cost.** Funds that focus on responsible investing sometimes come with higher management fees. We weigh cost against value.
- **Track record.** We look at risk-adjusted returns over different time periods, and the impact of past decisions on performance.

Interested in finding out more? Talk to us about how responsible investing may give a lift to your portfolio. ■

1 Responsible Investment Association (RIA), 2015 *Canadian Res ponsible Investment Trends Report*
2 Sustainalytics, Jantzi Social Index November 2015 total Returns

KS MoneyWorks

Qtrade Asset Management

Europe's stock may be rising

The tide may be turning for investors in Europe. After several years of challenging economic news, there's a sense of renewed optimism.

A survey of investment managers released in September 2015[1] found that nearly half (49%) of respondents believe European equities are undervalued — or trading at attractive prices.

Economies in the Eurozone are benefiting from the European Central Bank's (ECB's) decision to buy about 60 billion euros in bonds monthly, which started in March 2015. In December 2015, the ECB announced that the program would continue until at least March 2017.[2] That's a lot of economic stimulation, which would support Eurozone companies.

Risks remain, of course, and need to be monitored. These include ongoing economic struggles in Greece, the still simmering conflict between Ukraine and Russia, and the impact of China's slowing imports on global trade and commodity prices. We're also keeping an eye on real investment — money used to buy tangible, productive assets such as equipment and machinery — which is critical for companies to grow.

What is the most prudent way to seize investment opportunities in Europe? Mutual funds are a good place to start.

Focus on Europe

Some European equity funds concentrate on a specific country — for example, the United Kingdom or Germany. More common in Canada are funds that invest across a wider European region. We can still narrow your focus — say, to the Eurozone — but the fund manager has greater flexibility to choose the best investments across countries.

Within the European equity fund category, we can tailor our approach to suit your needs:

- **Investment style.** Growth funds focus on companies positioned to achieve high earnings growth, while value funds seek out businesses trading at a discount to their intrinsic worth.
- **Capitalization.** Some funds focus on large-cap companies that may offer more stability and steady earnings. Others focus on mid-cap businesses that may have greater growth potential.
- **Dividends.** If income generation is a priority for you, we can look for Eurozone funds that pay dividends.

Focus on the world

Also worth considering are global funds, which offer different levels of exposure to Europe as well as other regions. These funds may focus on equities, fixed-income investments, or a mix of both.

If you'd like to consider tapping into investment opportunities in Europe, we can evaluate individual funds to find the best for your portfolio. ■

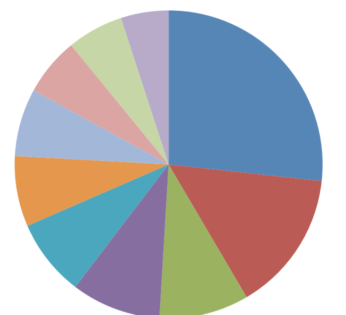
1 Northern Trust, *Investment Manager Survey Report*, Third Quarter 2015.

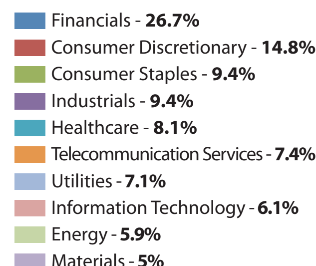
2 ECB press conference, December 2015.

Enhance diversification

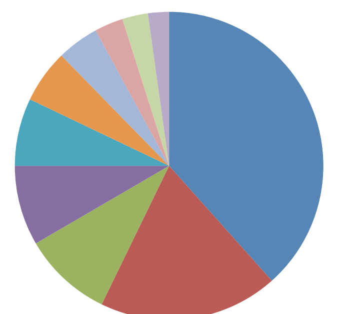
Funds that focus on European equities may offer greater exposure to sectors that are underrepresented in Canada, such as consumer discretionary, consumer staples and healthcare.

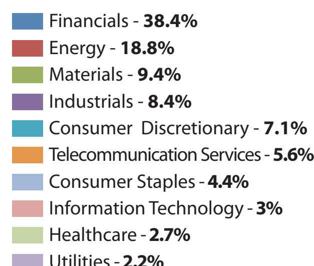
European equities
(S&P Europe 350 Index)





Canadian equities
(S&P/TSX Composite Index)





Source: S&P Dow Jones Indices, December 15, 2015

INVESTMENT STRATEGY

TFSAs – contribute early, and allocate

The maximum contribution for Tax-Free Savings Accounts (TFSA) was reduced to $5,500 as of January 2016, but your TFSA still remains a valuable savings tool. By depositing your maximum contribution early in the year, and by choosing the best investments for your situation, you can make the most of its benefits.

Sooner is better. You don't have to wait until you have cash in hand to contribute. You can transfer in-kind investments — mutual fund units, securities, federal and provincial savings bonds — that you currently hold in a non-registered account. If the asset has increased in value since you purchased it, the transfer will trigger a capital gain, which is taxable, but it may be possible to offset it with a capital loss from 2016 or a previous year.

Allocation is critical. Because a TFSA is called a "savings account," many investors keep TFSA money in short-term, fixed-income investments. However, if you have a longer time horizon for your TFSA assets, let's talk about the mix of investments (some secure and some with greater growth potential) that's optimal for you. All earnings in a TFSA are tax-free, including capital gains. ■

DEBT MANAGEMENT

Manage debt more efficiently to free up money for other goals

We all have debt at different points in our lives. When we were studying, many of us took out student loans. We use loans to buy cars, mortgages to buy houses, credit cards for convenience and lines of credit to bridge cash flow gaps. With so many different debts, it's easy to lose track of the costs to our disposable income — our ability to invest and our future lifestyle.

The good news is that it's often possible to manage debt much more efficiently. Start freeing up your money for other goals with these three debt reduction strategies.

1. Tackle highest-rate debt first

Chances are you're paying down multiple debts at a time — mortgage, credit cards, department store cards, car loans, and so on. While you need to maintain minimum payments to avoid charges and late fees, you can be strategic by focusing extra payments on the debt that has the highest interest rate first. Paying down a debt that costs 8% is the equivalent of earning an 8% return on investment.

2. Make repayments automatic

Sometimes the most obvious strategies are overlooked — such as setting up regular payments to reduce debt. Automating debt payments integrates them into your budget and ensures that you make steady progress towards your debt reduction objectives.

3. Consolidate to lower rates

A poll conducted by a major Canadian financial institution found that almost half of Canadian households have credit card debt.[1] Further, some credit cards charge interest rates of 20% or more, which is a significant drain on your resources.

To reduce your interest costs, consider using a lower-rate secured line of credit to pay down any outstanding balance on your credit cards. At a lower rate, your payments will reduce the balance more quickly.

The table below illustrates just how much you might save by consolidating debt on a secured line of credit.

With debt as with investing, it's not an all or nothing proposition. Every dollar in debt you chip off puts you in a stronger financial position — today and in the future. ■

1 BMO Credit Card Report 2015

How much could you save?

Mix of debts	Annual cost	Consolidated debt	Annual cost
$12,000 car loan at 8%	$960	$17,000 secured line of credit at 4%	$680
$2,500 credit card balance at 20%	$500		
$2,500 department store credit card balance at 28%	$700		
Total annual cost of debt	**$2,160**		**$680**

Avoid disagreements over your legacy

After Robin Williams died, his wife, Susan, launched a legal battle against his three children. While it was settled eventually, it took more than a year. Money was at issue, but so were many items of sentimental value.

High-profile legacy squabbles like this one make the news, but many more occur privately. And whether or not the dispute ends up in court, it can irreparably damage family relationships.

Open communication is one of the best ways to prevent disputes. Here are five common situations in which it's especially important to have an estate planning discussion with your loved ones.

Vacation property

It's a valuable real estate asset, of course, but a cottage, chalet, cabin or other family retreat is also a big responsibility for heirs. In addition, it may trigger a hefty capital gain when it enters into your estate.

Do your children want to keep the cottage in the family? If so, how will they decide who gets to use it and when, and who pays for upkeep and other expenses?

Once you know what they want, we can review ways to manage capital gains exposure and help you achieve your estate planning goals. Possible strategies include transferring ownership to a trust (either during your lifetime or at death), purchasing life insurance to cover the tax exposure, and selling it to your children during your lifetime.

Family business

You've built a successful business, but what happens when you're no longer at the helm? Many entrepreneurs hope to leave their companies to their children, but there are many variables to consider. Do your children want to take over? Do they have the skills and passion to keep your enterprise going?

A business succession plan is best started well in advance of your projected departure from the business — at least five to 10 years. Share your goals with us and we can help you take the next steps.

Blended family

In the most recent census, Statistics Canada found that 12.6% of couples with children were stepfamilies.[1] An up-to-date will is especially important in blended-family situations, to help ensure that your assets are distributed according to your wishes and that your loved ones are protected. Discuss your plans with your partner and explain your estate planning decisions to children from every marriage to minimize hurt feelings, misunderstandings and conflict.

Uneven bequests

It doesn't always make sense to divide an estate equally among children. You may have provided more financial help to one child during your lifetime. Or one child may have greater financial need. Explain your rationale if bequests don't appear equal. You may find it more effective to speak to each child individually, to avoid confrontation.

Whatever your situation, open communication is vital to smooth estate transfers. Consider scheduling a family meeting with us to help facilitate these sensitive but important discussions. ■

[1] Statistics Canada, *Portrait of Families and Living Arrangements in Canada*, 2011 Census

How life insurance can improve your life in retirement

People generally buy life insurance to provide a lump-sum benefit to their beneficiaries after they pass away. But when you have permanent life insurance (whole life or universal), you can use its cash value during your lifetime to enhance your retirement income.

Here are three ways to achieve this:

1. Borrow

You can use your policy as collateral for a line of credit from a financial institution. The loan proceeds are generally tax-free. You may, however, have to make interest or capital payments. You will likely also have to assign your policy to the financial institution — though if you die, any beneficiaries named on the policy receive the proceeds after the loan and any outstanding interest are repaid.

2. Advance

Depending on your policy, you may be allowed to take out an advance or a loan from the insurance company. A policy advance is tax-free up to the policy's adjusted cost basis (essentially your premiums minus the cost of insurance) and can be repaid.

3. Withdraw

You can withdraw some of your policy's cash value, called a "partial surrender." Note that withdrawals are taxable and cannot be repaid.

The primary goal of life insurance is to protect your beneficiaries, and advances, loans, and withdrawals may reduce the death benefit. Still, the flexibility to access cash during your lifetime is an extra bonus you get from owning a policy that's right for you. ■

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