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# *Avoid these top five investment pitfalls*

Ryan Starr Feb. 19, 2018

While registered retirement savings plans are ideal vehicles for helping you achieve financial freedom in your golden years, a few mistakes could throw a well-laid plan off course in a costly way. Here are some common RRSP pitfalls and how to steer clear of them.

1. Waiting until the last minute

March 1 is the deadline for making RRSP contributions that count toward your 2016 tax return. And it's not uncommon for folks to wait until the last minute to make their move. But it can be stressful to try to pull money together for a lump-sum contribution before the deadline. And some people never end up making a contribution at all. RRSP loans are a common solution here. Borrowing rates on these can be favourable and payback can be made with the resulting tax refund. "But we recommend investing regularly and often," says Stuart Gray, RBC Royal Bank's director of financial planning support.

Set up automatic contributions with your financial institution, so the money is regularly deducted from your paycheque and directed into an RRSP account. "Then you don't even have to think about it."

2. Rushing investing decisions

Scrambling to make a last-minute lump-sum RRSP contribution can cause anxiety. "People get paralyzed by all the decisions they think they need to make before deadline in terms of how the money is invested," Toronto-based personal finance columnist Preet Banerjee says. One possible solution, he suggests, is to park your RRSP contribution in cash in a savings account while you mull your various investment options. You won't be maximizing your returns this way, true, but because the money is being contributed before the RRSP deadline, you'll still get the tax savings. Then take time to properly assess the kinds of investments that fit your profile. If you start investing early, you can likely stomach more risk. If you can't handle volatility, however, then you'll have to take the trade-off of lower risk and lower-returning investments. "The important thing is figuring out a plan that's tailored for you, your goals and your financial personality," Banerjee says.

3. Starting too soon

It's good to develop sound savings habits from an early age. But contributing chunks of money to an RRSP could end up potentially limiting a young person's ability to manage big expenses, such as post-secondary education, a down payment on a home, a wedding or having children.

"When I was in my 20s I dumped money into my RRSP not realizing I might need it earlier," Jason Heath, managing director of Objective Financial Partners in Markham, says. Contributing more than $25,000 - the maximum you can withdraw for the Home Buyers' Plan or the Lifelong Learning Plan - may not be prudent. If you're approaching that limit, he advises putting the surplus cash into a tax-free savings account, which doesn't impose withdrawal penalties.

4. Investing on low income

RRSPs aren't for everybody. "For lower-income folks, it could be the worst decision you can make," Heath says. An RRSP is a tax deferral mechanism and once the money is withdrawn it's treated by the Canada Revenue Agency as taxable income. But the guaranteed income supplement - a monthly non-taxable benefit to low-income Old Age Security pension recipients - is income-tested. That means every dollar of income received in retirement can claw back a person's supplement at a rate of 50 cents on the dollar.

"If you're paying tax on the withdrawn money you're adding 50 per cent on top," Heath explains. "So you actually might end up worse off." A TFSA is a better fit in this situation, he recommends.

5. Not appointing a beneficiary

If you were to shuffle off this mortal coil and you haven't designated a qualified beneficiary for your RRSP - typically a common law partner or spouse - the money becomes taxed like regular income, Banerjee says. "So make sure your qualified beneficiary designation is up to date."

Speaking of spouses, a higher-income-earning partner can make contributions toward a spousal or common-law RRSP and claim the tax deduction. Just be careful: the total amount you can deduct for both accounts can't exceed your personal RRSP deduction limit.

A spousal RRSP equalizes retirement savings for spouses, so at retirement each one is withdrawing the same amount and being taxed accordingly, but for a lower amount than if just one spouse was drawing from a RRSP.

# *5 Financial Habits You Should Start Today*

 March 20, 2018

Good financial habits are helpful to your financial success and there are five habits you can start today that will help you reach the financial future you are looking to achieve. It is always a good time to start new habits, but depending on the person, habits may take 21 to 60 days to become a part of your daily life. Once they are implemented, they tend to stick around for the long term.

Here are five habits that will help you attain both your short-term and long-term goals.

**1. Create a Budget**

Take stock of how much income you have coming into your household each month and what expenses your income is paying each month. You can do this by simply putting pen to paper or utilizing an online tool that will track this for you. Each month, review the expenses and see if there are items that can be reduced or eliminated. For instance, you may have forgotten about automatic monthly payments set up for services you no longer use. This will put you in a position to review each expense and make sure it is a necessary one for your household. In addition, you will have an excellent view of whether or not you are cash flow positive (having more income than expenses each month) or cash flow negative (having more expenses than income each month).

 **2. Start and Maintain an Emergency Fund**

Years ago, our parents and grandparents frequently spoke about saving money for a rainy day. The modern day term is an emergency fund. Your employment status, whether you are an employee or own your own business, and your level of comfort will dictate what size emergency fund you should maintain. Each person is different, and we have recommended anywhere between a six month to 18 month emergency fund for clients.

This is money that should be kept in a separate account from the account by which you pay your monthly bills. This account should be liquid, meaning you can use the money on a moment’s notice if needed. A savings or money market account will work well for these monies. You will want to determine what size your emergency fund should be and begin to accumulate funds until you reach that amount.

Once you reach the desired amount you should only use these monies for an emergency. Things that may warrant you tapping into these funds may be the loss of a job or income, unexpected home or car repair, or simply any unexpected expense. After the emergency is paid for, you will want to replenish this account at your earliest convenience.

 **3. Pay Yourself First**

Ideally you want to pay yourself first each time you get paid, and then learn to live on the monies that are left. There are a few ways to pay yourself first depending on your type of employment. As an employee, you will want to take part in your company’s retirement plan. A small business owner or independent contractor may want to consider setting up a retirement plan if they do not have one.

The last option would be for those that do not have or cannot set up a retirement plan.. A good target would be to try and pay yourself 10% of your pre-tax earnings if you are deferring to a retirement account, which is preferred. You may need to adjust this a bit if you are contributing after tax.

 **4. Review Beneficiary Designations Annually**

We all face critical financial and life events that will impact us during the course of a given year. You certainly would not want your assets to end up going to beneficiaries which you did not intend them to go. Beneficiary designations should be reviewed at least annually or if you experience a major life event or change. Examples of times that you would want to review these designations would be: the birth of a child or grandchild, marriage, divorce, death, disability or job change. Whether you are digital or analog, place a reminder on your calendar to review this each year.

 **5. Rebalance Portfolio Annually**

Rebalancing is something you will want to make sure you review at least annually - whether you manage your portfolio yourself or use an advisor. Typically rebalancing has a tendency to get forgotten when markets are going up because people tend to get complacent and think there may be no risk in waiting. Rebalancing will help you maintain your portfolio allocation and risk with its intended targets.

You may recall back in the late 1990s, when technology investments were booming, the technology bust. There were many investors that saw their portfolio's asset allocation change from 10% allocation to technology stocks to 70% in a relatively short period of time. In many cases this large allocation to technology was a huge overweight, meaning more money was allocated to that sector than you initially intended. This was great while those securities were doing well, but what these investors did not realize was the risk they were imposing on their assets. When the technology sector busted they had 70% of their portfolio at risk instead of the original 10%. Had they rebalanced along the way, a good deal for this risk could have been avoided.

Implementing these five simple habits will help you reach both short and long-term financial goals.

# *Investing: Start young, even if cash is tight*

 JOEL SCHLESINGER June 20, 2017

Investing in the stock market is likely the last thing on university students’ minds. After all, they are already making an investment in their future, often paying tens of thousands in tuition for an education they hope will be the foundation of a long, fulfilling career.

But even a starving student – or emaciated recent grad – can boost the bottom line with a few shrewd financial moves that could pay fat dividends years down the line.

 **Track and save**

Spare cash for students is like a UFO sighting: rare and likely improbable. But Mack Rogers with ABC Life Literacy Canada, which provides financial literacy programming, says young Canadians can still save a little money. To do it, however, they need to track their spending to free up cash. This means creating a budget, says the Toronto-based non-profit’s executive director. It need not be a major undertaking. A couple of hours a month are all that is required to follow the money and uncover cash spent on frequent, recurring frivolity that can be diverted to more frugal pursuits – like saving for the future. “If you can make [diverting cash for savings] a habit, you will at the very least have some funds building up while working toward other goals, like paying down debt,” Mr. Rogers says.

 **A no-brainer approach**

The less you have to think about saving, the better you are going to be at saving. Let the wonders of fintech (financial technology) do the work for you, instead. Automate savings, debt and bill payments whenever possible. Apps will even track spending, eliminating the need to budget. “The fewer decisions you have to make every month when it comes to your finances, the fewer opportunities you will have to make bad choices,” says Kyle Prevost, financial blogger at youngandthrifty.ca. “Candidly, it’s just not our nature to save money,” says Josh Olfert, a financial advisor with Haven Wealth Management in Winnipeg, specializing in financial advice for millennials. “Luckily you can overcome this by having a machine do it for you.” Ideally, an automatic withdrawal of 15 per cent of income a month is a good start for goals such as an emergency fund – which is about six months’ worth of expenses – and afterwards for more long-term aspirations, like retirement or buying a home.

**Do your homework**

Competency in 19th-century English literature is generally not all that helpful when trying to accumulate wealth. But students of the humanities are not alone. Most people face a steep learning curve when it comes to investing and wealth management, Mr. Olfert says. So doing a some homework is critical. “Finance is a complex world, so the more you read, the more you will understand,” he says. Don’t know where to turn to learn the difference between equity and fixed income? While the Internet is rife with information, it is important to be aware that not all sources are equally helpful. Blogs written by financial advisors, the business sections of reputable media sources and education sites, such as the Ontario Securities Commission’s GetSmarterAboutMoney, which provides information and financial tools, are places to start. These sources can also point you to other excellent materials, such as blogs written by non-industry professionals (for example, youngandthrifty, which is especially geared toward younger savers.)

**TFSA versus RRSP**

Don’t get tripped up figuring out what savings vehicle works best. Making a contribution is a positive step whether it is to a registered retirement savings plan (RRSP) or a tax-free savings account (TFSA), Mr. Prevost says. “Way too many young Canadians experience paralysis by analysis when they are trying to determine how to save and invest,” he says. “Pick one and you can always adapt as you move forward.” Still, Mr. Rogers says the TFSA is likely a better choice for young investors because of its flexibility. Money can be withdrawn for any reason without penalty, and unlike an RRSP, you get the contribution room back.

**Time is on your side**

Experience may be lacking, but youth have one thing in spades, generally. That is time and it is a crucial ingredient for wealth building. Quite simply, the sooner money is saved, the more time it has to grow, thanks to compounding returns – be it interest income from GICs or bonds, or capital gains and dividends from stocks. More time also affords the chance to invest in riskier assets – like stocks – to reap more reward, long-term. Consider the following comparison: $25 saved weekly and compounded over 20 years at 2.9 per cent – the 20-year return for short-term (low risk) government bonds from 1997 to the end of 2016 – will grow to more than $35,000. The same amount earning 7.3 per cent – the total annualized return of the TSX composite index over the historical period – will grow to more than $58,000.

 **Profitably simple**

For newbie investors, “keeping it clean and simple is often the best strategy,” Mr. Rogers says. To start, try setting aside a few dollars weekly into the markets. For small contributions, mutual funds generally offer the lowest-cost access. If fees are a concern, and they should be, select index funds with lower management costs. These passively managed funds emulate the performance of an underlying index, like the TSX composite, rather than trying to beat it – which most actively managed mutual funds attempt, and often fail, to do. As the invested capital grows, so, too, can the portfolio’s complexity. Start an online brokerage account for do-it-yourself stock, bond or fund picking. Or sign up with a robo-advisor and build a low-cost portfolio of exchange-traded funds (ETFs) – essentially index mutual funds but with lower fees. An added bonus of robo-advisors: Many cater to small investors with no minimum account size to start.

 **Be visionary**

Budgeting, saving, researching and investing are all for naught without clear goals. Objectives don’t need to be crystal clear, but fleshing out these financial milestones, such as saving for a home, even just a little can go a long way to developing a sustainable plan, Mr. Olfert says. “Without a clear picture in your mind about the end goal, there’s a low probability you’ll take the actions necessary to implement a financial plan, never mind stick to it.”

# *Four investing lessons millennials should master before they turn 40*

 BRENDA BOUW May 1, 2017

Millennials aren’t the young, jobless generation they used to be. The oldest in the cohort are now immersed in their careers and nearing their 40s, a decade when people start thinking more seriously about building their wealth.

To accumulate enough to eventually retire, most of them will need to invest. But a TD Bank survey released last fall says millennials have “mixed views” when it comes to investing, and more than a third, or 37 per cent, don’t invest at all.

Some millennials are spooked by the market crash they either witnessed or experienced during the 2008-09 global financial crisis, says Brandon Hill, a certified financial planner with Etobicoke, Ont.-based Ironshield Financial Planning.

“It painted a dark picture of the financial industry,” says Mr. Hill, himself a millennial.

Still, he points to the more than doubling of North American markets since then as a good reason why his generation should be thinking seriously about investing, especially as they hit their 40s, considered a person’s peak earnings years. Mr. Hill also points to the benefits of compound investing, which millennials should try to take advantage of while they’re still young.

Here are four investing lessons millennials should master by their 40s if they want to retire comfortably in the decades to come:

**Make strategic money decisions**

No more throwing money into random savings and investment accounts and figuring out what to do with it later. Investors need to be more strategic, says Susan Daley, an associate portfolio manager.

At least by the time they are 40, millennials should be socking away money into either a tax-free savings account (TFSA), a registered retirement savings plan (RRSP) – or both – and taking full advantage of any employee pension or stock plans when available.

Some millennials just starting out with investing aren’t sure whether to first put their money into a TFSA or an RRSP, if they can’t do both.

Broadly speaking, Mr. Hill says investors with a lower income should go with a TFSA, where their money can grow tax-free, while higher-income investors should take advantage of the tax-deductible RRSP, which helps to reduce income tax in a given year.

“The main goal of the RRSP is that you want to contribute in a higher tax bracket than when you withdraw,” Mr. Hill says.

**Figure out the right asset mix, and tolerance for risk**

For most investors, the pain of the 2008-09 market crash is starting to fade. “They’re starting to forget the pain of losing a large chunk of assets,” says Ms. Daley.

Many millennials didn’t own stocks at that time, or their assets were so small they didn’t lose a lot of money. Still, they likely saw what their parents or older siblings with more money went through, and read a lot about the fallout on social media.

The lesson, Ms. Daley says, is to have a mix of investments, such as cash, bonds and stocks, based on an investor’s personal risk tolerance. That can help them prepare both financially and emotionally for a downturn.

“Nobody likes to lose money, but if you understand that it’s part of the process of investing and embrace that, then you’ll actually do better over the long term,” Ms. Daley says.

The right asset allocation is especially important for older millennials as they reach their 40s and build up more assets, which also means they potentially lose more in a market downturn.

“They will also have less time to recover before retirement,” Ms. Daley says.

Still, she cautions millennials about being too conservative by putting too much of their long-term savings into low-interest savings accounts or guaranteed investment certificates, something she sees a lot of, including with RRSPs and TFSAs.

“Investors need to understand that investing in stocks and bonds in these accounts is possible, and really a requirement to earn a return on their money,” says Ms. Daley. “The sooner you learn this lesson the better off you’ll be because of compound returns.”

Mr. Hill agrees some millennials are too conservative with their long-term savings.

“It’s great on paper, but when you look at the bigger picture they are technically losing money due to inflation,” he says. “As time goes on, they lose purchasing power.”

 **Resist temptation to time the market**

Donald Trump’s election as U.S. President last November is now a textbook example of why investors shouldn’t try to guess which way the markets will go, Ms. Daley says.

Futures on the Dow Jones Industrial Average were down more than 900 points in the hours after Mr. Trump’s surprise win. They rebounded shortly after markets opened the next day and North American indexes have since hit record highs.

The lesson for millennials, and all investors, is to not try to predict what the markets will do. Instead, both Mr. Hill and Ms. Daley recommend sticking with a financial plan – paying attention to goals, asset allocation and diversification – and sit tight.

“When I talk to millennials and they find out what I do for a living they say, ‘oh what stock should I buy, where are the markets going?’ ” says Ms. Daley. “I have to tell them, nobody can predict the future.”

# *How to choose the right RRSP for your goals*

 Gordon Pape Feb. 27, 2018

I received an email the other day that reminded me yet again of how little some people know about RRSPs, even though they have been around for more than half a century.

The reader wanted to know where he could "buy" an RRSP that paid more than 2.4 per cent. That was the best offer he could find in his research.

The question revealed two basic gaps in his RRSP knowledge, which I suspect many people share. For starters, you don't "buy" an RRSP. It's simply a plan that can be used to invest in a wide range of eligible securities. Think of it as an empty box into which you can put any type of investment that's approved by the Canada Revenue Agency - and that's pretty well anything you can imagine except antiques and raw land.

Second, it appears my correspondent was under the impression that only guaranteed investment certificates (GICs) can be held in an RRSP, since the 2.4 per cent he referred to is the highest rate available on a five-year term right now. Here, again, that is not the case. GICs are just one of many possible options.

But not all RRSPs are created equal. The securities you can put into a plan are limited by its nature. There are basically four choices when you create an RRSP account, and it's essential you choose the right one. Here they are:

**A savings plan:**

This is really a tax-sheltered bank account. You'll get a tax receipt for your contribution and your money will be safe, but you won't earn much in the way of a return as long as interest rates remain low. The best option I could find for this type of plan is an RRSP eSavings Account with Alterna Bank, which currently pays 1.95 per cent. However, that rate can change at any time - it is not locked in. And in case you're wondering, yes, Alterna is a member of the Canada Deposit Insurance Corporation (CDIC) so your money is protected up to $100,000. You'll find more information at alternabank.ca.

**A GIC plan:**

In this case, you lock in your money for a specific number of years (usually five) in exchange for a fixed rate of return and a guarantee that you will get your principal back at maturity. Again, low rates depress returns but your money is protected by deposit insurance if the financial institution is a CDIC member or covered by a provincial insurance plan.

The best rates are offered by smaller banks and credit unions. Hubert Financial offers the best five-year rate I could find right now, the 2.4 per cent referred to by our reader.

**A mutual fund plan:**

As the name suggests, these plans allow you to invest in the mutual funds offered by the financial institution that administers your RRSP.

It's important to have a plan that provides the widest variety of funds.

Some plans are restricted to one brand of fund while others allow you to select from a range of third-party options. Also, ask your adviser about commissions. You want to buy no-load (no commission) mutual funds if possible. If the adviser also sells commission-based funds, you need to negotiate. Ask him to waive his fee on front-end load units (those where commissions are charged when you buy). Many advisers will do that to get your business.

If that's not agreeable, shop elsewhere. Caution: Never buy deferred sales charge (DSC) fund units. You'll be hit with a high redemption fee if you cash in within (usually) seven years.

**Self-directed plans:**

These offer the most flexibility, but also come with the highest risk.

They allow you to invest in all types of securities, including stocks, bonds, ETFs, mutual funds, GICs, etc. Your profit potential is greatly enhanced, especially when compared to savings and GIC plans. But you'll need a lot of investing knowledge to administer this type of RRSP.

The potential for loss is very high, especially if you focus on the stock market, because there are no guarantees of principal and no deposit insurance coverage. If you're uneasy building an investment portfolio and don't want to hire a professional to do it for you, choose one of the other options. Self-directed plans can only be set up with a brokerage firm.

If you're in the process of opening your first RRSP, decide which of these plans suits you best (personally, I'd choose a mutual fund plan).

If you already have an account, check to see if it's the best type for your goals and your risk tolerance. If it's not, make a switch. Don't keep investing your retirement savings in a plan that is not suited to your needs.

Gordon Pape is editor and publisher of the Internet Wealth Builder and Income Investor newsletters.

# *Make sure you have a plan for withdrawing from an RESP*

Craig Wong Aug. 20, 2018

Investing in a registered education savings plan may have started when your aspiring scholar was still in diapers and university or college seemed a distant future.

But when the time comes to start withdrawing money from RESP accounts to pay for tuition, books and other costs of a postsecondary education, financial advisers say you need a plan for that too.

Nicole Ewing, a vice-president of tax and estate planning at TD Wealth, says sooner is better than later to meet with your adviser to start developing that plan.

“Depending on how the funds have been invested, there might be some time required to convert those investments to cash,” she says.

The money in an RESP account is controlled by the person who set up the account, not the student. To start withdrawing the cash, the student needs to provide proof of enrollment in a postsecondary program or institution.

By saving for postsecondary education using an RESP account, parents can benefit from matching contribution grants from Ottawa as well as other programs to help low-income families and provincial programs.

When the time comes to withdraw the money, payments from an RESP account come in two different ways – the refund of contributions and the educational assistance payments (EAP) which include investment gains as well as other amounts such as the grant money from the federal government, Canada learning bond amounts and money from various provincial programs.

Ms. Ewing says the decision about which pot of money a withdrawal comes from is made when the cash is taken from the account, but she suggests taking out the investment gains and grant money first.

“You want to use up your educational assistance payments first because if there’s any left in the pool and your child is no longer going to school and won’t be going to school those are going to need to be repaid back to the government,” she said.

The maximum EAP withdrawal is $5,000 for the first 13 consecutive weeks of full-time studies. Once a student has finished that period, there is no limit. If you need more than $5,000 in the first 13 weeks, additional amounts can be taken as part of the refund of contributions. The government may on a case-by-case basis also approve a higher EAP amount if cost of tuition plus related expenses for a particular program is substantially higher than average.

Part-time students are limited to up to $2,500 in EAP withdrawals for a 13-week period.

The refund of contributions are not taxed, but the educational assistance payments are taxed as income in the hands of the student.

Depending on a student’s income and their tuition and education tax credits, they may not have to pay any tax on the money. However, Ms. Ewing says if your student is lucky enough to have well-paying job or other income, you’ll need to watch how much you take from the taxable portion in a given year or you might face a tax bill.

D’Arcy McDonald, senior vice-president, retail deposits, day-to-day banking and advisory deposit services at Scotiabank, says it is also important to have the right investment mix when it comes time to start withdrawing the money.

Mr. McDonald, who has two daughters aged 14 and 12, says as they get closer to starting university he plans to adjust the investment mix in the RESP to reduce the risk, just in case markets make a big move lower.

“If you were fully exposed to the market and you saw half of your investments disappear overnight and you didn’t have time to rebuild them in advance of having to withdraw from them, that’s painful,” he said.

Once your student starts university he suggests keeping about half the money in an easily accessible form such as a high-interest saving account and the other half in something like a 18-month or two-year GIC which offers a little more interest, but is also secure to be sure it will be there to pay for school a couple of years from now.

Ms. Ewing says it is important the students understand what they money is intended for so there’s no misunderstanding.

“It is to be used for their education, and budgeting is an important side of that,” she said.

# *Seven things you’re probably doing wrong with your portfolio*

Globe and Mail Terry Cain Sept. 24, 2018

To err is human. That's true in many parts of our lives, including our investments. We asked financial advisors to point out the common errors many of us make with our portfolios.

#### PAYING TOO MUCH ATTENTION TO YOUR INVESTMENTS

Investors have access to a great amount of information about their investments. They also have access to their portfolios on a real-time basis. One of the biggest mistakes investors can make is paying too much attention.

“It sounds counterintuitive, but emotions can get the better of us, particularly when it comes to money,” says Dan Nolan, investment advisor with Investment Planning Counsel. Seeing a negative outcome can cause a greater emotional response than seeing positive ones, he notes – and an emotional decision caused by a short-term negative market move can damage long-term wealth creation.

#### CHASING A ‘HOT’ INVESTMENT

Hot stocks of late have mostly come from the technology and cannabis sectors, but even those stocks have not been a guarantee of success, says Allan Small, senior investment advisor at Allan Small Financial Group – HollisWealth.

“I know investors who bought marijuana stocks at the start of the year and are actually down 20 to 25 per cent,” he says. “In my opinion, investors need an investment discipline and they need to stick to that discipline. To go and chase a hot stock because it has been rising is not something I recommend.”

Mr. Small notes the importance of buying quality investments that fit your needs rather than chasing overhyped stocks that don't have strong fundamental valuations. “I can tell you valuations will eventually matter, and an investment that is overvalued will come back to earth.”

#### BEING AFRAID TO TAKE A LOSS

Investors need to focus on the long term, but that doesn’t mean they should never sell investments that have lost value, says Ryan Lewenza, senior vice-president and portfolio manager at Turner Investments – Raymond James Ltd.

If the fundamental rationale behind the initial purchase has changed or not materialized, investors should re-examine the position and consider selling it. “We can’t win them all, so investors need to recognize that sometimes selling a losing position can be the best course of action.”

ASSUMING THAT BIGGER COMPANIES ARE BETTER COMPANIES

Large companies that have been around for a long time are often viewed as being safe. But several big companies have had sharp falls in recent years, such as General Electric Co., Johnson and Johnson Inc. and Eastman Kodak Co. in the United States, and Nortel Networks and BlackBerry Ltd. here in Canada.

Many of these blue-chip companies have faced quickly changing technologies, but share prices have also been overvalued by complacent investors, says Kash Pashootan, chief executive officer and chief investment officer at First Avenue Investment Counsel.

#### TRYING TO TIME THE MARKET

Many investors believe they will know when an investment is at or near the top of its value. They also think they will know when to buy, when that investment is at a low. And they think they have figured out a stock’s movement pattern, and are convinced its value will go higher, Mr. Small says.

“It never dawns on them that the investment could lose value,” he says.

Investors also often try to time the overall stock market. “In 2007 and 2008, I spoke to many investors who just wanted to exit the markets and get back in when things settle,” says Mr. Small. “My question always was, ‘How will you know when to get back in?’ There are always storm clouds on the horizon, it’s never blue sky. Cashing in your investments is easy; knowing when to get back in is always the difficult part.”

#### MISUNDERSTANDING DIVERSIFICATION

For many investors, the starting point to assessing the diversification of their portfolio is looking at how many separate investments appear on their statements: The more holdings, the more diversified they are. “Unfortunately, this is not accurate and can often be misleading as to how much risk one is exposed to without realizing it,” says Mr. Pashootan.

This problem is especially true with mutual funds and exchange traded funds (ETFs). A portfolio may have an index fund, a dividend fund, a growth fund and two funds focusing on specific sectors, but the funds may actually hold many of the same stocks and therefore will perform similarly, failing to provide the benefits of diversification.

#### PURSUING YIELD ABOVE ALL ELSE

The first place many think of for income and yield are bonds. Traditionally bonds have been a great way to achieve that objective within a portfolio – that is, until the decade of low interest rates arrived. The risk lies in the belief of many investors that bonds and safety are synonymous with each other.

But not all bonds are created with the same risk-and-return profile. Mr. Pashootan has found that often the bond component of an investor’s portfolio is as risky or even more risky than their equities. For example, in 2008 high-yield bonds lost 26 per cent of their value.

The dangers of the pursuit of yield also apply to dividend-paying stocks. He points to the example of Corus Entertainment Inc. – a well-established Canadian company that last year was paying a dividend yield of more than 10 per cent. But the company’s declining performance led to its shares losing more than 50 per cent of their value, which outweighed the benefit of the dividend. To make matters worse, this summer the company cut its dividend by nearly 80 per cent.

# *How young people can save for retirement - starting now*

 Gordon Pape Aug. 5, 2017

This may come as a shock. If you want to retire comfortably today, you'll need to have about a million dollars in savings by the time you stop work.

Why so much? Do the math, says Larry Moser. A generation ago people would retire at age 65 and had a life expectancy of about 72. That's only seven years in retirement.

Today it's a much different story. More people are aiming to retire at a younger age, perhaps in their mid-fifties, and are living into their 80s. That's 25 to 30 years in retirement. Unless you have a gold-plated pension plan, you'll need to save a lot more to finance the costs.

That's why he suggests that young people start saving early - ideally as soon as they start work. Putting aside even a small amount of money every pay cheque can add up to a fat nest egg down the road.

Consider the case of a 25-year-old who wants to retire at 65. If she saves $100 bi-weekly in an RRSP and earns 6 per cent a year, she'll have more than $433,000 in her plan at age 65. And that's assuming she'll never increase the payment. If she adds to her savings every time she gets a pay hike, she should easily exceed the million-dollar mark.

"The message is start early," Moser says. "The more years your money is invested, the greater the advantage of compounding."

But invest in what? With rates so low, he suggests avoiding interest-based securities like deposit accounts and GICs. Have some exposure to the stock market, which offers the most growth potential over time.

Yes, there will be ups and downs but young people have the time horizon to ride out any dips. He suggests a split of 75 per cent in equity-related securities and 25 per cent in fixed income, but the numbers can vary depending on a person's risk tolerance.

Keep the money in a registered account to maximize returns - either an RRSP or a TFSA.

"You need to start with a plan - that's number one," he explains. "Why are you investing this money? Once you know that, you'll have a clear idea how to proceed."

For example, if you're saving for retirement an RRSP is the best choice. You get an immediate tax refund plus long-term tax-free compounding.

If your goal is shorter term - a new car, saving for a mortgage down payment, etc. - use a Tax-Free Savings Account. There is no tax deduction but you can withdraw the money whenever it's needed with no tax or penalty. Plus, any amount withdrawn is added back to your contribution limit in the following year.

Some people have dual goals - they want to put something aside for retirement but also save for the short term. In that case, there's nothing wrong with using both plans.

If you don't have a lot of investing experience, Moser suggests you start with ETFs or mutual funds that offer professional management and diversification.

But where are young people supposed to find the money to invest? They may have student loans to pay off, a car loan to handle, or credit card debt.

You have to prioritize, says Moser. There is both good debt and bad debt.

An example of good debt is a mortgage because your home is an investment in the future. Bad debt is credit card interest. Most major cards charge an annual rate of about 20 per cent on outstanding balances. That will tear apart anyone's budget so people in that position should focus first on getting rid of that interest expense.

Student loans are more problematic. Some offer generous terms and may even be interest-free. No need to rush to pay off those. Others are more onerous. Look at your own situation and decide.

"It all comes down to the old saying: pay yourself first," Moser concludes. "Set up a continuous savings plan (CSP) at your bank and have some money deposited into it every payday, even a small amount. You'll be amazed at how quickly it adds up."

# *A back-to-school lesson on RESP withdrawals*

John Heinzl

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The benefits of contributing to a registered education savings plan are well understood.

Not only does your money grow tax-free, but the federal government kicks in the Canada Education Savings Grant (CESG) for an additional 20 cents on every dollar contributed - up to a maximum grant of $500 annually (on a $2,500 RESP contribution) or a lifetime limit of $7,200 a child.

What’s less well understood are the myriad rules that come into play when Junior heads off to postsecondary school and needs to access to the RESP’s funds. With the new school year underway, today I'll explain the rules and offer some pointers on withdrawing money from an RESP.

#### WHAT’S TAXABLE AND WHAT’S NOT?

When the subscriber (typically a parent or grandparent) makes an RESP withdrawal, he or she designates what portion consists of a return of the original contributions (which are not taxable) and what portion consists of grants, income and capital gains that have accumulated inside the plan (all of which are taxable in the hands of the student). It's generally a good idea to start withdrawing these non-contribution amounts, called Educational Assistance Payments (EAP), earlier rather than later. That's because, if the child finishes school or drops out and there is still grant money and income left in the plan, the grants will ultimately have to be repaid and the subscriber will be taxed on the withdrawal. (More on that later.)

#### DO I HAVE TO PROVIDE RECEIPTS?

In theory, the financial institution could ask for receipts for textbooks, housing, meals and other expenses to justify an RESP withdrawal. In practice, that rarely - if ever - happens. To tap the RESP’s funds, all the financial institution requires is proof that the beneficiary is enrolled in a qualifying postsecondary program. How the money is spent is up to the student (although most parents who want the money to last would probably want to have a say in that).

#### HOW MUCH CAN I WITHDRAW?

Once the student is enrolled, there are no limits - and no penalties - on the amount of contributions that can be withdrawn. For EAPs, on the other hand, withdrawals are limited to $5,000 during the first 13 consecutive weeks of enrollment. After that, there are no restrictions on EAP withdrawals “unless the student takes a break from his or her studies and does not re-enroll in a qualifying educational program for 12 months. If that happens, the original limit is reinstated,” the government says. Withdrawals of contributions can be sent to either the beneficiary or the subscriber, while EAPs must go directly to the student.

#### WHAT’S THE BEST WITHDRAWAL STRATEGY?

Because students don’t typically have a lot of income, it generally makes sense to exhaust EAP withdrawals while the beneficiary is in school and paying very little - if any - tax. If the RESP is especially large, spreading the EAP withdrawals over several years - to minimize the income tax hit in any one year - may also be a prudent strategy.

#### WHAT IF MY CHILD DOESN’T ATTEND POST-SECONDARY SCHOOL?

The good news is that any contributions in the plan are yours to keep, with no tax consequences. Grants and income earned inside the plan are a different story.

If you have more than one child, it may be possible in certain cases to transfer the RESP funds to a sibling. The lifetime CESG limit of $7,200 a child still applies, however, so you may have to repay some or all of the grants if the combined amount exceeds the individual limit. If it isn’t possible to transfer funds to a sibling, then all of the grant money must be repaid.

As for the investment earnings in the plan, the subscriber can withdraw this amount if - among other conditions - he or she is a resident of Canada, the plan has been open for at least 10 years and all beneficiaries have reached 21 years of age. In such cases, the accumulated income can be withdrawn by one of the subscribers and taxed at his or her marginal rate, plus an additional tax of 20 per cent (reflecting the fact that some of the accumulated income was generated by the CESG grant). If you have sufficient registered retirement savings plan room available, however, you can transfer up to $50,000 of the accumulated income to your RRSP or your spouse’s RRSP and avoid paying both income tax and the penalty tax.

Another option is to leave the RESP in place in case the beneficiary decides to attend school at a later date. There's no rush: An RESP can remain open for up to 35 years following the year it was started.

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# *Is a cottage a good investment?*

ROMA LUCIW July 20, 2018

Buying a cottage is most often an emotional purchase of an idyllic family haven -- so don't kid yourself into thinking it's also a sound financial investment.

Financial planner Caroline Nalbantoglu describes owning a recreational property as a lifestyle choice, not a road to riches. "I don't have a single client who sees their cottage as an investment decision," says Ms. Nalbantoglu, who works with PWL Advisors Inc. in Montreal.

Most people who buy a cottage don't plan to sell it five years later, she said. Instead, they want to use it a family vacation gathering-spot and eventually, as a peaceful place to retire. So the decision to buy a recreational property should only be made after some serious number-crunching.

"Some people love the lifestyle, and if that is the case, they should buy one," says Gail Bebee, personal finance speaker and author of investment primer No Hype: The Straight Goods on Investing Money. "If you look at this as a pure investment, there are better ways to invest your money with less headaches."

A pricey proposition

Paying the property tax bills, the upkeep and insurance, not to mention a second mortgage, for a cottage on a lake or a cabin in the mountains that the family will use for a few weeks each year is a pricey proposition, Ms. Bebee says.

Last year's economic downturn slowed sales in the recreational property real estate market, which had been going gangbusters for several years on the back of a soaring stock market and low interest rates. The 2009 Recreational Property Report by Royal LePage, released in June, pegged the national average price of a waterfront, land-access, three-bedroom cottage at between $370,000 and $600,000.

The high purchase price aside, Ms. Bebee says cottages are a bad financial investment because it is an illiquid market. That means people who sink their money into a recreational property and find they need to get it out quickly might find themselves with no buyers.

"As with all real estate, investments in cottages are risky in that the return is not guaranteed, and you might not even end up getting your principal back," she said.

A big part of the cottage value equation boils down to location. A cottage that is within a few hours' drive to a big city and is perched on a body of water is more likely to increase in value and should be easier to sell. A recreational property that has a range of amenities and is close to activities will also have greater appeal, especially for Baby Boomers who want their retirement home to be comfortable and convenient.

High cost of ownership

Although owning a cottage conjures up romantic images of hammocks and sunsets, there are high ongoing costs, such as property taxes and insurance, associated with ownership. Some lenders are reluctant to approve a mortgage for a property that is in a remote location. Insurers could likewise be averse to granting coverage for a property that sits empty for 90 per cent of the year.

Cottage repairs also eat into a cottage-owner's profits. Whether it is a rotting dock, torn window screens or a septic tank that needs to be fixed, cottages are a money pit when it comes to maintenance.

To help cover costs, some people choose to rent out their cottage for part of the year. But being a landlord brings with it a host of other obligations. The property needs to be advertised, the tenants screened, the cottage cleaned before and after each use. Wear and tear is also an issue, as well as concern that the cottage will be damaged.

"Renting could make it a better investment but it still consumes a hunk of your time to manage the property," Ms. Bebee said.

Finding a way to transfer the cottage to the kids is another major problem, says Christine Van Cauwenberghe, director of tax and estate planning with Investors Group in Winnipeg.

Any change in cottage ownership - either after the parents' death or during their lifetime - will be seen as a transfer at fair market value and trigger capital gains tax. The final tax bill can often run into tens of thousands of dollars and unintentionally force the remaining family members to sell the cottage. For a full story on how to hand down the family cottage, [click here](http://www.theglobeandmail.com/globe-investor/personal-finance/handing-down-the-family-cottage/article1160279/) .

Ms. Van Cauwenberghe says couples who own a principal home and a recreational property can designate only of them as their primary residence. In other words, they need to decide whether it is more advantageous to pay the capital gains tax on their home or their cottage.

"We recommend that people keep track of any renovations or repairs they do to their property so they can figure that into the calculations," she says.

To rent or not to rent?

Owners who plan to rent out their cottage should make sure to go up there for at least part of the year. Doing so will make it a personal-use property and allow owners to retain the option of designating it as their principal residence. "If the property is seen as a rental property, you would not be able to claim it as a principal residence," Ms. Van Cauwenberghe says.

The rental income needs to be ancillary, which means owners can rent it out from time to time but that the rent money should not be the real or only reason they bought the property. To be considered a primary residence, owners can not make structural changes to their cottage, such as converting it to a duplex.

People lured by the cottage dream should come up with a budget to see if it is feasible for them to buy a recreational property, particularly if they are only going to use it for a few weeks each year, she said. It might actually make more financial sense to rent a place each summer and invest your money elsewhere.

Ms. Van Cauwenberghe often recommends that clients keen on buying a cottage rent in one area to make sure they like that community and understand what owning a cottage involves.

"Although there may be a gain in a property in the end in terms of an investment, this is not like buying a mutual fund where you have no emotional investment. This is a very sentimental and personal decision."