iA Private Wealth™

WealthBUILDER

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Envision your retirement

Do you ever find yourself daydreaming about how you'll spend retirement? Whether you're exploring the wonders of Barcelona or strolling through the woods with your grandchildren, these daydreams are more than pleasant thoughts. They're key elements in the development of your wealth plan.

Retirement lifestyle and retirement goals

The amount you need to retire comfortably is based on several factors, but none is more important than your retirement lifestyle. An individual who plans on downsizing and enjoying their favourite pastimes will have a different financial goal than someone who intends to purchase a vacation property for Canadian summers and a condo down south for winter.

Your desired retirement lifestyle affects your projected retirement income needs, savings objective and estimated retirement date. For example, a couple planning to travel the world after reaching their savings goal has a more flexible retirement date than an overworked business owner set on a life of leisure who's entered into an agreement to sell the business.

Plans can change

Since your retirement lifestyle affects your wealth plan, it's important to inform us if your retirement plans change – and they can change for a variety of reasons. Caring for an aging parent can affect when you'll retire and where you'll live. Perhaps you decide to turn one of your interests into a small business. Or you're entertaining the notion of moving permanently to another country. Divorce often calls for re-evaluating a retirement plan, for either spouse. Remarriage can definitely lead to changes, as a new couple may have different ideas of how they'll spend retirement.

Working together

When you keep us up to date on your retirement plans – and any changes – we can make sure your investment program remains aligned with your retirement savings goal. It's all about working together so you can enjoy the retirement lifestyle you envision. ◀

Can risk tolerance change?

One school of thought says that risk tolerance is a bred-in-the-bone personality trait, unchanging for life. If you won't attempt to skydive at age 20, you won't jump out of a plane at 40. But in the world of investing, tolerance to risk can change – for some people, in certain circumstances.

Risk tolerance is largely about your degree of comfort when markets fall and your portfolio loses value. If you can only accept a small decline in your portfolio's value, you're a conservative investor with a low tolerance for risk. But if you're willing to accept a significant decline in your portfolio's value to gain higher potential returns in the long term, you're an aggressive investor. In between are moderate investors who are psychologically able to tolerate moderate losses.

Here are the most common situations that can cause an investor's risk tolerance to change.

Your financial status changes

Interestingly, coming into a windfall can make some investors less risk tolerant, while making others more tolerant. Say that two siblings each receive a large inheritance of the same amount. One invests more conservatively than before, knowing they'll now comfortably meet their financial goals. The other invests more aggressively, feeling confident they now have a financial safety net.

When a financial challenge arises, many people become less risk tolerant. A challenge could be dealing with a job loss, covering the costs of a divorce settlement, or only working part-time due to a medical condition. The prospect of less money for the future can lead an investor to focus on preserving – not risking – their financial assets.

You have a new view of volatility

Generally, a person's tolerance to risk shouldn't change with the markets. But some investors' risk tolerance can legitimately change after experiencing a couple of market cycles. An individual who had invested conservatively may increase their allocation to equities, now feeling reassured that down markets are followed by recoveries. On the other hand, a more aggressive investor may find that market downturns cause more anxiety than expected. Perhaps a 20% decline in their portfolio's value seemed tolerable when they first started saving, but it's difficult to handle when a 20% decline translates into tens of thousands of dollars.

Your goal is on the horizon

Risk tolerance and time horizon are strongly linked. When you're investing for a life goal that's now only a few years away, you don't want to risk a market downturn reducing your savings. Such a goal could be saving for post-secondary education, buying a property or funding retirement. In most cases, you reduce the allocation to equities when a goal approaches and increase the allocation to fixed-income investments.

If you believe your tolerance to risk is changing, please let us know. We'll ensure that your investments are aligned with your risk tolerance and that you remain on course to achieve your life goals. ◀

Risk during retirement

A retiree's tolerance to risk can change for some of the same reasons as during their working years, such as going through a divorce or receiving an inheritance.

Also, taking your time horizon into consideration still applies, since you're investing for a period of 20 to 30 years, or more. Upon retiring, many investors will hold a significant proportion of their portfolio in equity investments to help support a long retirement. If markets suffer a downturn in the earlier years, time remains for markets to recover. But as the years go by, the market risk increases, so an investor typically reduces their equity investments and increases their fixed-income investments. Another way to defend against a market downturn is to establish a cash reserve: by drawing retirement income from the reserve, you give your equity investments time to recover.

Some retirees are concerned about the risk of outliving their savings. A combination of methods addresses this concern, commonly involving deferred government benefits, a personalized withdrawal strategy and, for some retirees, an annuity. ◀

The goals-based approach to TFSA investing

Investors' ways of using the Tax-Free Savings Account (TFSA) have evolved over the years. Initially, after the 2009 launch, it was common to primarily choose fixed-income investments – the rationale being to hold the most highly taxed investments in a tax-free environment. Then a movement developed to focus on equity investments, based on the idea that you'll gain the most from equities when growth and withdrawals are tax-free.

The next phase changed everything. Instead of first looking at which investments to choose, account holders looked at which specific need their TFSA would meet.

One vehicle, multiple uses

Investors use TFSAs for virtually every wealth planning need. You can achieve a short-term goal, like saving for a kitchen renovation, and after the withdrawal you can replenish the funds the very next year, or immediately if you have contribution room available. Parents can use a TFSA for education savings, supplementing a Registered Education Savings Plan (RESP). TFSAs can be a valuable income source during retirement, as withdrawals are tax-free and don't affect Old Age Security (OAS) benefits. In estate planning, TFSAs can meet a variety of needs, including helping offset taxes payable by the estate. As a tax-planning measure, you can split income by gifting funds to your spouse or children, which they can contribute to their own TFSAs.

Identify your goal

Once you choose your goal, you'll also know your time horizon. Knowing when you need the money is essential to choosing investments for your TFSA. An individual may invest conservatively to fund next year's family trip but would choose growth-oriented investments to help fund a retirement that's 20 years away. The goal helps determine the investments, and with a TFSA, *all* investments save you tax. ◀

▶ HOME OWNERSHIP

Tips and tactics for an FHSA

The First Home Savings Account (FHSA) is being widely praised as a tax-smart way for first-time home buyers to help fund a down payment. Account holders can contribute up to $8,000 a year, to a lifetime limit of $40,000. Contributions are tax-deductible, reducing taxable income by the contribution amount. Investments grow tax-free and withdrawals are tax-free.

Helpful ways to use an FHSA

Several strategies are emerging to make the most of the recently introduced FHSA – here are some helpful tips and tactics.

Team up with a TFSA. A prospective homeowner can withdraw funds from their Tax-Free Savings Account (TFSA) and contribute the amount to an FHSA. This manoeuvre gives them a tax deduction for the FHSA contribution. Going a step further, they could even use the resulting tax refund to help replenish their TFSA, when they have contribution room available.

Help your child. When helping a child or grandchild make a down payment, it's common to gift the funds at the time the home is being purchased. But those dollars make a greater impact if you give funds earlier, which the child deposits into their FHSA. Now the child benefits from tax deductions, tax-free growth and tax-free withdrawals.

Factor in the timing. An FHSA can be opened at age 18, or the age of majority in your province. But it can only remain open for a maximum of 15 years (or until the end of the year the account holder turns 71). So you need to consider when you imagine yourself buying a home. One person might choose to open an FHSA at 18, while another may prefer to wait until they're in their early 20s.

Timing also matters when it comes to choosing investments. A 25-year-old aiming to buy a home in about 10 years

might favour equities for greater long-term growth potential. But another individual of the same age may focus on less risky fixed-income investments if they hope to buy in five years. Keep in mind that all account holders, including conservative investors, benefit from tax savings provided by the tax deduction on contributions. ◀

Avoid the sideline trap

Throughout the ups and downs of a market cycle, situations arise when some investors may be tempted to hold off on investing.

A significant downturn. In a prolonged correction, an investor might consider keeping their money on the sidelines, worried about investing during a falling market. The trouble with this approach is determining when to resume investing. In all likelihood, you'll buy back in when prices are higher than when you had stopped.

A volatile recovery. If a market recovery is volatile, some investors might consider waiting until a bull market is under way, rather than risk new investments losing value. But if the market takes off, you miss out on the rebound. If the volatility continues, you miss out on buying opportunities ahead of the recovery.

A new market high. When the stock market reaches an all-time high, an investor may be tempted to halt their contributions – concerned the market can only tumble. But no one can reliably predict a market downturn, and bull runs can hit numerous all-time highs. ◀

Expecting an inheritance?

Viewing an anticipated inheritance as a welcome gift can be more financially sound than counting on it as a key element of your wealth plan.

Parents may intend to leave a sizable inheritance to their children, but find themselves needing those funds. Perhaps they live to 100 or require the savings for many years of expensive long-term care. A retiree may update their will and leave a large bequest to a charity. Some people leave their estate to their grandchildren rather than their children. There's also the unexpected, such as a divorced or widowed parent remarrying and leaving much of your anticipated inheritance to their surviving spouse.

Counting on a substantial inheritance that doesn't come through can lead to regrettable financial decisions. During your working years, you might save less than needed to fund your retirement. You could even retire earlier than you should have, believing a windfall is on the way. If you're expecting an inheritance during your retirement years, you might freely overspend your savings. ◀

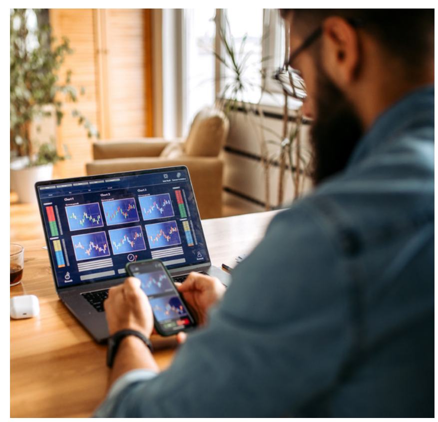
The investment world according to GARP

When it comes to choosing stocks, growth investing and value investing are the two most well-known investment styles.

The growth style focuses on companies expected to grow faster than the overall market or other companies in their industry. Growth stocks may be more expensive than peers in their industry and could be more volatile than average.

The value style looks for companies whose stock prices represent good value. A company's fundamentals are strong, but for any number of reasons the stock is undervalued in the market.

But some investment funds follow a style that's a hybrid of growth and value. GARP, which stands for growth at a reasonable price, focuses on companies that have consistently



strong earnings and whose stocks are priced below their true value.

Advocates of the GARP style believe it opens up investment opportunities overlooked by growth and value investing while taking advantage of key attributes of both styles. ◀