DUNHAM FINANCIAL
WEALTH WISE

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If building your savings is top of mind for 2014, remember that the New Year also starts with a clean slate for anyone able to contribute to a registered savings plan, such as an RRSP or TFSA.

Not only does the amount of the annual contribution room reset with the calendar year, you can also carry over any allowable room you didn't use in past years. This could present a great opportunity to power-up savings.

If you have questions about how to maximize registered plan contributions, or any other concerns about the year ahead, we can help.

Once again, a sincere thanks for your confidence in us, and for your business.

FOCUS ON INSURANCE

Consider long-term care in retirement planning

More than half of Canadians are unaware of the potential costs related to long-term healthcare, suggests a report conducted by the Canadian Life and Health Insurance Association (CLHIA).[1] Even more troubling, few are financially prepared to cover these expenses if they need them, it says.

In fact, more than two-thirds (67%) of the Canadians aged 60 and over who were surveyed said that they have no financial plan to cover ongoing care expenses. A majority (56%) didn't know the potential costs related to long-term care in their province, with many incorrectly assuming the government will cover these expenses.[1]

Many Canadians may not realize that their retirement years may not all necessarily be healthy ones. Health-adjusted life expectancy — counting only illness-free or disability-free years — is considerably shorter than actual life expectancy. Women and men can expect to live, on average, 83.6 and 78.9 years, respectively; however, their health-adjusted life expectancy is estimated at just 72.1 and 69.6 years.[2]

The potential need for long-term care services, ranging from home assistance to full-time care in a nursing facility, suggests it may be prudent to purchase long-term-care insurance to cover the potential costs. Those who have not prepared properly could see their retirement plans hit hard if healthcare-related expenses deplete resources intended for travel, lifestyle amenities, gifts to family, and planned bequests.

We can help you review your insurance needs and take appropriate steps to help ensure that you'll be able to get the level of care you want. ■

1 CLHIA *Report On Long-Term Care Policy: Improving the Accessibility, Quality and Sustainability Of Long-term Care in Canada*, June 2012.
2 Statistics Canada, CANSIM, Table 102-0122, "Health-adjusted life expectancy, by sex," May 2012.

Are equity funds a good inflation hedge?

The U.S. Federal Reserve has been following an ultra-low interest rate policy since the 2008 financial crisis. Many fear that the resulting cheap credit could lead to rising prices down the road — in other words, inflation.

Warning younger Canadian savers about inflation these days is hard, because few have witnessed its pernicious effects as price increases dilute hard-earned buying power. These effects can be significant, especially for seniors living on fixed incomes. For example, inflation of just 3% a year would cut the purchasing power of a senior's annuity payments by close to half (46%) over two decades.

Outpacing inflation

Historically, gold has long been considered an effective inflation hedge. However, equity mutual funds may fill a similar role.

Jeremy Siegel, a professor at the Wharton School and author of *Stocks for the Long Run*, notes that the businesses that mutual funds invest in are "claims on real assets, such as land and plant and equipment, which appreciate in value as overall prices increase."[1]

Although there can be significant short-term fluctuations, Siegel says over 30-year periods "the return on stocks after inflation is virtually unaffected by the inflation rate."[1]

Picking individual equity winners in the inflation hedging game is hard, because price increases can be volatile; some industries are more vulnerable than others. Statistics Canada even keeps two measures of inflation to account for this disparity. The Consumer Price Index (CPI) targets a broad basket of goods, but the core CPI excludes food and energy prices, which tend to be more variable.

How mutual funds can help

The upshot is that investors who want an effective inflation hedge may be better off investing in a professionally managed mutual fund, rather than trying to figure out which individual companies will outperform.

One especially effective option is to invest in an international mutual fund that has heavy allocations in countries with a history of stable money. That way, if inflation rises in Canada, you stand to be compensated, as this would cause the Canadian dollar to fall and your foreign-currency fund units would then be worth more when converted back into local funds.

Equity mutual funds offer significant advantages over bond funds in an inflationary environment, because the earnings of the companies that they invest in will rise in such an environment; however, the interest that previously issued bonds pay will not.

Inflation risk may be rising

In late 2013, the urgency of considering possible inflation hedges increased, with the announcement that Janet Yellen will be taking over as the U.S. Federal Reserve chairman in early 2014. She is thought to place priority on job creation over keeping inflation low, which could significantly heighten inflation risks.[2]

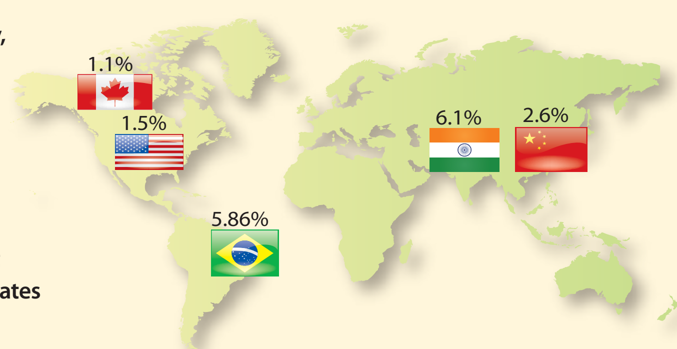
As if that were not enough, inflation pressures from China are showing signs of spreading into Western economies. Low Chinese wages have long been a key factor in keeping prices low for many of the goods that Canadians import, ranging from textiles, to toys and iPhones. However, Chinese wages have been rising[3] and the effects risk spilling over into Canada.

In short, savers need to think ahead. While phrases such as "the risk of inflation," may seem tame, they need to be taken seriously. Talk to us about how to position your portfolio to hedge against possible inflation down the road. ■

1 Jeremy Siegel, "Stocks: The best Inflation Hedge," Kiplinger.com, June 9, 2011.
2 "Janet Yellen will stick to her predecessor's expansionary policies," *The Economist*, Oct. 12, 2013.
3 "Manpower CEO Joerres Says Wage Inflation May Aid China Economy," *Bloomberg News*, Sept. 12, 2013.

Could inflation spread here?

In a global economy, there is a danger that inflation could spread to North America from countries where it is higher. This chart provides a snapshot of current inflation rates around the world.*



* Monthly inflation, Nov. 1, 2013. Source: WallStreetDaily.com, trading economics

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

RETIREMENT PLANNING

Expecting significant retirement income? A TFSA may be better than an RRSP

Many Canadians face a tough choice at the start of each year, regarding whether to contribute to their Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA). Both popular tax-planning tools have advantages. Which is better for you depends on a variety of factors. Your projected retirement income provides a good clue.

If your projected marginal tax rate will be lower after you retire than what it is now, an RRSP may be the better option. That's because the tax deductions you get when you contribute to an RRSP are likely to be larger than the tax you pay later, when you withdraw the funds.

However, some Canadians will actually have higher incomes when they retire. For example, some retiring employees have taken to "double dipping," after they leave their first careers. This involves collecting a pension but continuing to provide work as private contractors in their old fields of expertise. (A retired teacher continuing to take on substitute teaching mandates would be an example.) In such cases, their marginal tax rates when they retire could be higher than when they were working. For them, a TFSA may be a better option. ■

EDUCATION PLANNING

Why you may want your kids to leave home broke

Most Canadians would shudder at the prospect of sending their kids out into the world with no financial assets. However, some kids often do worse — many are forced to leave home not just broke, but owing money as well.

The average student debt load after graduating from a four-year undergrad program now sits at around $27,000.[1] This provides a strong indication that parents are having a hard time helping their kids pay their education expenses.

Worse, those costs are rising. Canadian full-time students in undergraduate programs paid 3.3% more on average in tuition fees for the 2013/2014 academic year this fall than they did a year earlier. That follows a 4.2% increase in 2012/2013.[2]

Getting a head start on those increases is crucial. A first step should involve consulting us, to make sure you are investing enough in your kids' Registered Education Savings Plans (RESPs) or an alternative dedicated account. They will be far better off if they leave home merely broke — as opposed to in debt. ■

1 The Canadian Federation of Students.
2 Statistics Canada, *The Daily*, Sept. 12, 2013.

EDUCATION PLANNING

Canadians working longer to finance kids' education

Many parents are responsible and well intentioned and, as a result, have invested significant sums in their kids' Registered Education Savings Plans (RESPs). However, according to a recent survey by a major Canadian financial institution, 60% of Canadian parents with children under the age of 25 are putting their own retirement goals on the back burner, to help pay for a child's schooling. Fully a third of parents surveyed even took on debt to help fund their kids' education.[1]

There are several reasons that parents are forced to put themselves into this uncomfortable position. These include a tough job market, rising education costs, and increasing pressures on students to take on additional studies, such as advanced degrees. However, the most important reason is that many parents wait too long before starting to put money aside.

Make sure that does not happen to you. Talk to us about balancing your savings for your children's education and your own future. ■

1 CIBC poll, conducted by Leger Marketing, June 2013.

Avoid legal battles by properly planning your estate

The late Stephen Covey, author of *7 Habits of Highly Effective People,* used to say that effective individuals "start with the end in mind." That is a great habit to apply to estate planning. By properly preparing your estate, you can reduce stress, optimize your financial assets, facilitate the transfer process, and reduce the chances of legal battles among successors.

Reducing stress

Effective estate planning calls for specialized legal, tax, and other advice. A good place to start, however, is to talk to us. We can help you organize your records, take stock of what you currently own (and owe), and project your assets' future value, based on certain assumptions.

We can also help you work through your priorities and goals and make fully informed decisions around key choices, such as who to choose as executor (or the equivalent in your province) of your will.

Optimizing your estate

When you pass away, you are considered to have disposed of all your assets for tax purposes. Ownership can roll over to your spouse without any tax consequences, but items that you leave to others may be hit with a hefty capital gains or income tax.

We can help you review the potential tax implications of your estate assets and discuss possible ways to minimize or cover the tax liability. For example, you may want to consider transferring ownership of some assets during your lifetime. Purchasing life insurance is also an effective way to cover off the tax liability and preserve your assets for your heirs.

Facilitating the transfer

Having an up-to-date and properly prepared will is key to ensuring that your wishes are clear and legally enforceable. If you die without a will, your estate will be settled in accordance with provincial laws, which may be quite different from what you intended.

If you don't have a will, or you had yours prepared many years ago, getting one prepared and updated should be a priority. It's important to review your will every few years or anytime you undergo a significant life change, such as marriage or divorce.

Keeping peace in the family

While estate planning is a difficult topic to bring up, a proactive approach can help achieve family consensus regarding the transfer of sentimental assets, such as jewelry or memorabilia, that may also have financial value.

You may also want to discuss the contents of your will with your children and other beneficiaries in advance. This will give you an opportunity to make sure your wishes are clear and answer any questions they may have.

There's an old expression that " those who fail to plan, plan to fail." Make sure that does not happen to you. The next time we get together to review your investment portfolio, let's also talk about your estate planning needs. Your successors will be glad that you did. n

Is it time to take some profits?

The steady pace at which stocks regained ground in the five years following the financial crisis has many investors wondering whether they should take some profits.

The answer is: It depends. If you are nearing retirement, this may be a good time to rebalance some of your holdings into fixed-income investments. However, it's important to retain some exposure to growth even after retirement, in order to protect your assets from the effects of inflation.

Think twice before selling

Let's admit it: Taking profits feels good! But realizing gains may result in capital gains tax if your investments are held outside a registered account.

In addition, when seasoned investors sell a particular stock or mutual fund, they know they need to replace it with another or to shift those assets to fixed-income investments. Attempts to "time" the market, however, can be costly.

Market timers try to sell off equities at or near market highs, move into fixed income, and then re-enter the market when equity prices have dropped in order to profit from the next upswing. But valuations fluctuate suddenly, and predicting day-to-day or even month-to-month swings in individual stocks or sectors is near impossible.

Every situation is unique

If you are considering taking some profits, be sure to talk to us first. We can revisit your long-term goals, calculate gains to date, explore the income tax implications of taking profits, and address your current and future need for cash flow. n

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