DUNHAM FINANCIAL SERVICES INC.

WEALTH WISE

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DEPENDABLE, FORWARD THINKING SOLUTIONS

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It's time to take advantage of one of the best investment and tax-saving opportunities available to Canadians: the Registered Retirement Savings Plan (RRSP).

You have until February 29, 2012, to make your RRSP contribution for the 2011 tax year. But the first thing you should do is discuss your contribution strategy with us as well. We can review your investment options with you to help you take full advantage of this great way to build tax-deferred retirement savings.

Let's talk soon. It's the best way to ensure that your retirement savings will get you where you want to go.

FOCUS ON INVESTING

Your RRSP: Growth remains the key to your future

Generous tax incentives make a Registered Retirement Savings Plan (RRSP) one of the best ways to build wealth over the long term. Tax-deferred returns on your investments, along with the tax break you receive on your annual contributions, give you far greater growth potential than you can realize on investments outside a registered plan. Making the right investment decisions is critical to maximizing that potential.

The danger of focusing on safety

With the RRSP season approaching, it's time to make some important investment decisions. Recent financial market volatility might tempt you to ignore stocks and gravitate toward "safer" lower-return investments in your retirement plan.

However, that tactic could have a detrimental long-term impact on your accumulated wealth. Being overly conservative with lower-return, cash-type investments for too long can strip your RRSP of potential; low returns mean less wealth accumulation.

Where to find growth

To take maximum advantage of the tax-sheltered compound returns your retirement plan offers, you need to look to investments that have the potential for higher returns. Equities and equity mutual funds are historically the best route to higher long-term returns.

While stock market investments are more volatile than other types of assets — as we've certainly seen this past year — over time, they have historically outperformed other asset classes. And while volatility can be unsettling, it offers an opportunity to invest in stocks at more attractive prices and potentially increase returns further.

Together, we can explore options for your contribution this year and position your investments for returns that will meet your retirement objectives. ■

Build up core strength

Anyone with a penchant for fitness has probably heard about how important a strong "core" is to overall body strength. What's true for your body is true for investments. Just as you pay attention to your body's core, you need to take care of your core mutual fund investments. They need to be strong enough to support your investment goals.

Every mutual fund portfolio should have a nucleus of broadly diversified funds. This core is crucial to the strength of your portfolio because it provides stability. It can help your long-term investment returns grow and ease the anxiety caused by financial market volatility.

Core holdings are long-term "buy and hold" investments of low to moderate risk that we can consider leaving in your portfolio for as long as you invest. They are generally less volatile than other types of investments, at the same time offering the potential for attractive long-term investment returns within your risk tolerance.

Diversify across asset classes

Just as your overall mutual fund holdings should be well diversified, so should your core holdings.

Equities. Equity core holdings often consist of "large-cap" equity funds that invest in blue-chip stocks. These funds may not always win the performance race, but they have good long-term track records and may fare better in difficult times.

Fixed income. The fixed-income core of your fund portfolio should consist of moderate-risk, solid investments such as funds that invest in government bonds. We should consider funds that focus on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global funds. The changing shape of world markets may also call for non-Canadian investments to form part of your core. With Canada representing only a small percentage of global equity and bond markets, foreign equity or fixed-income funds may be good candidates for a portion of your core holdings.

How much is enough?

How much of your total portfolio your core should represent varies with factors such as individual financial objectives and risk tolerance. For many investors, 70% to 80% is not unrealistic.

The types of funds that constitute your core will depend on your personal investment characteristics. Funds that can be considered core holdings for one investor may not be suitable as a core for another investor.

Even if you already have a series of core investments, it's a good idea for us to review your holdings from time to time to ensure they're meeting your needs and expectations, and that the positioning continues to make sense for your goals.

Let's talk

Now is an excellent time for a core assessment. Financial market volatility in recent months may have thrown your mutual fund asset allocation percentages out of balance, including your core investments. For example, the 2011 stock market events may now mean you have a lower percentage of core equity fund holdings and a higher percentage of fixed-income funds than your original target.

Just as a strong core for your body helps you to run further, hit harder, and play longer, a strong mutual fund core can help you tackle bigger challenges. For example, with the support of a strong core, we can focus part of your portfolio on more aggressive, less mainstream investments that are generally riskier and more volatile but have the potential to add higher returns.

These might include small-capitalization and mid-cap equity funds, funds that invest in riskier securities or geographical markets, and fixed-income funds that invest in high-yield corporate bonds or higher-potential securities.

Let's get together to talk about the structure of your mutual fund portfolio. We'll ensure you have the right balance of core and non-core funds to meet your financial objectives. ■

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

FRAUD PREVENTION

Protect yourself from identity theft

Identity theft is a growing problem. If you have a good credit rating, you're at risk of identity theft that can cause big problems in your financial and personal life. You could suffer financial losses, emotional stress, and a huge drain on your time as you try to set things right.

A study by Hamilton's McMaster University found that almost 70% of Canadians are concerned about identity theft. In the year prior to the poll, 6.5% of those surveyed were victims of identity theft. These findings suggest that some 1.7 million Canadians may be victims every year.

Protecting yourself from identity theft can save more than money. It can save you from the stress and effort required to put your life back in order. On average, identity theft victims spend more than four working weeks undoing damage to their credit.

While many people think of identity theft as credit card and debit card fraud, many cases go well beyond that, involving social insurance fraud, mail theft, hacked bank accounts, embezzlement, mortgage fraud, and a host of other life-rattling crimes.

The best way to avoid becoming a victim is to be defensive. Your first step should be to obtain your credit report at least once a year. Often identity theft isn't discovered until a credit check reveals something is amiss.

To keep your personal information safe, follow these simple steps:

- Be cautious about sharing personal or financial information online or over the phone.
- Remove any unnecessary identification from your wallet or purse and keep it in a secure location instead.
- Be careful with passwords and PINs. Don't give them out and make sure they are as strong as possible.
- During transactions, swipe or insert your card yourself. If this isn't possible, watch your card closely and always shield your PIN.
- Review your credit card statements and other financial records regularly and report any discrepancies immediately to the appropriate institution.
- Use a paper shredder when disposing of personal information or documents. ■

TAX PLANNING

Family caregiver tax credit

As more Canadians find themselves looking after disabled family members, it's good to know that new, increased tax relief is available to help offset the often considerable expenses caregivers face.

Effective January 2012, a new family caregiver tax credit provides a 15% non-refundable income tax credit on expenditures of up to $2,000. This provides up to $300 in annual tax relief for caregivers of infirm dependent relatives, including spouses, common-law partners, and minor children.

In its last budget, the federal government also lifted a previous $10,000 cap on the medical-expense tax credit, which allows taxpayers to claim medical and disability-related expenses incurred by financially dependent relatives. Caregivers who incur extraordinary medical and disability-related expenses will benefit beginning in the 2011 tax year, so be aware of this change when filing your 2011 tax return. ■

WHAT'S NEW

New CPP rules

Here's some good news about Canada Pension Plan benefits. As of this year, you no longer have to stop working to draw CPP. You can simultaneously receive and accrue CPP benefits between the ages of 60 and 70, which means you have increased potential to improve your retirement finances.

Beginning January 1 of this year, you can continue to work while collecting CPP benefits. The old rules stipulating that you had to stop working to collect early CPP benefits no longer apply.

If you're between 60 and 65, employee and employer contributions to CPP will still be required. However, if you work between the ages of 65 and 70, contributions will be optional. If you want to continue to contribute to CPP as an employee, your employer must also continue to contribute.

For residents of Quebec, similar rules apply under the Quebec Pension Plan (QPP). QPP allows for "phased" retirement between the ages of 60 and 65. To collect QPP before age 65, your estimated employment earnings for the first 12 months during which a pension is paid must not exceed $12,075 in 2011 (other conditions apply). You will continue to contribute to the plan, which will provide you with a retirement pension supplement the following year.

Talk to us before making any decisions about early retirement and collecting CPP/QPP benefits. We can help you make the choices that will work best for your financial future. ■

Retirement and debt — what you need to know

Not long ago, most Canadians wouldn't have considered carrying debt into retirement. That attitude has changed. One study from a major Canadian financial institution, for example, found that almost 50% of Canadians are carrying debt into retirement.

Is this a good idea? The answer is: it depends.

Today's low interest rates mean that carrying debt into retirement is much less of a burden than it was when interest rates were sky-high. However, there is still a cost, which could increase if interest rates should rise.

Factors to consider

The decision that's right for you will depend on a number of factors.

What kind of debt are you carrying and what is the interest rate? It's important to understand the difference between "good" debt and "bad" debt. Good debt includes borrowing for items that are likely to increase in value, such as your home, or borrowing when the interest is tax-deductible (for example, when you borrow to generate taxable investment income). Bad debt is usually high-rate consumer debt for items that have no long-term value — for example, using your credit card to pay for a vacation down south when you know you don't have the funds to pay the bill in full when it comes in.

Are you a pre-retiree or already retired? Sometimes, age matters. If you are still earning a salary, with the potential for increases, you are more likely to be able to focus on eliminating debt before you retire. If you are already retired, it becomes a question of managing your debt on a fixed income so that you can continue to live the lifestyle you want.

Do you want to leave an estate for your children or for charity? If you have no children or grandchildren and no desire to support a particular charitable endeavour, you may be quite comfortable carrying debt in retirement. When you pass away, the value of your estate can be used to repay any remaining debt.

Are you planning to downsize to a smaller home at some point? For many Canadian families, the largest debt they are ever likely to take on is the mortgage on their home. If you are carrying a mortgage and plan to stay in your home throughout your retirement, we need to make sure you have sufficient cash flow to cover the payments.

However, if you are planning to sell and perhaps move to a smaller home, you may realize a substantial capital gain, even after repaying the mortgage balance, which is tax-free if the home was your principal residence. We can help you reinvest your gain to provide you with the income you need to achieve your retirement goals.

Each situation is different

Should you carry debt into retirement or not? In the end, there is no single solution that is right for everyone. There is a whole range of circumstances and many variables to take into consideration.

Whatever your situation, we can help you find the solution that's best for you and your family. ■

Less probate means more for your beneficiaries

DEPENDING ON WHERE you live and the value of your assets, probate fees or taxes could reduce the value of your estate by thousands of dollars. That's why it's important to be aware of the fees that may apply to your estate and take steps to reduce them. The result can be more for your loved ones and a less complicated transfer of wealth.

Probate is the process of having your will confirmed as legally valid for administration. Most provinces charge a fee for this process (in Quebec certain types of wills aren't subject to probate). Ontario is the most expensive, with a fee of $5 per $1,000 on the first $50,000 of an estate and $15 per $1,000 on the rest over $50,000.

Fortunately, there are steps to consider that may exempt many assets from probate. For example, designating direct beneficiaries for your registered plans (RRSP, RRIF) and life insurance will exempt them from probate. Owning a home jointly (with right of survivorship) with your spouse or another person will allow it to pass directly to the other owner without probate. You can also hold assets in trust, so they are dealt with under the terms of the trust rather than your estate, or give them away during your lifetime.

Some of these strategies will affect other areas of your financial planning, so you need to consider each possibility carefully. If the cost of probate fees is a concern for you, let's talk about ways we may be able to reduce them. ■

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