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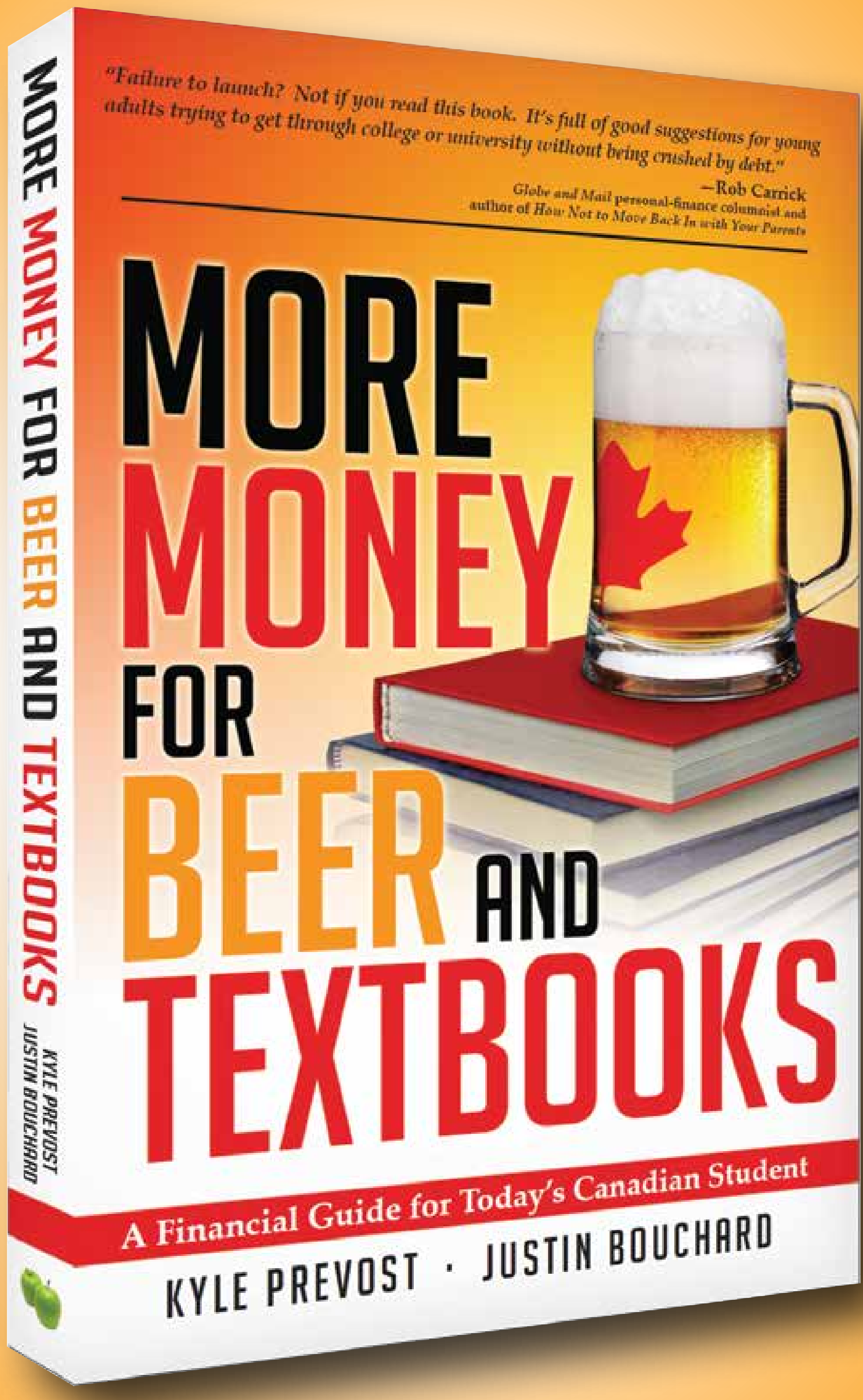
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MEMBERSHIP RATES - All rates for Canadian residents are printed on the inside back cover. Non-residents of Canada may purchase the online edition only – at $24.95 for one year's service.

Canadian MoneySaver (CMS) is published by The Canadian Money Saver Inc., 55 King Street West, Suite 700, Kitchener, ON N2G 4W1 Tel: 519-772-7632.
Office hours: 9:30 am to 1:30 pm EST
Website: http://www.canadianmoneysaver.ca
E-mail: moneyinfo@canadianmoneysaver.ca

Canadian MoneySaver publishes monthly with three double issues (July/Aug, Nov/Dec and March/April). *Canadian MoneySaver* is an independent, totally membership-funded magazine.

 ISSN: 0713-3286

We acknowledge the financial support of the Government of Canada through the Canada Periodical Fund of the Department of Canadian Heritage.

Canada Post Publication No. 40035485

SPECIAL EDITION, VOLUME 1 NUMBER 1

Canada

How To Invest With Just $1000

Peter Hodson

As a young investor, you have an absolutely awesome competitive edge over the most seasoned investors, even an advantage over billionaire legendary investor Warren Buffett.

That advantage is time: If you invest early enough, investment gains compounded over decades are a mathematical miracle. $1,000, invested at 10% for 30 years, becomes $17,449.00, and that is with no additional investments. If you can scrape together just $1000 per year, and invest that each year, you will end up with $198,392.

The key though, is starting early. The math just works better if you start young. There are lots of demands for your limited funds, though, and many young people simply do not think about investing. But if you do, your financial future will be in much better shape. We think, though, that most people with a starting job should be able to scrape together $1000 at least once, if not annually.

If you can, and you are serious about your financial future, we will tell you what to do with that $1,000.

First though, we need to tell you what NOT to do with it. Here are several things you should absolutely, positively, not do with your first investment:

(1) Do not buy a mutual fund. Many of your friends might tell you to do this. Do not. Buying a fund gets you 'instant' diversification as a mutual fund holds dozens or more different securities. Diversifying reduces overall risks in the market. But buying a fund sets you up for a lifetime of high management fees and mediocre investment performance. I was Chairman of a mutual fund company. Trust me on this one. Do not do it!

(2) Do not gamble. Many young investors want to make a 'quick score' and double or triple their money. This is not 'investing' though, it is gambling. Investing needs to be a slow and steady process, and the key to success is not losing money. In addition, if you gamble on a high-risk investment and lose, you will likely be turned off of investing forever, and your financial well-being will suffer greatly in the long term. Do not buy leveraged products (securities that use debt to compound returns). Do not buy tiny companies. Do not buy junior gold companies or junior oil companies. Do not buy 'hot' stock tips.

(3) Do not panic if the market goes down. Remember your key advantage—time. The market does go down sometimes, but it goes up far more often than it goes down. Give your investments the time they need to perform.

(4) Do not put your money in a bank or GIC. Yes, the money is 'safe' there. But you will earn practically nothing, and have no inflation protection. In addition, your money will not grow as fast as other options. We would not consider this investing; we would consider it simply parking your money. The bank will likely end up earning more in fees from you than you will earn in interest payments.

Now that you know what NOT to do, there are two different approaches on what you SHOULD do. Each can work well, and each has its advantages and disadvantages.

(A) Buy a low-cost market ETF trading on the Toronto Stock Exchange (TSX). You can easily set up an account on line with companies such as iTrade or Questrade. Many companies actually let you buy ETFs with no commission at all, so all of your hard-earned dollars start to work for you right away. Now, what is an Exchange

Traded Fund, or ETF? Simply, it is a basket of stocks that represents a part of the market. Ishares Core S&P/TSX Capped Composite Index, for example (symbol XIC) is a security that gives you representation of the whole Canadian stock market, as represented by the S&P/TSX Index. What this means, effectively, is that buying XIC gets you the whole Canadian market. You may already know that 95% of mutual fund managers cannot BEAT the market, so if you own the market through a market-linked ETF, you are going to be instantly ahead of almost all of the investment pros, from day one. There is a fee on ETFs, in the case of XIC, 0.27% annually. But for that small fee you get instant diversification into the Canadian market. This ETF also as of today has an indicated yield of 2.35%, which is far higher than what you could get in a bank right now. No, it is not guaranteed: the price is going to move up and down with the market. Over the long term, however, you may be very positively surprised at your investment returns. Owning a market ETF means you never have to monitor your investment. You simply own the whole market. You are too young to be watching stock prices anyway; Enjoy yourself, knowing you have some money invested that i) pays you income every year, ii) has a very low fee, at least 1.5% lower than what your neighbours likely pay with their mutual fund, and iii) provides good growth potential and inflation protection.

(B) The second option for your $1000 requires a little bit more work, but not much. Simply buy some stocks in two (not one) companies that you know very well, are large, pay a dividend, and are 'relatively' safe. You can again easily set up a brokerage account online, and the key here is to buy something that you know, a company you are confident in its ability to be around a long time, and a company with a national presence. The reason to buy two companies is to get at least some diversification. One stock can go down, and ruin your belief in investments. Two stocks can still decline as well, but your odds of picking a good investment for the long term improve. As you get more money as your career matures, you can add more stocks for more diversification and risk reduction. You will pay a commission to buy the stocks, but some firms will trade for just $9.99. Since you plan on keeping these for a very long time, the initial one-time cost over 20 years or more of investing does not amount to too much. In addition, there will be no other fees to pay at all. There are no management fees like there are with mutual funds and ETFs. The investment industry wants you to pay fees, and will tell you mutual funds are 'better', with 'professional' management. But if you buy large companies, then these professional managers are simply buying the same stocks you can, and are getting rich from investors. Keep your money for yourself and buy your own stocks. You need to get rich, not some mutual fund manager. Remember, stocks simply represent 'ownership' in companies. Are you sick of paying your phone bill? Then maybe buy Telus Corp. (symbol T). It will pay you a 3.95% dividend. So a $500 investment will return you $19.75 per year in dividends, without doing a single other thing. Those dividends will likely grow, but right off the bat you will have half-a-month of your phone bill paid. Or, are you tired of waiting in line for your coffee? Maybe buy Tim Hortons (THI) then, so you can smile as those lined up in front of you are supporting your retirement by spending money at YOUR company. Tim Horton's shares return you 1.89% a year in dividends, again by doing absolutely nothing. Plus, its dividend has more than TRIPLED in the past five years. When was the last time you had a job where your salary went up 300%? Like, never?

You get the picture, you want to own part of a company that you know, and has been around a while. Starbucks, Imperial Oil, Royal Bank and Canadian Tire might be other worthwhile suggestions, each with different levels of dividends paid back to you.

With either option, your account is going to start accumulating some 'free money' in the form of dividends received. When this gets to a reasonable amount ($150 to $200) it is important to re-invest this money. This way, you will get the benefit of compounding. The temptation will be there to spend it, but remember—you have done nothing to get this money. Put it back to work. Buy more of the ETF, or another stock in a company you know. Your payoff will come later.

There you have it. You now have $1000 invested. Sit back; collect your dividends on your stocks or your distribution from your ETF. Smile every time these companies pay you for doing absolutely nothing. Have the confidence in knowing that you have the secret time advantage. Be secure knowing your fees are exceedingly low. Start planning your retirement on the beach.

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Getting The Next Generation Of *Canadian MoneySavers* Off To A Good Start

My Top 10 Financial Tips For New Grads

Z. Izhak Goldhaber

NUMBER 1:

Claim the tax credit for interest on your student loans

If you have a student loan under the Canada Student Loans Act, the Canada Student Financial Assistance Act or similar provincial or territorial laws (bank loans don't count), you can claim the interest as a tax credit. If you can't use the credit because you have no taxable income you can carry it forward, to a maximum five years, to claim on future tax returns.

NUMBER 2:

File a tax return

Even if you have no income, file a tax return so you can claim refundable tax credits (like the GST credit). If you have low income, below the taxable threshold, you should file to get back your tax source deductions, and to build RRSP room for the future. Whatever RRSP room you do not use will accumulate, giving you access to a big fat RRSP deduction in the future. If you make less than $25,000, you can use Turbotax for FREE to netfile your return. Go to http://turbotax.intuit.ca/tax-software/free-tax-software.jsp for details.

NUMBER 3:

Get into the savings habit, NOW

Once you start working you should begin saving with an automatic plan that, once in place, you don't have to think about. At your bank, through your financial planner, or at work, have a percentage of your income put aside into savings. Look at the numbers: if you make $40,000 per year and you save 10% of your income, that's $4,000 per year or about $335 per month. That should be affordable; if it's not then you are spending too much! If you earmark those savings to an RRSP you'll be getting a nice tax break on top, so in effect it costs you less than $335 to save $335. Set up the automatic plan before you go out to buy anything big so savings take priority. Everything you do afterwards will take into account that 10% of your pay is for your savings, period. And don't stop there ... if 10% works well, increase it to 12% next year, and more the year after that. Want to be a savings superstar? Aim for 20%.

NUMBER 4:

You own the supreme power of Compounding–use it

The financial habits you begin today will serve you an entire lifetime. You may not have a lot of money, but you have one of the most powerful tools the financial world has ever known at your bidding: compounding. If invested wisely, your money will double many times over and a small sum will become a large sum. This can be very hard to appreciate because it's not something you see with your eyes day-to-day, but it does happen and should not (!) be ignored. Use the Rule of 72 to understand the power of compounding. The Rule of 72 calculates how often your money doubles based on your rate of return. Here's how it works: 72 divided by your rate of return is the number of years it will take for your money to double. So if you are earning 7%, your money will double every 10.3 years since 72 divided by 7 = 10.3. So, at 7%, $10,000 becomes $20,000 in about 10 years, and becomes $40,000 in another 10 years, and becomes $80,000 10 years later, and becomes $160,000 10 years later still. Wow! This is the secret to building wealth.

NUMBER 5:

Use your RRSP to save for your first home

The Home Buyers' Plan allows you to take $25,000 out of your RRSP tax-free to buy your first home. Yes, you have to pay it back, but that's over a 15-year period that begins two years after you take it out. This means you get a tax deduction for money that you can use to increase your downpayment: that's a pretty good deal. Of course, you need RRSP room to use the Home Buyers' Plan and that means you need income, but you wouldn't be buying a house if you didn't have income. Remember to keep the RRSP money earmarked for the Home Buyers' Plan in a safe investment. That means no stocks! Consider a short-term GIC, a money market fund, a short term bond fund, a five-year laddered bond fund or a blue-chip corporate bond fund.

NUMBER 6:
Check out your partner's money habits before you get hitched

It's very difficult, and perhaps even impossible, to make important financial decisions if you and your partner have radically different views about money. Different money values will pull you apart, lead to arguments and engender resentment over how the family uses its scarce financial resources. You will not be able to build a joint plan to meet your different financial goals, which may very well compete. You'll encounter plenty of stresses you never even imagined in this wonderful and bizarre journey we call life—don't add arguing about money to the pile.

NUMBER 7:
Once you have kids, the money game changes, so be prepared

Children are expensive, no surprise there. The cost of daycare in Toronto is frightening: $1,200 or so per month, and that's per child! So before you go buying the big house and sports car and all the other toys your cash flow will afford, realize that your budget has to have a big chunk of room for the kids. And I haven't yet mentioned one of the biggest expenses a new child brings: maternity/paternity leave. Those six to 12 months, or longer if you decide to be a stay-at-home parent, will cost a fortune in lost income. If you have a pre-baby lifestyle that requires all of your two incomes to maintain, where's the money going to come from for daycare, for maternity/paternity leave, for diapers, for the RESP? Be careful or it won't be just baby crying at night.

NUMBER 8:
Pay down your debt

Paying down debt is one of the greatest investments money can buy. Every time you pay down debt you save the interest. By paying down $1,000 of debt, assuming 10% interest, you save $100. That's the same result as a 10% return on a $1,000 guaranteed investment. But with the debt paydown, all of the $100 is yours to keep; whereas with an investment (if it's outside your RRSP), that $100 is not all yours because some of it goes to income tax. For someone in a 35% tax bracket, paying down debt with an interest rate of 10% is equivalent to earning 15.5% in a guaranteed investment. Imagine that: you can create your very own high-rate GIC–cool.

NUMBER 9:
Don't be in a rush to buy a home/condo

Visit a mortgage calculator before you decide to buy a home or condo. Here are links for two of them:

http://www.mackenzieinvestments.com/calc/jsp/MortgLoanAmortScheduler/mortgloanscheduler.jsp

http://www.cmhc-schl.gc.ca/en/co/buho/buho_005.cfm

The bigger your downpayment, the lower your mortgage costs. Lower mortgage costs mean more money for other things, like vacations. A bigger downpayment also makes it easier to have a shorter amortization, which means financial freedom a whole lot sooner. So stay in the affordable apartment a little longer and keep saving, and if you have a partner, try living on one salary and saving the other.

NUMBER 10:
Once you start making money don't forget your student days

Once you start making money, you may be inclined to start spending. If you are feeling secure about your job and future career you may fall into the trap of spending dollars you haven't yet earned---it's easily done with debt. Resist the temptation. Otherwise, you may be setting yourself up for a lifetime of feeding a short-term material bliss habit which, like a drug addiction, requires more and more stuff to continually satisfy. (The more you have, the less satisfied you become with what you already have). You wake up one day with a whole lot of stuff, but no financial security, and not a lot of choices. That's stressful.

Be well, and make good financial decisions.

Z. Izhak Goldhaber, JD, MBA, CFP is a fee-for-service financial planner. For more information, please visit his website, blog and fyi pages, which are a handy financial reference, at www.financialfanatic.com. You can reach Izhak at igoldhaber@financialfanatic.com.

Back To Basics

Ryan Modesto

Many aspiring investors have gone through the process of working hard to save some semblance of a nest egg or safety net to only hit a wall with one big question: Where do I begin? It is a tough question to answer as there is very little in the way of formal education on topics such as money, investing and saving in the elementary and high-school systems. For those who have not sought out an education directly related to the area of finance/math, most knowledge would have been self-taught. The important thing to remember is that if you are thinking about saving and investing, you are off to a good start and likely ahead of the pack no matter the age. Unfortunately, thinking about investing is not enough and the big step is to actually get your money working for you. After all, you work too hard to have that lazy cash sitting around all day doing nothing.

We will assume that you have opened tax-free and tax deferred accounts to invest within, have developed an understanding of risk and return trade-offs (higher risk, higher returns/loss) and have a grasp of your ability to pay off debt and other obligations alongside saving and investing. Now we can investigate what to invest in and how.

Exchange Traded Funds (ETFs):

The first area that is worth touching on are exchange traded funds or ETFs. These are products that mimic some sort of index and typically provide instant diversification in a particular sector, industry, asset class or market. These are lower cost products and usually the best way for new investors to dip their toes in the water. For those that want to get started with investing while not getting in over their heads, broad market ETF's can be a great way to get a feel for the markets and to start generating a return while you read a bit more and increase comfort levels with investing. Three key things to look at for ETFs follow:

1. Size And Liquidity

The two usually come hand in hand and the ability to buy or sell a substantial position with little effect on the price of the security is an important factor. Sticking to ETFs with net assets in excess of $100 million is usually best.

2. Top Ten Holdings

A past article titled "Match the Markets, Beat the Fees" elaborates on this topic but briefly, stick to well diversified ETFs with lots of holdings. If the top ten holdings in a fund are large enough to significantly influence fund performance, you may be giving up the main benefit of an ETF, which is instant diversification.

3. Management Expense Ratio (MER)

This is possibly the most important metric of all funds. The lower the MER, the better. These fees eat away at returns over the long term. Some funds can justify the fees, most cannot.

Fixed Income:

Fixed income securities such as guaranteed investment certificates (GIC) and bonds (government or corporate) are generally safer investments that pay a fixed amount of income on a regular basis. They are in the form of single bonds but most do-it-yourself investors will invest in these securities through index products. Regardless, bonds have a maturity date where the original value of the bond (usually $1,000 per bond) is returned to the investor. Over the holding period, the investor is paid income payments as a reward for lending the original value to another party. Opinions vary on how much and what types of fixed income to hold but fixed income will always have a place in a diversified portfolio in one way or another. For investors starting out, simplicity is likely the best course of action where corporate and government bonds with good credit ratings would fit the bill.

The golden rule of fixed income relates to the inverse relationship to interest rates. If rates go up, bonds will go down (bad). If rates fall, bonds will rise (good). Given the current interest rate environment of record low rates, it is easy to see why many are not overly keen on fixed income as it appears they can only go up from here but this does not mean they are worthless.

There are three key metrics one should consider when looking at bonds:

1. Credit Rating

This is a rating applied to a fixed income security outlining the safety of a security and ability of the company to meet is financial obligations. Ratings are presented as an ordinal ranking (AAA being best) and the lower down the ranking, the higher the risk.

2. Yield To Maturity (YTM)

This metric essentially tells an investor what the annual yield will be on the bond or bond fund at today's prices if the security is held to maturity. The key here is the assumption that the investor is holding until maturity.

3. Duration

Back to the golden rule, duration tells an investor how much the price of the bond will change with a one percent change in interest rates. If you have a duration of 2 and interest rates rise by 2%, the bond price would fall by 4%. This is likely the most important metric to examine. It is important to remember that if you are holding the bond to maturity, you should still get back the par value of the bond even if the market price is below that amount (or above).

Now that we have fixed income covered we can get into the more interesting area of equities or stocks (sorry fixed income fans). Owning a stock is equivalent to owning a piece of a company. A stock price is based on the expectation of future cash flows that a company will generate, adjusted for various risks. Equities have a higher risk than fixed income but the idea is that the investor is rewarded with better returns for that risk. There is a lot of chatter about stocks on a day-to-day basis and it is likely a large factor that keeps people from investing money. There will always be groups saying the markets are going up and down (and they do). The key, especially when starting out, is to stick to larger companies that have a successful history and strong balance sheets while remaining diversified in the portfolio and having a long-term outlook. 15 to 20 stocks is the magic range where the benefits of diversification wear off but holding more will not really hurt the investor.

The golden rule for equity investing is to buy low and sell high. It sounds extremely simple but can be extremely hard for an uncountable number of reasons. Complications occur when you have good companies priced at a premium and bad companies priced at a discount so the bad companies look good and the good companies look bad… confused yet? If so, refer back to the previous paragraph of looking at larger companies with a good history and strong financials when you have a long-term outlook. The rest is noise. There are numerous metrics one can look at but we will examine three:

1. Market-cap

Some might be skeptical of even considering this a metric but the market capitalization (share price multiplied by shares outstanding) can act as a great filter for investors. It is a pretty impressive feat to grow a company to over a one billion dollar market-cap and it is not accomplished without great scrutiny from interested parties. Sticking to these larger companies provides some confidence that the investment is the ‘real-deal’ and others have confirmed this buy purchasing at that price. Skeptics will point to the Nortel’s, Blackberry’s and Enron’s but these cases are the exception for larger companies, not the rule.

2. Debt To Equity (D/E)

High levels of debt can cause a lot of problems for a company. Debt creates an obligation that needs to be paid in good times and bad. If operations take a turn for the worse, higher debt will lead to more difficulty in paying the interest and principal back at maturity. It can also scare new investors away, all of which are reasons that lead to lower share prices. In general when starting out and all-else equal, the lower the debt (easily viewed through a low debt/equity ratio) the safer the company should be. Low debt also provides a company financial flexibility to seize opportunities when they arise through debt financing, adding to the options available to the company.

3. Earnings And Cash Flow

We are cheating a little bit here by squeezing in two metrics but they are both important concepts. Investors often like to speculate on companies generating little to no cash flow. If operating cash flow is not positive, a good general rule is to not bother for a beginner. If earnings and cash flow are positive, great. Sometimes earnings can be negative due to the various adjustments accountants can perform but cash flows can be positive. These types of situations likely warrant a deeper look if the above two metrics are viewed positively. A great way to gain a quick understanding of earnings and cash flow is by looking at valuation multiples. In this case it would be the price to cash flow (P/CF) and price to earnings (P/E) multiple. Very generally, a low multiple relative to comparable companies is good. Just make sure there is no glaring reason for a significantly lower multiple (hint: there probably is).

A whole article could be devoted to each of the three areas covered as this is simply scratching the surface but hopefully this provides a big picture view of where to start and what direction investors should be looking. For investors or investors 'to-be' who are still reluctant to take the next step, use resources such as family and friends who are usually more than happy to provide a brief walkthrough of how to invest and act as great sounding boards. There are also many free resources and online paper-trading accounts that can help improve comfort with investing. Comfort is key when investing. If an individual is not completely comfortable or confident in the investment decisions being made, they are more than likely to make the wrong decisions at the wrong time. Reading investment and finance literature is a great tool to gain that extra edge and level of comfort for your investments. As mentioned previously, at least thinking about investing is an important first step and *Canadian MoneySaver* can be a great resource to help you along the path to financial independence. Good luck!

Ryan Modesto, Managing Partner at 5i Research
Website: www.5iresearch.ca

No-Load Portfolios

The Importance Of Time Horizons

Leonard Goodall

Warren Buffett, the famous investor and one of the world's most wealthy people, likes to say that his time horizon for investing is "forever". He is fortunate. He is sufficiently wealthy that he does not have to worry about having enough money set aside to meet a specific need at a specific time. Most of us are not in that situation. We need to invest with a time horizon in mind to achieve our specific financial goals. A common goal, for example, is retirement income and we need to build our retirement portfolio differently depending on whether we plan to retire in five years or in thirty-five years.

We might be investing for other goals, such as to pay college tuition for a child, to start a business, buy a second home or take a long trip. Each investment goal will have a different time horizon, and it is imperative that we keep these in mind when making investment decisions. We may be fortunate and have some investments in which our time horizon, like Mr. Buffett's, is forever. That would be money that we have no plans ever to spend at any given time. Barring emergencies, we have it as a permanent investment and hope eventually to pass it on to our children, other heirs or perhaps a favorite charity.

Time Horizon Dangers And Opportunities

Two events in relatively recent stock market history remind us of the danger of ignoring time horizons in our investment strategy. On October 19, 1987, the US stock market was shaken by what became known as "Black Monday" when the Dow Jones Industrial Average experienced its largest percentage decline in history. It fell 508 points, or 22.6%, to 1738.74 on that day. That represented a total decline of 36.1% from the year's high of 2722.42, which it had reached in August.

More recently, after reaching a historic high of 11,722.98 on January 14, 2000, the Dow fell by 38.8% over the next two-and one-half years to 7286.27 on October 9, 2002. From that low, it began a five-year climb and surpassed 14,000 in August 2007. Suppose you had a daughter planning to begin college in September of 2000 or 2001. Suppose also that you had been caught up in the excitement of the technology bull market of the late 1990s and had invested most of your money in that area. You would have seen your portfolio, which had grown very nicely over several years, evaporate rapidly when the "technology bubble" burst, just when you needed it for tuition payments.

The same thing might have happened if you had invested in US residential real estate around 2003 or 2004. For years real estate looked like the fail-safe investment as it constantly increased in value. Friends of mine in the real estate business here in Las Vegas have told me of having people from Los Angeles call and ask them to buy four or five single family houses for them, sight unseen. They would buy them with a low or no downpayment and an adjustable rate loan with an especially low "teaser" interest rate for the first year or so. They hoped to "flip them"(i.e. sell them) at a quick profit in just a few months before their interest rate adjusted upward. After the market reversed, however, the real estate speculators found themselves in a desperate financial situation that included huge debt, higher interest rates and the inability to make their payments.

Using Time Horizons Wisely

In contrast to the examples above, time can be the investor's friend when it is used wisely. Real estate is not a bad investment, but it is not a short-term investment. Technology stocks were not necessarily a bad investment in 1999, but they were a bad investment if you put all your money in that one sector and expected quick profits. As a general rule, the longer before your need money for a specific goal, the more risk you can take in your investing of that money. The main way we take more risk is by placing a higher percentage of our portfolio in stocks and stock mutual funds. A thirty-five year old investing in a retirement account may want to have as much as 80% of his money in stocks, including some higher-risk and international stocks. As the investor gets older and nearer the time of retirement, he will want to become more conservative and lower his risk by reducing the portion of his portfolio that is in stocks.

There is a study of the U.S. stock market for the last 75 years of the twentieth century that shows how time horizons work to the advantage of the investor. Over that period, the market was up 70% of the time over one-year periods. Of course, that means it was down 30% of the time. If you had money that you needed to spend in one year, and you had it invested in the stock market, there was nearly one chance in three that you would lose money over that one-year period. Over five-year periods the study showed that the market was up 89% of the time, and it increased 100% of the time over fifteen-year periods. If you have a well-diversified portfolio and can invest for a relatively long time period, the old adage that "the trend is your friend" is definitely true. If you have money you are going to need to spend for a specific purpose in the next one or two years, it should not be in the stock market at all. Put it in a money market fund, short-term bond fund, savings account or a similar low-risk liquid investment.

If you have a longer time horizon, invest more aggressively as your own risk tolerance permits. If your portfolio is invested with your various time horizons (e.g., retirement, college tuition, home purchase, etc.) in mind, time will be an important ally in maximizing your long-term investment return.

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MoneyTip

Are You Missing Out On Free Money? - Part 1:

Many employers offer matching programs where employee contributions to a retirement plan are matched up to a predetermined amount. These amounts are then invested similarly to your own funds within the plan, generating even more in the way of returns. The common claim against maximizing the amount of employer contributions is that the individual cannot afford it. This can ironically be more costly over the long run as it is essentially free money that can be taken advantage of.

How To Get A Job In The Investment Industry

Peter Hodson

The investment industry is a fabulous place to work. The high fees the industry charges investors are horrible for clients, but for employees within the industry they result in very high compensation levels. In addition to very high salaries and even-higher bonuses, working in the industry is exciting, challenging, different and never boring. Plus, once you hit a certain executive level you get really good perks—free parking, free dinners, great hockey tickets and 'boondoggles', or paid trips to fabulous locations for 'conferences'.

In my investment career I have been to countless events that come with the job: private concerts with big-name stars, front-row hockey tickets, fishing trips, multiple trips to Whistler, India, Florida, San Francisco—you name it, I have done it. All free, and all while still earning a very high salary.

It's no wonder graduating students are scrambling to try to get a foot in the door of the investment industry. A career in investments is interesting, fun, and lucrative. But jobs are limited, and the number of applicants is endless. What can you do to stand out from the crowd?

First, you need to decide what type of job you are after. Some jobs are harder to get than others. You need to decide if you want to work for the 'Buy Side' or the 'Sell Side' or somewhere else, like a rating agency or pension consultant. The area you choose should match your skill set. When you are just starting out, though, ANY experience will be worthwhile. Do not be picky. Two years of experience will go a long way in getting you to standout from the crowd.

Second, you need to take as many investment courses as possible. The Canadian Securities Course is the starting point, so rattle off that as fast as you can, even while you are still in school. Then take more courses offered by The Canadian Securities Institute. These include Investment Management Techniques, Wealth Management Essentials, Advanced Investment Strategies, Portfolio Management Techniques and Equity Sales and Trading. Take as many courses as you can afford and/or handle. Their website is **https://www.csi.ca/student/en_ca/courses/investment_index.xhtml**
And phone **1-866-866-2601** (8:00 a.m. - 8:00 p.m. EST)

The Chartered Financial Analyst course (CFA) is the gold-standard in the industry. A very challenging and demanding three-year course, take it as soon as you can. It supersedes all other courses listed above, and if you want to reduce your overall work load you could 'just' get it. But it is very hard, more so if you do not have other education in the industry. The CFA is expensive, and time-consuming, but trust us—the financial rewards it will return you are immeasurable. A commitment of time and money now should result in a huge return to you later. Why? Well, simply, it is very hard to pass. First-year CFA failure rates are more than 55%. Pass all three years and employers automatically know that you know your investment stuff, and are smart to boot in general. For the investment industry, the CFA is far more valuable than an MBA. There are tens of thousands of graduating MBAs each year, but far fewer CFAs. The CFA website is **https://www.cfainstitute.org/Pages/index.aspx**

Stand out from the crowd:

Once you have some educational courses under your belt, you need to stand out from the crowd. Write articles about investments to whomever will take them, start a blog, submit unsolicited research reports to fund managers, offer to be an unpaid intern somewhere (this worked for several people at 5i Research). The key is to get noticed and get experience. Education is great, but showing employers that you have a passion for investments and can state an investment case on something is far better. Make a pitch: It doesn't matter if someone agrees with your thesis, what matters is that you know how to look at an investment opportunity and present it in an efficient manner.

Know the Basics:

I was in a job interview once and the manager asked me about the price of oil, gold, the market, the unemployment rate, interest rates and inflation. I knew some of the answers, but not all of them. I didn't get the job. Knowing the basics is key. All economic indicators interact with investments, and showing you know some simple facts tells employers (a) you are paying attention to the factors that influence the market and (b) you have the passion to care about such things. Most 20-year-olds would not know the Government of Canada Treasury Bill Rate—if you do know it, though, you will stand out from the crowd.

Can You Sell?

Even if you do not want a job in 'sales' you need to actually be able to make a sales pitch. Investment bankers need to sell a financing or merger idea to a company, portfolio managers need to sell their skills to potential investors; analysts still need to sell their ideas to fund managers. Being skilled at a sales presentation will help you of course in the interview process, but it will help you make more money once you actually land a job. Practice selling an idea; show potential employers you can get their message across to clients.

Have Passion:

I once got a job by attaching two stock ideas to my resume. I outlined why I liked the stocks, showed that I had done some research, and why I thought they were great investment ideas. I was 23, I didn't have two nickels to rub together or actually do any real investing, but in my interview I told my future boss that my first paycheck was going to go towards buying those two stocks. Showing passion for the industry goes a long way—I got the job.

Think Outside The Box:

Many potential entrants in the investment industry just think of the basic jobs—investment banker, financial advisor, stock analyst, fund manager. But when starting out, do not be afraid to take a job at a ratings agency, pension plan, money market desk or consultant. As mentioned, the key in your first few years is experience. It is extremely difficult to get one of the 'premium' jobs, so what you need first is a foot in the door. A combination of education and some experience will get you that much closer.

Investment Industry Jobs Are Not Typically Advertised:

Sure, at your university's job fair there may be some recruiting going on. By all means get into that stream. Many employers recruit investment bankers from graduating classes. It is a tough job and many don't last long in the field—but the ones that do make a fortune packaging investment deals and advising companies. The majority of jobs are not advertised though. You will need to go direct. Skip the Human Resources department. Go directly to an analyst and apply to be his/her associate. Go directly to a fund manager and pitch him that he/she needs an assistant with good stock ideas. Go directly to a sales manager and tell him/her why you would make a great sales person. Be persistent but not annoying—this is a fairly fine line you need to traverse, so be careful. Of course, utilize your network—LinkedIn is great for this. If you can, apply in person—just show up at reception and ask for five minutes with a manager. Do some web research on the company so you have half a dozen names to suggest to the front desk.

Play The Political Game Well:

Once you land an entrant-level job, you need to play your cards right. Everyone will view you as a green Newbie, so don't start espousing your great investment ideas right away. Bide your time, offer some comments once in a while, and do your job properly. The time will come to speak up. It is better to have one great idea than hundreds of mediocre ones. Remember, your boss is your boss: When first starting out, your job is to make him or her look good.

Jump Ship:

Once you have some decent experience (one or two years) do not be afraid to jump to another company for more money or better opportunities. There is no loyalty in the business. Employees are poached constantly, and we see analysts change companies all the time. Once, at a company I worked at, an individual sued us for wrongful dismissal. They got a settlement, and the company still hired them back a few years later. In my 30-year investment career, jumping employers worked out well for me every time, except once, and even that turned out fine after a while.

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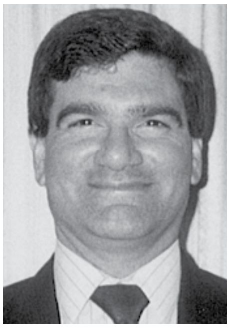

RRSP Versus TFSA
Which Strategy Is Best?

Jeff Buckstein

It took 52 years for Canada to offer a second major savings instrument. But financial pros generally agree that the Tax-Free Savings Account (TFSA), which was introduced in 2009, offers Canadians an effective financial tool to supplement the Registered Retirement Savings Plan (RRSP) which first became available in 1957. Some Canadians with financial means will be able to fully utilize the availability of both an RRSP and TFSA each year, while others may need to prioritize one or the other due to limited financial resources. But to a certain extent, the TFSA offers everyone more savings opportunities and/or strategic options.

"TFSAs and RRSPs are both very useful savings vehicles, for different reasons. Understanding the differences helps make better TFSA vs. RRSP decisions," explains portfolio manager Adrian Mastracci, founder of KCM Wealth Management Inc., a fee-only portfolio management and financial advisory firm in Vancouver.

Here's how some of the key mechanics of both instruments work:

With an RRSP, investors can set aside 18 per cent of their previous year's earned income up to $24,270 for the 2014 taxation year. Earned income is defined as items such as employment earnings, net income from self-employment and partnerships, disability pensions under the Canada or Quebec Pension Plans, and net rental income, among others. It does not include investment income.

Investors who are not able to make their RRSP maximum contribution in one year can carry forward their eligible contribution balance indefinitely.

The annual contribution room for a TFSA is currently $5,500, but that amount is indexed, and rounded to the nearest $500, so it will eventually be adjusted upward to $6,000. As with RRSPs, unused contribution room can be carried forward indefinitely to future years.

But while both instruments are meant to attract savings which can be used for retirement purposes, a major difference between the RRSP and TSFA–and key factor for financial planning purposes--involves taxation.

Annual RRSP contributions consist of before-tax income; moreover, investors get a tax deduction for the amount of that contribution. The proceeds within an RRSP, including both the principal and interest/capital gains/dividends earned from investments etc., then grow on a tax-deferred basis until they are withdrawn, either voluntarily, or when the owner is legally required to do so. If amounts are withdrawn voluntarily, that contribution room cannot be re-established in a future year, although there are certain provisions for the replacement of temporary home and education withdrawals.

"RRSPs are primarily–and should be thought of first and foremost–as a way to have a disciplined savings strategy in place for retirement," says Brett Strano, a financial advisor with Edward Jones in Mississauga, Ont. "Part of setting that money aside is they get a tax break on their contributions in an RRSP. So it's a way to reduce their annual income tax bill based on the level of contributions they have," he adds.

The RRSP must be terminated at the end of the year the holder turns 71. Many people then elect to roll over their proceeds into a Registered Retirement Income Fund (RRIF), from which they must begin paying tax the following year at a rate based on a percentage of their holdings, which increases with age. Presumably, most individuals are then retired and in a lower tax bracket compared to when they were working, so will pay less tax than they otherwise would have had they been taxed the year the income was earned.

TFSA contributions, on the other hand, come from after-tax earnings, and are not tax deductible. They can be put to use to earn additional investment income, capital gains and dividends inside of the plan, but withdrawn at any time without attracting tax. "The amount withdrawn can (also) be put back into the TFSA in a future year without impacting your contribution room," says Mr. Mastracci. However, "some financial institutions might have a TFSA withdrawal fee ranging between $50-$150 plus tax that can eat up their investment profits. Hence, investors should take caution to know the charges they will be responsible for. Check your institution's fee schedule," Mr Mastracci warns. How do those basic rules affect Canadians at various levels of income?

For Canadians in the highest income strata, the TFSA provides an incentive to save an additional $5,500 a year in addition to maxing out their RRSPs (at $24,270 in 2014), so they would likely be able to top up both, with little choice involved.

But for individuals at lower and middle income levels, the TFSA creates some interesting new dynamics, including certain opportunities and advantages the RRSP does not, albeit keeping in mind that annual TFSA limits are only a fraction of the RRSP.

"We are trying to encourage as many Canadians as possible to use the TFSA because there are many who probably don't have an opportunity to make an RRSP contribution, and won't ever have an opportunity until they earn the type of income that will give them RRSP room," says Tina Di Vito, the Toronto-based head of the BMO Retirement Institute at the Bank of Montreal.

"For those folks we say, 'you've got to use the TFSA because you have no other opportunity to earn investment income–interest, dividend, capital gains–in a tax-free environment,'" she explains.

Tax considerations may also provide a person in a low income tax bracket today a key reason to prioritize putting as much as possible in their TFSA. That individual is less likely to drop into an even lower tax bracket in retirement than someone currently earning a high salary, for whom the RRSP is designed to provide a tax-deferred advantage.

The savings from an RRSP might even help bump a lower income person into a higher tax bracket upon retirement. "One of the risks with your RRSP is that if you save money at a time when your tax rate is very low; chances are that when you withdraw it, your tax rate will be higher, and some of the benefits of the tax-free accumulation will be lost," explains Norman Raschkowan, chief North American strategist with Mackenzie Financial Corporation in Toronto.

"Of course, you also run the risk when taking money out of your RRIF when you retire. It can bump up your income and cause clawbacks of some government benefits like Old Age Security," Mr. Raschkowan adds.

Another scenario is that an individual with low income during their peak working years might inherit a large sum of money, and therefore have investment income in retirement they didn't have earlier in life. On top of their RRSP or RRIF funds, this could therefore exacerbate their tax bracket status and subject them to a considerable clawback of federal income-tested benefits and credits.

"That's where the TFSA becomes a very valuable tool in income planning and retirement because every ounce of income that you generate inside the tax-free account can be pulled out tax-free," says Mr. Strano. Nor does it count as income subject to a clawback for purposes of federal benefit and credit eligibility, he adds.

At the other end of the age spectrum, it can also be advantageous for a young person that is early in their working career to learn good savings habits within a TFSA. "Someone who's at the early stage of their lifetime saving cycle (is) better off filling up the TFSA first, and then potentially contributing to the RRSP. The reason is because of flexibility in the future. Let's says someone 24 years old is in his or her first job; then ten years later they want to buy a house. Well, they can take that money out of their TFSA, which has grown tax-free, without any tax penalty and without complications," says Mr. Raschkowan. "So it's a good way of saving money for the large expenses that tend to happen in your late 20s and 30s and so on," he adds.

Moreover, Mr. Raschkowan points out, that doesn't preclude making contributions to an RRSP in the future when one's income level and tax brackets are higher because any unused contribution room continues to accumulate.

There might also be a way to get the best of both worlds, and utilize the strengths of both the TFSA and RRSP at different life stages, says Ms. Di Vito.

She uses the example of a 20-year-old who decides to invest in a TFSA while they are in a marginally low income tax bracket, and then allow that money to grow tax-free. Later on in life, as, say, a 40-year old in an executive level job earning top dollar, that person could transfer some of the proceeds from their TFSA into an RRSP and get a tax refund at a high marginal rate.

"He could then take that refund and spend it, or the wise thing to do would be the year following the year he made the TFSA withdrawal, contribute that tax refund back into the TFSA. So now he's done the best of both worlds, and gotten his RRSP deduction at the highest possible amount," Ms. Di Vito stresses.

"And from now on he's going to keep making RRSP contributions because he's at the top tax bracket, and whatever tax refund is generated from that contribution he can put into the TFSA up to the maximum annual amount," she adds.

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Impact Of The RRSP And TFSA At Different Tax Rates

The following figures courtesy of BMO Capital Markets Economics:

Example 1: How the RRSP can be more advantageous than a TFSA when a contributor's marginal tax rate is higher at the time of contribution than their marginal tax rate when the proceeds within each plan are withdrawn.

	TFSA	RRSP
Gross Contribution	$1,000	$1,000
Tax Rate at Contribution	46%	46%
Net Contribution*	$540	$1,000
Rate of Return	5.0%	5.0%
Years in Plan	20	20
Value at Withdrawal	$1,433	$2,653
Tax Rate at Withdrawal	0%	30%
Net Withdrawal	$1,433	$1,857

*Net contribution for the TFSA accounts for an after-tax contribution; for an RRSP it takes into account a before-tax contribution.

Example 2: How the TFSA can be more advantageous than an RRSP when a contributor's marginal tax rate is lower at the time of contribution than when the proceeds within each plan are withdrawn.

	TFSA	RRSP
Gross Contribution	$1,000	$1,000
Tax Rate at Contribution	30%	30%
Net Contribution*	$700	$1,000
Rate of Return	5.0%	5.0%
Years in Plan	20	20
Value at Withdrawal	$1,857	$2,653
Tax Rate at Withdrawal	0%	46%
Net Withdrawal	$1,857	$1,433

*Net contribution for the TFSA accounts for an after-tax contribution; for an RRSP it takes into account a before-tax contribution.

Example 3: How the TFSA and RRSP can provide equal returns when the tax rate at the time of contribution is the same as when the proceeds within each plan are ultimately withdrawn.

	TFSA	RRSP
Gross Contribution	$1,000	$1,000
Tax Rate at Contribution	46%	46%
Net Contribution*	$540	$1,000
Rate of Return	5.0%	5.0%
Years in Plan	20	20
Value at Withdrawal	$1,433	$2,653
Tax Rate at Withdrawal	0%	46%
Net Withdrawal	$1,433	$1,433

*Net contribution for the TFSA accounts for an after-tax contribution; for an RRSP it takes into account a before-tax contribution.

Debt Free. Now What?

Adam Goodman

An amazing thing happened to me recently and it has had a huge impact on my life. I paid off my $60,000 student debt. This was no easy task. In order to get to a zero balance, I chose to sacrifice my social life on many occasions, whether it was staying in for the evening instead of going out or not being able to fly to the Caribbean for a good friend's wedding.

After months of turmoil, watching my social life putter to a halt and questioning whether minimizing my fun to maximize my ability to save was really worth it, I received a bank statement which showed my loan balance at $0, which is now sitting in a frame on my wall. My answer is, Yes, it was worth it. The question I'm now faced with is, What next? For the first time in years, I have no significant financial commitments. For a brief moment, I am what is called "financially free" – but not for long. How does one decide what to do next?

In my first article, I talked about thinking of the future. In this article, I'm going to take you through an exercise to quantify your lifestyle goals and how to measure them against your current income. As for me, I've started to think about the life I want, and how I'm going to get there financially. By thinking about the big picture and what that entails, I can start to work backwards and create the starting point for a financial plan on how I'm going to get what I want. The purpose of creating a financial plan is to provide you with guidelines that will help shape your decisions.

How do you think about the future? The first step is to visualize the type of life you want. In my case, I know the following things are important to me:

- Travel abroad once a year (it's important for me to see the world);
- Live on my own;
- Have a car;
- Be able to go out for dinner once a week (I'm a foodie and need to try new foods);
- Be able to go out with friends socially once a week (it's important to stay in touch with friends);
- Start saving for a downpayment on a house (I can't afford to buy a house today, but I want to work towards buying a house);
- Be physically active (including tennis and golf);
- The ability to buy new technology twice a year (I'm also a techie and want to be able to buy new toys);
- Wardrobe replenishment twice a year (I usually only go shopping twice a year, but each time it's a big one).

Now that I've put my lifestyle goals down on paper, I can quantify what this lifestyle will cost with ballpark values beside each item. If you don't know how much something will cost, do a preliminary search on the Internet or ask friends and family to help flush out the costs.

What I want to do	What it will cost me each year
Travelling abroad once a year	$3,000
Living on my own	$16,800
Having a car	$6,000
Going out for dinner once a week	$2,100
Going out with friends once a week	$1,300
Owning a house	$12,000
Being physically active	$4,000
Buy new technology twice a year	$1,000
Clothes shopping twice a year	$2,000
TOTAL	**$48,200**

In my case, for me to achieve my lifestyle goals, I'm going to need to find $48,200 after-tax, each year, not including other costs like cell phones, food, investing for the future and miscellaneous costs. If my current salary is not at that level, I'm going to have to either find additional money to cover the shortfall or consider cutting back on some of the above expenses. After you calculate what your lifestyle goals will cost, compare them to your current after-tax income to see if there is a shortfall between how much you make and how much you want to spend.

The final step in this exercise is to put a plan in place to meet your lifestyle goals by figuring out how much you need to save each pay period. The chart (right) will show you how to calculate this amount. In my case, I get paid every two weeks, so I need to take each expense above and divide it by 26 (which represents the number of pay periods each year) to determine how much of each paycheque I need to save for that expense.

What I want to do	What it will cost me each year	How much I need to save from each paycheque
Travelling abroad once a year	$3,000	$3,000 / 26 = $115
Living on my own	$16,800	$646
Having a car	$6,000	$231
Going out for dinner once a week	$2,100	$81
Going out with friends once a week	$1,300	$50
Owning a house	$12,000	$500
Being physically active	$4,000	$154
Buy new technology twice a year	$1,000	$38
Clothes shopping twice a year	$2,000	$77
TOTAL	**$48,200**	**$1,854**

Now that I've demonstrated to you how to calculate how much to save each month to obtain your lifestyle goals, you need to start putting your money aside. For monthly expenses such as living on your own and having a car, you can set up automatic withdrawals to make payments from your chequing account each month. This will make sure that you're paying your monthly bills on time. The rest of your expenses happen on a less regular basis, so you can put those into a savings account – in fact, some banks will let you set up a savings account for each item you want to save. In my case, I would set up a savings account for clothes, owning a house, travel, and technology.

By thinking about your lifestyle goals and putting down all the costs on paper, you'll have a clear picture of how much money you need to set aside to live that life.

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MoneyTip

Are You Missing Out On Free Money? - Part 2:

Registered Education Savings Plans are another way to get 'free' money. The government offers accounts that individuals with children can invest in and matches the amount of contributions up to a maximum specified. Similar to the employer matching programs, these extra amounts contributed by the government also generate returns within the account, helping to make the ever-growing education costs that much more manageable.

How And Why I Manage My Own Investments

Seven Years Of CMS

Matt Poyner

> **The investor's chief problem and even his worst enemy is likely to be himself.**
>
> ***Benjamin Graham***

I am a thirty-seven-year-old professional who does not work in the finance industry. I have a wife and four young children. With a passion for personal finance and investing, I have been reading the *Canadian MoneySaver* for seven years, along with many other sources of reliable information. This article might be considered my manifesto.

When I started saving ten years ago, I immediately sought quality advice to guide my efforts. I knew about the power of compounding and didn't want to sabotage my long-term gains by messing up my first few years of investing.

It didn't take long to become suspicious of the financial services industry. I was particularly uncomfortable with the glaring conflicts of interest arising from the typical advisor-client relationship alluded to frequently in this publication, to the credit of its contributors and publisher.

In short, I became determined not only to do it myself but to do it right. Although I agree with the Ben Graham quote above, I saw no reason, and still don't, why a reasonably intelligent person could not effectively manage his or her own investments given the proper research and discipline. Of course, this is easier said than done so it was with more than a little self-doubt that after several more months of reading and research, I opened my first online discount brokerage account. Fortunately, around this time I came across a reference to the *Canadian MoneySaver* online.

Seven years and about 60 issues later I have come to the conclusion that *CMS* is one of the best resources for Canadian independent investors. Reading each issue cover to cover, along with my small library of finance books, I have become "book smart" as far as retail investors go, while careful evaluation of my successes and mistakes have also garnered a few "street smarts" (try as I might, I have not been completely immune to irrational enthusiasm and discouragement sometimes).

What Are The Most Important Factors In Determining Long-Term Investment Returns?

This, to me, is the most relevant question to which the most superficial, anecdotal, sensational answers are frequently offered. Watch the TV, read the headlines, listen to most advisors and analysts and you will soon be brainwashed into thinking the answer is stock selection, or choosing the "right" mutual fund. The media is saturated with personalities touting what is hot and what is not, pressuring investors to buy this, sell that, thereby generating fees and justifying their own existence.

The truth is that anyone with an Internet connection has access to sound, reliable, evidence-based information about the real determinants of long-term investment returns. You just have to do what most people don't do: think to ask the right questions. You may be surprised to discover that studies show stock selection and market timing combined account for only about 10% of those returns we are all seeking (*Wallick et al., The global case for strategic asset allocation, Vanguard Research Paper, 2012*).

In this article I would like to outline what I believe are the real keys to success as an individual retail investor. Those who are too intoxicated by the allure of finding the next ten-bagger will be disappointed. But you must ask yourself why you are investing at all. If you are looking for casino thrills from the comfort of your own home, there are plenty of "experts" who would like to bend your ear. If, however, you are more concerned with securing your financial future, these are, in my opinion, the four essential ingredients.

1. CREATE A PERSONAL INVESTMENT POLICY AND ADHERE TO IT

Although this is the single greatest factor affecting long-term returns, I will admit that I was late to "discover" this most essential point: It is of vital importance to create your own, written investment policy. Perhaps it is semantics, but you'll notice I am not using the term "plan." To me, "plans" merely imply an intention. You might plan to start working out regularly or eat better, but those are more flexible goals than what is appropriate for your investments. We need well thought out, evidence-based rules if we are to resist the fear and greed that lead to so many poor investment decisions. After all, a temporary lapse on your diet may mean the guilt of a piece of chocolate cake, whereas the breach of an investment "plan" can mean financial ruin (recall Nortel, Blackberry, Enron...).

	Date	Equity weighting	Investor cash flows over the prior two years (in millions): Stock funds	Bond funds	Stock market performance (cumulative): Prior two years	Subsequent two years
Early in '90s bull market	1/31/1993	34%	—	—	—	—
Bull market peak	3/31/2000	62	$393,225	$5,100	41%	–23%
Bear market bottom	2/28/2003	40	71,815	221,475	–29	53
Bull market peak	10/31/2007	62	424,193	173,907	34	–29
Bear market bottom	2/28/2009	37	–49,942*	83,921*	–51*	94

The following is an outline of a purely hypothetical policy.

Sample Policy

- Current Status: $150 000 savings
- Objective: save $2 000 000 for retirement (assuming 2% inflation)
- Time frame: 25-year time horizon
- Savings target: save $2000 per month
- Risk tolerance: high
- Asset allocation: 50% Canadian Equity, 20% US Equity, 15% REITs, 10% bonds, 5% cash
- Strategy: buy at reasonable valuations and hold blue chip, dividend-paying stocks
- Other goals this year: enroll in DRIPs, update investment spreadsheet monthly

Without an investment policy, most investors will fall into the trap of building their portfolios piecemeal with investment products that seem attractive at the time, losing sight of the big picture and losing out on the proven benefits of appropriate asset allocation.

In fact, a seminal study of 82 large pension plans confirmed that "investment policy explained, on average, 91.5 per cent of the variation in quarterly total plan returns." (*Brinson, G., Singer, B., & Beebower, G. (1991, May/June*). *The Determinants of Portfolio Performance II, an Update. Financial Analysts Journal*).

The same study specifically states, "active investment decisions [i.e. timing the market] . . . did little on average to improve performance." Other research proves that the average retail investor who tries to time the market fares significantly worse. In spite of so much data which should dissuade investors from active management, the following figure from Vanguard illustrates that psychology still drives investors to buy high and sell low.

As the Chinese proverb says, "One dog barks at something, and a hundred bark at the bark." Cash flows into equities when stocks are expensive and out when they are cheap. Perhaps the greatest benefit of having a policy is in controlling our fear in bear markets and enthusiasm in bull markets.

2. MINIMIZE TAXES AND FEES

"Investment managers sell for the price of a Picasso (what) routinely turns out to be paint-by-number sofa art"

– Patricia C. Dunn, CEO,
Barclays Global Advisors.

My heart breaks a little every time I hear of a friend who has all of his or her investments in mutual funds. Mutual funds in Canada, with average management expense ratios of 2.2%, are the most expensive in the world (mean 0.95%). The effects of these fees cannot be overstated. Even two percent per year sounds innocuous, but the real effect of these fees over time is staggering.

If I invested $100 000 now for 25 years earning 8% per year, I would have $685 000 in the end. Add a 2.2% fee on that and my total after 25 years becomes $396 000. Forget 2% due to compounding, that is a 50% reduction in profits!

But aren't you getting the benefits of professional active management, i.e. great returns that make up for the fees? Unfortunately, the evidence is abundant and the answer is a resounding no. In fact, what is crystal clear is that the average actively managed fund will underperform the market. And the reason is simple. In any stock market, for every buyer there must be a seller, and vice versa. Therefore the average of all trades is, by definition, the average return of the market as a whole.

As Nobel laureate William F Sharpe writes: "Properly measured, the average actively managed dollar must underperform the average passively managed dollar, net of costs. The laws of arithmetic have been suspended for the convenience of those who pursue their careers as active fund managers."

That is not to say that some funds will not, on occasion, outperform the market. But they are the minority only about 10%, according to SPIVA Canada. And, again, there is ample proof that it is impossible to determine who those outperformers might be, based on past performance or any other factor.

MERs may be the most pernicious drain on investor returns, but let's not forget two other important sources of investor costs: trading fees and taxes.

Trading fees, whether inside a mutual fund or executed directly by an investor can add up fast. I have found it advantageous to use an online discount brokerage and trade only when rebalancing annually, or every few months when I have accumulated enough dividends to make a meaningful purchase of more shares.

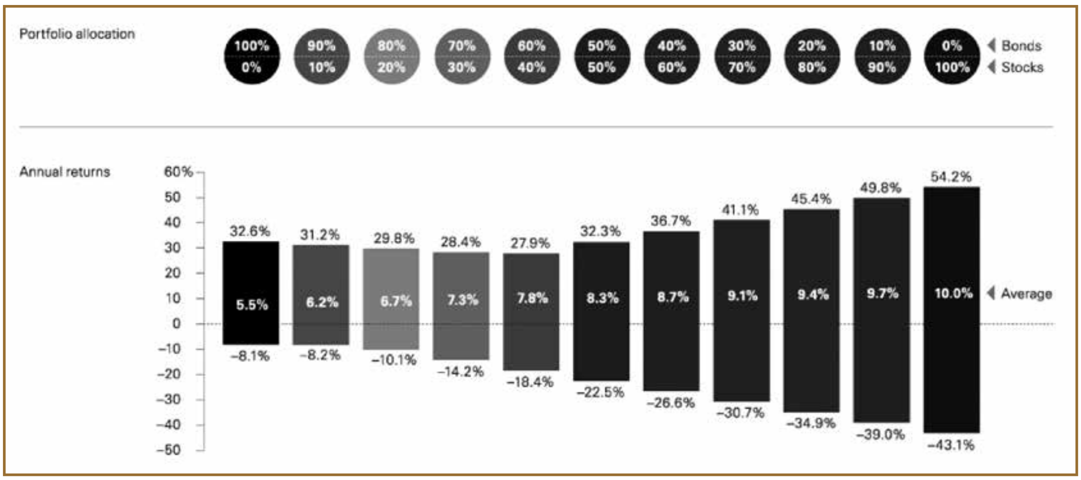
Taxes are another topic altogether. Suffice it to say that it is important to understand that the CRA treats interest, capital gains, and dividend income differently and that these differences should affect what investments are held where in your portfolio. For example, I hold my US dividend-paying stocks (Dogs of the Dow) in my RRSP to avoid the 15% dividend withholding tax that would otherwise be applied to this income.

3. BALANCE RISK AND RETURN THROUGH ASSET ALLOCATION AND DIVERSIFICATION

To state the obvious, all investments involve risk but some are riskier than others. In general, risk and reward are correlated, so it is up to the investor to balance these two concerns. This is most effectively done through asset allocation, traditionally considered the proportion of investments allocated to equities vs. fixed income (usually bonds).

Depending on your financial situation, stage of life and ability to tolerate market fluctuations, the "rule of thumb" of having your bond allocation match your age may or may not be appropriate. With bond yields at all time lows, and taxed at much higher rates than other income like dividends, for example, I would suspect many investors (myself included) may be better served by a lower proportion of bonds. This is especially true if the equity portion of your asset allocation tends to be more conservative (more on blue chip dividend stocks shortly).

In any case, asset allocation is extremely important, and is yet another factor proven to have a greater effect upon returns than market timing or stock picking. To give an idea of how asset allocation has affected volatility and return historically, have a look at this figure from Vanguard which includes data from 1926-2012:



The figure above is useful, not only to illustrate volatility and return, but to help us align our expectations and assumptions when choosing a particular asset allocation strategy. For example, if you are seeking an annual return of 10%, but don't have the time or disposition to tolerate a 40% market correction, you need to reevaluate.

Diversification might be considered the next layer of asset allocation. Just as equity returns and bond yields are not highly correlated, among equities, there are Canadian, US, International, and all the different sectors contained therein. Because these different markets will frequently behave differently, diversification is a proven strategy to lower overall volatility and mitigate risk.

4. INVEST FOR DIVIDENDS

So after all this education and planning, what should an individual investor actually buy? Of course, there are going to be many differing opinions here, but the conclusion I have come to for myself is that it makes the most sense to primarily buy and hold blue chip dividend-paying stocks. This is not because I am particularly conservative or risk averse. It is simply because over the long-term dividends have been the main contributors to total return in equity markets.

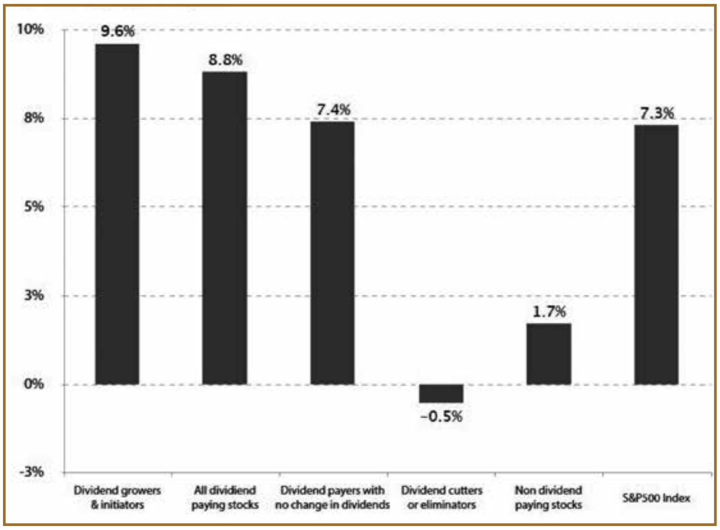


Figure 1: Historical total return of stocks within the S&P500 between 1972 and 2010. *Source: Ned Davis Research, December 31, 2011*

They may not be sexy or exciting, but the evidence is clear: stable, dividend-paying stocks are the driving force of superior equity returns. In fact, one hundred dollars invested in the S&P 500 in 1940 would be worth $12,000 now if dividends were not included. That same $100 would be worth more than $175,000 now with dividends reinvested (*Source: Bloomberg, Guinness, Atkinson Asset Management*).

Of course, the relative contribution of dividends to equity returns has been variable. The following figure illustrates S&P 500 returns by decade:

	Total return	Price appreciation	Dividends	Dividends as % of total return
1940s	143.1%	34.8%	108.3%	75.7%
1950s	467.4%	256.7%	210.7%	45.1%
1960s	109.5%	53.7%	55.8%	51.0%
1970s	76.9%	17.2%	59.7%	77.6%
1980s	389.2%	227.4%	161.8%	41.6%
1990s	432.2%	315.7%	107.5%	25.4%
2000s	-9.1%	-24.1%	15.0%	*Not meaningful*
Average	*228.6%*	*125.9%*	*102.7%*	*52.7%*

It is interesting to note that in decades of low economic growth (1940s, and 1970s), dividends accounted for over 75% of total returns. This is in stark contrast to the 1990s where they "only" contributed to 25% of returns. The tech-euphoria of that decade seems to have fueled an appetite for capital gains over dividends, which subsequently lowered the overall dividend yield of the S&P 500. It is worth noting that, historically, this is the exception rather than the rule as investors of previous decades placed much greater importance upon dividends. There are promising signs this trend may be reversing.

My Portfolio

So, after seven years of reading CMS and most other recommended reading materials I could get my hands on, what does my portfolio look like? I believe recommendations are more compelling if they are coming from someone with skin the game, so to speak. So, although my choices will not be right for everyone, here is what works for me:

Top 10 Canadian blue chip dividend payers (approximately equal parts)	**65%**
Top 10 dividend payers of the DJIA (Dogs of the Dow)	**20%**
Preferred Share index funds (ZPR, CPD, PFF)	**10%**
Cash	**5%**

The journey of this DIY investor has been engaging, enlightening, and sometimes unnerving. I don't have a product to sell, a service to offer, or a book to promote. I simply hope that by sharing my hard-won lessons, one of you may find something here to help you achieve your financial goals.

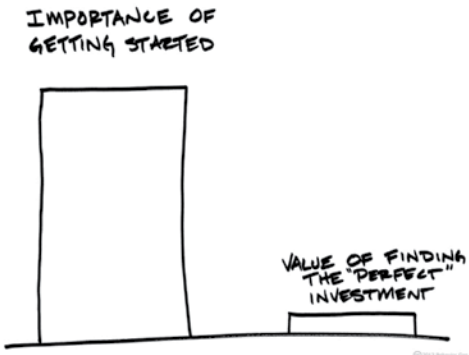
Matt Poyner is a DIY investor and participant in the Oshawa Shareclub. matt.poyner@gmail.com

WEALTHSIMPLE'S GUIDE TO INVESTING

We believe in a time-tested, principled approach to investing.
Here are our five rules to investing success.

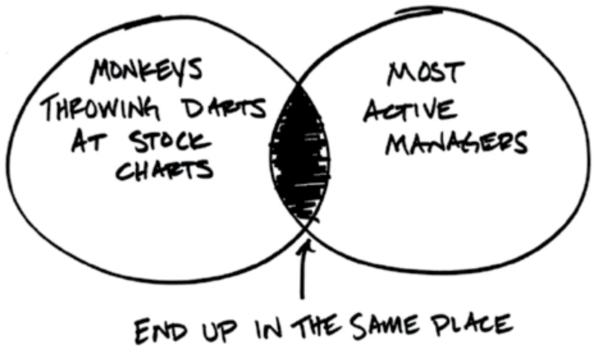
Rule #1: Start early

Albert Einstein called compound interest "mankind's greatest discovery". Listen to the world's smartest man - invest early and often.



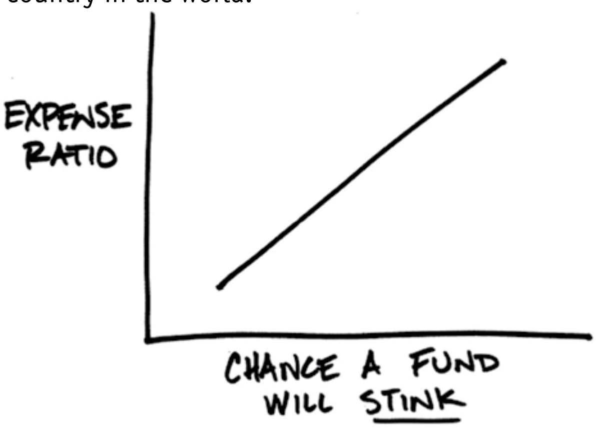
Rule #2: Don't pick stocks

The vast majority of professional stock pickers fail to beat the market. Simply match the market instead. It's boring and it works.



Rule #3: Keep costs low

The average Canadian investor pays more than 2% per year in fees*. More than any other developed country in the world.

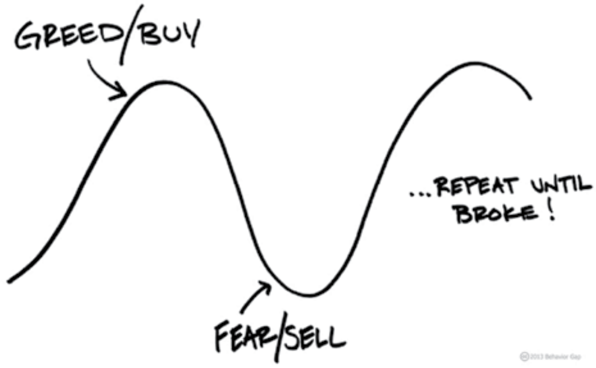


Rule #4: Diversify

Harry Markowitz won a Nobel Prize for discovering that diversification reduces risk without hurting returns. Some investments go up, others go down. Overall, the balance makes you better off.

Rule #5: Drown out the noise

Have the conviction to stick to your plan in the best and worst of times. Investors who chase good performance or run away from poor performance are doomed.



* http://corporate.morningstar.com/us/documents/methodologydocuments/factsheets/global-fund-investor-experience-report-2013.pdf

Compound Interest

The 1/4-Million-Dollar Car

Robert MacKenzie

What's the magic formula for investing success? About as close as you'll come to it is the simple "Time Value of Money" (TVM) or the "compound interest" equation, FVn=PV(1+r)n. This equation and its related formulae serve as key components in decision making on the parts of both individual investors and the managers of our largest corporations. Put simply, the compound interest formula relates the future value (FV) of the present value (PV) of a dollar when it is invested for a period of years (n) at a given rate of interest (r). For example, after 10 years the future value (FV10) of $100 invested at 10% (expressed as 0.10) would be $100(1+0.10)10 or $100 times 1.10 that has been raised to the power of 10. Raising 1.10 to the tenth power means multiplying 1.10 by itself 10 times, such "raising" being expressed by the exponent 10. The value can be found with almost any inexpensive handheld scientific calculator by employing the "yx" key. Key in 1.10, press the yx key, then enter 10 and hit the "equals" button (answer: 2.5937).

In this case the future value is $100 times 2.5937 or $259.37.

TABLE 1

Future Value Factors

Below is an excerpt from a full table of future value factors, listing only a few of the possible combinations of number of years (n) and interest rates (r) from the formula FVn=PV(1+r)n. To determine the value of the future value factor (1+r)n, read down the first column "Years" and then across to the appropriate interest rate. Then multiply this figure by the amount of money you are specifying (PV) to get the future value (FV) of that sum. For example, in the accompanying article, 42 years at 7% compounding annually gives a future value factor of 17.1443 (see table be-low). Multiply that figure by $15,000 and the result is $257,165. The website of one of the major mutual fund companies features a handy FV calculator, among many other calculators, that will do the math for you: www.mackenziefinancial.com/en/pub/tools/calculators/index.shtml

Years	1%	3%	5%	7%	10%
1	1.0100	1.0300	1.0500	1.0700	1.1000
5	1.0510	1.1593	1.2763	1.4026	1.6105
10	1.1046	1.3439	1.6289	1.9672	2.5937
15	1.1610	1.5580	2.0789	2.7590	4.1772
20	1.2202	1.8061	2.6533	3.8697	6.7275
25	1.2824	2.0938	3.3864	5.4274	10.8347
30	1.3478	2.4273	4.3219	7.6123	17.4494
35	1.4166	2.8139	5.5160	10.6766	28.1024
40	1.4889	3.2620	7.0400	14.9745	45.2593
42	1.5188	3.4607	7.7616	17.1443	54.7637
45	1.5648	3.7816	8.9850	21.0025	72.8905
50	1.6446	4.3839	11.4674	29.4570	117.3909

If you don't have a cheap scientific calculator or a lot of time on your hands to do it manually, some older financial books have tables of the exponential values for various interest rates and various numbers of years. Printouts of these same tables or even programs that calculate the "future value factor" for you can be found on the Internet by searching for "future value table." (The University of Arizona's website at www.studyfinance.com has a lot of these resources under its link to Lectures on the Time Value of Money, as well as helpful explanations.) It's actually a lot of fun to see what your money can grow to at a certain interest rate over a certain number of years. If you find it really fun, an intermediate level financial calculator such as the Texas Instruments TI-BA II Plus for $45 or so would be a good investment.

But what's so magic about compound interest? Its power lies in its exponential powers. "Simple interest" on the $100 invested for 10 years at 10% would give you $10 a year for 10 years or $100. You would have only $200 in total at the end of that time, not the $259.37 that compound interest generated in the above example. And at the end of 50 years, you would have made $500 in simple interest at that rate of return and have $600 in total. But with compound interest the total would be–

wait for it–$11,739. The exponential growth of the initial amount (in this case $100 multiplied by 1.10 raised to the 50th power, or 117.39) produces some fantastic sums.

Of course, it's not really magic, only math. What happens with compound interest is that the interest that is earned each year is reinvested for the years following, so that the amount invested keeps growing and growing. The more years that pass, the greater the amount of money invested and earning interest. Simple interest is paid at the same rate every year as compound interest, but the interest earned is not added to the amount invested, which in this case remains $100 forever. A striking illustration of the compounding principle that is sometimes discussed in schools is to place a grain of rice on the corner square of a chess board, and then double that amount (a 100% rate of growth) on the square next to it, then double that on the next square and so forth. You can guess that at this 100% "interest" rate (expressed as 1.00) for 64 squares (raised to the 64th power) the equation FV64 = PV(1+1.00)64 would provide more than enough rice to feed the entire planet!

How can this math be put to use to invest profitably? First, one must avoid losing capital permanently. A permanent loss of capital means that there will be no compounding interest at all on the capital amount that has been lost. And compound interest is what is important. Even if the capital amount lost was small, it could have generated a huge amount of compound interest over the years. While the inevitable ups and downs in the market value of solid, blue-chip investments are tolerable, risking a permanent loss of capital on a poorly researched investment can be disastrous. Second, a higher rate of return on investments increases the effect of compounding in the long term–as long as chasing that return does not risk losing capital!

Third, and most important, the magic only works if a lot of time passes. Starting early and having the patience to hold solid investments for several decades is the key to success. A relatively small amount of money invested can produce a huge amount of money if left to accumulate over a long period of time. Starting to save a little money early on is the same as investing a lot of money much later. Or to put it another way, patience is a low-risk, high-return investment strategy.

To illustrate, let's consider the case of a young man of 23 who is given a gift of $50,000. He spends $20,000 of it and he invests $30,000 for retirement in securities having an average annual return of 7% (3% dividends plus 4% annual capital gains). But the following year, he

TABLE 2
The Magic Formula Revealed

A formula such as that for TVM, or the Time Value of Money, FVn=PV(1+r)n, can sometimes make more sense if its derivation is explained. As noted in the article, PV is the Present Value of the initial deposit, n is the Number of years (or periods, if not a year) that the PV is invested, r is the interest Rate used, and FV is the Future Value of the money after n number of years have passed.

Common sense would tell you that at the end of year one, you would get back your original deposit plus the original deposit multiplied by the interest rate (simple interest). This is expressed mathematically as FV1 = PV + PV(1+r)1. A more compact way to state this same thing is FV1 = PV(1+r)1 and we will use this form from now on. (The exponent 1, which does not raise the figure it is used with, does not normally appear, but it is employed here for the sake of consistency.)

For the end of the second year calculation of FV2, common sense also would say that the new "initial" PV at the start of that second year is what the FV1 was at the end of the first year, or PV(1+r)1. So, if we substitute PV(1+r)1 for PV in the second year formula and multiply it by the same interest rate 1+r for that year as we did for the first year, we get the equation FV2 = PV(1+r)1 (1+r)1. Another way to write the (1+r)1(1+r)1 part is as (1+r)2, or (1+r) squared, since it is an amount multiplied by itself. The second year equation is thus FV2 = PV(1+r)2. For the third year, one would multiply the PV and the two (1+r) amounts by a third (1+r) to get FV3 = PV(1+r)3. And so on, for every sub-sequent year, so that each FVn would have a corresponding PV(1+r)n.

A straightforward algebraic transformation of the TVM equation is used for "Discount Rate" calculations to deter-mine the present value of a sum of money to be received (or expended) in the future. For instance, if you expect $100 (FV) in 10 years, how much would it be worth in buying power in "today's dollars" (PV) if inflation were running at 5% annually over that period? The transformed TVM equation would be PV = FV10 / (1+r)10, or 100/(1.05)10, or 100/1.6289, the end result being $61.39. Present Value tables from the Internet will provide the needed factors, or again one can employ a calculator to do the exponential arithmetic.

You may see the equations for calculating annuity payments and for accumulating monthly deposits over time in the same context as TVM calculations. That's because they contain the basic TVM, or compound interest formula. Tables of factors are also available for annuity and periodic savings calculations, or the "annuity row" of keys on a basic financial calculator can do the math quickly.

sees a hot used car for $15,000 and snaps it up, taking the money from his retirement account. He does not want to wait a couple of years to save up and buy a car like it later.

How much does that car ultimately cost him? Its "present value" was $15,000. But its "future value" in 42 years at his retirement age of 65, according to our formula FV42 = PV(1+r)42 is much higher. How much higher? It would be $15,000 times 1.07 raised to the power of 42, or $15,000 times 17.1443 (factor given by a future value table or the yx key of a calculator) for a total cost of $257,165. No doubt he didn't realize at the time what an expensive auto he was buying!

For that man, however, all is not lost. He will still have $257,165 waiting for him at retirement even if he never contributes again to his retirement account. Think how much worse off those people will be who do not start saving early. They would have to save a pile and a half to equal this amount. And even worse off will be those who are in debt and have the magic (black magic in this case) of compound interest working against them, slowly drowning them in easy credit rates of 10% or more.

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The ShareClub Movement In Canada

David Stanley

There are now at least 34 ShareClubs active in Canada. I say 'at least' because when a ShareClub has reached its optimum number of members it is no longer listed in the *MoneySaver* magazine. My best guess is that there are close to 1000 ShareClub members in Canada at present and that number continues to increase. I think there are several reasons the ShareClub movement in Canada is on the upswing. First, most of the new members I speak to have been through the preliminary stages of individual investing. I mean, for example, purchasing mutual funds, GIC's, setting up an RRSP, and reading the *MoneySaver*. Whether they have done this on their own or with the help of a financial advisor, the recent and ongoing financial crisis has caused them to re-evaluate their financial plan and realize they need help improving their investing knowledge if they are to meet their goals.

Secondly, these investors are beginning to realize the cost of underperforming mutual funds with high MERs in an environment where real returns are minimal. And there is the question of whether their financial advisors are earning the cut they take from the customer's investing dollars. Finally, these investors don't have many places they can turn to if they want answers to their individual financial questions. Sure, they can and do read the *MoneySaver*, but ShareClubs provide a venue where investment strategies, prior mistakes, and future decisions can be discussed in a supportive environment. To me, the *MoneySaver* experience is somewhat like a course in investing; the magazine is the syllabus and ShareClub meetings are the laboratory.

What happens in a ShareClub meeting? Well, many different things. The volunteer, usually the one who has organized the club, acts as a facilitator for whatever the members want to learn about. Perhaps a speaker from a financial or investment company comes to talk about a specific topic such as their investment philosophy, or someone representing a local business speaks about the merits of investing in the company's shares. Most often, though, I suspect that the most useful meetings are when members discuss amongst themselves topical questions relating to individual investing; what strategies are working, what stocks might currently be good investments, what are the advantages of a particular ETF, etc. ShareClubs are not traditional investment clubs. Dale Ennis, the founder of the *MoneySaver* was very firm about that when he devised the ShareClub concept 15 years ago.

Members control their own financial affairs and investment decisions. The only money that is involved is if there is a charge for the meeting hall.

I suppose you can say that the goal of ShareClubs is to empower our members to take control of their investments, whether on their own or though an advisor. This empowerment comes through knowledge acquired by sharing within the group. We learn from our own successes and mistakes and those of others.

One of the reasons I wanted to write this column is that the *MoneySaver* has, over the last little while, received several inquiries about setting up a ShareClub in areas where there is currently not one available. It is pretty simple to set up your own club and quite rewarding too. Alex Kobelak, a senior ShareClubber from British Columbia, wrote some suggestions for starting a ShareClub that are still relevant today. I have mixed them up with some thoughts of my own:

1. Get the philosophy right. Make sure that prospective members know that it's about the sharing of skills and knowledge. Dispel any belief that it is an investment club or that making money is the key goal.

2. Keep the organization simple, establish good club communication via e-mails or a website in order to distribute meeting agendas, etc. Details about when and where to meet, and for how long are easily worked out in the group dynamic. A good rule to follow is not to try to over-manage the group. ShareClubs are, in essence, an exercise in adult education. 'Let the group decide' is a good guideline to follow.

3. Get to know the skills, attributes and knowledge base of each member. Build around those skill levels. Share the workload. Encourage those with special skills to contribute through the training of others.

4. No money need be collected unless there is a cost for room usage, or if the members agree to a special project such as a field trip.

5. After the club has reached a critical mass consider instigating an orientation course for new members. This ensures that there is a basic level of investment knowledge that all members possess. It might be useful for new members to be 'adopted' by more senior members through a mentoring program.

6. Develop programs based on member interests but also on essential requirements. The basics of investing come first, the secondary skills can follow.

7. Don't forget social aspects. Start a weekly coffee klatch or a monthly breakfast meeting. Consider functions such as potluck dinners or a summer picnic.

8. Build up an inventory of club resources, e.g., local companies that will host a meeting, good speakers who will donate their time to providing educational talks (I suggest avoiding speakers who demand an honorarium and those just looking for a forum to hawk their financial products) and a list of investing resources including books, websites, magazines, etc. You never know if a potential resource will work out till you try.

9. Do not fixate on the Club size. Instead stress quality, sharing, participation, and contributing as a member requirement. Closing the club to new members will prohibit the entry of needed skills.

10. Accept the fact that there will be resignations. But also accept that new members will require orientation and a venue to learn, as you did. Some natural rotation is healthy. A common reason for dropping out of the club is because members think they are not learning or progressing at the rate they had hoped. Learning through sharing is the key to keeping members involved. Providing an environment for learning is the first step. Accept the challenge of new ideas; you are only limited by your imagination.

Remember that in setting up a ShareClub you have a partner in the *Canadian MoneySaver*. The magazine is dedicated to fostering clubs and can help in several ways. They welcome your participation in helping to organize a ShareClub in your area and will list your name and telephone/e-mail in the magazine so that readers in your area can contact you. Also, I am in the process of setting up an e-mail network of all Canadian ShareClubs so we can share ideas and improve the way we deliver our programs. Contacting any of the volunteers will put you in touch with someone who can help with any questions you might have.

As always, I hope this column will generate discussion and I will attempt to answer your questions within the guidelines set by the *Canadian MoneySaver.*

David Stanley, PhD, P. O. Box 12, Rockwood, Ontario N0B 2K0 DavidS5209@aol.com

An Honest Stock Market Update - By Morgan Housel

NEW YORK -- Stocks gained momentum on Monday, with the Dow Jones Industrial Average closing up 48 points, reversing losses from last week's decline.

Experts hailed both moves as a "remarkable, textbook example of pure statistical chance," chalking up Monday's gains to a couple random marginal buyers being slightly more motivated than a few random marginal sellers.

"Imagine you pick 1 million random people from around the world every day," said Toby McDade, chief investment officer of Momentum Fee Capital Management. "Some days, 51% would be in a good mood, 49% in a bad mood. The next day maybe it's the opposite. Other days, random chance could mean 8% of people are really pissed off for no real reason. This is basically what the market is on a day-to-day basis," he said.

Asked what his clients thought of this view, Mr. McDade laughed. "Oh my God, you think I could tell my clients that? How could I justify my salary?" Clients were told Monday's gain was caused by a mix of reversing geopolitical instability, shifting uncertainty patterns, a risk-on atmosphere, and a perfect storm of beta meeting sigma. None knew what those words meant.

American corporations earned $4.62 billion of net income on Monday. Financial advisors, analysts, and brokers, collected $630 million in fees. No media outlet reported these figures, despite being the two most important numbers necessary to understanding investing.

A report from the Bureau of Labor Statistics showed the economy added 209,000 jobs last month. An economist from a right-leaning think tank called the report disappointing. Another at a left-leaning organization called it encouraging. Neither has a reputable track record. Both yelled. The jobs report has a margin of error of plus or minus 100,000, and will be revised seven times in the coming years. No one whose outlook was swayed by the report said they care about these details.

Marc Faber appeared on TV predicting a 20% stock market crash within the next six months, repeating a call he has made bi-weekly since the Carter administration. Another pundit explained that his last failed prediction would have been right if only he hadn't been so wrong. Executives of financial TV networks met to discuss why ratings are at decade lows.

The yield on 10-year Treasury bonds fell from 2.42% to 2.38%. Nobody knows why.

An FDIC report showed banks increased lending last quarter. Analysts called this a new bubble created by the Fed, though it's what any rational person would expect to see happening during a recovery after a deep recession.

In Nevada, 52-year-old Ronald Palmer put his life savings into gold after spending 10 minutes reading something on Google about inflation written by a guy who learned about inflation by spending 10 minutes on Google.

Nineteen-year-old Travis Baker spent the afternoon day-trading penny stocks because his prefrontal cortex isn't yet fully developed and he couldn't recognize risk-reward trade-offs if they hit him in the face.

An army of bloggers reported from their parents' basements that Apple CEO Tim Cook doesn't understand technology. Reached out to for comment, Cook giggled, shook his head, and said one of his main regrets in life is not taking the advice of unemployed anonymous bloggers.

Long-term investors finished Monday one day closer to their goals.

Analysts expect the news to be no different tomorrow.

Check back every Tuesday and Friday for Morgan Housel's columns on finance and economics.

This article is fake, but just barely.

Contact Morgan Housel at mhousel@fool.com.
The Motley Fool

http://www.fool.com/investing/general/2014/08/12/an-honest-stock-market-update.aspx www.fool.com

Five Reasons You Should Start Your Career In A Rural Area

Kyle Prevost

As someone who grew up in a rural part of Canada, it has always been very interesting to me that the vast majority of Canadians place such a large premium on living in an urban environment. I often think about how my preference for living outside of major cities will likely save hundreds of thousands of dollars over the course of my life. Unfortunately, when it comes to rural living many young people overlook the economic benefits of moving away from their favoured downtown hotspots due to certain myths and the fear of the unknown. It's not that bad, guys–really!

1) My Mortgage Payment Is Half The Price Of Your Rent. The most recent numbers I could find from the Canadian Real Estate Association placed the average home price in Toronto at US $475,206, in Vancouver US$733,335, Calgary clocked in at US$400,000, Edmonton and Montreal by comparison seemed reasonable at US$310,058 and US$287,341 respectively (the prices are in USD because the figures were written for the USA-based Business Insider). Meanwhile, in many of Canada's smaller cities these prices represent the top of the market, and in towns like the one where I live in, you can purchase a serviceable lot for the princely sum of $1, or a standard 3-bedroom, 2-bathroom bungalow for under $140,000. Renting is certainly a good option for most young people, but if you want to build home equity from a young age, there is no better place to do it than in a rural area. The barrier to entry is low and mortgage payments in the $700 range will leave enough cash in your pocket to enjoy a lifestyle you couldn't afford in a big city.

2) Commute Time? What's That? It takes me exactly four minutes to get from my house to work. Door to door. There are no stop lights to worry about or lane changes to make. According to the 2011 National Household Survey, the average commute time across Canada is 25 minutes each way. This means that the average urban commute time would be slightly higher since smaller towns and cities would slightly offset the gridlock of major metropolitan centres. If we assume the average urban Canadian spends 60 minutes a day in round-trip commuting time, then I save roughly 250 hours each work year. That's two hundred and fifty more hours I can focus on earning a secondary income or catching up on the latest offering from HBO. I also don't have nearly as much wear and tear on my vehicle. Even if you have a bit of a commute to go with your rural job, chances are the types of driving you are doing will be much easier on your vehicle. Personally, I'm an impatient person and I hate being stuck in traffic, so this is one of my favorite perks about rural life.

3) Jobs – Real Ones That Actually Pay You Money. Unpaid internships? Not in the rural areas I've been to. A backlog of ambitious young professionals throwing dozens of resumes at every career opportunity that opens up? You won't find that either. The national newspapers are full of stories about people with a bunch of education and credentials, but nowhere to get their foot in the door. Many rural areas are perpetually in need of more lawyers, nurses, doctors, dentists, and specialists of all kinds. Moving to where the jobs are means that the principles of supply and demand work in your favor; consequently, you can usually look forward to higher pay and a better negotiating position down the road.

4) Levels Of Government Will Trip Over Each Other To Hand You Money. Because most young people place such a high value on living close to the amenities of an urban downtown (many of which they won't be able to afford to use for a decade or so), governments are willing to provide incentives to get people to move to smaller cities and towns. This is especially true if you fall into a high-need category such as nursing. In many cases governments will forgive student debt, provide living arrangements, or offer a cost-of-living subsidy. There are also numerous federal and provincial grants and tax breaks available if you are willing to start a business in a rural area. What entrepreneur doesn't want some bonus start-up cash from all three levels of government, plus cheap upfront capital costs relative to urban centres?

5) Coffee Is $1 For A Bottomless Cup, And Recreational Activities Are Cheaper Than That.

Want to see places where lifestyle inflation ceases to exist? Try farm-flavoured towns. The complete lack of pretense, and the real distaste for vain displays of luxury will quickly cure you of any of that pesky "keeping up with the Joneses" mentality that might torpedo your long-term chances of financial success. Forget overpriced coffee houses and $200 per-month hot yoga passes. Instead, enjoy the beauty of a summer run as the sun sets over a picturesque country landscape, or the crisp brilliance of a wintercross-country ski jaunt. Then stop in for a decent meal or beverage at a small-town price (as a bonus you don't need a Latin translator to understand how to order a cup of coffee).

But… It's Not Perfect

Granted, there are a few sacrifices that go with small-town living. It is nearly impossible to do without a personal vehicle in more rural areas, which is one way some young people are able to shave costs in urban centres. While I tend to think many of the entertainment options are overrated in cities anyway–there is certainly a lack of "world-class" options available where I live. At the same time, many people in small communities make the trek into a larger center a few times a month if entertainment options are what they're after (ironically people can often afford these urban trips because they pursued a career in a rural area). There is no doubt that one major drawback to live outside of a larger centre is that smaller communities are not overflowing with young people; however, expanding social circles to include people from all ages and backgrounds will undoubtedly leave you with a very diverse group of friends and networks. In fact, your social relationships will likely be much more diverse than they would be if you had chosen to stay in a comfortable niche within an urban area where most people choose to surround themselves with only individuals that are very similar to themselves.

For some people the night life and social considerations of a large city are part of their core identity and simply cannot be compromised. For others, a change of scenery, a great career, and financially-savvy living represent a great way to enter the working world. If beautiful night skies, simple daily pleasures, and having a house you can actually afford feels like a good fit, I'd like to welcome you on behalf of rural Canadians from coast to coast.

Kyle Prevost is a business teacher and personal finance writer helping people save and invest over at MyUniversityMoney.com and YoungandThrifty.ca. His co-authored book, More Money for Beer and Textbooks, is available in book stores.

ShareClubs

You may join any of the listed ShareClubs by contacting your local volunteer. Like-minded members get together to share financial information. No cost. No obligation. Just an inquiring mind.

The agenda for each group is shared by all group members, i.e. it is not just the responsibility of the contact person. ShareClubs are unlike investment clubs because they are meant to share investing information only.

Contact *MoneySaver* and volunteer to start a *Share*Club in your area. When ShareClubs are filled, they are delisted. Volunteers for any delisted but still active ShareClubs are asked to please contact Dave Stanley at 519-856-9820.

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3 Ways To Get Mortgage And Debt Free By 29

Kornel Szrejber

When people find out that shortly after turning 29, my wife and I were mortgage and debt-free, interesting assumptions seem to arise such as us eating canned tuna every day, or never taking vacations or ever going out.

In reality we do take several vacations per year, go out at least once a week, and as much as I enjoy eating tuna (usually in sushi form) we do still go out to eat regularly. Yet, doing all this while not earning massive salaries, we were still able to have our mortgage paid off and be debt-free shortly after turning 29.

In today's culture there seems to be an acceptance that debt is normal and to live a "normal" life you must be in debt. We hear about the average Canadian having $25,597 in consumer debt and think, "Hey, being in debt must be normal." Or we hear about people in a massive debt crisis and at the point of financial collapse and think, "Wow, at least we're not in that bad of shape. We must be doing okay."

The reality is that by focusing on three critical elements, anybody can massively reduce their debt and enjoy the stress reduction and the drastic increase in wealth that comes with it, while still living and enjoying life.

How It All Started:

After graduating, my wife and I purchased a home and quickly felt the pain of the giant pile of money leaving our account every two weeks. I started dreaming of all the things we could do with that money once we owned the house free-and-clear. By renting, we could never live rent-free, but in a house, this was actually possible once the mortgage was paid-off.

After spending some time fantasizing of early retirement, more frequent vacations, and all the things we could do with the increased disposable income once the mortgage was paid off, it was time to get to work.

Step 1: Where Am I Bleeding...Financially?

The first step was to find out where our expenses were coming from, and to determine which of those expenses could be trimmed on an ongoing basis, while still allowing us to enjoy life (i.e. sushi and vacations).

Like everyone else, the last thing I wanted to do after work was spend hours entering receipts and writing up budgets. So, the ultimate goal was to find an automated system where receipts/expenses didn't have to be inputted by me (i.e. having a software automatically download and categorize all my transactions) so that by spending just a few minutes every week I could quickly find out where my money was going and where the financial bleeding was taking place.

The second objective was to have the system automatically warn me when I'm overspending in certain areas like going out to eat, or shopping.

I experimented with every tool that I could find, from creating my own spreadsheets, to using off-the-shelf accounting programs, to using different personal finance software and online tools.

These days, I use **www.Mint.com** to manage and automate all of the above (it's also free). This lets me spend just minutes managing my finances every week, while knowing exactly where all the money is going, and warning me of any discrepancies, suspicious activity, and any areas that I'm in danger of overspending in.

Money has a way of being spent whether you're consciously aware of where it's going or not. By having an automated system like this in place, I was able to save hours every month by not having to draw up budgets or enter receipts, and ensure that as much money as possible was being put towards paying down the mortgage/debt quicker.

Step 2: Getting Aggressive

After obtaining financial awareness in step one, it was time to set an aggressive goal of how much of the mortgage/debt was to be paid off each month.

By knowing how much we actually needed to live on every month from step 1 (including some "fun" money), I determined that a good aggressive goal was to use 50% of our after-tax household income on paying down the mortgage quicker (this is in addition to our existing monthly mortgage payments). Now before you stop reading because 50% sounds ridiculous, please hear me out, as it's really just about being honest with yourself when determining what items are a "want", versus what is an actual "need" when thinking of buying something. If you followed step 1, you will quickly notice all the things you're spending money on that can be cut to reach that 50% without sacrificing your standard of living while still enjoying life.

Here's What We Did To Reach Our Goal Of 50%:

1. With every paycheque, my wife contributed a set amount of money to a joint chequing account. This amount was determined in step 1 when we did our expense analysis, and is a figure that we both agreed upon.

   This joint account was then used for all our spending such as groceries, fuel, restaurants, regular mortgage payments, etc. The amount that she didn't transfer to the joint account was her own personal money that she could use however she wanted. This prevented a LOT of couples conflict as it gave her guilt-free money that she could spend on whatever she wants whether it's on a new pair of shoes, clothes, etc. We never got into fights about money because she had "her money" and all the expenses and debt payments were already taken care of first.

2. With every paycheque that I got from work, almost the entire amount (over 95%) went to a separate savings account, which was used exclusively to pay down the mortgage and other debt as quickly as possible. The remaining 5% was used for my own personal "fun" money.

   Since we still wanted to have some fun with international travel and had the occasional emergency such as the car breaking down, those expenses were covered by the joint account as much as possible. I would use some of my extra mortgage payment money to cover any difference.

   By doing this, we were able to pay off the entire mortgage in under six years on a typical salary of someone in their 20's.

Could we have been more aggressive? Definitely. But, this just goes to show that you don't have to live without any vacations, and other fun experiences just because you're being financially responsible. It is simply a matter of moderation, sticking to your goals, and not falling for the consumer trap.

What If You're Single?

Having dual incomes definitely helps, but you can still take advantage of many of the things married people have by living with roommates. You can purchase a house and rent some of the rooms to live almost rent-free right away. You can also split the cost of food by taking turns doing groceries and cooking. With your roommates paying for most, if not your entire mortgage, you can easily put 50% of your income towards paying down the mortgage debt, or investing.

Step 3: Avoid The Consumer Trap!

While step 1 and 2 are about gaining awareness and determining the goals, step 3 was quite possibly the most critical of all: avoiding the consumer trap. This is what made the saving rate of 50% possible.

This is easier said than done as companies spend billions every year trying to persuade us that what we "want" is actually something we "need". When this happens, we as humans let our guard down, then we justify the purchase in our heads (I "deserve" that new car, phone, etc.) and that's when the marketers and sales people go in for the kill.

There are many ways to avoid the consumer trap, and save money on the things we do actually need. While I cover these in greater detail on the BuildWealthCanada.ca blog, here are some key lessons that have allowed us to be mortgage and debt free in our 20s:

1. Read the top personal finance books. For example, I highly recommend David Chilton's books: The Wealthy Barber and the Wealthy Barber Returns. The Wealthy Barber is a classic that got me started in thinking intelligently about money at a young age and built a great foundation of personal finance knowledge.

His subsequent book (The Wealthy Barber Returns) is also a must read as it updates what was taught in the first book and provides some great additional financial wisdom that can be applied right away.

I also recommend The Millionaire Next Door by Thomas Stanley and William Danko as the book discloses the habits of the wealthy that you can try to emulate in your own life. You can use this book as a checklist to make sure you're developing the correct wealth building habits.

2. Another critical component was focusing time and energy on areas that have the biggest impact on our financial well-being. For example, avoiding consumer debt like the plague, picking the right mortgage, and ruthlessly cutting car costs (as opposed to clipping 50 cent coupons, or trying to find a "deal" on consumer items that in reality shouldn't be purchased in the first place).

These subjects could be a book of their own and I have just scratched the surface so I invite you to visit my blog to learn more about how I got free of debt. I look forward to seeing you there.

Kornel Szrejber, BBA - BuildWealthCanada.ca
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Source: Consumer debt statistic: http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/average-canadian-consumer-debt-climbs-to-25597-but-toronto-and-vancouver-buck-the-trend/article15411223/

The Investors Cheat Sheet

Lets be honest, investing and saving can be confusing enough without all of the industry jargon and catchphrases out there. Let this cheat sheet help you cut through the jargon and hopefully make reading financial literature a little more simplified.

Acronym	Term	Meaning
MER	Management Expense Ratio	Fees charged by a fund to pay expenses. Often one of the larger charges and easiest expenses to reduce when investing.
ETF	Exchange Traded Fund	A low cost fund that attempts to mirror a certain market or index such as the S&P 500.
Market Cap	Market Capitalization	Refers to the size of a company. Calculated as share price*outstanding shares. Can be segmented into small, medium and large capitalizations.
FE Load	Front-End Load	Fees charged on a mutual fund investment at the time of initial purchase.
BE Load	Back-End Load	Fees charged on a mutual fund investment at the time of sale.
Yield	Dividend yield	Annual dividend amount divided by the stock price. Usually presented as a percentage.
P/E	Price-to-earnings ratio	A classic valuation metric and likely one of the most popular tools amongst investors. Calculated as share price divided by earnings per share.
EPS	Earnings Per Share	The amount of money made for each share of the company. Calculated as net income divided by shares outstanding.
DRIP	Dividend Reinvestment Plan	Allows investors to automatically buy new shares with the dividends paid by the investment often commission free and at a discount.
SPP	Share Purchase Plan	Allows for the purchase of additional company shares (through the company) usually without commissions and at a discount, subject to certain limits.
ROE	Return on Equity	Essentially tells an investor what sort of return was made on the equity within a company.

MoneyDigest

This column offers excerpts from published and online sources to provide other viewpoints.

ATCO LTD. (Toronto symbols ACO.X [class I non-voting] and ACO.Y [class II voting;www.atco.com) holds 53.2% of Canadian Utilities. It also owns 75.5% of ATCO Structures & Logistics, which builds temporary buildings for construction and energy exploration firms; Canadian Utilities owns the remaining 24.5%.

The company recently agreed to sell its information technology subsidiaries in Canada and Australia. These businesses provide computer support, billing, payment processing and related services to ATCO's other subsidiaries, as well as outside clients.

The buyer, Wipro Ltd., will pay $210 million when the sale closes later this year. In addition, Wipro will provide computer support and related services to ATCO under a new 10-year contract.

Alberta regulators base ATCO's power and gas rates on its operating costs and capital investments, so selling the information technology operations will make it easier for its utility businesses to win future rate increases.

Meanwhile, ATCO's revenue rose 3.1% in the second quarter of 2014, to $1.11 billion from $1.08 billion a year earlier. The company saw a higher contribution from Canadian Utilities, and revenue at the structures division gained 8.8%, thanks to the start-up a new project in Australia.

However, earnings fell 32.7%, to $66 million, or $0.57 a share, from $98 million, or $0.85. The decline is partly due to the writedown of a power plant in Australia and the negative impact of recent regulatory decisions.

Moreover, unusually high power prices in 2013, caused by unplanned outages at several Alberta coal-fired plants, boosted earnings in the year-earlier quarter and exaggerated the profit drop.

ATCO's main appeal is its holding company discount. Based on current prices, you can buy an ATCO share for $48 and get roughly $47 worth of Canadian Utilities. That means you get ATCO's structures business, which provides around 25% of its earnings, for just $1.00.

ATCO trades at 14.4 times the $3.34 a share that it will likely earn in 2014. Its $0.86 dividend yields 1.8%.

The class I (X) non-voting shares are more liquid than the class II (Y) voting shares.

ATCO class I stock is a buy recommendation of The Successful Investor.

Source:
http://www.tsinetwork.ca/daily/stock-investing/canadian-stocks-holding-company-discount-helps-atco-stand-utilities

MoneyTip

Maybe We Should Be Calling It A Tax-Free Investment Account:

Many individuals are unaware that you can purchase and hold investments in a tax-free savings account (TFSA). These accounts are actually one of the worst places for idle cash for two reasons: You do not get a tax credit by simply depositing funds (such as with the RRSP) and cash doesn't generate a return. It is the returns on funds held in a TFSA that have no tax applied. Whatever is earned from a Canadian security within this account is not taxed. Amounts withdrawn do not have any additional tax applied either but be careful to not over-contribute to these accounts!

RESOURCES WE LIKE: *THE CMS TEAM*

1. 5i Research: A great resource for those DIY stock investors. Along with independent research reports, 5i Research also offers model portfolios and answers to subscribers investment questions. Headed up by Peter Hodson, formerly of Sprott Asset Management.

www.5iResearch.ca

2. Young and Thrifty: A blog authored by two 25 something year olds who love learning and writing about personal finances. This blog is expressly aimed at Generation Y. You can get information about investing, banking, real estate and taxes, travel and saving.

http://youngandthrifty.ca

3. Canadian Budget Binder: Want to know how you can save on all of your purchases and live a frugal lifestyle? The Canadian Budget Binder has all the tips. Learn why FREE doesn't always mean FREE, take the grocery game challenge or learn how to tackle your financial fears without regret.

http://canadianbudgetbinder.com

4. My Own Advisor: My Own Advisor is a personal finance and investing blog dedicated to chronicling one man's journey to financial independence.

www.myownadvisor.ca

5. Morningstar Financials: Morningstar provides stock market analysis; equity, mutual fund, and ETF research, ratings, and picks; portfolio tools; and option, hedge fund, IRA, 401k, and 529 plan research.

http://financials.morningstar.com

6. Google Finance: Get real-time stock quotes & charts, financial news, currency conversions, or track your portfolio with Google Finance.

https://www.google.ca/finance

7. Yahoo! Finance: Free stock quotes and up to date news.

https://ca.finance.yahoo.com

8. Canadian Insider by INK Research: INK Research (INK) provides Insider News and Knowledge to investors. INKresearch.com delivers an investing edge through timely insider reports and analysis. CanadianInsider.com and InsiderTracking.com offer free basic reports and alerts.

https://canadianinsider.com

9. Stockchase: Is a database of expert opinions.

http://www.stockchase.com

10. Canadian Couch Potato: An investment blog dedicated to passive investing through low cost ETFs.

http://canadiancouchpotato.com

11. Where Does All My Money Go: Blog by Preet Banerjee about all things financial.

http://wheredoesallmymoneygo.com

MoneyTip

RRSPs And Asset Location:

Registered Retirement Savings Plans are tax-deferred accounts where amounts within the account are not taxed until withdrawn. The idea is that an individual will withdraw funds in retirement when they are making very little income and in turn be taxed at a lower rate as the funds are withdrawn. Which assets are located in this account is an important consideration. The general rule of thumb is that income-producing investments make the most sense to be held inside an RRSP due to income being taxed at a higher rate than dividends and capital gains.

Ask the Experts

Q *What are the 10 sectors of the TSX?* — **S.B.**

A We would list the 10 sectors as follows:

Energy, materials, consumer discretionary, consumer staples, industrials, financials, healthcare, technology, telecommunications and utilities.

Many people like to consider real-estate as its own sector but it is typically included in financials.

Ryan Modesto, BBA, 5iResearch.ca
info@5iresearch.ca

Q *Where can I find a list of Canadian DRIP's that qualify as a deductible tax credit?* — **M.F.**

A http://www.dripprimer.ca/canadiandriplist

Peter Hodson, CFA

Q *As a new investor, Should I invest in an RRSP or a TFSA?* — **L.S.**

A If you are a high-income earner, and you have RRSP contribution room available, then you should invest in an RRSP.

The beauty of an RRSP is that you get more money working for you, and that money is working for you in a tax-sheltered plan.

For example, someone earning $60,000 per year has a marginal tax rate of 31.5%. This means that a $10,000 contribution to an RRSP saves this taxpayer approximately $3,150. The $3,150 saved stays with the investor, rather than being added to the tax man's coffers.

Eventually you have to take the money out of an RRSP, and at that point it becomes taxable income.

The tax you have to pay on withdrawal of an RRSP is normally more than offset by the fact that you have more money in your plan, and that greater amount of money has been compounding tax free. You may also find yourself in a lower tax bracket when you begin drawing out your RRSP.

This doesn't mean an investment in a TFSA is a bad idea. Buying a TFSA is a great idea, but if you have to choose between a TFSA and an RRSP – the RRSP is generally the better choice if you have a high income.

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Q *What is the BTSX strategy?* — **J.F.**

A 'Beating The TSX' is a dividend investment strategy by which individual investors become shareholders in a portfolio of 10 Canadian large-cap, high-yielding stocks. This method has beaten the total return Canadian large-cap stock index by more than 25% annually over the past 28 years (12.47% vs. 9.89%), not taking into account the tax benefits that dividends provide or the long-term profits from dividend reinvestment plans. It is a simple and easy way to compound dividends and a great entry point for young folks to start investing in stocks.

David Stanley, PhD
Private Investor, Rockwood, ON

Q *Is Cash Value Life Insurance a good investment?* — **CMS Reader**

A If you're looking at the cash values in a life insurance policy as an investment, you've probably bought that type of life insurance policy for the wrong reason. Permanent life insurance, which I prefer to call whole life insurance, is intended to be a life insurance policy that you own for the "whole" of your "life". When you die the cash values do NOT pay in addition to the death benefit, they are part of the death benefit. In order to take the cash values out while your are alive you must cancel the policy. Doing so turns it into temporary insurance (no different than term life insurance) defeating the purpose of the whole life policy. Yes, you can borrow the cash values (really they are being used as collateral for the loan) but that underlines that the cash value is not your money. Why would you have to borrow your own money? Universal life insurance is form of whole life insurance.

If you want an investment, stay away from whole life insurance. If you need life insurance, buy term life insurance and keep your investments separate. If your estate needs money when you die, and you don't need it before you die, whole life insurance can be a great option.

Bob Barney, Compulife Software, Inc.
My Office Toll Free (888) 798-3488
Main Office (800) 798-3488

Q *How are capital gains taxed and what happens if an investment that has gone down in value?*
— S.K.

A To begin, only 50% of the total increase of value (taking into account commissions and related expenses) is actually taxed. This portion is called the "taxable capital gain." The taxable capital gain is then added to the other income you've earned that year and taxed accordingly. Moreover, although investments may grow in value for years, the tax bill is only triggered when you sell the asset or under other circumstances, such as your death. Accordingly, ignoring investment considerations, you might be better off deliberately triggering capital gains in low income years, triggering big gains in years prior to starting your OAS pension or selling assets with gains over a number of years so as little of the gain is taxed in the higher tax brackets as possible.

The gain (or loss as discussed next) is calculated based on what the asset is worth at the time of sale. If you own investment like mutual funds, which in turn own baskets of stocks, bonds and other investments, when your fund sells assets, it generally passes the gains on to you, which is why you might get capital gains tax slips during years when you haven't actually sold any of your funds. In some cases, you may even end up getting capital gains slips in years when the total value of your fund has declined if the fund hasn't sold off enough losing assets to offset the taxable capital gains.

If you have investments that have declined in value, these "capital losses" are taxed like capital gains in that you calculate the total decline in value but only 50% of this amount is used for tax purposes. At this point, there are some differences between the tax treatment of gains and losses. Although losses can be used to offset your taxable capital gains, they can't be used against other types of income except in your year of death or the year previous to that. On the other hand, if you have any remaining losses left after neutralizing that year's taxable capital gains, you're not out of luck. The remaining 50% of your total losses can be used against any gains you earn at any point in the future or, as I mentioned before, against other types of income if you aren't able to use them up prior to your death and for the year before. You also have the option to "carry back" any capital losses you can't use up in the year they get triggered to use against any capital gains you've paid tax on in any of the three previous tax years. In other words, you can refile those old tax returns, now using these fresh capital losses, in order to get some of the tax you've already paid returned to you. When deciding how to best use your capital losses, you are usually better off using them against gains that would otherwise be taxed in one of the highest tax brackets; for example, you'd be better off using them in a year when your taxable income was otherwise $100,000 compared to a $50,000 income year. On the other hand, if you hoard your losses indefinitely, you lose the benefits of having the tax refund money working for you prior to that point. Although you might get a bigger cheque if you wait until a high income year, you will be missing out on all the growth you would have (hopefully) earned by taking a smaller refund earlier.

Colin S. Ritchie, LL.B., CFP, CLU and FMA
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You must accompany your inquiry with your MEMBERSHIP NUMBER (ID) and telephone number or e-mail address to have your question reviewed. Inquiries are responded to directly and the Q&A may be published here later. Hundreds of other Q&As are found on CanadianMoneySaver.ca

MoneyTip

Today's Students Want More From Their Summer Earnings Than Their Parents Did

Today's post-secondary students are just as likely as their parents' generation to take a summer job to help fund their tuition and school-related expenses. When it comes to spending those earnings, however, students today find themselves stretched thin. Between trying to fund a variety of expenses, higher tuition costs, electronic purchases, saving for the future and repaying debt, today's students often rely more heavily on student loans and part-time jobs during the academic year than past generations.

"A summer job is still an important part of financing a post-secondary education, but it's getting harder for students to earn enough to cover everything they want and need to do," said Raymond Chun, Senior Vice President, Everyday Banking, Personal & Indirect Lending, TD Canada Trust. "Rising tuition costs are stretching student budgets, as are the technological requirements like having a personal computer, but so is the long list of goals like travel, personal debt repayment, and saving for a home and retirement down the road." ..... many students find the only way to be able to do it all is to take out a bigger student loan or to work part-time during the school year. The TD survey showed that today's students are 21 per cent more likely than their parents' generation of students to use a part-time job during the school year to pay for discretionary spending, and more likely to use student loans to fund school.

Source: TD Canada Trust

CANADIAN DRIPs With SPPs

CANADIAN DIVIDEND REINVESTMENT PLANS (DRIPs) WITH SHARE PURCHASE PLANS (SPPs)

TSX Companies - Symbol	52-Week		Closing Price	Div	Yield	EPS	P/E	Payout Ratio %	5-Yr Dividend Growth
	High	Low							
Aberdeen Asia Pacific - FAP	7.70	5.26	5.80	0.60	10.3	0.69	8.4	87.0	0%
Agnico Eagle Mines* - AEM	39.30	24.66	35.38	0.32	1.0	1.10	29.7	29. 1	27.5%
BCE Inc - BCE	49.25	40.58	49.01	2.47	5.1	3.16	15.5	78.2	25.8%
Bk of Montreal - BMO	76.68	58.68	75.17	3.04	4.0	6.39	11.7	47.6	1.3%
Bk of Nova Scotia - BNS	67.07	55.10	66.78	2.56	3.9	5.46	12.2	46.7	4.8%
Cdn Gen Investments - CGI	18.72	14.26	18.47	0.48	2.6	2.16	8.6	22.2	7.6%
Cdn Imperial Bk (CIBC) - CM	98.06	73.89	96.84	3.92	4.0	8.81	11.0	44.4	2.1%
Emera - EMA	36.95	28.77	34.03	1.45	4.3	2.06	16.5	70.4	7.8%
Enbridge - ENB	53.73	41.74	52.14	1.40	2.7	1.94	26.3	72.2	13.8%
Fortis - FTS	34.45	29.51	32.47	1.28	4.0	1.58	19.9	81.0	4.4%
Imperial Oil - IMO	54.14	38.72	53.08	0.52	1.0	4.57	11.6	11.3	5.1%
Manulife - MFC	22.22	15.41	20.36	0.52	2.6	1.62	12.6	32.1	-12.6 %
National Bank ^ - NA	46.96	36.07	45.81	1.84	4.0	4.36	10.5	42.2	7.6%
Sun Life Financial - SLF	40.15	29.22	37.66	1.44	3.8	2.92	12.9	49.3	0.0%
Suncor Energy - SU	43.47	29.85	42.58	0.92	2.2	3.98	10.7	23.1	32.9%
Telus - T	40.53	29.52	39.97	1.52	3.8	2.35	17.0	61.3	8.6%
TransAlta Corporation - TA	15.72	12.43	12.95	0.72	5.5	0.44	29.5	>100	-0.9%
TransCanada Corp - TRP	51.89	43.94	50.59	1.92	3.8	2.48	20.7	74.2	5.0%

CHART NOTE - Prices intra-day May 12th, 2014. Source: TD Waterhouse/Bloomberg LP. Stock prices change daily. Check for current prices. These Canadian companies listed on the TSX are the long-standing companies with both a DRIP and SPP. With the DRIP, you can reinvest all your dividends to purchase additional shares at no cost. Some DRIPS offer a discount so that additional shares are bought at a discount to the average market price. The SPP allows shareholders (shares registered in your own name, not a brokerage's name) to buy additional shares periodically at no cost. For SPP, it is best to refer to the individual companies' websites, as sometimes amounts change. *Dividends paid in U.S. dollars and receive dividend tax credit. Non-Canadian company dividends are taxable like interest income.

^ For National Bank you need to own 100 shares for the DRIP and 1 share for the SPP.

Share purchase plans (SPPs) are also referred to as optional cash plans (OCPs). M is monthly, Q is quarterly, A is annually. Transfer agents: CIBC Mellon Trust @ 800-387-0825, Compushare @ 800-564-6253.

Div. 5yr gr: We have added the five-year dividend growth rate to our chart, information obtained from Bloomberg LP.

Earnings are forward earnings estimates.

Since the last issue Telus raised its dividend.

Yield = Dividend divided by current price. Payout ratio = dividend divided by earnings per share (EPS). The dividend payout ratio is simply calculated by dividing the company's dividend by its forward (estimated) earnings. If a company with a low payment ratio experiences an earnings decline, it may continue to pay the same dividend. Or, at least, it may weather the downturn without cutting the dividend. A high dividend payout ratio of 100% indicates that the dividend payout is equal to the stock's earnings. Therefore, one should be very vigilant and place the stock on your "watch" list.

Calculation for interest equivalent of dividend yield for eligible shares: (100 - marginal rate for dividends) divided by (100 - marginal tax rate on regular income). For example, in 2011 an Ontario taxpayer with ordinary income of $65,514 uses: (100 – 11.72) divided by (100 – 31.15) is approximately 1.2822. Therefore, a stock with a Canadian dividend yield of 5.0% has an equivalent interest return of 5.0 x 1.2822, which is approximately 6.41%. If you visit www.canadianmoneysaver.ca/rc_drips_spp.aspx, you'll find all the information necessary to set up your own DRIP and SPP portfolio.

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TOP EXCHANGE TRADED FUNDS RANKED BY FIVE-YEAR RETURNS AS OF APRIL 30, 2014

Specialty ETFs

Fund Name	Symbol	1 Mth Ret	3 Mth Ret	6 Mth Ret	YTD Ret	1 Yr Ret	2 Yr Ret	3 Yr Ret	5 Yr Ret	10 Yr Ret	Since Incep Ret	Exp Ratio	Total Asset
Horizons BetaPro NASDAQ 100 Bull	HQU	-1.20	2.90	11.90	-1.30	52.80	29.50	25.60	38.80		12.30	1.49	11.6
Horizons BetaPro S&P 500 Bull	HSU	1.10	11.90	15.70	4.10	40.50	35.60	22.10	32.60		5.00	1.48	33.2
Horizons BetaPro S&P/TSX Cap Fincls Bull	HFU	3.10	15.70	14.50	7.00	53.90	33.50	17.70	28.40		1.50	1.50	16.9
iShares S&P/TSX Capped REIT Index	XRE	1.70	6.80	7.40	7.40	-5.30	3.80	7.70	21.80	11.00	11.20	0.60	1279.4
iShares US Fundamental C$Hdgd Comm	CLU	0.90	7.40	9.00	3.20	21.30	21.40	13.50	19.70		5.10	0.72	419.1
iShares US Small Cap Index C$-Hedged	XSU	-3.60	0.20	3.40	-2.50	20.70	19.20	10.40	18.90		4.10	0.36	206.9
iShares US Fundamental C$Hdgd Adv	CLU.A	0.90	7.10	8.60	2.90	20.30	20.40	12.60	18.70		4.30	1.55	419.1
iShares US Fundamental non-hdgd Adv	CLU.C	0.20	5.20	13.80	6.10	30.50	26.40	18.20	17.50		19.10	1.53	419.1
Horizons BetaPro S&P/TSX 60 Bull Pls ETF	HXU	4.30	14.20	20.20	14.90	41.60	21.80	4.10	17.40		0.90	1.46	46.8
iShares S&P/TSX Completion Index	XMD	2.70	8.60	12.50	10.30	19.80	11.20	4.20	16.80	8.50	7.70	0.60	247.7
iShares S&P/TSX Can Div Aristocrats Comm	CDZ	1.00	6.30	9.40	6.40	17.10	11.00	10.50	16.70		7.60	0.66	1124
iShares Equal Weight Banc & Lifeco Comm	CEW	1.00	6.50	6.00	2.30	26.60	19.50	10.30	16.00		7.50	0.60	164.3
iShares Global Real Estate Index Comm	CGR	2.80	5.60	7.60	9.90	3.70	15.40	11.60	15.80		5.30	0.72	71.4
iShares S&P Global Water Common	CWW	-0.90	5.70	15.70	8.10	31.70	24.60	16.40	15.80		4.80	0.66	48.7
iShares S&P/TSX Can Div Aristocrats Adv	CDZ.A	0.90	6.10	9.00	6.10	16.10	10.10	9.50	15.80		6.80	1.49	1124
iShares S&P/TSX Capped Financials Index	XFN	1.70	8.00	7.80	4.00	25.70	17.30	10.50	15.70	8.90	9.90	0.60	890.3
iShares Canadian Select Dividend Index	XDV	1.80	6.60	6.80	4.00	17.90	12.80	9.40	15.70		6.80	0.55	1447.3
iShares Equal Weight Banc & Lifeco Adv	CEW.A	0.80	6.30	5.50	2.10	25.40	18.50	9.30	15.10		6.70	1.43	164.3
iShares S&P Global Water Adv	CWW.A	-1.00	5.50	15.20	7.80	30.60	23.60	15.50	14.80		3.90	1.48	48.7
iShares Global Real Estate Index Adv	CGR.A	2.70	5.40	7.10	9.60	2.80	14.50	10.70	14.80		4.40	1.57	71.4
iShares Diversified Monthly Income	XTR	1.20	4.00	5.30	5.00	3.20	5.90	5.80	14.80		5.30	0.56	704.4
iShares S&P/TSX SmallCap Index	XCS	3.90	10.20	15.10	12.00	25.20	7.20	-2.00	14.80		0.50	0.60	174.7
iShares Canadian Value Index	XCV	2.70	7.80	8.50	6.60	21.40	13.60	6.30	14.70		6.20	0.55	60.4
iShares Global Infrastructure Comm	CIF	1.40	7.80	13.40	10.50	22.30	19.00	12.20	14.10		6.00	0.72	37.8
iShares Glbl Monthly Dividend ETF Comm	CYH	2.10	7.60	5.60	4.70	11.10	10.30	4.40	13.90		2.80	0.66	145.8
iShares CAN Fndmental Idx Common	CRQ	2.30	7.80	9.30	7.50	20.80	13.10	6.30	13.50		6.70	0.71	287.9
iShares Global Infrastructure Adv	CIF.A	1.40	7.50	12.90	10.20	21.30	18.00	11.30	13.10		5.10	1.55	37.8
iShares Global Agriculture Advisor	COW.A	0.40	8.50	11.10	5.70	14.60	16.30	7.80	12.00		5.90	1.55	225.2
iShares Jantzi Social Index	XEN	2.40	7.50	9.70	7.30	22.00	14.20	6.10	12.00		3.20	0.55	23.4
iShares Global Completion Port Builder	XGC	0.90	4.40	6.00	4.70	5.80	9.80	7.80	11.10		10.00	0.74	8.5
iShares S&P/TSX 60 Index	XIU	2.30	7.30	10.60	7.90	21.30	12.70	4.50	11.10	8.80	7.30	0.17	12736
iShares Balanced Gr CorePortfolio Comm	CBN	1.10	5.60	6.80	5.00	12.50	11.90	6.20	11.00		1.10	0.80	47.4
iShares International Fundamental Comm	CIE	1.00	5.20	10.90	6.50	28.80	24.00	9.10	10.70		0.50	0.72	251.5
iShares MSCI EAFE Index C$-Hedged	XEF	1.10	5.10	3.50	0.20	11.00	17.60	8.00	10.60	2.50	2.80	0.51	1115.9
iShares Balanced Inc CorePortfolio Comm	CBD	1.10	3.90	4.60	4.10	5.60	7.20	5.90	10.00		4.60	0.72	95.5
iShares International Fundamental Adv	CIE.A	1.00	5.00	10.40	6.20	27.70	23.00	8.10	9.80		-0.20	1.55	251.5
iShares Balanced Gr CorePortfolio Adv	CBN	1.00	5.30	6.20	4.70	11.30	10.70	5.00	9.80		0.10	1.88	47.4
iShares Growth Core Portfolio Builder	XGR	0.70	3.30	5.30	4.50	4.10	6.80	5.50	9.10		8.40	0.62	13.2
iShares Balanced Inc CorePortfolio Adv	CBN.A	1.00	3.60	4.00	3.70	4.40	6.00	4.80	8.80		3.50	1.83	95.5
iShares Canadian Growth Index	XCG	2.10	6.30	12.10	9.90	15.70	8.10	0.20	7.90		4.20	0.55	30.6

Source - PalTrak, Morningstar Canada, (800) 531-4725, http://www.morningstar.ca. Morningstar's "Quicktake Report" offers detailed information on individual ETFs. Morningstar also offers an ETF screener. Adv = Advisor. Management fees are paid to the investment company's advisor or manager for supervising its portfolio, expressed as a percentage of the total assets of the fund. Expense ratio is the manager's annual fee for managing and administering the fund, expressed as a percentage of total fund value.

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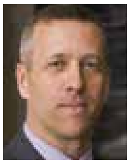

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