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Financial focus

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Why cash isn't always king

According to a widely reported study released by a Canadian investment bank earlier this year, Canadians are sitting on $75 billion in excess savings. That's a lot of money that could otherwise be invested if we weren't so apprehensive about investment markets. The reality is, if you're sitting on the sidelines, you could be missing out.

THE DOWNSIDE OF CASH

The problem with too much cash is that it can impede your ability to meet your longer-term objectives. Even if it is earning interest, rates are so low you may not be able keep up with the cost of living, let alone accumulate the capital required to fund your goals and lifestyle aspirations.

How much cash is too much depends on your specific goals and your time horizon. The longer you can stay invested, the more time you have to ride out the temporary ups and downs of the stock market and benefit from the growth potential that only equities can provide.

RISK MANAGEMENT

Two important tactics can help mitigate the risks associated with volatility:

- **Diversification.** By holding assets from different market sectors and industries, your portfolio is less likely to feel the effects of a temporary downturn in any one sector or industry.

- **Regular investing.** A pre-authorized investment program (PAC) deploys your cash in an efficient manner and actually makes market fluctuations work for you: you automatically buy more when prices are low and less when prices are high.

NEXT STEP: If you'd like to review your cash position and current opportunities for growth, please give us a call.

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Has Canada's market bottomed out?

Canada's stock market has faced a rough couple of years, as a rout in oil prices and sluggish demand for other commodities from China have plagued the resource-heavy S&P/TSX. While there are some encouraging signs that Canada's stock market may rebound in 2016, the economy looks set to deliver another sub-par performance. As a result, the Canadian story may be one of divergent tracks for stock markets and economic growth.

REBOUND IN CANADIAN EQUITIES?

Canadian equities started 2016 on a strong note, helped by surging gold prices. The price of bullion was supported by continuing market volatility and a decline in real interest rates. Whether gold continues to shine or loses its lustre, there are other positive headwinds for Canadian stocks. Prospects for strong fiscal stimulus from Ottawa, continued low interest rates, an inexpensive Canadian dollar (which should help exporters), and a resilient labour market are all positives for corporate profits and, in turn, stock prices.

National Bank Financial Economics and Strategy Group believes that the outlook for corporate earnings is improving, and is maintaining its overweight position in equities relative to its benchmark. In terms of sectors, National Bank Financial Economics and Strategy Group is overweight in the financials group relative to the S&P/TSX as gains in full-time employment in Ontario, Quebec, and British Columbia continue to support the housing market and household creditworthiness.

ECONOMIC STRUGGLES

Although the latest economic indicators do not show the shock of low oil prices spreading to the rest of the Canadian economy, another fall in crude in the first quarter of 2016 is leading to more worries about declining business investment in the oil patch. Indeed, imports of machinery and equipment fell again in the last quarter of 2015.

A slowing labour market, particularly in oil-rich provinces, does not bode well for overall consumer spending. With domestic demand seemingly under pressure, can trade save the day for Canada? While trade is expected to be the main driver of the economy this year, its contribution to overall growth may not be as large as expected. This is because of an inventory buildup in the United States, which may put a dent in Canadian exports to the U.S. early in 2016, even with the low Canadian dollar.

In light of these challenges, National Bank Financial Economics and Strategy Group expects the Canadian economy to grow by less than 1% in 2016. Although Canadian stock markets may rebound, diversification remains key to managing volatility, especially for Canadian investors, as our market is heavily concentrated in the resources and financial sectors.

NEXT STEP: We can help you review your diversification strategy in light of your investment objectives and time horizon. Please give us a call today to set up a meeting.

Set your kids up for financial success

Every September, young adult Canadians go to university or college and find themselves managing their money independently for the first time. It is an exciting step, but also a time when financial novices can easily get into trouble. As a parent, you can help your children develop strong financial skills.
Here's how.

BUDGETING BASICS

Work together to jointly establish a school-year budget that takes into account your child's earnings from any summer and part-time employment, scholarships, and government grants or loans. On the spending side, they will need to account for tuition, textbooks, accommodation, food, transportation and entertainment. Seeing these expenses, in black and white, against the funds available to them may encourage your children to think very carefully about discretionary expenditures.

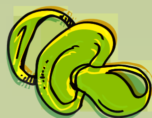
CREDIT CARD SMARTS

Many financial institutions offer student credit cards with low or no annual fees and low interest rates or finance charges. You can help your child learn how to use their first credit card wisely. Together, you can determine the rules for using the card, such as using it only for groceries, gas and school supplies, and paying it off in full every month. This is also an ideal time to talk about the importance of establishing a good credit record. Just like their school grade transcript, it can have a lasting impact on their lives.

There's a lot for students to discover when they first move away. Feeling confident they can manage their own finances gives them a head start. If you need to brush up on your own basic financial skills (like budgeting) in order to teach them to your kids, we can help.

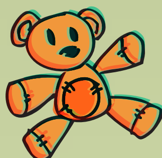
RESP milestones

With tax-deferred growth and the benefit of the Canada Education Savings Grant (CESG), Registered Education Savings Plans (RESPs) are a great way to save for a child's post-secondary education. The timeline below highlights some key dates and deadlines that you won't want to miss in order to make the most of your RESP.



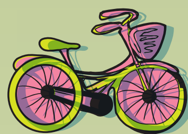
Birth

Contribute the maximum of $50,000, and your RESP will grow to more than $150,000 by the time your child is 18, assuming an annual return of 6%. You also benefit from a CESG of $500.



Age 2

Want to generate the maximum lifetime CESG payment of $7,200? Start now and contribute $2,500 each year until your child turns 17, and you'll have more than $88,000 assuming an annual return of 6%.



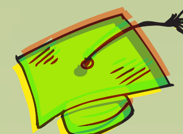
Age 10

Haven't started yet? It's not too late. Contribute $5,000 each year for the next seven years and you will receive a CESG of $1,000 each year, due to the entitlement to carry forward unused grants.

Age 16 & 17

To receive the CESG, total RESP contributions must be at least

- $2,000 before the end of the year in which the child turned 15, or
- $100 per year in any of the four years preceding the year the child turned 16.



Age 18

Contributions can be made to an RESP for up to 31 years. The plan can remain in existence for a maximum of 35 years.

FOCUS ON EQUITIES — BALANCE — FOCUS ON SAFETY

Over time, the investments in your RESP should change from primarily equities and equity funds (to take advantage of long-term growth potential) to fixed income and cash (as you prepare to take the money out).

Investing Strategy

Divergence and your investments

In the context of investing, divergence refers to investments that move independently of one another.

This concept is important because lack of divergence can hamper long-term growth potential. If your holdings are too dependent on a particular sector or phase within the market cycle, they can leave you vulnerable to protracted downturns.

Ideally, we want to ensure that you have sufficient divergence to benefit from sectors on the rise while being insulated from those with weaker performance.

Divergence in action

There are numerous ways to apply divergence to investment assets, including:

- **Industry sector.** Historically, certain combinations of market sectors are naturally divergent. For example, the financial and energy sectors are affected by different factors than information technology or pharmaceuticals.
- **Business cycle.** Holding both cyclical and non-cyclical equities can help balance overall return. Examples include utilities (which people need no matter what the economy or markets are doing) and manufacturing (people tend to buy more goods during upswings).
- **Geography.** Exposure to equity markets in the U.S., Japan, and Europe, to cite just three, can offer divergence from our domestic economy and currency.

NEXT STEP: If you'd like to know more about how divergence applies to your portfolio, we'd be happy to go over your holdings with you in detail.

Investing Fundamentals

Investing lessons from your childhood

If you've ever played Monopoly, you know that the luck of the dice can influence your progress, but not as much as the shrewdness of your competitors. To this day, the 80-year-old board game can offer insight on how to bring a winning strategy to your investments.

COME TO THE TABLE WITH A PLAN

In the early rounds of a game, before you have a big cash reserve, you have to pick and choose which properties you're going to buy. What is your strategy? Go with a colour block? Try for the railroads or the utilities? Buy everything you land on until you run out of money?

Whatever your approach, having a game plan can help you stay focused on your goal — winning the game — and not get discouraged when you land on Boardwalk with a hotel or wind up in jail.

MAINTAIN A RESERVE OF CASH

In the game, as in real life, you can be hit with increased housing costs, luxury taxes, and school fees. If you don't keep a cash reserve, you could run out of money and be out of the game.

Cash is also the key to taking advantage of opportunities when they become available — like snapping up that last railroad before your opponent can.

UNDERSTAND THE COST OF CREDIT

If you're short of money in Monopoly, you can mortgage your properties. The bank will give you 50% of the price you paid — but you can no longer collect rent. When you get back on your feet, you can unmortgage it for the amount of the loan — plus 10%.

There's an important lesson here in cash management. It is expensive to borrow money: sometimes it is... (your home, post-secondary education); other times (that spur-of-the-moment trip to Vegas), not so much.

THINK AHEAD

When you get a matching set of properties in the game, you make money by putting houses and hotels on them. You may have to save up to afford it, but the future payoff makes it worthwhile.

Likewise, a disciplined approach with your investment portfolio can justify foregoing indulgences along the way.

BUY STRATEGICALLY

Monopoly railroads cost $200. If you own all four, you can charge $200 in rent. On the other hand, a $200 property (like New York Avenue) has the potential to net you $1,000 if you put a hotel on it. But of course, you have to own its sister properties and spend money for the houses and hotels.

The point is that both purchases have potential for growth. Which approach is best? That will depend on you and what you're trying to achieve.

NEXT STEP: We may not be able to help you win at Monopoly, but we can certainly help you with your investing and money management decisions in real life.

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