

Financial Focus

Why goals-based investing matters



The concept of “goals-based investing” has been appearing in the media, and it’s often touted as something new. Perhaps it’s new to some investors, especially anyone who invests on their own, but those with an advisor already follow the principles of goals-based investing.

Investing that’s not goals-based typically measures success by comparing a portfolio’s performance to benchmarks or market returns. Performance still matters with goals-based investing, but success is determined by achieving a goal.

The process

You identify your goals and specify your individual investment objectives. Each goal has an asset allocation based on its time horizon and your risk profile. Progress is monitored periodically so you can stay on track toward achieving each investment goal. Note that it’s not only investment performance that’s monitored but also changes in any goal that may affect your financial objective.

Here’s an example to illustrate why meeting a goal can matter more than market performance. Say an investor approaching retirement is following the strategy of building a fixed-income reserve to help fund their initial years of retirement.

This individual has no need to compare how their reserve fares against market ups or downs. Their goal is to keep their planned retirement date even if the markets tumble.

Benefits of goals-based investing

Goals-based investing offers several benefits, both financial and psychological. The goals are more attainable because each one has its own investment strategy and is monitored along the way. You’re less likely to react to short-term market fluctuations, being tempted to either sell or buy, because you’re focused on the longer term. Also, when markets are volatile or falling, you’re less likely to worry – knowing that your long-term investment objectives have been set to account for periods of market volatility over time.

Whenever you want to track how your investments are aligned with your goals, please get in touch.



Mani Wong, CFP, CIM, FCSI
Senior Wealth Advisor &
Portfolio Manager
Telephone: 416-756-3893
mani.wong@nbc.ca

Hugo Mak, CIM, FCSI, PFP
Wealth Advisor & Portfolio Manager
Telephone: 416-756-3641
hugo.mak@nbc.ca

**Wong & Mak Wealth
Management Team
National Bank Financial**
9130 Leslie Street, Suite 200
Richmond Hill, ON L4B 0B9

There’s something that’s planned very carefully, given serious thought, completed with satisfaction, and then often forgotten. It’s our will. But it’s important to make sure this document reflects any life changes. Has your marital status changed? Do you have a beneficiary to add? Do you want to change any inheritance amounts? Is your executor or liquidator still willing and able to fulfill the duties? If you named a guardian, are they still the best choice? Do you want to leave funds to a charity? Do you need to account for a change in assets? It’s a good idea to review your will periodically in case it needs updating.

How to use your TFSA in retirement

Just as a Tax-Free Savings Account (TFSA) meets a variety of needs during your working years, it can be equally versatile during retirement.

Providing tax-free income

Drawing income without paying tax is already a win, but tax-free income also lends itself to various retirement income strategies.

Perhaps there are years when a retiree needs more income, and they're at the upper threshold of a tax bracket. Drawing income from taxable sources would result in paying more tax on that amount, but they could withdraw TFSA funds without climbing to the next bracket.

Say that someone wants to defer their Canada Pension Plan (CPP)/ Québec Pension Plan (QPP) and Old Age Security (OAS) benefits to age 70 to gain a larger benefit amount in the long run. The retiree can withdraw tax-free TFSA funds to help cover their cost of living during the years before they take their government benefits.

Some retirees might be in a position where their taxable income amount would result in a clawback of OAS benefits. They can avoid or minimize the clawback by making TFSA withdrawals, as these funds aren't included as income for tax purposes.

Continuing to invest

If you earn income during retirement from part-time work, a business, consulting or a rental property, you can continue to contribute to your TFSA – up to your allowable limit.

Some retirees have years when their minimum required Registered Retirement Income Fund (RRIF) withdrawal leaves them with more income than they need. By contributing a portion of that withdrawal to their TFSA, the amount can grow tax-free.

Another way to grow a TFSA is by gradually transferring funds from a non-registered account. The non-registered assets are taxable whether they're sold or transferred



in-kind, but they would be subject to tax in the future anyway. With this strategy, you pay any tax owing now and benefit from future tax-free growth and withdrawals.

Leaving assets to heirs

Part of estate planning is managing or accounting for the tax payable on estate assets, but with TFSAs, planning for taxation is not an issue.

If you want to leave TFSA assets to your spouse, you can name them as a successor holder or beneficiary. Usually, successor holder is the better choice because your spouse simply takes over the existing TFSA – it's a simple transaction. If a spouse is named beneficiary, there are rules to follow, a form to submit and potential tax consequences.

If you leave TFSA assets to a child or another heir, you designate them as a beneficiary, and they'll receive the proceeds tax-free.

A TFSA can also be used to help offset tax payable on estate assets by naming the estate as beneficiary. Also, if you wish to donate TFSA assets to a charity, the donation tax credit can be used to help offset an estate's tax liability.

Note that in Québec, a beneficiary or successor holder can only be named on the TFSA form for insurance investment products, such as guaranteed investment funds or segregated funds. Otherwise, the TFSA beneficiary is to be named in the will.

Meeting health-care needs

As our longevity increases, so does the possibility of losing our independence and requiring long-term care. Private care can be extremely costly, whether you stay at a health-care residence or at home.

One way to safeguard against this financial risk is to purchase long-term care insurance. Note that several insurers have left the long-term care insurance marketplace, and today only a couple of national providers offer this coverage as a stand-alone product. However, it remains a solution worth considering.



Another option is to self-insure – accumulating funds over time to cover potential health-care costs. A Tax-Free Savings Account (TFSA) can be an ideal investment vehicle – your investments grow tax-free and withdrawals are tax-free.

Should you require long-term care at any point in your retirement years, you'll have funds available to help meet the costs. If you're fortunate, staying relatively healthy and remaining independent, your TFSA funds can become assets for your heirs.

Finding a balance between spending and saving



When it comes to spending versus saving, there is no exact balance that's right for everyone. Each of us has our own money personality, perhaps one we're born with, acquired by following – or rejecting – our parents' habits, or developed on our own over the years.

However, you usually want to watch out for the two extremes.

Two danger zones

If someone is primarily a spender, they risk missing out on their long-term savings goals or taking on too much debt by living beyond their means.

Someone who's a diehard saver may suffer a different kind of missing out – saving for the future at the expense of enjoying life now.

Anyone close to either danger zone needs to recognize and acknowledge their situation. Awareness is key. You can always change your habits to arrive at a balance to provide for the future while living for today.

Finding the balance for couples

Anyone might think that a spender and saver living under the same roof spells trouble. But such a couple

has the potential to find a healthy balance between spending and saving. It just requires understanding, communication and compromise.

Interestingly, two spouses who are both savers or both spenders could have the greater challenge. Although their money personalities match, the savers need to make sure they won't one day regret missing out on life's pleasures. The spenders must be watchful that they don't sacrifice their lifestyle in retirement for the lifestyle they enjoy now.

When we can help

Sometimes you may face a situation where you wonder whether spending a large sum will affect your financial situation. Will a long trip to Europe mean you need to start budgeting? Will purchasing a vacation property force you to retire later? You can contact us when these situations arise. We can help you determine whether spending now will affect your current financial life or long-term goals.

Investing

Looking at the lure of GICs

With Guaranteed Investment Certificates (GICs) recently offering yields upward of 4%, many investors wonder whether they should choose GICs for part of their portfolio.

First, there are a couple of factors to consider. You can't look at the interest rate in isolation. You must deduct the inflation rate from a GIC's interest rate to determine its real rate of return.

Also, you must consider the investment vehicle's tax treatment. If you hold GICs in a Tax-Free Savings Account (TFSA) or First Home Savings Account (FHSA), no tax on interest income is payable. But anywhere else, tax is payable on interest income at your marginal rate.

Shorter-term savings

When GICs earn higher rates, you have a new opportunity to save for a vacation, wedding, home improvements or any other short-term goal. GICs can also be valuable when you move to safety as a time

horizon shortens, such as the last years of a Registered Education Savings Plan (RESP).

Long-term investing

Purchasing GICs for long-term investing is a case of "it depends."

Say an investor purchases GICs with funds they normally would have invested in the equity and bond markets. What happens if interest rates have fallen when the GICs mature? That means GIC rates also fall, and the investor doesn't want to reinvest in low-yielding GICs. They want to resume investing in bonds and equities. But bonds do well when rates go down, and the investor has been missing out. If the stock market has also risen in the meantime, the individual must



buy back in at higher prices. The potential risk is choosing short-term gains over long-term growth.

However, many long-term investors – especially conservative investors – may feel quite comfortable including GICs as part of their fixed-income allocation when they can take advantage of higher rates.

Ultimately, whether or not to use GICs for long-term investing depends on each investor's needs and risk tolerance, so it's a decision to make with your advisor.

Safeguard your assets with a trusted contact person



Just over two years ago, the Canadian Securities Administrators (CSA) introduced the concept of a “trusted contact person,” which has now been adopted across the country.

An investor may give their advisor the name of a family member, close friend or trustworthy professional. The CSA recommends choosing a

different person than the individual you appointed for your power of attorney or mandate. Suppose the advisor is ever concerned that the investor is becoming less able to make sound financial decisions or may be vulnerable to fraud or financial exploitation. In that case, the advisor can contact the trusted person to address these concerns.

If you haven't yet named someone or wish to replace your trusted contact person, please feel free to contact us. Keep in mind that this measure was not only introduced to protect seniors who may be developing dementia. Younger individuals can suffer cognitive impairment from an illness or injury, and people of any age can be exploited financially.

Dedicating savings for a specific need or want



Anyone saving for their child's education costs or their own retirement typically makes regular contributions to a registered plan.

But what if you're saving for a trip to Europe or a kitchen renovation? Or a larger goal, such as the down payment on a vacation property or the cost of potential long-term care?

One method is to establish a savings fund dedicated to meeting

a specific goal. You identify the need or want, choose when you want to reach it and determine its cost – your financial goal. Then you calculate how much to contribute each pay period or month. A Tax-Free Savings Account (TFSA) is an ideal savings vehicle for a dedicated savings fund, although a non-registered account may suit some situations.

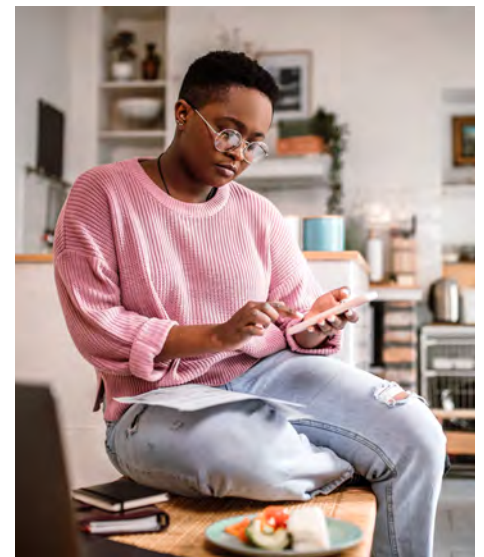
Using a dedicated savings fund offers several benefits over haphazard savings. Psychologically, you'll feel confident that you're on the path to achieving a financial goal. Financially, you'll avoid using a credit card or line of credit and paying interest, and you won't be tempted to tap your retirement savings or emergency fund.

Investing a large lump sum

If you're about to invest a significant lump sum, you may wonder whether you're better off investing the entire sum at once or investing smaller amounts over time.

It's actually a widely debated topic in the investment world with no one answer that's right for everyone.

A key factor is how markets perform in the near term, once you invest. If markets generally climb, then you typically come out ahead by investing the entire amount at once – you bought at a good price and your lump sum investment increases in value. But if markets generally fall after you invest, investing periodically can win out because you're buying into the market at lower prices, standing to benefit when the market recovers.



Fortunately, it's not a decision you must make alone. We'll work with you to determine whether a lump sum investment or periodic investments – or a combination – suits you best. It's a decision based on several factors, including your risk tolerance, investment objective, asset allocation and time horizon.