RBC Dominion Securities Inc.
KING CLARKE WEALTH MANAGEMENT'S

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Quarterly Newsletter

Views and opinions
for the clients and friends of

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Making the most of your RRSP

When it comes to saving for your retirement, you just can't beat the tax advantages offered by your Registered Retirement Savings Plan (RRSP). Here are some tips on making the most of your RRSP

1. Maximize your RRSP contributions every year

Not only are your contributions tax-deductible, they also grow on a tax-deferred basis. In other words, you don't pay taxes on the investment income earned within your RRSP, until you eventually withdraw it. This can result in significantly greater growth over time.

Make your maximum contribution every year and, if you have unused RRSP contribution room from previous years, catch up as soon as possible. Also consider contributing earlier in the year, or at regular intervals throughout the year. This can result in greater growth over time compared to contributing a lump sum at the end of the year.

2. Set the right asset mix for your life stage

Your RRSP's risk/reward tradeoff is largely based on your asset mix between stocks, bonds and cash. Stocks tend to provide higher returns over 10-20 years, but fluctuate more in value. Bonds and cash tend to provide lower, but more consistent returns. How you balance these three asset classes largely depends on your life stage.

When you have 10 or 20 years to go before retirement, time is on your side, so you can afford to allocate more of your RRSP to stocks. As you approach retirement, it's generally a good idea to add some more stability to your RRSP with a fairly even balance between stocks and bonds.

Making the most of your RRSP

During retirement, shift your balance more towards bonds to provide income and stability. Allocate part of your portfolio to stocks to enhance the longevity of your savings, which is particularly important given today's longer life spans.

3. Reduce future taxes now – with a spousal RRSP

In Canada, the higher your income, the higher your tax rate. Because of this, it can make sense to "split" your income with your spouse, so that you have two smaller retirement incomes taxed at a lower combined rate, instead of one bigger one taxed at a higher rate. The spouse expected to have the higher retirement income can do this by contributing to a spousal RRSP on behalf of the lower-income spouse, who will then receive income from the spousal RRSP during retirement.

4. Go global to reduce risk and enhance return potential

With the elimination of the foreign content limit on RRSPs, you have an opportunity to increase your allocation to global investments. By diversifying your RRSP's assets among different geographic areas, you can offset the impact of negative performance in one area with stronger performance in another. In addition, many major global markets have outperformed Canada over the long term.

5. Bring it all together

If you find it difficult to determine how much you have saved for retirement – or what rate of return you are getting on your savings – you could probably benefit from a consolidation strategy. By consolidating your savings into one overall plan, you can reduce the extra costs associated with multiple RRSP accounts, while making it easier to understand where you stand today, and where you will be tomorrow.

6. Making your 2014 RRSP contribution

The deadline for your 2014 contribution is Tuesday, March 3rd, 2015 You can contribute up to 18% of your 2013 earned income to a maximum of $24,270, minus any pension adjustment from your 2013 T4 tax slip.

Bank of Canada Cuts Rates to Blunt Effects of Lower Oil

The Bank of Canada (BoC) unexpectedly lowered its overnight rate target by 25 basis points (bps) to 0.75% on Wednesday January 21, in response to the challenges that lower oil prices pose for near-term growth and inflation in Canada. BoC Governor Stephen Poloz characterized the rate cut as "insurance" for the economy given how the slide in oil prices is likely to affect investment in energy-related sectors of the economy and also push inflation even further below a level the central bank is comfortable with.

While the oil price drop likely represents a headwind for the Canadian economy, the BoC recognized that it could take steps to stimulate other parts of the Canadian economy in order to offset the expected slowdown in the oil patch. By reducing rates, the BoC hopes to provide a further boost to the nascent recovery in Canadian manufacturing. That recovery has already been helped by the oil and natural gas declines, which are significant input costs, and the sharp decline in the loonie over the past year, which has helped to make Canadian exports more competitive in the U.S. and global markets. The rate reduction aims to take this a step further as it not only has pushed the loonie even lower, but it has also lowered the cost of borrowing for Canadian businesses, which should help to stimulate investment. Further, with the Federal Reserve preparing to potentially hike interest rates sometime this year, and the Bank of Canada considering further accommodation, we believe pressure on the Canadian dollar could linger in the near term.

The reduction in interest rates and the Canadian dollar represents challenges and opportunities for investors, in our opinion. The BoC's rate cut makes an already-challenging investment environment in fixed income even tougher. Yet, this is a reminder that having a disciplined approach to investing is critical for investors looking to meet income needs and maintain the benefits of portfolio diversification. For equities, lower rates generally lend support to valuation multiples, but the benefits vary by sector. Telecom services providers, utilities, and REITs are likely to be most positively impacted, in our opinion. At the other end of the spectrum, a prolonged period of lower interest rates would present a significant challenge for life insurance companies. A weaker Canadian dollar would also have a positive impact on the earnings of Canadian companies that derive a significant proportion of their revenues outside of Canada and//or price goods in U.S. dollars (e.g., forest products). Overall, the challenges posed by lower oil prices continue to suggest that global diversification remains key for Canadian investors.

Weathering the storm

Strategies for surviving stormy stock markets

During periods of stock market volatility, the common wisdom is to sit tight and wait for it to pass. For the most part, that's good advice, especially when your investment portfolio is properly designed to weather volatile markets.

Take a rational look at your investments

So far you've resisted the urge to sell everything and stuff your money under the mattress. Now's not the time to start second-guessing yourself. But it is time to take a rational look at your investments to ensure they're still right for you.

Market volatility can be very indiscriminate, affecting good, bad and indifferent stocks. The key is determining which stocks are most likely to bounce back when the volatility abates – and which ones aren't.

Volatility can expose underlying weaknesses in certain stocks, which were previously buoyed up by generally positive markets. Even when the market volatility settles down, these stocks may take a longer time to recover – if they recover at all. On the other hand, stocks with strong underlying fundamentals are more likely to recover quickly and continue growing.

Regard it as a buying opportunity

Normally when something goes on sale, people regard it as an opportunity to get a good bargain. But when stocks go on sale, people tend to shy away or even sell what they already have. Regard stocks like you would anything else that goes on sale. If they're on sale because there's a problem, don't buy them. But if they're on sale simply because there's a sale, consider buying. It could be an excellent opportunity to buy something with a higher intrinsic value at a temporarily lower price.

Review your level of diversification

You've heard it before and you'll hear it again – diversification is the key to reducing risk in your portfolio. The idea is simple – you invest in a variety of different types of investments, so that if one investment goes down, you don't lose your shirt. But how you diversify can be quite complex. Beyond the tried-and-true technique of diversifying by asset class (stocks, bonds and cash), there are several other techniques. You can diversify by geographic area, industry sector and investment style – just to name a few.

What's more, diversification isn't a one-time thing. Especially during volatile markets it's important to stay on top of it, as moving markets can shift your asset mix too heavily in one direction or another. Everyone has an optimum level of diversification determined by their comfort with investment risk, their growth and income requirements, the amount of time they have to invest and other factors. Maintaining this optimum level requires constant adjustments – particularly when markets are in flux.

Reassess your own comfort with risk

The stock markets climbed steadily from 2003 to reach record highs over the summer, lulling many investors into a false sense of security. It's easy to become complacent about investment risk when the markets are well behaved, leading many investors to overstate their true risk tolerance and choose a more aggressive investment strategy. Then, when the markets go into a period of volatility, these investors find themselves suddenly uncomfortable with the risks they were perfectly comfortable with before (when the markets were going up). If you're feeling uncomfortable about the current volatility, it may be a sign that you should take an honest look at your real risk tolerance and possibly adjust your investment strategy so you can get a good night's sleep.

Keep your investment plan up to date

Think long term. Stay the course. Stick to your plan. These commonly prescribed remedies for market volatility all sound good in theory, but what if your plan needs to be changed? Investment plans do need to be updated regularly, not only as market conditions change, but also as your personal circumstances and goals change. You should review your plan at regular intervals and whenever there's an important life event, such as starting a new job or business, changing your marital status or receiving an inheritance.

We are continually monitoring the markets and contacting clients immediately whenever we believe action needs to be taken. However, if you have any questions about your investments – please do not hesitate to contact us.

Farewell!

It is with mixed feelings we say goodbye to our good friend and colleague Claudine King.

Claudine is a veteran of the financial service industry with over 38 years of experience. Claudine brought a wealth of knowledge from her years at The Royal Bank of Canada when she moved to RBC Dominion Securities 18 years ago. During her career she maintained a client centered approach and an unfading desire to do her very best for her clients. Claudine has been a pleasure to work with and for, and will be dearly missed.

Claudine is looking forward to spending time between her homes here in White Rock and in California. She is also a bit of a travel bug and has numerous overseas trips in the works, as well as a trip to New Brunswick to visit her two daughters.

We wish her all the best!