

DENHAM LOREE

An exclusive newsletter for the friends and clients of Matthew Denham & Grant Loree

SPRING 2012

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Global Diversification

EVEN WITH CANADA'S STRONG PERFORMANCE, IT STILL MAKES SENSE

Global diversification is one of the "golden rules" when it comes to investing in your Registered Retirement Savings Plan (RRSP). But like many Canadians, you may be wondering why it's so important to diversify your RRSP with global investments. After all, Canadian stocks have been a solid investment for many years, while other stock markets, most notably the U.S., have struggled.

However, there are some good reasons for investing outside of Canada – and while it may come as a surprise, the recent strong performance of Canadian markets is one of them. While the Canadian stock market still offers good value, many Canadian stocks now trade at large premiums to their global peers. Valuations will tend to revert to the mean over time (those that are above average will trend down toward the average and those that are below average will trend up toward the average), which could weigh on the

performance of some Canadian stocks in the years to come.

Canada's strong performance also means that your RRSP may now hold a greater percentage of Canadian investments than it did a few years ago. For example, say you had diversified your RRSP a few years ago with 70% Canadian investments and 30% global investments. But now, due to its relatively strong performance, the Canadian component of your RRSP might account for 80% of your RRSP's market value, while the global component has dropped to only 20%.

Why is this important? Because setting – and maintaining – the right balance of global and Canadian investments helps reduce risk. Diversifying globally helps reduce risk because stocks in different parts of the world do not always go up or down at the same time. When you have a globally diversified RRSP, weaker performance in any single part of the world – including Canada – can be offset by stronger performance in another.

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Canada's markets are also concentrated in just a few industrial sectors – namely, the Financial, Materials and Energy sectors. Just as you can diversify by geographic area, you can also diversify by industry sector to reduce risk. So when you forgo global stocks in your RRSP, you not only forgo the risk-reduction benefits offered by global diversification – you also forgo the risk-reduction benefits offered by sector diversification.

In addition to reducing risk, there are many other reasons to diversify your RRSP globally, including:

Greater opportunity

Canada only represents 3% of the investment opportunities available worldwide. That means the vast majority of investment opportunities are beyond Canada's borders, in places like the U.S., Europe and Asia. And with Canadian markets strongly weighted in just a few sectors, you may not necessarily be able to find quality companies in certain sectors, if you want to diversify by sector to reduce risk. By going global, you can choose from a larger pool of quality investments in a wider range of sectors.

Enhanced return potential

Several international markets have historically performed better than Canada. By taking advantage of the growth potential offered by global markets, you can enhance your RRSP's return potential. Increasing your RRSP's rate of return by even one or two percentage points can have a dramatic impact on your post retirement income.

No more foreign content limit

Up until 2005, the foreign content rule limited RRSP accounts to invest only 30% in global investments. With the elimination of the rule, you now have more flexibility in choosing the investments that can best help you achieve your retirement goals.

Contact us for more information about setting the right level of global diversification in your RRSP.

ANNOUNCEMENTS



Matthew and Grant are pleased to announce Tracey Spence-Sebalj was the recipient of the RBC Award of Excellence. This national award recognizes those who make a truly special contribution in their role to create an exceptional client experience. Congratulations, Tracey!

On a personal note, Matthew and his wife, Elizabeth, are excited about the upcoming addition to the Denham family. They are expecting their third child in August. Their first, a baby boy named Anderson Ryan, was born April 3, 2009 and second, a baby girl named Everleigh Sarah, was born September 18, 2010. Matthew & Elizabeth cannot wait to see what August will bring!



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