Sandra Sparanese's

FINANCIAL FOCUS

Spring/Summer 2016

Views and opinions for the clients and friends of

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Welcome to Spring/Summer 2016!

The start of 2016 has certainly been a wild ride for investors. What many felt could be a relapse of the global financial crisis in January, turned out to be a garden variety market correction in which good assets went on sale for a limited time period. Staying invested proved to be the best strategy, as short-term paper losses during January and February were recovered in the months following. Investors that remained invested during this time were rewarded for their patience.

What will the balance of 2016 look like for financial markets? We still feel that the three issues causing market volatility during 2015 will continue to be in focus during 2016. The U.S. interest rate policy, the price of oil, and growth in China are still some of the hot topics for 2016. The U.K. "Brexit" vote on June 23rd could provide some short term volatility as well. I continue to remind clients that interest rate increases in the U.S. will be a positive event because it signals that the growth in the U.S. economy is strong enough to support a rate increase. We are not expecting the Bank of Canada to increase rates over the next 12 months.

I also continue to remind clients that participating in the stock market really means that you are taking the "investor oath" which means acceptance of both good and bad market conditions to achieve the long term goal of investment success. I continue to work with clients providing financial projections in order to make decisions about retirement. Every client situation is a unique puzzle. Putting all of the pieces together to demonstrate what retirement income will look like is very specific for each client. I enjoy providing the information for clients to make informed decisions about their future retirement income.

As my long-time clients will attest, I fully endorse financial literacy. My job is to educate clients to the point where they feel empowered to make a financial decision. This newsletter is meant to supplement our review time together, as well as my weekly e-mail Monday Market Comments. There will be many conversations this year about fees. As investors better understand how they are being charged, perhaps they will make the time with their Financial Advisor more purposeful and benefit from the services that we can offer.

In my 25+ years in the Financial Services industry, I have found that a "trigger event" will cause people to ask for help. That trigger event could be a divorce, death of a spouse, sale of a business or property, inheritance from a parent or perhaps even a lottery win (it happens!). If you have a friend or family member who could benefit from a conversation, just let me know. There is never any cost or obligation, just good information to make decisions.

Thank you for your readership,

Sandra

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BUCKET PORTFOLIOS

Preparing for a longer retirement

Today, the average 55-year-old Canadian can expect to live to the age of 84, a gain of 24.6 years since 1926. While a good reason to celebrate, it also means that Canadians are now spending nearly as much time in retirement as they do in their working lives. This poses a challenge to retirement savings, which have to last longer than ever before.

How bucket portfolios can help

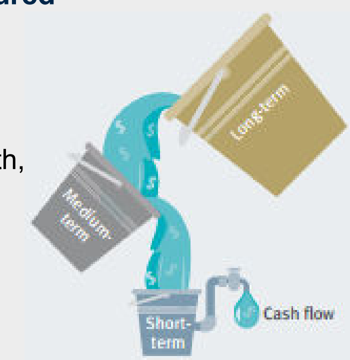
A well-structured approach to portfolio construction can help sustain retirement income over the long run and bring peace of mind.

“Bucketing” means dividing a portfolio into three main investment time horizons: a short-term bucket, a medium-term bucket and a long-term bucket.

The goal is to insulate the long-term bucket from immediate cash flow needs, allowing the equity portion of the portfolio to remain invested longer and grow over time. Annual retirement income is drawn from the short-term bucket, which holds several years in reserve and is topped up from the medium-term bucket. The top-up process is tailored to the investor’s unique circumstances and general market conditions.

How they are structured

The size and holdings of each bucket are determined by an individual’s initial wealth, income requirements and cash flow needs, as well as the risk and return characteristics of the individual asset classes.



Short-term – Income (Years 1-5)
The short-term bucket holds cash and cash-like short-term investments for income withdrawals and emergency funds. It also helps to reduce the impact of short-term market volatility on the portfolio.

Medium-term – Buffer (Years 6-10)
Holds income-generating investments, including low risk, low volatility equities for stable capital gains. This bucket serves as a buffer between the cash bucket and the long-term growth bucket.

Long-term – Growth (Years 10+)
Holds growth-oriented equity funds, which are more volatile but offer higher potential for capital growth to sustain the portfolio for the later years of retirement.

WHY THE LONG-TERM BUCKET MATTERS

The potential benefit of leaving the long-term bucket untouched for longer is clear. The long-term bucket is designed to increase the lifespan of your retirement portfolio. It does this by helping to maximize the time that a portion of your portfolio remains invested in growth-oriented securities. Since cash flow withdrawals are taken from the short-term bucket, your equity securities can be left to grow for a longer period.

THE BUCKETING PROCESS

STEP 1

- Determine how much annual cash flow you will need from your retirement portfolio.
- **Guide:** Estimate your annual expenses in retirement, and from these deduct other sources of cash flow you'll have (e.g. pensions and guaranteed income). The shortfall, if any, is the annual cash flow you'll need from your bucket portfolio. Annual cash flow of up to 4% of your portfolio's value is more likely to be sustainable over long investment periods.

STEP 2

- Ask yourself how many years of cash flow you want to have readily accessible, including emergency funds.
- **Guide:** The short-term bucket is not meant to grow. It is designed to provide you with a higher degree of certainty that your cash flow needs will be met for the next few years (typically 3-5 years of cash flow).

STEP 3

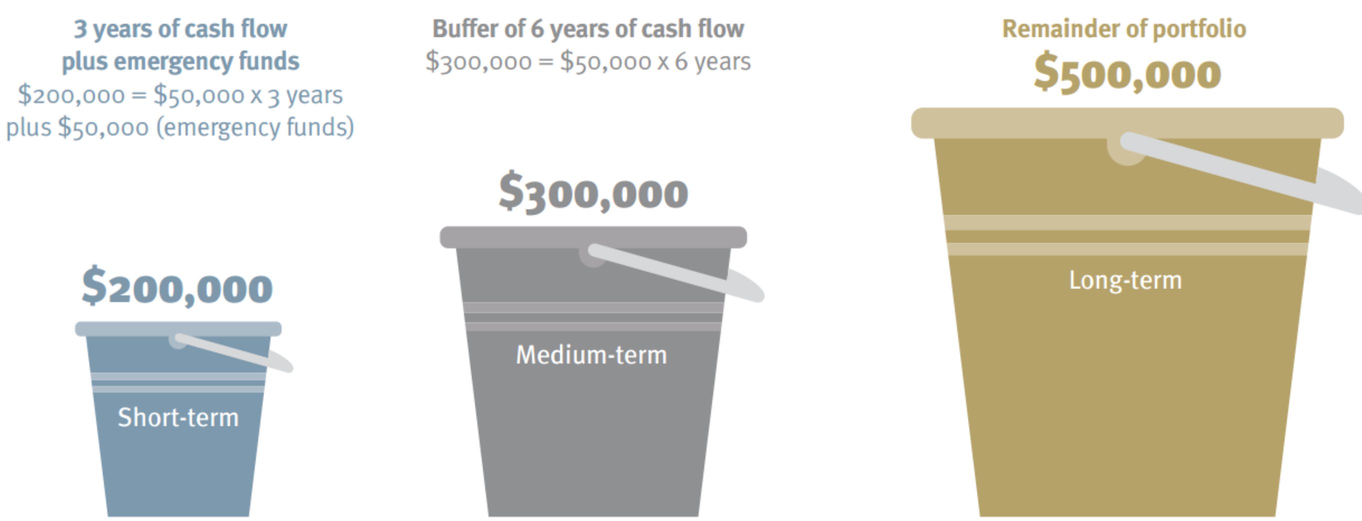
- Create a "buffer" between short-term cash flow needs and long-term growth investments.
- **Guide:** A portfolio's longer-term sustainability could be hurt by selling growth-oriented investments on short notice. The medium-term bucket allows your growth bucket to remain invested. It holds more conservative investments than the growth bucket and can be used to top up the short-term bucket if needed (usually 3-7 years of cash flow).

STEP 4

- Invest the remainder in growth-oriented securities.
- **Guide:** The long-term growth bucket represents the remainder of your portfolio and is comprised primarily of equities. It will vary in size depending on the size of your total portfolio and the number of years of income allocated to the short- and medium-term buckets.

Example of a bucket portfolio strategy

Jane, a new retiree, discusses her retirement cash flow needs with her financial advisor. Together, they estimate that she should have three years of annual cash flow on hand ($50,000 for each year), in addition to $50,000 in emergency funds. The value of her initial retirement portfolio is $1,000,000. They decide to allocate the portfolio to the three buckets as follows:



BUCKET PORTFOLIOS

- Focus on your cash flow needs in retirement.
- Provide a different way of thinking about the components of your portfolio and how they align with your needs.
- Increase the likelihood that you are able to maintain a strategy designed to meet the needs of a longer retirement by staying invested in growth-oriented securities for longer.

ESTATE PLANNING WITH TAX FREE SAVINGS ACCOUNTS

If you have held a Tax Free Savings Account (TFSA) since the program was introduced in 2009, your account value is getting to be sizeable to the point where it is a good time to reflect on your beneficiary designation.

In my experience, I have found that most couples will name their spouse as the beneficiary of the Tax Free Savings Account. There are two options for how to name a spouse: as a 'successor annuitant' or 'beneficiary'.

What are the differences between the "successor annuitant" and "beneficiary" designations and which is the best way to proceed in regards to a spouse? What are the benefits of one designation over the other?

In general, a spouse should be designated as a successor annuitant rather than a beneficiary. Here's why:

When you die, your spouse, as successor annuitant, becomes the new owner of your TFSA. The value of the TFSA and any income it earns after you die continues to be sheltered from tax under the new owner. The surviving spouse can continue to maintain the account, and can contribute new money, subject to his/her own unused contribution room.

If your spouse was designated as beneficiary, the situation is more complicated. When your estate is settled, the full value of the TFSA will be paid to your spouse. He or she has the option to contribute an amount up to the value of the TFSA on your date of death to his/her own TFSA without impacting the contribution room. However, this must be done within a certain time frame, and paperwork has to be filed with Canada Revenue Agency (CRA) when the contribution is made.

So, in order to make sure that the TFSA passes to your spouse as simply and efficiently as possible, the successor annuitant designation is the best option.

Note that only a spouse or common law partner qualifies as a successor annuitant – anyone else must be listed as a designated beneficiary. If you want to pass your TFSA to your child or grandchild, you must name them as the beneficiary and upon your passing, the account is paid out to the beneficiary and closed.

What happens if both spouses die in a common disaster? If no contingent beneficiaries are named, the assets will pass through the estate of the deceased subject to provincial legislation and probate fees. The good news is that you can now name a contingent beneficiary on your Tax Free Savings Account so that if both spouses die in a common disaster, the TFSAs can be paid to the contingent beneficiaries (normally the children) you will avoid the fees associated with probate.