• Scotiabank
investmentinsights
Dedicated to helping you get ahead financially.
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Why invest now

Being able to enjoy the lifestyle you envision for you and your family is one of the reasons you invest. Today, volatile markets have left many investors reluctant to develop or review their plan and make important financial decisions. But, sitting on the sidelines could mean missing opportunities to help you achieve your important financial goals.

Practice the 4Ds

When it comes to investing, practicing the fundamentals is always important, even when it might not be easy. Your *Scotia* advisor can work with you to ensure that you are maximizing your investment opportunities. With the goal of achieving your financial objectives, they will start by reviewing the 4Ds of investing:

1. **Develop/Review:** Together with your *Scotia* advisor, you will create a customized plan that includes reviewing the other 3Ds; Diversify, Discipline and Dollar Cost Averaging.
2. **Diversify:** Review your investment portfolio to ensure that you are properly diversified, taking into account your risk tolerance and time horizon.
3. **Discipline:** Be disciplined and dedicated to your plan to ensure you are on track to achieving your goals.
4. **Dollar Cost Averaging:** Is a solid strategy to leverage ever changing markets.

Tax Tip: Home renovation tax credit

Thinking of undertaking a home renovation project? Now might be the right time to get your plans in order to take advantage of the federal government's Home Renovation Tax Credit (HRTC), introduced in the most recent budget. The HRTC provides a one-time tax credit of up to $1,350 on eligible renovation expenses incurred between January 27, 2009, and February 1, 2010.

Opportunity…to diversify

Are you ready to take advantage of longer-term growth opportunities? If you "parked" your Registered Retirement Savings Plan (RSP) contribution in a short-term cash solution, now may be the time to make your savings work harder for you. Your *Scotia* advisor can help move your cash investments into longer-term growth investments, like mutual funds, that could provide higher returns over the long term.

Do you prefer to leave investment decisions to the professionals? Ask your *Scotia* advisor about managed portfolio solutions, which provide one-stop diversification in professionally managed mutual fund portfolios.

Are you looking for a guaranteed way to invest? Your *Scotia* advisor can help set up a fixed-income "ladder," with Guaranteed Investment Certificates (GICs) coming due for reinvestment every year.

Laddering is a straightforward diversification strategy that can reduce your portfolio's sensitivity to interest-rate fluctuations. When rates are falling, longer-term GICs will continue earning higher rates. When rates are rising, you can reinvest maturing GICs at the current rates.

As an example, instead of investing, say, $10,000 in one 5-year GIC, you could invest $2,000 in five GICs that mature over one, two, three, four, and five years, so that 20% of your portfolio matures each year. When each GIC matures, it could be rolled over into a new five-year product at the best available rate.

Are you still feeling unsure about the markets? Your *Scotia* advisor can help you select highly secure investments such as money market funds and GICs. These fixed-income choices will provide some interest while keeping your original investment safe.

Opportunity…to be disciplined

Be sure to meet with your advisor on a regular basis to keep your portfolio on track. Our easy-to-use online tools can also provide you with different scenarios to show you how staying disciplined can help you stay on track.

Right Track Tool shows how being disciplined with your investment plan will benefit you in the long run. It also demonstrates the benefits of staying invested throughout periods of market uncertainty.

Pay Yourself First Tools: Goal Savings helps you stay disciplined by determining how much you need to save on a regular basis for a specific short-term goal, such as a vacation or down payment on a home.

Pay Yourself First Tools: Retirement Savings illustrates the benefits of being disciplined by saving early and regularly in order to reach your long-term goals.

Opportunity…to take advantage of dollar cost averaging

One of the best ways to take advantage of market opportunities is to keep investing through a pre-authorized contribution plan. Having money automatically directed to your RSP/Investment or Tax Free Savings Account (TFSA) is one of the best ways to reach your longer-term goals. Here are just four of the reasons why:

1. It's easier to come up with small amounts than large lump-sum contributions.
2. Regular contributions to your savings plans allow you to buy more mutual fund units when prices are low. This powerful strategy is known as dollar cost averaging.
3. It's convenient and easy to set up. And, you can modify your contributions as your cash flow changes.
4. The sooner you invest, the more time your money has to benefit from the power of compound growth.

Find out for yourself about the many advantages of regular investing by trying our *ican Invest Program Lite*. All of our tools can be found on our website at **www.scotiabank.com**.

Whether you're feeling optimistic about investment opportunities or more guarded, your *Scotia* advisor can help you stay focused on your goals and suggest appropriate investments for your long-term and short-term objectives. Schedule a visit today.

Retirement Corner: Why consolidating your RSPs is a good idea

Do you have different RSP accounts at different institutions? If you have more than one RSP, it can be difficult to stay on top of your investments. By consolidating, you reduce the number of statements you receive every quarter, which makes it easier to stay on track.

You might also save money when you consolidate if your financial institution charges administrative fees. And when you're ready to convert your RSP to a Registered Retirement Income Fund (RRIF), having just one RSP will make the whole process much easier. It will also be more convenient to set up payments from your RRIF when you have only one plan.

Feedback

We want to know what you think. How would you like to see *Investment Insights* improved? What would you like to see more of? Email your comments to *feedback@scotiabank.com* and the first 500 readers who respond with your mailing address included will be mailed a free copy of Gordon Pape's new book on Tax Free Savings Accounts*.

* Include your full name and mailing address in your email. Book recipients will be notified with a response email. Approximately 3-6 weeks for delivery. Limit of one book per person.

TFSA Q&A:
Your questions answered

Pape's Corner

At first glance, Tax Free Savings Accounts (TFSAs) appear to be simple and straightforward. You make a contribution (up to $5,000 annually) and the income on your investment grows tax-free. When you want the money, you withdraw it, just like a bank account. What could be easier? Even with this simple basic structure, there are more things to consider with a TFSA to be certain you're taking full advantage of your account.

Questions have been pouring in ever since the publication of my book *Tax-Free Savings Accounts: A Guide to TFSAs* and *How They Can Make You Rich*. Here are answers to some of them.

Q: Can I have more than one TFSA as long as the total contribution to all of them does not exceed $5,000?

A: You can open as many TFSAs as you want, just as you can with Registered Retirement Savings Plans (RSPs). However, be sure you really need more than one because additional accounts mean more paperwork, and keeping track of the investments becomes more complicated.

Q: I have two sons in university. They pay no tax because of their tuition deductions, so any money they receive interest on is tax free. Can they wait and add to their TFSAs once they are employed – in other words, deposit the $5,000 "retroactively"?

A: TFSAs have the same carry-forward privileges as RSPs; it is not a "use it or lose it" situation. If contribution room is not used in a given year it is added to the next year's limit, so your sons can wait to open accounts. However, they will lose out on the years of tax-free compounding until then.

Q: Can I use my TFSA as collateral?

A: Yes. This is one of the major differences between TFSAs and RRSPs. The assets within a TFSA may be pledged as collateral against a loan. However, you may find that you will be prohibited from making withdrawals as long as the loan is outstanding.

Q: We are very intrigued by TFSAs. But to contribute $5,000 each per year would require a contribution of approximately $833 per month. How would you recommend going about this?

A: Most Canadians receive an income tax refund each year. If you are among them, use that money to start a TFSA for each of you. That will reduce the additional monthly contribution you need.

Q: Would it be smart to invest $5,000 in a TFSA now, withdraw the funds in December, and apply the proceeds against my mortgage? In January 2010, I would invest $10,000 in my TFSA and, in December, withdraw the total amount to pay against my mortgage, repeating this strategy year after year.

A: This approach only makes sense if the rate of return you achieve within the TFSA is higher than the interest rate on your mortgage. For example, if your mortgage rate is 4.5%, but you can only earn 3% within your TFSA, you would be better off applying the $5,000 against the mortgage principal immediately rather than waiting.

If you have a TFSA question, email it to *Gordon.pape@buildingwealth.ca* with "Scotiabank TFSA question" in the subject line. I post the answers to five questions each week on the *BuildingWealth.ca* website.

Gordon Pape has authored or co-authored more than 40 books on investing and personal finance. His latest book is *Tax-Free Savings Accounts: A Guide to TFSAs* and *How They Can Make You Rich.*

Taking the global pulse

The global economy is showing signs of recovery after a fall and winter of intense financial turmoil. Economic news should lean toward the positive, tempered with cautious optimism.

Enormous fiscal stimulus has energized China on the road to recovery, with U.S. recovery appearing to lead developed counties, thus far. The U.S. revival hinges on resolving home-grown problems, with Canada's recovery dependent on the resolution of external events.

Exports account for 35% of Canadian activity with 75% of those destined for the U.S. market. Canada has also become much more dependent on commodity exports – which account for about half of our export earnings.

For Canadian businesses focused on U.S. markets, particularly auto and housing, the turnaround in demand will be low as Americans rebuild their savings and are forced to spend within their means and limit their borrowing.

The news is better in the resource sector, where many Canadian producers are already benefitting from rising demand from China and other nations. However, commodity price gains probably won't fully retrace last year's unprecedented collapse. The energy industry will also be cautious about ramping up spending on previously shelved megaprojects, because of the uncertainty over environmental regulations and associated remediation costs.

More generally, Canadian exporters may have to contend with a high-flying Loonie if commodity markets continue to improve, and U.S. fiscal and trade deficits undermine demand for U.S. dollar investments. It will take a lawn full of "green shoots" before recession-hardened businesses contemplate revisiting previous expansion plans and new hiring finally surpasses job losses.

That being said, we will see the significant monetary and fiscal stimulus packages from governments here and abroad begin to gain traction in the months ahead, and some of the government sponsored shovel-ready infrastructure projects begin.

Central banks will keep interest rates low and lingering excess capacity will keep inflation in check. Business, household and investor confidence will begin to recover. The aggressive reining in of inventories by retailers and manufacturers over the past year also has reduced a major impediment to the rekindling of growth in the second half of 2009.

For now, the worst of the bad news in this economic setback appears to be behind us.

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