



**JACQUES F. LIWANPO**  
CHARTERED ACCOUNTANT  
CERTIFIED FINANCIAL PLANNER

Choose with confidence, get the CA and CFP advantage



## Newsletter

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### **Reality Check: Will you be ready for retirement?**

*If you're worried about having enough savings for retirement, here are some steps you can take to assess your situation and get your strategy on track.*

#### **Take Stock:**

First, to properly plan for the future, you need to know where you stand in the here-and-now. To do that, you need to calculate your net worth. First, add up the value of your home, your investments, your pension plan, your RRSP and other assets. Next, total your liabilities—your mortgage, personal loans, credit cards and other debts and obligations you may have. Subtracting liabilities from assets should provide you with a rough estimate of your net worth. This will help you determine how much you'll have to save in the years ahead.

#### **Make retirement savings a top priority:**

You may have other competing concerns, such as saving for your children's or grandchildren's education. But it's equally important to make sure you have adequate funds set aside for your later years. Otherwise, your children could end up having to support you.

#### **Cut expenses:**

Start by identifying all the ways you could trim at

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least \$100 in spending over the course of the year. Many people find this exercise surprisingly painless, and the savings will add up faster than you might think.

#### **Get out of debt:**

Deal with your most expensive debts first. In most cases, that's credit cards. Arrange to take out a debt consolidation loan that will charge a lower interest rate. If debt is a major problem, consult your community credit counselling agency.

#### **Work longer:**

While this may mean putting off your retirement plans, working a few years longer - even on a part-time basis - can boost your finances. In addition to gaining extra income, delaying retirement can allow you to postpone drawing on your retirement savings and your pension and government benefits. That could also mean you'll get larger payments down the road.

#### **Work with a professional:**

If you haven't done so already, take the time to find a financial advisor you can trust — preferably who has helped people in your situation before. Working together, you can create a personalized savings plan that will lead to a comfortable, secure retirement.



## **Strategies for Tough Investment Times!**

(By: Jacques F. Liwanpo, CA CFP)

*No doubt, it can be painful and upsetting to watch your hard earned investments drop. No strategy can fully insulate you from a market decline, but here are five strategies for investing in difficult markets.*

When markets are volatile, it's natural to be worried about the impact on your portfolio. And when you're worried, you want to take action. However, it's important to recognize that sometimes the best course of action may be to do nothing. If you have a sound investment plan, you already may be in the best possible position to weather the market storms.

We realize that it can be painful and upsetting to watch the value of your investments experience a significant drop. To assist you in understanding market volatility and in protecting your portfolio, we present five strategies for dealing with difficult markets.

There is no strategy that can fully insulate you from a market decline. Nevertheless, we have been through severe market volatility before, and these strategies have been proven to add value and to position investors to prosper over the long term.

### Five Investment strategies

1. Take a long-term view
2. Be diversified
3. Resist the temptation of market timing
4. Take advantage of market volatility
5. Seek professional advice

#### **1) Take a long-term view:**

Any sharp decline in the stock market is often accompanied by dire headlines in the media, often using words like *crisis* or *meltdown*. Although the news reporting helps to create a climate of urgency and fear, the fact is that volatility is a normal part of investing.

A look at the long-term performance of the S&P/TSX Composite Index, shows that fluctuations are not unusual. There have been five significant declines exceeding 20% on the Canadian market since 1977, including the most recent downturn in 2008. That's once every six years, on average.

However, even though market volatility is not unusual, it can still be unsettling. That's why it's also important to remember that market declines have been followed by even greater recoveries. After every significant decline, stock market eventually retraced its losses and went on to post new highs. In other words, the stock market



moves in short-term cycles but *the long-term trend is up*.

In fact, the S&P/TSX Composite Index has posted a very respectable average annual return of 9.1% over the 25 years ending September 30, 2008. But to reach that return, investors had to travel through some peaks and valleys.

One defence against market volatility is to try to put the daily news into a long-term perspective. Despite the crisis reporting, we know that recessions end, that businesses continue to operate, and that economies and markets recover and grow.

## 2) Be diversified:

Diversification is a key principle in investing, and it refers to the practice of spreading your investments among the different asset classes: stocks, bonds and cash.

These broad asset classes can be further subdivided – stocks, for example, should include Canadian, U.S. and international stocks, as well as large and small company stocks.

*Why is diversification important?* Each asset class performs differently as market and economic conditions change, and there is no way to predict which one will be the leader. A diversified portfolio does produce more stable returns by reducing its exposure to any one asset class.

The process of determining a portfolio's asset mix

is called *strategic asset allocation*. This recognizes that different asset classes have different risk-return profiles. Most portfolios will include some bonds or bond funds, which offer stability but relatively lower long-term returns, and some equities or equity funds, which are more volatile in the short term but have had higher long-term returns.

The goal of strategic asset allocation is to choose a portfolio mix that will maximize returns at a risk level with which you are comfortable (your "risk tolerance").

Your risk tolerance reflects factors such as your investment objectives, the period of time over which you are investing, and so on.

It is important to stick to your asset allocation with a properly diversified portfolio, even when markets are volatile. Your asset allocation should change only when your goals change. Moreover, strategic asset allocation already takes into account the historical volatility of the different asset classes. Changing your asset allocation in response to short-term changes in the markets may actually hamper you in reaching your goals.

## 3) Resist the temptation of market timing:

The ideal strategy for an investor is to sell out of the market before it declines and re-invest just as it begins to recover. Of course, this strategy is nearly impossible to execute in reality. How do you know when to sell and when to buy? There's an old Wall Street saying to the effect that:



“Nobody rings a bell at the top of the market and nobody rings one at the bottom.”

After a sharp decline in the market, many investors naturally want to sell to avoid the potential for further drops in their equity portfolio. Not only does that lock in your losses, but it also raises the question of when to reinvest. Historically, there have been no indicators that have consistently predicted the direction of the market. Even the economy is not a reliable predictor, because the stock market often rebounds months before an economic recovery is evident.

Furthermore, when the market does recover, its gains often come in bursts. Missing those few days or months of strong returns can have a huge impact, as shown in the table. For example, an investor who stayed invested the Canadian stock market over the entire 10 years ending in 2007 would have had an average annual return of 10.0%. Missing just the 10 best days would have reduced that return to 5.7%, while missing the 30 best days would have resulted in negative returns.

***In other words, doing nothing but staying invested can be the best strategy!***

#### **4) Take advantage of market volatility:**

It's difficult to watch your portfolio and the markets decline in value and think that this is a good thing. But some investors do.

Given the stock market's long-term rising trend, market declines have been an opportunity for long-term investors to buy stocks at lower prices. It's as if stocks are on sale. This is the thinking behind this statement by Warren Buffet, one of the world's greatest investors: “Be fearful when others are greedy and greedy only when others are fearful.”

Of course, not everyone has billions of dollars in cash like Warren Buffet. But there are tried and true strategies that anyone can use to take advantage of market volatility: dollar cost averaging and rebalancing.

*Dollar cost averaging* refers to the practice of investing a fixed amount of money at regular intervals, regardless of market moves. The result is that you buy more units when prices are falling and fewer units when prices are rising. In volatile markets, this practice tends to lower the average cost of your investments.

Dollar cost averaging won't protect you against a market decline, but it is an easy, disciplined investment strategy that's been proven to pay off over the long term. A study by research firm Dalbar Inc. found that dollar cost averaging would have produced returns over 20 years that were 40% higher than those experienced by the average investor.

*Rebalancing* is the practice of selling asset classes that have performed well and reinvesting in those asset classes that have underperformed. It is the process used to maintain one's asset allocation



In general, rebalancing ensures that your portfolio remains true to your risk profile, smooths out your returns, and is a disciplined way to make sure you are “selling high and buying low.”

### **5) Professional advice**

Investors are most successful when they are advised by a qualified financial advisor.

Studies show that investment return is far more dependent on investor behaviour than on fund performance. That’s because many investors make decisions that reduce their long-term investment success, such as attempting to time the markets, poor diversification or responding too quickly to news reports. Research shows that investment returns increase when investors are disciplined, and that most investors need the support of an advisor to provide this investment discipline.

A financial advisor can assist you in determining your financial goals and developing an investment plan, including an appropriate asset allocation, that suits your individual needs. Advisors typically provide services that will:

- Clarify your current financial situation, including assets, liabilities, income and expenses
- Help you determine your future financial and personal goals, including living expenses, care for children, and retirement needs.
- Identify problems that may impede the realization of your goals.

- Periodically review your progress and your personal situation, including your objectives and your asset allocation.

Advisors have the expertise and the experience to guide you through difficult times, so that you’re positioned to benefit from the inevitable recovery.



## **Get your property taxes lowered**



***If you can prove that your home is worth less than your property assessment value, you can save yourself thousands of dollars!***

### **How to lower your property taxes:**

Property taxes are usually based on what government assessors think your house would fetch on the market. The higher the assessed value, the higher your taxes.

A homeowner in Thornhill with a house valued at \$350,000 will pay \$500 less in taxes a year if he can prove it’s worth only \$300,000. His total savings could multiply to \$2,000 since homes are assessed only every four years or so.



Getting your assessment lowered is time-consuming but not impossible.

You should start by calling your local assessment office and asking to speak to the person who valued your home. No matter who you speak to, be prepared to explain why your home is overvalued.

A home's value is primarily determined by the neighborhood it's in. But there are special circumstances that assessors sometimes overlook. If your house is on the edge of a busy street or backs onto a industrial property, it's worth less than a house on a quiet tree-lined street just a few hundred metres away.

The condition of your home is another factor. A house without a paved driveway is worth less than one with a paved drive.

But to prove your case you have to know what other homes are worth. The easiest way is to identify houses that you think are comparable to yours and that have recently been sold. Then ask the new owners what they paid. In some provinces you don't even have to leave your living room to get detailed information. In Ontario, for instance, the Municipal Property Assessment Corp., which handles assessments, will let you compare your house to 24 others in the same neighborhood.

Also, check and see if there are any errors on your home's assessment. Maybe the assessors thought

your basement was finished even though it isn't, or they thought you have two washrooms when you only have one. "They may not even have the lot size correct," he says. "It's little details like that which can ultimately make a difference."

