CANADIAN
BANK NOTE
COMPANY, LIMITED

# *Investing For Retirement*

## *A Guide For Canadian Bank Note Employees*

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# Retirement Savings Guide

Your retirement savings plan gives you control and flexibility over the growth of your retirement savings. Understanding the basics of investing, the options available to you, your risk tolerance, and your investor profile will help you make better choices and establish a retirement savings strategy suited to your needs.

In addition, by directing your contributions in the right manner, you will have better chances to meet your retirement goals.

This section is intended to:

- introduce you to the world of investments;
- provide you with tools to assess your risk tolerance; and
- help you make an informed decision.

For information regarding the basics of investing, consult the **Basics** section starting on the following page. **The world of investing** will allow you to learn about the different investment types and their related risk and return. In **How to choose?** you will find case studies of investors like you and a suggested strategy for each scenario.

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*This section is informative in nature. The information it contains can apply to both your retirement savings plans and your personal savings. It is not intended to provide you with investment instructions or advice. For any such matters, you should consult a financial advisor.*




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# Basics

Before you select your investments, you should be aware of the main forces that influence the growth of your investments.

The following contains some basic investment notions, such as:

- the effect of time and compounding
- risk and return
- asset mix
- diversification

## The virtues of compounding

Generally, time is an important factor in investing, but especially in saving for retirement. The earlier you start, the larger your retirement income should be. Each year, the employer and you (if applicable) contribute to the Retirement Savings Program. You receive investment earnings on all of these contributions, based on the rate of return of the investment options you choose.

As the years go by, investment earnings accumulate and are added to your account balance. This is called compounding and it has a major impact on the growth of your savings.

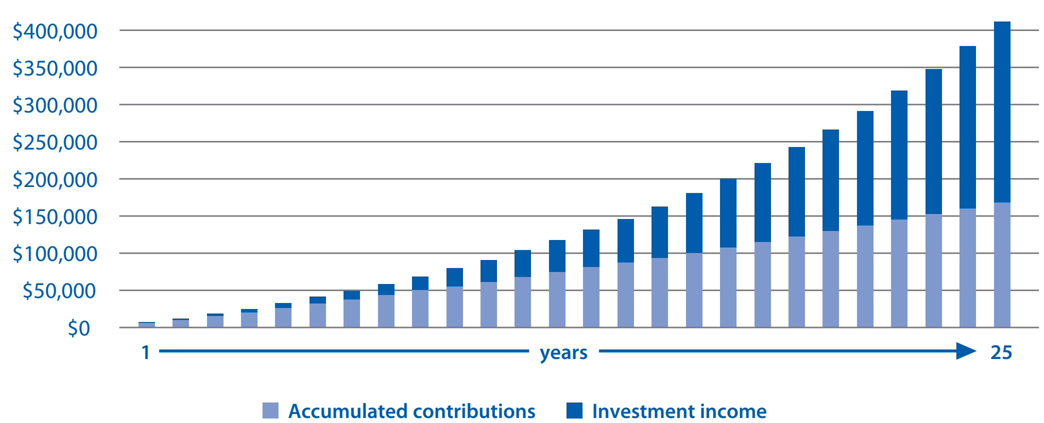
Compounding is basically earning investment income on investment income. Here's an example of how compounding works:

- If you invest $100 and the investment earnings are compounded annually at 10%, you will have $110 at the end of the first year.
- The second year, if you still earn 10% on your $110, you will have $121 at the end of the year.
- The following year, you will earn $12, giving you $133.
- Then $13, for a total of $146.
- Then $15, for a total of $161, and so on.

It doesn't seem like much at first, but over the long term, the additional income adds up. After only 8 years, you have more than doubled your money ($214) without ever contributing another penny.

Let's take a look at how compounding affects your investments in the Retirement Savings Program. Suppose the employer's and your contributions are equivalent to 5% of a $50,000 salary for the next 25 years. Assuming your investments earn a 6.5% return over this period and that your salary increases by 2% each year, the following chart illustrates how your retirement savings would grow with the benefits of compounding. Since the compounding effect is greater over time, it makes sense to start as early as you can.

**Compounding effect**



# Managing risk

In your Retirement Savings Program, your retirement income varies according to your investment decisions. By investing, you are making your money work for you. The higher your contributions are and the greater the rate of return, the greater the balance in your account will be when you retire.

## Risk and return

Rates of return cannot be predicted. They fluctuate over time. Your investment choice contains a certain level of risk and uncertainty. However, generally speaking, the higher the risk, the higher the potential return on your investment in the long run.

## Keep in mind the following basics of investing:

**1 There are no free rides**
In order to obtain a certain level of growth of your assets, you must undertake risk of one kind or another. With every investment decision, a risk is associated. Knowing your investment horizon (long-term or short-term) and your risk tolerance will help you decide the level of risk you are ready to assume.

**2 Think about your horizon**
Your ability to employ the time strategy depends on how soon you are likely to need your retirement funds. Holding your investments for a longer period generally smoothes out the effects of volatility. On the other hand, if you are planning to retire soon, you should consider investment options with a lower risk level.

**3 Know yourself**
Determine how much volatility and risk will allow you to sleep at night. Know and understand the risks involved with each type of investment and asset class (e.g., bonds, equities, etc.). Make sure you are comfortable with the risk level and the degree of volatility of the investments you choose. The What's your investment style? questionnaire can help you determine your tolerance for risk.

**4 The greater the risk, the greater the potential reward**

The market rewards investors who take greater risks with higher returns. However, taking additional risks does not necessarily guarantee higher earnings. You should know the risks and compare them against the possible return. The bottom line is, you can expect a reasonable return for assuming reasonable risk. But the earnings are not guaranteed. They are only potential earnings.

**5 Manage risk**
Investment diversification reduces the overall volatility of your portfolio. Investing in different asset classes will lessen the impact of a loss in any one investment of your portfolio. Evaluate your investments at least annually to ensure that your instructions are still valid.

***Volatility***
*Volatility is the measurement of how much a security fluctuates over a given period. Volatility is a traditional worry for investors. You can reduce the volatility of your portfolio through clever diversification.*

# Risk related to investing

There are several types of risk related to investing. When it comes to choosing your investment options, those risks may cause uncertainty about the future value of your savings.

Remember that risk in the investment sense is not an "all or nothing" concept and not everything is "black or white." Risk can be described in terms of "degree" and the degree that can be tolerated varies based on the investor and the investments.

## Types of risk

**Capital risk** As the market goes up or down, your investments do the same. Their value can increase or decrease. Therefore, there is a risk that your capital will not be preserved intact. In the Retirement Savings Program, your exposure to risk depends on the investment options you choose. For example, equity funds have a higher level of risk than bond funds because return on equities varies a lot from year to year.

**Interest rate risk** Since bond prices fall as interest rates rise, this type of risk is a particular concern for investors who hold mostly **bond funds**. This type of risk has the potential to affect all investors. In the Retirement Savings Program, the funds least susceptible to this type of risk are the balanced funds, because they "balance" simultaneous highs and lows from different asset classes.

**Purchasing power risk** If your investments cannot keep pace with inflation, your money will lose its purchasing power. For example, if, in a given year, the rate of return on your investments is 3%, but the inflation rate is 2%, the "real" rate of return of your account would be 1% (3%-2%) because the cost of living increased by 2% over the last year.

In the Retirement Savings Program, you can offset much of this purchasing power risk through balanced funds. Balanced fund holdings in bonds and equities have historically kept pace with, and even surpassed, inflation. Equities are also considered among the best ways of addressing inflation risk over the long term. There is always some exposure to this type of risk because inflation and interest rates are unpredictable.

**Market risk** Most important for equity funds, but relevant to all funds, this is a measure of how sensitive a fund's holdings are to change in general market conditions. Remember, however, securities that lose value quickly in market declines may often show the strongest gains when the market increases. No plan is immune to market risk. However, the best defence against market risk is **diversification**—for example through the use of balanced funds.

**Currency risk** This is the risk that the value of an investment will be affected by changes in exchange rates. It is also called "exchange rate risk." Currency risk increases as you invest in securities denominated in different types of currencies, such as foreign bonds or equities. The proportion of your portfolio in foreign investments will generally determine your exposure to currency risk.

**Foreign investment risk** Funds invested in foreign equities are affected by stock market and general economic trends in the countries where the securities are issued. Foreign markets may not have standards similar to those in Canada. The value of the securities could be influenced by policies of the foreign government, or by political or social instability. As a result, the value of foreign equities may rise or fall more rapidly and sharply than that of other types of investments. Foreign bond or equity funds may expose you to that type of risk.

***Fund***

*A fund is offered by an investment company that accepts deposits from a large number of investors and invests them in a range of equities, bonds, or money market instruments, depending on the fund's objectives. Funds offer professional management and diversified assets.*

# Asset mix

Asset mix or categories are terms used to describe the range of investments you hold. This includes not only the types of investments chosen, but also the amount you invest in each of them.

The asset mix that is right for you depends on several factors including your age, your investment time horizon, your current financial situation, your retirement goals, and your personal risk tolerance.

As you approach retirement, it becomes important to carefully assess risks that can influence the value of your account, because you may not have time to recover from any losses. You may want to consider moving your assets into the types of investments that provide more security and less volatility.

Some things to remember concerning asset mix:

- Once you pick your mix, don't change it too often (unless your circumstances change).
- Don't try to "time the market" by making sudden shifts in your asset mix; even the professionals have not been good at guessing short-term market direction.
- When you pick a given asset class (e.g., balanced fund, equities), make sure you understand what it is.
- Don't be afraid to ask questions; a better understanding can make a difference.
- Don't expect the employer to choose your asset mix for you; it is your responsibility.
- Don't take an extreme position (e.g., 100% in equities) unless you can afford a loss or you are prepared to stick with that position in a bad market.
- Don't follow trends; set long-term objectives and adjust accordingly.

*!*

*You can determine what kind of investor you are by completing the* **What's your investment style?** *questionnaire within the Investor Profile section.*

## Diversification

Instead of putting all of your eggs in one basket, you can spread the eggs among many baskets thus helping reduce investment risk.

The various asset classes respond differently to market conditions. For example, when the economy is faltering and interest rates are falling, bonds will usually perform well, whereas when the economy is booming, equities will generally outperform bonds. Holding a diversified portfolio invested in various asset classes may reduce the impact of market fluctuations.

There are essentially two ways of obtaining a diversified portfolio:

You can invest in a balanced fund, which includes various asset classes.

You can choose your investments among various funds available. These funds usually represent various asset classes.

***Changing your investment allocation***

*Frequent changes are not recommended. It's very difficult to anticipate shifts in the market in such a way that your investments can reap maximum benefits from small fluctuations in the market. It is therefore preferable to choose an adequate asset mix and to stick with it in the long term.*

# The world of investing

In the world of investing, there are many asset classes. There are also different approaches, or styles of managing investments. This section presents asset classes and investment management styles.

## Asset classes

The asset classes in the Retirement Savings Program are designed to suit the needs of all types of investors.

The main features of the various asset classes are outlined in the following pages. Descriptions in this guide are general. For more detailed information, please see the fact sheets on the investment options available under your program.

## Investment funds

With an investment fund, you invest your savings jointly with other investors. This allows you to invest in the securities market or other sectors of the economy without having to choose individual stocks or bonds yourself. You own a portion of all the investments held by the fund.

There are many investment funds, ranging from those classified by region to those classified by asset class.

The main types are described in this guide:

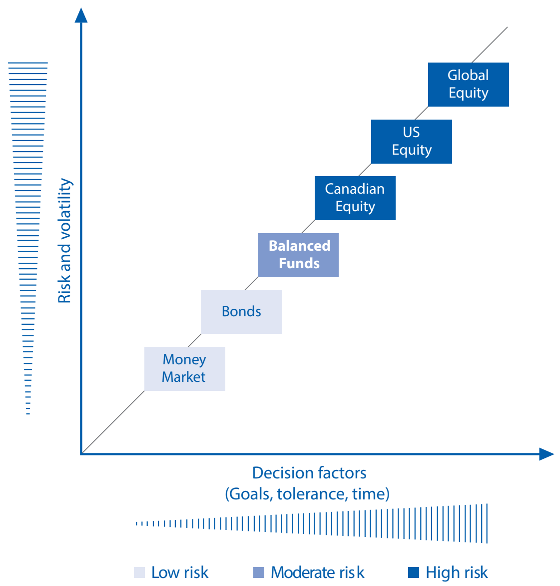
- Money market funds
- Bond funds
- Canadian equity funds
- US equity funds
- Global equity funds
- International equity funds

In addition to these types of funds, there are also balanced funds, which contain a mix of the asset classes in the funds listed above.

It is important that you have an understanding of the degree of risk and the potential long-term return associated with each major asset class, so that you can assess which investments are most appropriate for you.

The following graph shows the degree of risk and potential long-term return associated with each type of fund.

***Rate of return***
***The rate of return measures the profitability of an investment through the income and growth that may be obtained from that investment versus its purchase price or current market price.***



# Money market

## Money market funds

### Characteristics

- Funds that invest in securities issued by governments and corporations to finance their short-term borrowing needs:
- Government of Canada treasury bills
- Bankers' acceptances
- High-quality government and corporate short-term papers

### Potential return

- Long-term return somewhat low
- Potential returns over the long term lower than those of other funds because they are linked to short-term interest rates
- Money invested at current interest rates
- Usually provide steady growth

### Risks

- Level of risk: **very low**
- **Very low market risk:** there is little chance that money market funds will generate negative returns
- **Purchasing power risk:** the most significant risk to which money market funds are exposed over the long term

### This type of investment may appeal to…

- Extremely conservative investors or short-term investors interested in preserving capital
- This type of investment may be appropriate if you do not want to take risks at this time in your life (for example, if you will need your retirement savings in the medium or near term)

# Bonds

## Bond funds

### Characteristics

- Funds invested in debt instruments or fixed-income securities (i.e., loans by the investor to the institution issuing the bond)
- Bonds can be issued by the Government of Canada, provinces, municipalities, corporations, or foreign governments
- Fixed term and fixed interest rate
- Short, medium, or long term
- There are several types of bonds, such as strip bonds, savings bonds, etc.

### Potential return

- Moderate long-term return, usually lower than return on equities
- Return generally in the form of interest, usually paid twice a year, and capital gains (or losses)
- Bond prices move in the opposite direction of interest rates, rising when interest rates fall and falling when interest rates rise
- Fluctuations in the value of bonds smoothed by interest income

### Risks

- Level of risk: **moderate**
- **Moderate** to high **market** and **interest rate risks** since bond values are sensitive to interest rate changes
- Moderate **purchasing power risk**: returns over the long term exceed inflation only slightly, compared to equity investments

### This type of investment may appeal to…

- Conservative medium- or long-term investors who are looking for a low risk (less risk than equity funds, but more risk than money market funds)

# Equities

Equities are shares or "stock" that are publicly traded on stock exchanges.

Due to increases in stock prices and dividends, equity funds are expected to provide a higher level of return over the long term compared to money market, bond, and balanced funds.

Historically, equities have provided the best long-term returns of any investment. However, there are no guaranteed returns on equity funds. There is no way to accurately predict future returns.

There are two main types of equity funds: Canadian equity funds and foreign equity funds. Foreign equity funds include:

- US equity funds
- Global equity funds
- International equity funds

***Portfolio***

*A portfolio is the combination of all the investments (e.g., bond funds, equity funds, balanced funds, and guaranteed investment certificates) that you hold.*

# Canadian equities

## Canadian equity funds

### Characteristics

- Funds that invest in shares of Canadian companies that are well known in the business community and listed on a Canadian stock market, such as the Toronto Stock Exchange (TSX)

### Potential return

- Long-term potential return higher than money market, bond, and balanced funds
- Possibility of swift decline in stock value depending on market fluctuations and the performance of the stocks in the fund
- Possible low or negative returns, particularly over short periods

### Risks

- Level of risk: **high**
- High **market risk**: the Canadian equity funds fluctuate depending on stock market conditions and are considered high-risk investments
- Low **purchasing power risk**: it is reasonable to expect long-term potential returns that exceed inflation

### This type of investment may appeal to…

- Investors who are willing to accept higher risk levels for the possibility of higher returns
- Investors in these funds should have a long-term investment horizon and should not be concerned about market fluctuations in the short term

The Canadian equity market represents approximately 3% of the equity market around the world. Therefore, it could be prudent to diversify your investments in equities by including foreign equities in your portfolio to benefit from the growth in the economy of other regions around the world. In addition, this increased diversification could reduce the overall volatility of your savings.

# Foreign equities

Over the long term, foreign equity investments have performed better than Canadian investments, which may make them more attractive. However, they represent a riskier choice as their returns have varied substantially over time and they may be affected by fluctuations in exchange rates.

## US equity funds

### Characteristics

- Funds that invest in shares of American companies listed on US stock exchanges, such as the New York Stock Exchange (NYSE). These US companies are generally much larger than those in Canada and there are many more of them. They are well-known companies, and in many cases, household names not just in Canada, but around the world
- Represent a much larger and more diversified market than Canadian equity funds

### Potential return

- Higher long-term potential return compared to money market, bond, and balanced funds
- Possibility of swift decline in stock value depending on market fluctuations and the performance of the stocks in the fund

  Possible low or negative returns, particularly over short periods
- Historically, long-term returns generally higher than those of Canadian equity funds
- Possibility of lower return than Canadian equity funds over shorter periods due to slightly higher risk in the short term

### Risks

- Level of risk: **high**
- High **market risk**: US equity funds fluctuate depending on stock market conditions and are considered high-risk investments
- Low **purchasing power risk**: it is reasonable to expect long-term potential returns that exceed inflation
- Moderate **currency** and **foreign-investment risks**: lower compared to international equities

### This type of investment may appeal to…

- Investors who are willing to accept higher risk levels for the possibility of higher returns
- Investors who want greater diversification of the equity portion of their portfolio
- Investors in these funds should have a long-term investment horizon and should not be concerned about market fluctuations in the short term

***Foreign content***
*In its 2005 budget, the federal government abolished the 30% content limit on foreign investments held in registered savings plans such as registered pension plans, registered retirement savings plans, and deferred profit sharing plans.*

## Global equity funds

### Characteristics

- Funds that invest in shares of companies that operate in countries other than Canada and that are listed on stock exchanges such as the New York Stock Exchange (NYSE), the London Stock Exchange (LSE), or the Tokyo Stock Exchange (NIKKEI)
- Represent a much larger and more diversified market than Canadian or US equity funds

### Potential return

- Higher long-term potential return than money market, bond, and balanced funds
- Possibility of swift decline in stock value depending on market fluctuations and the performance of the stocks in the fund
- Possible low or negative returns, particularly over short periods
- Historically, long-term returns generally higher than those of Canadian equity funds
- Possibility of lower return than Canadian equity funds over shorter periods due to slightly higher risk in the short term

### Risks

- Level of risk: **high**
- High **market risk**: global equity funds fluctuate depending on stock market conditions and are considered high-risk investments
- Tempering of the risk through country diversification, which minimizes the portfolio impact of a local economy downturn
- Low **purchasing power risk**: it is reasonable to expect long-term potential returns that exceed inflation
- Moderate **currency risk** since global equity funds are subject to exchange rate fluctuations in relation to the countries where the investments are made
- High **foreign-investment risk**: since some of these markets are less developed than North American markets, they tend to be more sensitive to economic and political changes

### This type of investment may appeal to…

- Investors who are willing to accept higher risk levels for the possibility of higher returns
- Investors who want greater diversification of the equity portion of their portfolio compared to a portfolio invested in Canadian and US equities only
- Investors in these funds should have a long-term investment horizon and should not be concerned about market fluctuations in the short term

## International equity funds

### Characteristics

- Funds that invest in shares of companies outside Canada and the United States that are listed on several international stock exchanges, such as the London Stock Exchange (LSE) or the Tokyo Stock Exchange (NIKKEI)
- Represent a larger market than Canadian or US equity funds

### Potential return

- Higher long-term potential return compared to money market, bond, and balanced funds
- Possible low or negative returns, particularly over short periods
- Historically, long-term returns generally higher than those of Canadian equity funds
- Possibility of lower return than Canadian equity funds over shorter periods due to slightly higher risk in the short term

### Risks

- Level of risk: **high**
- High **market risk**: international equity funds fluctuate depending on stock market conditions and are considered high-risk investments
- Tempering of the risk through country diversification, which minimizes the portfolio impact of a local economy downturn
- Low **purchasing power risk**: potential returns usually exceed inflation in the long term

- Moderate **currency risk** since international equity funds are subject to exchange rate fluctuations in relation to the countries where the investments are made
- High **foreign-investment risk**: since some of these markets are less developed than North American markets, they tend to be more sensitive to economic and political changes

**This type of investment may appeal to…**

- Investors who wish to diversify their investments outside North America and are willing to accept higher risk
- levels for the possibility of higher long-term returns
- Investors in these funds should have a long-term investment horizon and should not be concerned about market fluctuations in the short term

***Global or international equities?***
***Global equity funds invest in stock markets around the world, including Europe, Asia, emerging countries, and the United States. International equity funds exclude the US market.***

# Balanced funds

Balanced funds are made up of investments from the asset classes described above.

With balanced funds, the investor leaves the asset diversification decision to the fund manager. The fund manager sets and then adjusts the asset mix, within pre-defined ranges, in response to changing market conditions and economic cycles.

Balanced funds are not all the same. Their asset allocation—and therefore the associated risks—varies depending on the fund's objective. Some balanced funds are more conservative, others are more aggressive. It is therefore important to check the target allocation of a fund before you invest in it. For example, one balanced fund may invest 25% in bonds and 75% in equities, while another could be invested the other way around. The risk associated with each of these funds will be very different.

Risk will also vary depending on how much of the fund is invested in foreign content.

## Balanced funds

### Characteristics

- Funds that can be invested in the following four asset classes: money market, bonds, Canadian equities, and foreign equities
- The fund manager attempts to obtain the highest possible returns from equity assets and, at the same time, ensure that a portion of the assets are invested in safer, lower risk, less volatile bonds and short-term investments

### Potential return

- Return generally in the form of interest, dividends, and capital gains (or losses)
- Most often, long-term returns are higher than those of bond funds but lower than equity funds
- Balanced funds take advantage of the fact that returns vary by asset class. For example, equities can perform well when bonds don't, and vice versa
- Performance depends mainly on the fund's target allocation, but also on the manager's ability to

select high-quality (above-average) securities, and to make timely adjustments to the asset mix to take advantage of fluctuations in stock and bond prices

### Risks

- Level of risk: **moderate** to high depending on the target asset allocation
- Moderate **market risk**: the value of stocks and bonds fluctuates depending on market conditions and interest rates
- Market risk tempered by the diversification among asset classes
- Low to moderate **purchasing power risk**: potential returns usually exceed inflation in the long term
- Low to moderate **currency and foreign-investment risks**: depending on the asset mix in the fund

### This type of investment may appeal to…

- Investors with a mid- to long-term investment horizon who are looking for a well-diversified portfolio, but who are not comfortable deciding on the asset allocation or who don't have the time or interest to do it themselves
- Investors who are willing to sacrifice some of the potential yield of an equity portfolio in exchange for a reduction in risk. Investors should be able to accept some short- to mid-term volatility

There are two other types of balanced funds: target-date funds (also called "lifecycle" funds) and target-risk funds (also called asset allocation or "lifestyle" funds).

**Target-date funds** focus on growth when the member is young. As the member gets closer to retirement, the funds gradually turn to more conservative investments that aim at preserving capital. These funds automatically rebalance investments based on the member's age and number of years before retirement.

**Target-risk funds** make your investment decisions easier since they are matched to a predetermined investor profile, and their names usually speak for themselves. For example, a family of such funds could include the ABC Conservative Fund, the ABC Moderate Fund, and the ABC Aggressive Fund.

Both types of funds may appeal to members who do not wish to actively manage their retirement savings. They have the potential to meet the needs of most investors.

## Other types of funds

The investor who is more knowledgeable may also be interested in other types of funds that are available on the market, some of which are specialized funds. Before investing in these funds, however, you should understand what's involved and make sure that the type of investment is in line with your retirement savings strategy.

Among these other types of funds, there are:

**Mortgage funds** Mortgage funds invest mostly in residential mortgages but also in commercial or industrial mortgages. These funds generate interest income.

Volatility of mortgage funds is generally low since mortgage periods usually run for less than 5 years.

**Real estate funds** Real estate funds essentially invest in residential or commercial income properties to generate income and capital gains.

**Small capitalization funds** Small capitalization funds aim at providing long-term capital growth and preservation. These funds invest primarily in common shares of companies chosen for their growth potential.

Investing in small companies adds additional dynamic potential growth to a balanced portfolio.

***Index***

*An index is a composite of securities that serves as a barometer for the overall market or some segments of it, such as the S&P/TSX Composite Index, which measures the performance of the Canadian stock market.*



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# Management approach for investment funds

Mutual funds can be classified by the asset classes in them. They can also be classified by the management style: indexed funds and actively managed funds.

## Indexed funds

Indexed funds are managed by tracking a market index, with no intention to outperform the index. An indexed fund manager typically buys and holds all or most of the same securities (or, if not the same securities, securities with the same investment features), in the same general weightings as a benchmark index.

Indexed funds essentially track the performance of the corresponding index (less management fees), whether the index goes up or down.

Fees for indexed funds are generally lower than those for actively managed funds, as less involvement is required from the manager.

## Actively managed funds

The fund manager researches, hand-picks, and actively trades the individual securities that make up the fund. The goal is to produce returns that exceed the benchmark index.

In theory, the potential returns from actively managed funds offset the management fees they charge, which are higher than those charged for indexed funds.

## A few indices

**Scotia Capital 91-Day T-Bill Index**
An index that measures returns of 91-day Canadian treasury bills. Treasury bills are short-term securities issued by the Canadian government.

**Scotia Capital Universe Bond Index**
An index that measures returns of more than 900 negotiable Canadian bonds with a term of more than 1 year. The average term is 9 years and the average duration is 5.5 years. This index is a good benchmark of the overall performance of the Canadian bond market.

**S&P/TSX Composite Index**
An index that measures the performance of widely held common stocks trading on the Toronto Stock Exchange. This index is used to measure the performance of the Canadian stock market.

**S&P 500 Composite Index**
Standard & Poor's index that measures the performance of the common stocks of the 500 leading (based on stock value) US corporations traded on US stock exchanges.

**MSCI World Index**
Morgan Stanley Capital International's index that measures the performance of more than 1,500 stocks traded in 23 stock markets around the world.

**MSCI EAFE Index**
Morgan Stanley Capital International's index that measures the performance of stock markets in 21 developed countries outside of North America (e.g., Europe, Australasia, and the Far East).

# Returns on investment options

The following table shows the past returns of the various types of asset classes and the historical frequency of negative returns over various investment terms.

Past performance does not necessarily guarantee future performance. You should not select your investment options based on historical returns. This information, however, can help you understand how the returns can fluctuate over the years and compare the volatility of the various asset classes.

Annualized return shown below are the returns of indices for the various asset classes (before fees). They do not reflect inflation. Therefore, to know the "real" return of an asset class for a particular period, you must subtract the inflation rate for the given period.

The frequency of negative returns over the last 25 years represents the historical odds of getting a negative return during that period if you had invested for 1, 3, 5, or 10 years.

These statistics clearly show that the risk of obtaining negative returns tends to decrease when you invest for longer periods, regardless of the asset class.

***Past performance***
***Looking at what funds have done in the past is interesting, but not very helpful in making investment allocation decisions. Experience has shown that past performance is not necessarily indicative of future performance.***

| | Annualized returns | | | Frequency of negative returns over the last 25 years | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2011** | **5 yrs** | **10 yrs** | **25 yrs** | **1 yrs** | **3 yrs** | **5 yrs** | **10 yrs** |
| **5-year guaranteed investment certificates** | 2.4% | 2.8% | 5.3% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Money market** | 2.0% | 2.4% | 5.2% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Bonds** | 6.4% | 6.5% | 8.4%* | 3.7% | 0.0% | 0.0% | 0.0% |
| **Canadian equities** | 1.3% | 7.0% | 8.2%* | 27.7% | 17.7% | 2.0% | 0.0% |
| **US equities** | -2.9% | -1.6% | 7.9% | 28.0% | 26.7% | 28.7% | 16.7% |
| **Global equities** | -4.9% | -0.9% | 5.4% | 27.3% | 28.0% | 26.0% | 15.5% |
| **International equities** | -7.2% | 0.1% | 4.1% | 32.0% | 34.3% | 25.7% | 11.1% |
| **Inflation rate (consumer price index)** | 1.9% | 2.1% | 2.4% | n/a | n/a | n/a | n/a |

** Bonds generally have lower long-term returns compared to equities. However, the 25-year return shown above takes into account an extraordinary period during which the rates of return declined dramatically. This explains why the rate of return for bonds is higher than that for Canadian equities.*

# How to choose?

In this section, you will find information to help you with your investment decisions.

It is up to you to select the types of investments appropriate for you and the proportion you wish to invest in each one of them.

But how do you decide which asset allocation is right for you?

Think of the following things in your decision-making process.

**1 Set your own objectives**
When considering your investment strategy, it is important to know your own objectives. You should ask yourself how much you should contribute toward your retirement savings, how much you will need, and if you will have other major sources of income upon retirement. When you wish to retire is also important. For instance, your investment strategy will be different if you are planning to retire in 5 years (short term) or in 25 years (long term). Furthermore, a good evaluation of your financial situation with an independent financial advisor could help.

**2 Think about your investment time horizon**
In most cases, investing for retirement means investing for a long period. It is usually not the best situation to continuously buy and sell investments according to low and high markets or to allocate your investments in short-term vehicles in a disproportionate manner.

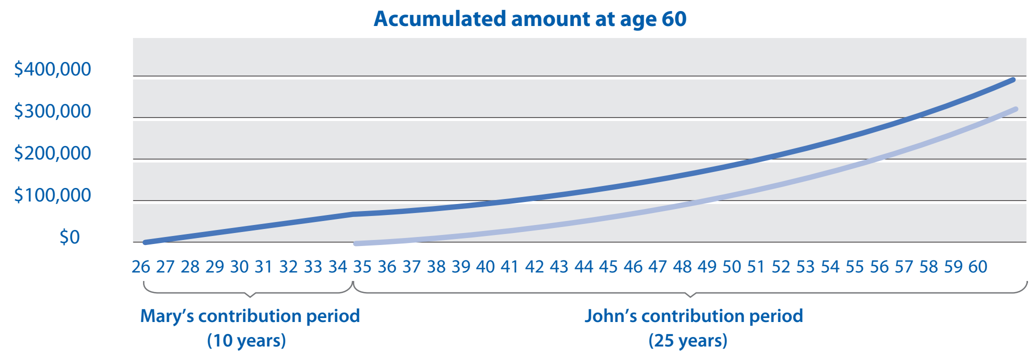
**3 Understand the risk and potential return of the investment**
Read the detailed descriptions for each type of investment. Every investment option involves a trade-off between risk and return. But don't forget about purchasing power risk. To achieve a satisfactory retirement income, it is important that you aim for a long-term rate of return that covers inflation and provides some margin for growth.

**4 Determine your asset mix**
The asset mix that is right for you depends on several factors, including your age and investment time horizon, your current financial situation, your retirement goals, and your personal risk tolerance. A well-diversified portfolio contains a mix of different asset classes and different funds.

# The importance of starting to save early

The sooner you start to save, the more money you will have accumulated when you retire, as illustrated in the following example:

| | Mary | John |
|---|---|---|
| Age of first contribution to RRSP | 25 | 35 |
| Amount of annual contribution | $5,000 | $5,000 |
| Contribution period | 10 years | 25 years |




The graph above shows how much Mary and John will have accumulated after 35 years—that is, at age 60. We assume that the contribution is made at the beginning of each year and that the annual rate of return is 7%.

This example demonstrates that it is more profitable to start to save early. Despite the fact that Mary contributed to her RRSP in the first 10 years only, she will have accumulated more than John, who contributed to his RRSP for 25 years.

# Investors like you…

Here, you will find examples of how investors make their decisions based on their situations. Even if your circumstances appear to be the same as the scenarios presented here, keep in mind that these scenarios are provided **for illustration purposes only**. They do not represent financial advice.

Like all investors, your personal situation, time until retirement, and financial objectives are key factors in your decision.

**You may want to consult an independent financial advisor before making your investment decisions.**

## Scenario 1

Daphne Dawson, 25, is relatively new to the workforce, with less than 5 years of work experience. She is single, but is in a serious relationship. Her situation could therefore evolve in the next few years. Although she likes her job, statistics show that it's likely she'll change employers and/or careers at least three times in the coming years.

Daphne lives in a rented condominium, but is trying to save to buy a house. She has a car loan and a small amount still owing on a student loan. She has limited disposable income and has not thought about retirement nor started saving toward retirement.

**Some considerations for Daphne**

It's difficult to think about retirement savings when the financial obligations of today seem to be taking up all of your income. What Daphne needs to remember is that she has an enormous asset on her side: time. Small regular investments made now, early in her work life, will provide much greater returns than larger investments made 10 or even 15 years from now. Daphne can also afford to invest somewhat aggressively, because she probably has 30 years or more until retirement. As well, Daphne should remember that government retirement programs (Canada Pension Plan or Quebec Pension Plan and Old Age Security) should only be considered as one part of a three-part approach to retirement savings—the others being employer pension plans and personal savings.

Daphne should maximize investment growth. This is why she could consider aggressive balanced funds, which are managed by professionals, thus bringing her peace of mind. She could also invest in equity funds. With the long-term investment horizon she has, these two types of funds may represent the most adequate risk/return balance.

## Scenario 2

John Smith is 40 and is married to Mary, 42. Together, they have one child, Anna, 8. He has a good job and has been with the same company for 11 years. Mary went back to work 3 years ago and plans to stay in the workforce for at least 10 years, at which time they expect to have their house paid off. Combined, they have quite a good income, but they worry that they haven't saved enough either for retirement or for Anna's education.

**Some considerations for John and Mary**

It's easy to get used to "living from paycheque to paycheque and never really thinking about tomorrow." John and Mary need to take stock of their current expenses and see where the money goes. Once they've identified where they spend it, they can make a plan on where to cut back. This will free up some income for investment. They will need to set up a strategy if they want to save for Anna's university education, but they can't forget about their retirement either. Luckily, John is participating in the company's pension plan, and that helps a lot.

John still has about 20 years until his retirement, possibly longer. What they need to remember is that they can still use time to their advantage. They can afford to consider an aggressive plan with a portion of equity components. John could consider moderate or aggressive balanced funds for most of his retirement savings. Since John follows financial markets, he could also select his own portfolio comprised mainly of equity funds. Either approach could represent an interesting risk/return balance according to John's investment time horizon.

## Scenario 3

Frank McBrine is 58 and has been with the same company for 30 years. His wife, Celeste, 57, is not earning an income. Frank has been thinking about retirement for a few years but isn't sure he is ready for the "quiet" life. They have no more children at home, their house is paid for, and although they keep thinking about selling it and moving to their cottage, they are not quite ready to give up the city life. Frank and Celeste have no major debts and have been saving regularly for the last 23 years.

**Some considerations for Frank and Celeste**

Now would be a good time to consult a financial advisor about different retirement income products. The McBrines should have a good idea of what their monthly expenses will be during retirement and need to make sure they choose the best strategy to fund their "golden" years. Being close to retirement, Frank and Celeste should decide whether they want to continue to manage their assets by transferring them to a registered retirement income fund (RRIF) or a life income fund (LIF)—or purchase an annuity.

If they choose to purchase an annuity, their investment horizon will be short. In this case, investing in conservative balanced funds—or bond funds and/or money funds—could be an adequate strategy. If they prefer to continue managing their assets, their investment horizon could well be extended to 20 to 25 years. In this case, moderate balanced funds could better meet their needs.

# Choosing a financial planner

Contrary to what you may think, the financial planning profession in Canada is not regulated, except in Quebec. The quality of advice received can therefore vary greatly from one advisor to another.

There are, however, two well-known professional designations:

**1. Certified Financial Planner (CFP)**

This designation requires members to complete a six-part course and pass a final exam. In addition, there is an annual continuing education requirement.

**2. Registered Financial Planner (RFP)**

An exam and annual continuing education are required to obtain this designation from the Institute of Advanced Financial Planners. All members are required to carry errors and omissions insurance.

To ensure a certain level of competence, look for someone who has also earned a professional designation, such as an actuary or a chartered accountant.

### In the province of Quebec

In Quebec, anyone using the financial planner designation (pl. fin.) must meet the following requirements:

- Hold a diploma delivered by the Institut québécois de planification financière; and
- Hold a valid permit delivered by the Autorité des marchés financiers or be a member of one of the following professional associations: the Ordre des comptables agréés du Québec (CA), the Ordre des CGA du Québec (CGA), the Ordre des administrateurs agréés du Québec (Adm. A.), or the Chambre des notaires du Québec.

To check if a person is registered with the Institut québécois de planification financière, refer to the institute website (http://www.iqpf.org/index.fr.html).

*!*

*Keep in mind that a professional designation does not guarantee competence nor eliminate the risk of fraud. Ultimately, your decision to hire a financial planner should be based on his or her references and answers to your questions, and your confidence in the individual's ability.*

### A few questions to ask

Before retaining the services of a financial planner, take the time to ask a few questions:

- What kind of training has he or she completed?
- In what field does he or she specialize? (Accounting? Investments? Insurance?)
- How is he or she paid? (Salary? Commissions?)
- Once the action plan is set, what services will he or she provide you with?
- How often will he or she review your situation?
- Can he or she provide references?



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# Investor Profile

## What's your investment style?

This questionnaire is designed to measure how aggressively you should invest your retirement savings, given your financial situation and your personal sensitivity to short-term fluctuations in investment returns. It uses the information you provide to suggest an investment mix (i.e., how to invest your savings between stocks, bonds, etc.) that suits your investor profile.

### Getting ready

Take the time to think about each question before answering—you want to be sure that your investment choices reflect your financial situation and your tolerance to investment risk.

Before you begin, be sure to have current information on your savings close at hand—including pension and savings plans with your current employer, retirement benefits, or savings you may have left with any previous employer, personal RRSPs, locked-in plans, etc.

**This questionnaire is not intended to be a comprehensive analysis of your financial situation and the suggestions provided should not be interpreted as advice. You may want to consult a financial planner or financial advisor for detailed investment counsel.**

Choose the most appropriate answer to each question by checking the boxes to the left. When you have answered all of the questions, consult Your Score to tabulate your result.

1 When do you plan on retiring?

- ☐ A. In less than 5 years
- ☐ B. Between 5 and 14 years from now
- ☐ C. Between 15 and 24 years from now
- ☐ D. In 25 years or more

2 Which of the following statements best describes your disposable income* at the moment?

- ☐ A. I need all of my disposable income to cover living expenses and I find it hard to meet my debt payments
- ☐ B. My disposable income covers living expenses and debts, but leaves very little for savings
- ☐ C. I can put money aside for upcoming expenses and for retirement
- ☐ D. My disposable income allows for substantial savings

** Simply put, your disposable income is your take-home pay, after income tax and other payroll deductions (employment insurance, government pension plans, etc.).*

3 How would you describe your current financial situation?

- ☐ A. I have substantial debt and little or no savings
- ☐ B. I am reducing my debt and I have some small savings
- ☐ C. I have nearly repaid my debt and my savings are growing
- ☐ D. I have little or no debt and I have substantial savings
- ☐ E. I have little or no debt, but I have little or no savings either

*Important: If you own a residence, your debt excludes your mortgage, and the value of your residence is not considered as savings*

4 How do your total retirement savings compare with your annual retirement savings contributions?

- ☐ A. Up to 5 times my annual contributions
- ☐ B. Between 6 and 10 times my annual contributions
- ☐ C. Between 11 and 20 times my annual contributions
- ☐ D. More than 20 times my annual contributions

5 Which of the following statements best describes how you currently invest your personal retirement savings?

- ☐ A. I have no retirement savings
- ☐ B. I am not sure how my retirement savings are invested
- ☐ C. I invest in conservative vehicles such as guaranteed investment certificates (GICs) or government bonds
- ☐ D. I invest mainly in a range of mutual funds, with or without the help of an investment advisor or financial planner
- ☐ E. I manage my personal investments, which include stocks and equity funds

6 Think of the total value of your retirement savings. How much of a drop in that value could you tolerate over a 1-year period without becoming anxious?

- ☐ A. I could not tolerate any drop in the value of my retirement savings
- ☐ B. I could tolerate a drop of up to 5%
- ☐ C. I could tolerate a drop of up to 10%
- ☐ D. I could tolerate a drop of up to 15%
- ☐ E. I could tolerate a drop of more than 15% over a 1-year period—I am invested for the long term

7 It is common knowledge that the value of investment funds varies over time. Imagine that you invested a large sum in a mutual fund last year. Since then, the fund has lost 20% of its value, despite very solid long-term historical performance. This decrease in value is consistent with the performance of similar investment funds over the same period. What would you do in this situation?

- ☐ A. I would take my money out of the fund before I lost any more
- ☐ B. I would take half of my money out of the fund
- ☐ C. I would do nothing in the hopes that the fund would go back up and I would suffer no actual loss
- ☐ D. I would take advantage of the drop to put more money into the fund

*Imagine that a quarter of your total retirement savings, or $10,000, was invested in this fund. This investment would now be worth $8,000. How would you deal with this situation?*

8 If you had to put all of your savings in one of the four portfolios (or investment baskets) shown below, which would you choose?

A portfolio that, over the next 3 years, would generate an average annual return of:

- ☐ A. Portfolio 1: between 2% and 4%
- ☐ B. Portfolio 2: between 0% and 8%
- ☐ C. Portfolio 3: between -3% and 12%
- ☐ D. Portfolio 4: between -5% and 20%

9 When you retire, what will drive how you convert your retIrement savings into income?

- ☐ A. Security
- ☐ B. Flexibility
- ☐ C. Security and flexibility
- ☐ D. Flexibility in the early years, security in the later years
- ☐ E. I have no idea at the moment

# Your score

Based on the answers you selected, tabulate your score in the following tables.

| Question | A | B | C | D | E | Your score |
|---|---|---|---|---|---|---|
| 1 | 0 | 3 | 5 | 7 | — | |
| 2 | 0 | 1 | 2 | 3 | — | |
| 3 | 0 | 2 | 4 | 6 | 5 | |
| 4 | 3 | 2 | 0 | 3 | 5 | |
| 5 | 2 | 2 | 0 | 3 | 5 | |
| 6 | 0 | 3 | 4 | 5 | 6 | |
| 7 | 0 | 2 | 4 | 5 | — | |
| 8 | 0 | 1 | 2 | 3 | — | |
| | | | | | **Total** | (A) |

For question 9, pick one of the following based on how you answered question 1.

| Your answer | A | B | C | D | E | Your score |
|---|---|---|---|---|---|---|
| < 5 years | 0 | 10 | 5 | 7 | 5 | |
| 5 - 14 years | 5 | 10 | 7 | 8 | 7 | |
| 15 - 25 years | 10 | 12 | 10 | 10 | 10 | |
| > 25 years | 10 | 12 | 10 | 10 | 10 | |
| | | | | | **Total** | (B) |

Now tabulate your score from questions 1 through 9:

__________ (A) + __________ (B) = __________ Total

# Results

The following table shows you how a typical, well-informed investor would allocate his or her savings between the various asset categories. Find out what type of investor you are and how you could invest your savings.

| If your score was… | you are this type of investor | How your savings could be allocated: Bonds | Canadian equity | Foreign equity |
|---|---|---|---|---|
| between 0 and 10 | Cautious | 80% | 10% | 10% |
| between 11 and 20 | Conservative | 65% | 17.5% | 17.5% |
| between 21 and 30 | Moderate | 50% | 25% | 25% |
| between 31 and 40 | Dynamic | 34% | 33% | 33% |
| between 41 and 50 | Aggressive | 20% | 40% | 40% |

Bonds   Canadian equity   Foreign equity

Your investment needs may change from time to time. You should redo this exercise at regular intervals or when your personal and financial situation changes.



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