Money Ideas

Spring 2021

Brian J. Kettles, RIS
Branch Manager

BJK Financial Group
Investia Financial Service Inc.
310 King Street E. Unit C.
Cambridge, ON N3H 3M8
Tel: 519-279-0186
Toll-Free: 1-888-868-6689
Fax: 519-279-0187
Toll-Free Fax: 1-888-868-6964
brian.kettles@investia.ca
www.bjkfinancialgroup.ca

Spring is a time of optimism. Optimism is at the heart of all investing: that a dollar invested today will grow and make our future even better. We're optimistic about the future and we tend carefully to your investments to help them grow. We're available to meet virtually when it's convenient for you. Let's talk soon!

BJK FINANCIAL GROUP

iA Investia Financial Services Inc.

FUND STRATEGIES

If you're sitting on cash, you may be missing out

Mutual funds are designed to be long-term investments. To maximize the benefits of fund investing, it's best to stay invested throughout the market cycle. But last year's bear market and the severe economic disruption of the pandemic may have tested even the most resilient investor. If you took money "off the table" last year or are just sitting on some available cash, now may the time to invest.

1. Waiting may mean missing out on early gains. History has shown that stocks can deliver some of their best returns early during the market cycle – even though, to many on "Main Street," it feels like the downturn isn't over yet. This effect may feel especially true during this pandemic, when the businesses suffering most are small neighbourhood ones like restaurants or hairdressers. Waiting for signs that the markets have recovered may mean missing out on any early-cycle opportunities.

2. Time in the market is more important than market timing. Investors have long been tempted to try to be in the market when it's high and cashed out when it's low. But no one can successfully predict when those peaks and valleys are reached. The anxiety that keeps investors on the sidelines may save them some pain, but it may also mean that they will miss the gain. Historically, each downturn has been followed by an eventual upswing, but keep in mind there is no guarantee that this will always happen.

If you're looking for the "right time" to invest, for the long-term mutual fund investor, there is never a wrong time. Let's schedule a portfolio review soon.

Rebalancing keeps you on track and ready for the next market moves

A diversified mutual fund portfolio, aligned with your investment objectives, is an ideal way to build long-term investing success. But if you haven't revisited your portfolio in a while, you may find that your diversification plan is off target. Over time, different asset classes can grow at different rates, and rebalancing is necessary to re-establish your target asset allocation.

Suppose, for example, that your portfolio target was 50% equities and 50% fixed income. If the stock market is doing well, as has been the case in recent months, the outperformance of equity funds or the equity portion of your portfolio may mean that it no longer has the 50/50 split that aligns with your objectives and risk tolerance.

Options to rebalance

You could rebalance by taking profits in select equity holdings by selling them and reinvesting the proceeds into fixed-income funds. However, that could leave you with taxable capital gains to report on your next income tax return, unless your holdings are in a registered account, such as your Registered Retirement Savings Plan (RRSP).

In your non-registered accounts, a more tax-friendly way to rebalance is simply to direct new money to mutual funds in the underweight areas in your portfolio. This strategy has an added benefit in that underweight asset classes may be currently undervalued and thus represent a good investment opportunity.

Changing markets

This is a strategy that can work over time to keep your diversification on track. Consider setting up a regular investment program, where you automatically direct cash every month to your mutual fund portfolio in proportions that keep your asset class targets intact. If you're adding to your non-registered investments soon, let's review the areas that are outperforming and consider the best places to allocate new cash. Or if you'd like to set up or review your regular investment program, we're here to help. ◂

FUND TIME

Tips and lessons in mutual fund investing

Distribution frequency

What is it? The profit that a mutual fund makes is paid out to unitholders as distributions. The frequency of these distributions may be different depending on the fund and could be paid monthly, quarterly, or annually.

How does it work? The earnings that a fund makes, if retained, would be subject to the highest marginal tax rate. By distributing these profits to the fund's investors, they will be taxed at the unitholder's marginal rate, which may be lower than the rate applicable to the fund.

For most funds, the level of distribution is dependent on the market performance of the fund. Some, however, have a fixed or target distribution rate designed to help investors looking for regular income from their mutual fund investments.

Distributions may take the form of interest income, dividends, capital gains or return of capital (where some of the investor's original investment is returned to them) with each attracting a different level of taxation. Note that if you are investing only through tax-advantaged accounts such as Tax-Free Savings Accounts (TFSAs), the timing and make-up of these distributions are of much less importance.

Why does it matter? The frequency of distributions is especially important for those relying on their investments for income. Ensuring that the timing of the distributions is aligned with your income needs will form an important part of your income and tax planning. ◂

Large-cap funds: Is this portfolio stalwart ready to shine?

Chances are you already have some large-capitalization funds in your portfolio. These funds, which invest in many of the largest and best-known companies in the world, are a common foundation in any diversified mutual fund portfolio. Did you know they often shine as economies move into recovery mode? That makes them especially of interest as we head out of the COVID-19 pandemic-induced recession. Here is a primer.

Largest of the large

Market capitalization is the total market value of a company represented in dollars. It is an expression of the market value of a company and is calculated by multiplying a company's outstanding shares by the current market price of one share. While there is no official definition of a large-capitalization company, it is generally accepted to be defined as a total market capitalization of $10 billion or more. Sitting below this category are "mid-caps" with a value of $2 billion to $10 billion and "small caps" with a value of $300 million to $2 billion. Keep in mind that as a measure of market value, a company's capitalization can change daily with its stock price – though movements out of a category and into another, say mid-cap to large cap, tends to happen over years, not days.

Market capitalization provides a useful way to categorize the size of companies for market analysts, fund managers and investors. Investors should note that when it comes to mutual funds in Canada, there is no official fund category called "Large Capitalization Funds," according to the Canadian Investment Funds Standards Committee (CIFSC). And while there are a few funds that include the term Large Cap in their name, it's not true of the majority. Most fund companies, however, will classify each fund's holdings by market cap (see a fund's Fund Facts sheet for details).

Well-known names

From an investor's point of view, large capitalization stocks have been attractive as these large companies, traditionally called "blue chips," are seen as relatively stable and secure. Those that pay dividends do so regularly and dependably. In Canada, you will find the large banks, energy and communications companies amongst these titans.

In recent years, however, with the growth of technology and the digital transformation of our economy, new kinds of companies now have market values that put them in this category – from electric car manufacturers to online retailers. In Canada, for instance, you will find technology platforms and data companies in the top 20 companies by market capitalization. The lesson? Don't characterize a company or mutual fund and the risks of investing in them solely by market cap.

Post-pandemic opportunities

Why might large-capitalization companies and mutual funds be especially of interest now? At the end of a recession, interest rates are often low, which is positive for equities. Large companies, in particular, may be well positioned to put cheap capital to profitable use. A rebound in corporate earnings (typical of the early stages of a recovery) is also positive for stock valuations.

Further, many of the businesses that have done well during the pandemic are large corporate entities with the financial heft to endure economic crises or supply the products and services that are in demand in our lockdown lifestyles. Companies providing digital and at-home services, in particular, continue to fare well.

Looking to understand more about how large-cap funds play a role in your mutual fund portfolio and strategies for long-term investing success? We're always available to review your portfolio. ◀

COVID-19 has changed how we think about finances and retirement

Confronting mortality for the first time and helping out family with COVID-driven financial hardships has led to a shift in Canadians' thinking about their own financial futures, according to a new report.[1] It has prompted more than two million Canadians to have end-of-life discussions about wills, medical care and funeral wishes with family or close friends for the first time.

It has also led over eight million Canadians to rethink the timing of their retirement. One in three of those are thinking about retiring later, predominantly for financial reasons: the need for more income, a reduction in savings, loss of investment value and increased uncertainty about how much money will be needed in retirement. Close to one in ten, however, are thinking about retiring earlier, often because they realized that they were looking forward to retirement, or they want to spend time doing other things that are more important to them than work. ◄

[1] Age Wave/The Harris Poll. *The Four Pillars of the New Retirement.* Released August 2020. As reported by Global News. https://globalnews.ca/news/7249118/8-million-canadians-rethinking-retirement-covid-19-edward-jones/

When it's tax time, your T3 is key

A T3 tax slip, formally known as a Statement of Trust Income Allocations and Designations, is produced whenever a mutual fund held in a non-registered account makes a distribution of taxable income to unitholders. Note that Quebec taxpayers will also receive a Relevé 16.

The T3 is one of the key information slips that mutual fund investors need before filing their taxes. On it you will see the different types of income your funds earned during the year such as interest, dividends and capital gains. Each of these types of income gets reported differently on your tax return.

Savvy fund investors will remember that most often fund income is reinvested in purchasing more units of the fund. Nevertheless, that income is still taxable.

Forms are usually sent out in March by the mutual fund companies themselves. You may receive multiple T3s if you have mutual funds with different mutual fund managers or dealers. If you haven't received yours by the end of March, check the information from those companies. Or call us, we'll help if we can. ◄

Beware the unfamiliar! Fund investors not immune from investment scams

Luckily, Canada has an established, stable and trusted mutual fund industry with well-known investment managers and dealerships. But there are always investment scams on the go, so it's important to be aware of the telltale signs.

Experts offer the following advice to help you identify investment scams:

- **Unbelievable.** The old adage about investments that sound "too good to be true" should be a warning to investors. According to the North American Securities Administrators Association (NASAA) the most common red flag is "guaranteed high returns with no risk."
- **Unfamiliar.** If you haven't heard of an investment or its seller, beware! The NASAA also says investors should watch out for investments and their sellers that are not registered. In Canada, anyone selling mutual funds must be trained and licensed, and mutual fund dealerships are regulated so stay away from anyone operating outside this legal framework.

If you find yourself drawn to a particular investment opportunity, talk to us first. One of the advantages of working with professional mutual fund advisors is that we can help you steer clear of a potential investment mistake you might regret. ◄