

Quick TIPS

Do your homework

There's no shortage of investment options and no shortage of investment advice. Some of it's good, some of it's bad. Planning for the future means doing your homework. Keep the following in mind when choosing and reviewing your investment selections.

- **Don't live in the past** – while past performance is important, it's not a firm indicator of the future. Market conditions and portfolio managers responsible for a fund's performance can change. Review a fund's investment objectives to see how it fits in your portfolio. Focus on long-term results and not on an investment's short-term performance.

- **Consistency is a good thing** – when investing for the long term you want to avoid a "flash in the pan" success. Look for a consistent pattern when reviewing a fund's returns. Remember that consistency doesn't equal stability. Conservative funds tend to be more predictable. However, if your asset mix is more aggressive, you can expect your investments to be subject to market ups and downs.

- **Study up** – to invest smartly, you need to understand your funds and investment managers. Fund summaries will give you a deeper understanding of the investment manager, and the investment style, holdings, asset mix composition and performance of a fund.

Knowledge is power. Doing your homework allows you to make informed investment decisions to help you reach your retirement goals.

Don't chase quick returns

Buy low, sell high. It sounds simple enough. But trying to time the stock market so that you hit the highs and the lows can be detrimental to your net worth. Studies suggest that investors who buy and hold – riding out the ups and downs of the market – will fare better in the long run than investors who jump in and out. That's because market gains are often the result of a strong but unpredictable surge that takes place over a short-term period. To reap the full benefit of the market over the long term, you need to be invested during all those surges. Timing the market requires a level of expertise few of us bring to the table. So, you'll most likely do better if you leave market timing to the experts and focus on your personal financial goals.

Commit to regular reviews

In life, change is constant. For this reason, it's important to review your investment selections on a regular basis – at least once annually, no matter what your asset mix. Do you have a new position? Have you purchased a house? Is a child entering university? Is retirement approaching? Major lifestyle changes such as these are another reason to check up on your portfolio and your investment objectives.



Think about the following when reviewing your investment portfolio.

- **Asset mix fit.** Does your asset mix still reflect your situation? Lifestyle changes can affect your investment personality. Retake the *Investment Personality Questionnaire* to determine if you're still invested correctly.
- **Fund objectives.** Are your investment selections meeting their objectives and producing appropriate returns over the long term? Do you need to look at other opportunities offered by your plan?
- **Contribution amounts.** Has your pay increased? Have other financial obligations lessened? If possible, consider increasing your plan contributions.

Reaching your retirement dream is a journey. Don't forget to check your progress to make sure you're still on course.

How much is enough?

How much will you need to retire? It depends. As a general rule of thumb, many retirement planning experts say you need to replace about 50 to 70 per cent of your pre-retirement income. But you may need more or less than that. It depends on a number of factors, such as when you retire, your retirement lifestyle, life expectancy, inflation, and how much

income your savings generate.

The good news is that many of your current expenses will likely shrink once you stop working. You probably won't be spending as much on work clothes, commuting costs, lunches, and union or professional dues. You also won't need to save for retirement anymore. At the same time, some new costs could surface. You may want to travel more or take up new hobbies. Healthcare and dental costs might go up as you get older. You may also find that you need to hire people to look after some of the household chores — such as lawn care or painting. Your best bet is to sit down and draw up a detailed budget of what you think your post-retirement expenses will be.

The inflation factor

Inflation robs you of your money by making every purchase more expensive than it used to be. What exactly is inflation? It's simply the overall increase in the cost of living caused by a rise in prices.

Over the past two decades we've experience an average inflation rate of three to four per cent per year.† Assuming an inflation rate of three and one-half per cent per year, in 20 years, your current dollar's buying power will be decreased by about one-half. If you plan to achieve your retirement dreams, your savings must

grow faster than inflation. To do this your investments must earn returns in excess of the annual inflation rate.

Need more information?

Still have a question you need answered? Well, here are some suggestions on where to look. For more information on:

Income tax – The CRA's Tax Information Phone System (TIPS) provides information over the phone. Check in the government listings index in your phone book (under the keyword heading "taxes") for the number to call in your area, or visit their website at <http://www.cra-arc.gc.ca>

Government income plans – For information on the Canada Pension Plan and Old Age Security, contact Social Development Canada. You can reach them at 1-800-277-9914, or access their website at www.sdc.gc.ca. For details on the Quebec Pension Plan, contact the Régie des rentes du Québec at 1-800-463-5185, or access their website at www.rrq.gouv.qc.ca.

† Bank of Canada's Inflation Calculator at www.bankofcanada.ca