



Wealth Management Team

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Many Canadians have been prompted to adjust day to day finances, anticipating more twists and turns in the economy. It's never a bad thing to review your priorities, whether it means paying off debt, building an emergency fund, saving for retirement, or making a needed purchase. Please call us about any changes you may be thinking about.



Take a look at your complete financial plan

Since the market worries began in earnest in late 2008, many people seem to have forgotten that there are significant positive steps you can take to improve the picture of your overall financial plan, outside of what the markets are doing. Your investments represent only one part of your total financial picture. While investment performance is important to pay attention to, weighing it in context with all the other elements of your financial planning is essential.

The following components of a financial plan also play a key role in helping you reach your long-term goals:

- **Cash-flow management.** Are you able to meet expenses and still set aside enough for your goals?
- **Saving and investing.** Recommendations on your portfolio and savings strategy are based on understanding your risk tolerance, objectives, and unique situation.
- **Risk management.** This ranges from

your need to create a cash cushion to obtaining adequate life and disability insurance coverage to protect your family.

- **Debt management.** The interest you pay on loans and mortgages can make a huge hit on your long-term finances. A financial plan may include restructuring loans or identifying ways to make some borrowing tax-deductible.

- **Tax planning.** Your investments may offer tax-saving opportunities.

- **Retirement planning.** Your ideas about when you want to retire and the kind of lifestyle you imagine set the tone for most of your long-term investment decisions.

- **Estate planning.** Your investments can be arranged to potentially benefit your heirs more tax-effectively.

Professional advice can help you make decisions for your investment portfolio in context, or suggest specialized tax, estate, or financial planning expertise. ■

Why all fixed-income funds are not alike

Last year's global market collapse confirmed the wisdom of having a balanced portfolio. As many equity mutual funds widely suffered huge losses through 2008, most fixed-income funds stayed on the plus side or held up much better.

While fixed-income funds may be typically more conservative, more predictable, and less volatile than equity funds, it's important to know that there can be a wide variance in fixed-income fund performance, because there's a wide variance in the types of investments those funds can contain, and the risk each type carries. The accompanying chart illustrates this by contrasting performance of three main types of fixed-income funds, according to fund analysis service Morningstar Canada.

When comparing a fund's performance, consider its category. While the Canadian Investment Funds Standards Committee includes U.S. and Canadian money market funds in its fixed-income classification, our focus here is on mutual funds that invest in



fixed-income securities such as government and corporate bonds.

Three main categories of mutual funds invest in conventional Canadian fixed-

income holdings, such as government and corporate bonds. In each case, the average credit quality must be "investment grade" (rated BBB or higher by Standard & Poor's or Moody's) and no more than 25% can be held in riskier securities that may bring higher returns.

Canadian funds vary in average term

Each category differs in the terms of its investments; that is, the number of years before they pay out their fixed return. Longer-term holdings usually indicate more volatility — with greater potential for gain or loss — and greater sensitivity to interest-rate changes.

Canadian Short Term Fixed-Income Funds hold investments with an average term of less than 3.5 years. The Canadian Fixed-Income Fund category represents fixed-income funds that invest in bonds with an average term between 3.5 and nine years. The Canadian Long Term Fixed-Income category is for terms longer than nine years.

Global and other specialized funds

The remaining three broad categories of funds have vastly different objectives.

Global Fixed-Income Funds may invest anywhere, such as in the debt of foreign governments or other issuers. While the name suggests an international skew, these funds may contain up to 90% Canadian holdings at any time. This weighting and the portfolio's average duration can vary, directed by a fund manager's market outlook.

A more aggressive fund category is High Yield Fixed Income. These funds trade bonds from companies whose credit ratings are below investment grade. These bonds pay high rates of interest, but are also more vulnerable to default, carrying a higher degree of risk.

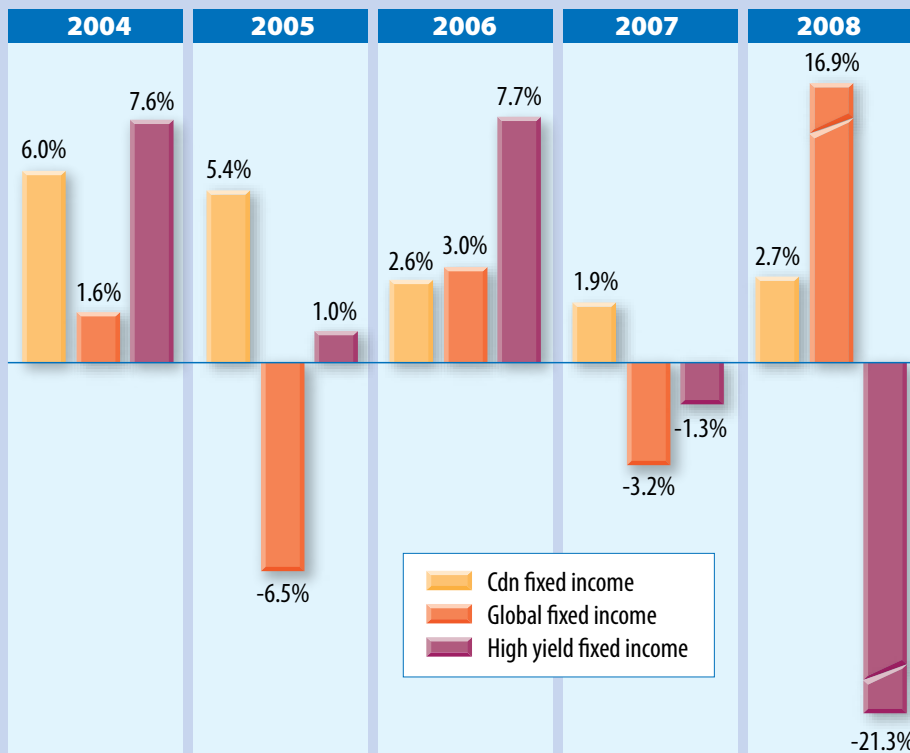
At the other end of the risk scale is the Canadian Inflation Protected Fixed-Income category, a small number of funds that hold real return bonds whose maturity value is linked to inflation.

What's right for you

A balanced approach to investing helps ensure that your mutual fund portfolio carries the appropriate exposure to risk and reward across its holdings. Professional advice helps tailor this investment selection to your individual needs. ■

Returns can vary for fixed-income funds

WHILE ALL THESE fund categories invest in fixed-income investments like government and corporate bonds, their values can fluctuate with market conditions and carry different degrees of risk. The Canadian Fixed-Income category has clearly offered the most consistent returns, year to year.



Source: Morningstar Canada

TAX PLANNING

Take advantage of your "home sweet" tax incentives

Canadians now have an opportunity to take advantage of a few new financial incentives on the home front, for improvements to an existing home or a first-time purchase of a new one. In an appeal to encourage spending on home improvement projects, the January 2009 federal budget introduced a Home Renovation Tax Credit of up to \$1,350, providing temporary tax relief in 2009 on up to \$10,000 of work done between January 27, 2009, and February 1, 2010. Consult the Canada Revenue Agency website, at www.cra-arc.gc.ca, for a full list of eligible expenses.

Prospective homebuyers can also look forward to a couple of new breaks. First, a new federal First-Time Home Buyers' Tax Credit of up to \$750 is intended to help with closing costs such as land transfer taxes and legal fees. In addition, the Home Buyers' Plan withdrawal limit has been increased to \$25,000 from \$20,000, enabling a couple to borrow up to \$50,000 from their Registered Retirement Savings Plans, tax-free, to buy a first home together. ■



RETIREMENT PLANNING

Survey: Advice-seekers make more confident retirees

Not surprisingly, Statistics Canada says people who receive retirement planning advice are more confident than others about their ability to maintain an acceptable standard of living once they stop work. That's based on a national survey of more than 9,000 so-called "near-retirees" — people aged 45 to 59 who are still in the workforce. Half of those surveyed had received retirement planning advice from a financial advisor or financial services organization. ■



PENSION INVESTMENTS

Review statements to keep investments in view

This is the time of year when workplace pension plans issue annual member statements. It can be helpful to use these to get professional advice to ensure your RRSPs and other investments are working in harmony. If you're in a defined contribution pension plan, your investments may be very similar to those in your RRSP, and an integrated asset allocation could be beneficial in reducing risk. If you're in a defined benefit plan that promises a set lifetime pension, the reliability of that income stream may have a great influence on how you invest other sources of income. Bring your pension plan statements next time we meet to discuss how your investments may complement each other. ■



FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Yield

You will often hear the term "yield" used in relation to fixed-income investments or dividend-paying stocks that are geared more toward income than growth.

What it is

The interest or dividends received from an investment.

How it works

In its basic form, yield is the result of a simple percentage calculation. You divide the annual amount of income received by what you paid for an investment. For example, if a stock that cost \$40 pays \$2 in dividends, the yield is 5%. Note that your yield will differ from the one reported daily, because your yield is based on what you paid, not on the stock's current value.

Bond yields are more complex. The "coupon" yield is the interest rate set when the bond was issued. Your yield reflects what you paid for the bond when you purchased it, as described above, and may differ from the coupon yield. There is also a "yield to maturity" that assumes all interest payments are reinvested.

Why it matters

Yield affects your ability to live off your investment income and — depending on whether interest rates have risen or fallen — affects the market value of a holding that you decide to sell. When assessing an equity investment, it's important to take yield into account, because equities are not just about capital gains.

Dividends put the focus on regular income

The global financial crisis has sparked great interest in income-focused investing among many investors, putting the spotlight on investments that pay dividends.

For those who hope to attain more than the low fixed rates on Guaranteed Investment Certificates (GICs) and government bonds, dividend-paying stocks or dividend mutual funds offer potentially higher yields through equity investments. Note also, they bring increased risk.

A dividend is a distribution of corporate profits paid out to shareholders on a regular basis.

A number of large companies — especially big banks and utilities — have solid records of dividend payouts in good times and bad, and of boosting these dividends as earnings grow or economic conditions improve.

Dividends are normally paid quarterly. If you invest in individual shares, professional advice can help you assemble a mix of companies so you get at least one dividend each month.

While some companies have trimmed dividends in a downturn to try to conserve cash, many companies have continued to maintain, or even raise their payouts.

Common and preferred

There are two sources of dividends: common shares and preferred shares.

Common shares represent direct ownership in a business and the share

value and dividends are tied directly to the company's performance and outlook.

Preferred shares are similar to bonds in that the company may redeem them at a future date for a set price. They are usually issued for a set term after which the company redeems them at a set price. So they are usually less volatile than common shares.

Preferred dividends are more secure than those associated with common shares. Preferred shares must be paid first, and are often a fixed amount set at issue.

Common-share dividends are not fixed and can rise if the business does well, but fall or be eliminated during downturns.

Both common- and preferred-share dividends paid by Canadian corporations qualify for a dividend tax credit that is not available for bond and GIC interest.

Consider the tax advantage

Dividend-focused investing can be best suited for taxable accounts that benefit from the dividend tax credit.

The value of this credit — available only for dividends paid out by Canadian companies — varies with the level of taxable income and by province and territory.

Professional advice can help you determine the tax and income advantages dividend investments may bring to your portfolio, and also help analyze a company's track record in paying its shareholders. ■

Consider the TFSA for long-term goals

THE NEW TAX-FREE Savings Account (TFSA) is a natural home for short-term savings, holding investments that pay interest and would otherwise be fully taxed. However, you can also use your TFSA for long-term goals, and therefore employ the growth potential of equities.

The key is which role the TFSA plays in your plan. Holding interest-bearing investments makes sense if you're saving for a short- or mid-term goal.

If the focus is retirement

If you see your TFSA as a long-term accumulation vehicle to supplement your RRSP, it could be advantageous to weight investments towards equities.

If equities outperform fixed-income investments over time, as they have historically, the potential growth of an equity-based TFSA will produce a larger pool that can be accessed tax-free. This would reduce reliance on fully taxed RRSP withdrawals, to generate the same retirement income but pay less tax.

Of course, you can't claim a capital-loss tax break if you sell an equity in your TFSA for less than it costs.

More than a bank account

Whether you decide to use your TFSA for a long-term goal or short-term goal, remember, with just a \$5,000 limit, your TFSA may not be appropriate for multiple purposes. Professional advice can help you find suitable investments for all your goals. ■

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