



ADVANTAGE
FINANCIAL SERVICES

PORTFOLIO STRATEGIES

c o r p o r a t i o n

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Random Thoughts

There are three types of people in this world: those who make things happen, those who watch things happen and those who wonder what happened.

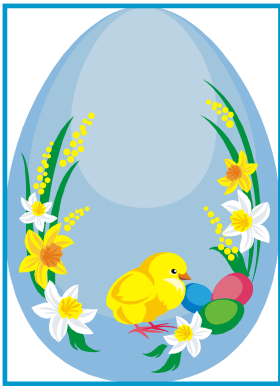
-Mary Kay Ash

Just because it's not what you were expecting, doesn't mean it's not everything you've been waiting for.

-Unknown

I realize that humour isn't for everyone. It's only for people who want to have fun, enjoy life and feel alive.

-Anne Wilson Schaefer



Did you know...

Recycling one glass jar saves enough energy to watch TV or run a PC for 3 hours.

The makers of the board game Monopoly print over 50 billion dollars worth of Monopoly money every year.

Nintendo first produced playing cards.

The Amazon rainforest produces half the world's oxygen supply.

Real Rate of Return

Generally, Canadians measure the success of their investments based only on the rate of return. While this provides a snapshot of how an investment is doing, it does not always provide an accurate picture. Do you know the real rate of return on your investments? Real rate of return factors in the impact of taxes and inflation on your investments.

In the wake of the constant reporting of doom and gloom in the media and market volatility, investors have been scrambling for investments that come with guarantees. However, guarantees come at the price of higher fees or low returns.

Consider Guaranteed Investment Certificates (GICs). These are investments sold through banks, credit unions and trust companies. In essence, we loan our money to the bank for a set interest rate for a specific period of time. The bank then pays us that annual interest rate either monthly, annually or compounded at the end of the term. The principle and interest are guaranteed through Canadian Deposit Insurance.

While there is no volatility in this type of investment, it still is not risk free. The primary risk you take on is inflation. As of now, the purchasing power of our money decreases at a rate of about 2% per year. So, a GIC paying 1.5% is losing 0.5% of the purchase power of our money every year. Also, consider the risk of being locked into a long term GIC when inflation starts to rise. If you have a non redeemable 5 year GIC paying 2.5% and inflation increases to 7% or 8%, the value of your money will decrease even more quickly.

Another downside to a GIC, is how it is taxed. The income earned in a GIC is classified as interest, the least tax efficient form of investment earnings. Whatever interest rate you earn will be taxed at your marginal tax rate. In Alberta, the highest marginal rate is 39%. Say you invest \$10,000 in a GIC, earn 2.5%, inflation is 2% and you are in the 39% tax bracket. What do you think your real rate of return will be? Would you have guessed -47.50? The \$250 gained in the investment would pay \$97.50 in taxes and lose \$200 in value due to inflation.

However, owning a GIC can actually be useful in a properly built investment portfolio. As people approach retirement (3-5 years out), building a 'cash wedge' makes some sense. A cash wedge is a portion of your nest egg that is safe and used to draw upon when your more volatile investments are down and you have already begun drawing income. In this case, 3-5 years worth of retirement income should be more than sufficient to have in this type of investment.

In this instance, GICs should be 'laddered' meaning that they are set up with staggered maturity dates. This way, one GIC will mature each year and if it is not needed will be rolled to the longest maturity date. This keeps this money liquid (some coming available each year) and mitigates some of the inflation risk (new GICs will offer higher rates if inflation becomes more prominent).

So, how do you get the best rate possible in today's low interest rate environment? Use a deposit broker.

Most people have heard about mortgage brokers – people who shop the market to find the best mortgage rates for their clients. Deposit brokers concentrate on finding the highest rates on GICs.

As a GIC broker, I have access to rates from over 40 financial institutions, which are often 1.00% to 1.50% higher than your local bank with no fee. These banks and credit unions have far less overhead costs than our local banks and therefore, can offer better returns with the same levels of insurance.

Come talk to me if you would like to know more about building a cash wedge, or feel a GIC might be right for you. I can help you determine what is the best fit for your investment portfolio.



Keeping you informed:

Manage your retirement income with the "cash wedge"

<http://www.chroniclejournal.com/publications/horizons/issues/2010/may/articles/manage-your-retirement-income-cash-wedge>

Has hiding out in cash paid off for investors?

<http://m.usatoday.com/article/news/1903309?preferredArticleViewMode=single>

Why You Don't Need an RRSP

<http://www.profitguide.com/prosper/why-you-don%e2%80%99t-need-an-rrsp-48219?email=yes>