Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

Practical Wealth Creation Ideas

...for Simplified Financial Success™

Financium®.com

Building a strong relationship... WITH YOUR FUNDS

How do you build a portfolio to get the best returns with the least risk? Try negative correlation. Highly correlated investments will move in the same direction, over the same periods, for the same reasons. Canadian and US equities have a high correlation, as the Canadian market closely tracks the US. For diversification, it is optimal to have securities that do not respond similarly to the same market dynamics at the same time in the market cycle. In the world of finance, this is referred to as negative or low correlation. This means that securities do not show the same price behaviour in response to the same market event and are affected by different factors. Less correlation creates effective diversification, helps decrease risk, and strengthens returns.

Over longer time periods, equities and bonds have typically experienced a negative correlation—meaning when one fell in value, the other typically rose. In the past, the formula for a low-risk portfolio was to combine stocks and bonds. However, in the past 20 years, falling interest rates and lower inflation have caused those two asset classes to move more closely in step.

To enhance diversification, foreign investments can help fill the gap left by the convergence of stocks and bonds. Choosing international securities can increase diversification through negative correlation. Countries in Latin America and Asia, for example, typically move independently from North American markets. They are not reliant on the same factors to the same extent. Before you add these to your portfolio, take a good look at returns. Introducing a poor performer to your portfolio can increase diversification, but more significantly, it can diminish returns.

Qualified RRSP/RRIF BENEFICIARIES

Think carefully about naming a beneficiary for your RRSP or RRIF. It can have serious implications with respect to the amount of money that your heirs receive after your death. If you do not specify a beneficiary, your RRSP/RRIF becomes part of your estate. There is a risk that it will be taxed in its entirety in the year that you die. That can mean a substantially smaller inheritance for your family. The best way to avoid paying this "death tax" is to name your spouse as beneficiary. This allows your registered plan to be transferred, tax-free, to your spouse's plan.

What if you have no spouse? You may want to name dependent children or grandchildren. Heirs who are "financially dependent" on you may purchase an annuity with the funds which spreads the tax on income until they reach age 18. Alternatively, they could retain the lump sum, and be taxed, in most cases, at a lower marginal rate.

Be careful when naming any other beneficiary, such as a friend. In this case, your registered plan assets can be passed over to the beneficiary, while your estate remains liable for the income tax thereon. It may have to be paid out from your other assets, leaving a smaller inheritance for immediate family members.

Know the facts and plan prudently to decide which beneficiary option is best for you.

Please seek professional advice prior to investing. Where mutual funds are considered, please read the funds' prospectus before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments which are not guaranteed; their values change frequently and past performance may not be repeated. Any indicated rate of return is for illustration purposes only and is not intended to reflect future values of returns on investment. Financium, the publisher does not guarantee accuracy of information, and will not be held liable in any way for any statements or statistics in this publication, though we seek to present reliable, precise and complete information. Written permission of Financium who retains all rights, must be obtained prior to any reproduction. ©Financium. email: admin@adviceon.com [03/01/10]