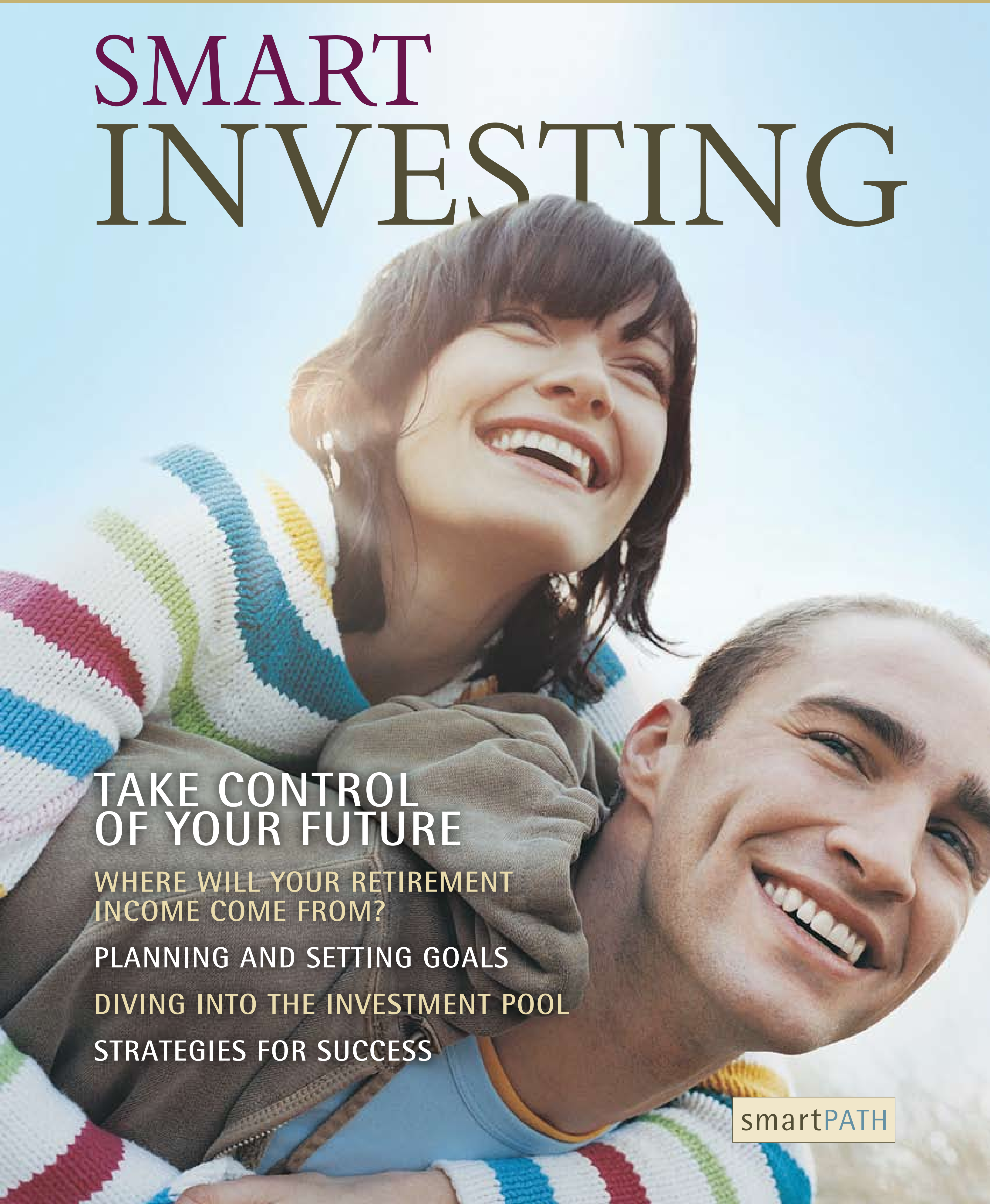
SMART INVESTING



TAKE CONTROL OF YOUR FUTURE

WHERE WILL YOUR RETIREMENT INCOME COME FROM?

PLANNING AND SETTING GOALS

DIVING INTO THE INVESTMENT POOL

STRATEGIES FOR SUCCESS

smartPATH

Take a moment.

DREAM. ENVISION YOUR RETIREMENT.

Where are you? What are you doing?

No matter what your dream for life after work, you need a plan to make it a reality. Believe it or not, you're on your way this very second. By reading the *Smart investing* magazine, you're a step closer to the retirement you want. This magazine is a tool that's part of your *smartPATH* educational package, helping you plan for retirement and manage your long-term savings. Planning strategies and company retirement plans vary, so you may want to read the articles that are of the most interest to you.

Reaching your retirement dream requires more than saving. You also have to manage what you save. Your success at both saving and managing those savings will positively impact your long-term financial goals. Whether you're getting started with retirement planning, getting serious as an informed investor or getting close to retirement age, this magazine is designed to help. It offers you everything from smart saving tips to strategies for maximizing your investment potential through your group plan.

Read *Smart investing* carefully and keep it handy to check back on from time to time. We think you'll find it's time well spent. Or better yet, time well "invested."

CONTENTS

take CONTR of your future

You are in charge of your retirement

"Look after yourself." In health, career planning, travel, education and much more in life, you need to move other things aside and put yourself first. You set goals and strive to attain them. By making responsible decisions today, you do everything you can to ensure a positive future for yourself and the people who rely on you. No one else can do this. It's up to you.

Looking after yourself also applies to retirement planning. By joining your group retirement plan right away and contributing as much as possible, you get off to a good start. You are in control of the amount and timing of your contributions. Think of yourself as planning a vacation – to last the rest of your life. You want to make informed decisions and choose the best destination you can afford.

After you've been in your group plan for a while, your income may improve. Take that opportunity to increase your contributions. For example, if you get a three per cent pay raise, boost your current contribution level by at least one per cent more, if your plan allows. You'll hardly notice the difference in your take-home pay, but this small increase will have a big impact on your final retirement amount.

Wise choices

As a group retirement plan member, the reality is that you are in charge – you are booking and arranging your own long-term vacation. You make responsible, proactive investment decisions and use available information and educational tools to help you make wise choices.

Your employer or plan sponsor has provided a great starting point by setting up and offering a group retirement plan. Just like you would check out possible resorts or cruises for a holiday, take the time to understand what your group plan provides and how you can take the best advantage of what is offered.

Ask yourself, "Will this plan provide all of the retirement income I'll need?" You may have to consider other sources of income, change your expectations about when you will retire, or re-evaluate the kind of lifestyle you will be able to afford when you reach your destination.

How can you take action?

Most of us know that it takes time and patience to plan a short vacation, but the results are worth it. Retirement planning can be just as easy as vacation planning, and the results last for years, not a few weeks. Here are some steps to help you get the most out of your retirement plan:

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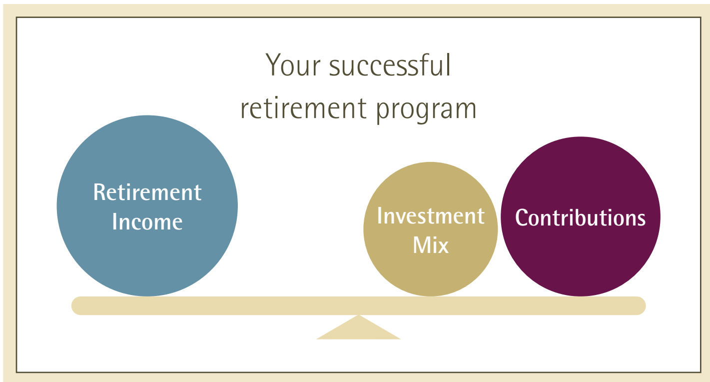
- Contribute the maximum you can afford right now and plan to increase your contributions regularly, if your plan allows
- Always take full advantage of any employer matching that may be available
- Read and ask questions to fully understand your plan features and benefits
- Attend any educational sessions offered and review all handouts
- Find out what support and educational tools are provided and use them regularly
- Apply tested investment strategies outlined in the materials, such as dollar cost averaging and diversifying your portfolio
- Monitor your plan results using your statement and the plan website
- At least yearly, revisit your *Investment personality questionnaire* and make any necessary changes to your fund selections
- Consider consulting with a qualified financial planner about the full range of retirement income options (plan savings, personal savings, government programs)

Depending on your retirement plan features and your own circumstances, there will be many choices to make as you build a retirement income to meet your lifestyle. Above all, remember to keep growing your contributions.

A successful vacation usually balances a traveller's budget with the features of a chosen destination. Similarly, a successful retirement plan requires balance. The size of your future retirement income needs and expectations are balanced by the amount of time you have to save, your total contributions and the rate of return from your investment mix.



TAKE THE TIME TO ENVISION YOUR FUTURE TODAY.

START CONTRIBUTING AND PLANNING FOR A WONDERFUL RETIREMENT,

USING THE TOOLS AND RESOURCES YOUR PLAN PROVIDES.

WHERE WILL YOUR RETIREMENT INCOME COME FROM?

Adding up the numbers

Some say retirement is a time of ultimate freedom – a second chance at childhood. It seems fitting then, to talk about a tricycle when discussing the sources of income that will fund your retirement dream:

- The first wheel of the tricycle is the company retirement plan.
- The second wheel is the income from government pensions.
- The third wheel is income from personal savings and investments.

The wheels work together and provide a stable financial "vehicle" that you get to ride… and, more importantly, steer toward retirement.

Company retirement plans

Ideally, proceeds from your company plan will be a significant part of your retirement income. But it's unlikely to meet all of your retirement income needs. Even the most generous company-sponsored plans provide a lifetime income equal to only 70 per cent of your earnings near retirement – and that's after 35 years of membership in the plan.

The reality is that many plans are designed to replace closer to 40 to 50 per cent of your pre-retirement income. Others have no income-replacement targets at all; they're simply designed to help you save.

If you don't belong to a company plan, that's no problem – the tricycle simply turns into a bicycle. The two remaining wheels may need to be a bit bigger and might not be as stable. But with a little planning and some careful balancing, you can still get where you want to go.

The truth is, most of us will need more than income from our company plan at retirement. Personal savings and government pensions can help make up the difference.

Save on tax now and in retirement

Split your income

Imagine paying less in tax now and in retirement. Does this sound good? If so, a spousal RRSP may appeal to you. A spousal RRSP is an excellent tax-planning vehicle for couples with significant differences in their incomes, or in their existing retirement savings.

Say you have a higher income than your spouse, or you wish to increase their retirement savings. You open a spousal RRSP for your partner. You contribute to the plan and you receive the tax deduction. Contributions are deducted from your RRSP saving limit and your spouse can still contribute up to their yearly RRSP limit.

The plan assets are attributed to your spouse and they withdraw the assets in retirement as their income. This provides two more evenly distributed incomes in retirement. As two smaller incomes are usually taxed at lower levels than one much larger income, you save on the taxes paid during retirement.

Government pensions

The question surrounding government pensions seems to be, just how secure are they? Given that they're funded, it's probably safe to assume that government pensions will be around when you retire. What's less clear, however, is how much you'll get come retirement.

In any event, you shouldn't rely on government pensions to be your sole source of income. They're designed to provide for the basic necessities – food, shelter, and clothing – and no more. In fact, statistics show that government pensions make up only about 32 per cent of the income for the average retiree.*

SO HOW MUCH WILL YOU GET?

The Canada/Quebec Pension Plan (CPP/QPP) is intended to replace roughly 25 per cent of your earnings – but only up to a certain limit. How much you get will depend on how much you earned during your working life and how long you contributed.

CPP/QPP benefits are payable at age 65, or on a reduced basis as early as age 60. If you start your pension early, it's permanently reduced by 0.5 per cent for each month that you're under age 65. If you start your pension later, it's increased by 0.5 per cent, up to age 70.**

The amount of Old Age Security (OAS) you receive (if any) will depend on your income in retirement and the length of time you have lived in Canada. For each complete year of residence after age 18, you earn 1/40 of the full OAS benefit. Pensioners with an individual net income above a certain level must repay part or all of the OAS benefits. Repayments are normally deducted from your monthly OAS benefit before it is issued.

For an idea of how much CPP and OAS pension you can expect to receive, call Social Development Canada at 1-800-277-9914 or visit their website at www.sdc.gc.ca. For QPP, contact the Régie des rentes du Québec at 1-800-463-5185 or access their website at www.rrq.gouv.qc.ca.

* Statistics Canada, Catalogue No. 74-507-XPB

** Human Resources and Social Development Canada

Personal savings

In Canada, we have two kinds of personal savings plans: registered and non-registered. While registered plans have a specific retirement income objective, most Canadians require both forms of personal savings to supplement their retirement income.

REGISTERED SAVINGS PLANS

A Registered Retirement Savings Plan (RRSP) is a tax-deferred savings vehicle that has been registered with the Canada Revenue Agency (CRA). It also exists in the form of an employer-sponsored group RRSP.

You can contribute up to 18 per cent of your earned income to a registered plan up to a certain maximum (see CRA's website at www.cra-arc.gc.ca for specific limits), less any pension adjustment (PA) you receive. Contributions can be claimed as a tax deduction. What's more, all income generated inside an RRSP grows on a tax-deferred basis until it's withdrawn from the plan.

While there are some restrictions on the type of investments you can hold in an RRSP, there's no limit on the number of plans you can have.

> THE WAY OF THE PA

If you belong to a registered pension plan or a deferred profit sharing plan, you'll receive a pension adjustment (PA) each year. The PA represents the deemed value of the pension benefit you build in a year. Keep in mind that your RRSP contribution room in a given year is reduced by the amount of your PA for the previous year.

NON-REGISTERED SAVINGS

This is a "catch-all" phrase for all other forms of savings and investments. For most people, the most significant of these non-registered assets is the family home. It can also include savings in bank accounts, investment funds, stocks, bonds, real estate, collectibles (such as art) and even some life insurance policies. See the article *It's taxing* for an example of the taxation treatment of non-registered savings.

As you ride down the road to retirement, make sure it's not on a unicycle. Think tricycle – or at the very least, bicycle – to ensure your retirement income is both stable and sufficient to finance your retirement expectations. That means making your personal savings an integral part of your retirement plan.

It's taxing

How the government treats non-registered savings

Many group plans provide members the chance to top up their savings by offering non-registered plans. If you've reached your contribution limit for registered saving, or you're saving in the short term, these types of plans are excellent investment opportunities.

A non-registered plan may offer similar investment options to those available for registered saving. If you invest in your plan's non-registered option, you'll experience many of the same benefits you have with your RRSP – for instance, the combined purchasing power of a group and competitive guaranteed interest rates. The difference is, your non-registered savings are subject to taxation.

Not all investments are taxed the same. When considering investing in non-registered options, you need to consider:

- Your objectives
- Risk tolerance
- Tax implications

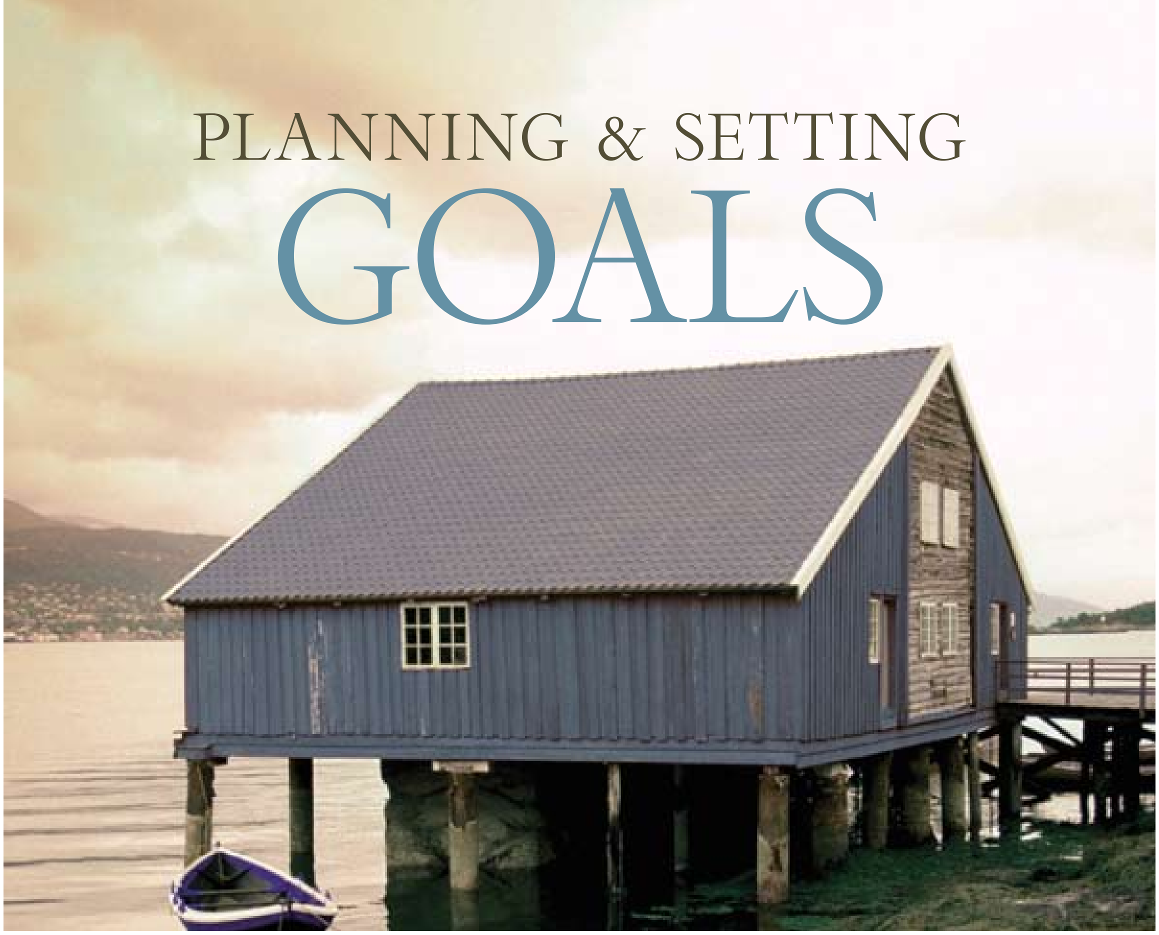
This means what works for you in your RRSP may not work for your non-registered savings.

For tax purposes, investment income falls into one of three categories: interest, dividends and capital gains. Of the three, interest income is the most heavily taxed. You actually need to generate much higher levels of pre-tax returns from interest than from capital gains or dividends in order to match or exceed the after-tax returns generated by capital gains or dividends.

> *SMART TOOLS* CD-ROM

The *Smart tools* CD-ROM includes handy calculators and several articles on investing and savings strategies. If you don't have a copy, request one from your plan administrator.

PLANNING & SETTING GOALS



Focus on what you really want

Most people would never set out for a vacation without first deciding where they wanted to go. Even before packing a suitcase, some travellers spend many hours researching, looking at options, building a plan and establishing a budget.

Managing your finances over the course of your life is very similar to preparing for a long trip. You need to keep a destination in mind when planning your financial future. If you don't know where you're going, you'll never know if you've arrived!

Unfortunately, when it comes to managing money many of the goals we set are the financial equivalent of a dream vacation. Early retirement, with a comfortable home, a newer car in the driveway and money for long winter getaways sounds great, but how realistic is it?

It's not that you should give up on your dreams. Instead, start planning what it will take to achieve your financial goals. Rarely can anyone have it all and have it now.

The importance of goals

You will need a list of goals before you can plan your financial future. One of the most common mistakes people make is to rush into making financial decisions, even good ones, without deciding what is important to them personally.

Accomplishing your goals does not really depend on the amount of money you have right now or how much or how little you know about financial planning. In fact, it probably has more to do with first identifying goals and then being realistic about working towards them.

The day-to-day pressures most of us face make it tough to set financial goals. Imagining a sun soaked retirement that seems a lifetime away is easier than sitting down and actually calculating how long you have to save and how much you need. But before you start crunching numbers, start listing your goals.

LIST YOUR GOALS

There are probably as many different financial goals as there are people. You may come up with a long list or a short one. The important thing is to have a list and to keep updating it. If you do not have one, draw one up right now.

When you're working on your list, an important thing to remember is to keep it focused on what you really need out of life, not what an advertisement says you want. Here are some basic goals to think about:

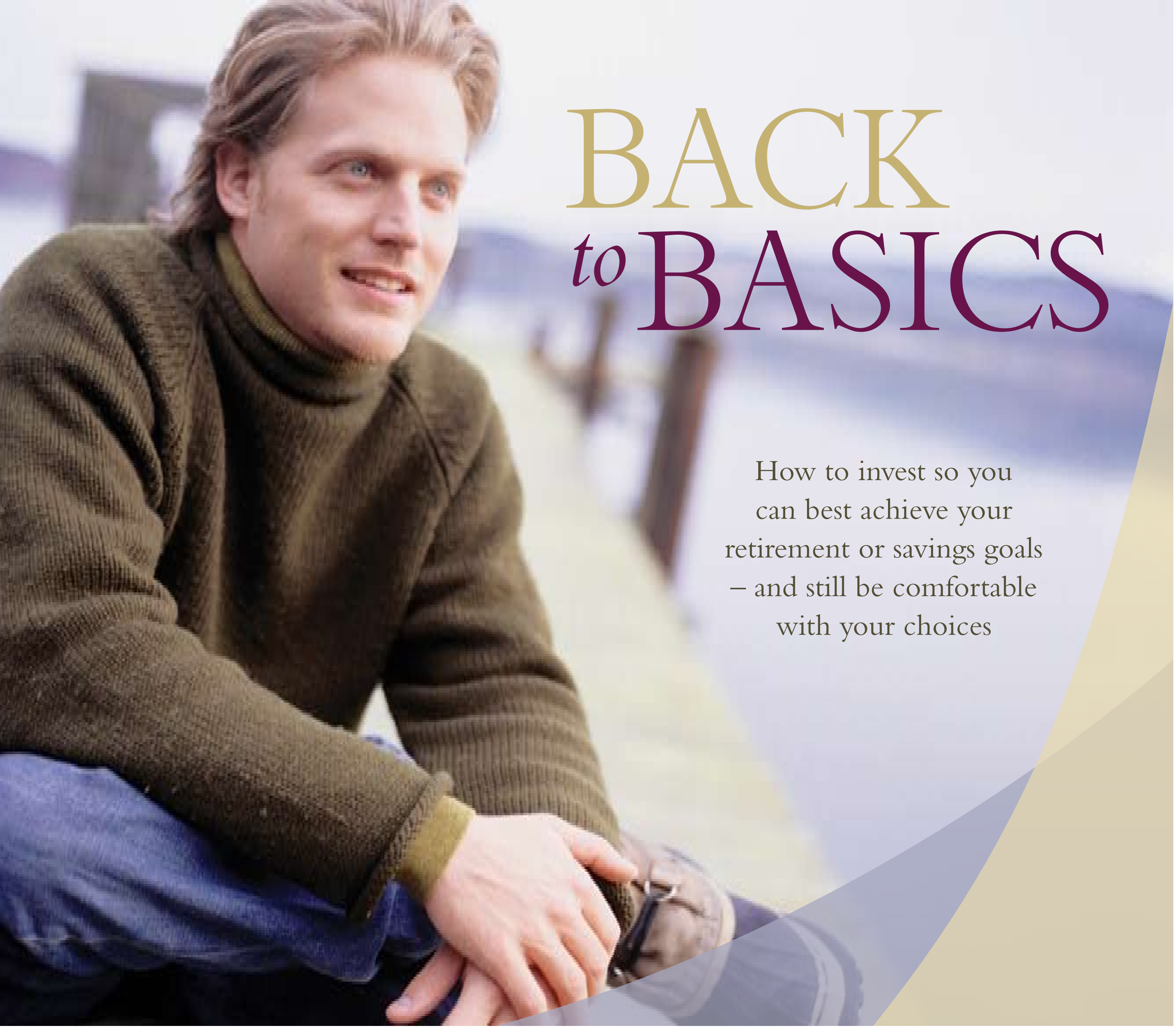
- Paying down debt
- Owning a home
- Funding a comfortable retirement
- Paying for your children's education
- Owning a cottage/recreational property
- Making charitable donations
- Leaving money to family, charities

Once you have a few key goals identified, it's time to do the planning. Having a budget is a good place to start. Once you see where your money goes, you can plan to "pay yourself first" so you always have contribution dollars for your retirement plan.

If you think you know where your money goes without keeping detailed records, give yourself a challenge: keep track of every cent you spend for one month. You'll be surprised and perhaps shocked by how small expenditures add up.

Use the *Smart tools* CD to get a picture of your present cash flow and net worth.

By budgeting and tracking your expenses you'll have a good sense of where your money goes. Then you can focus on reaching your financial goals – with no surprises along the way.



BACK *to* BASICS

How to invest so you can best achieve your retirement or savings goals – and still be comfortable with your choices

There are literally thousands of different investments to choose from – and your plan offers you a good selection of options from which to choose. So how do you know which investments are right for you? The short answer is, it depends.

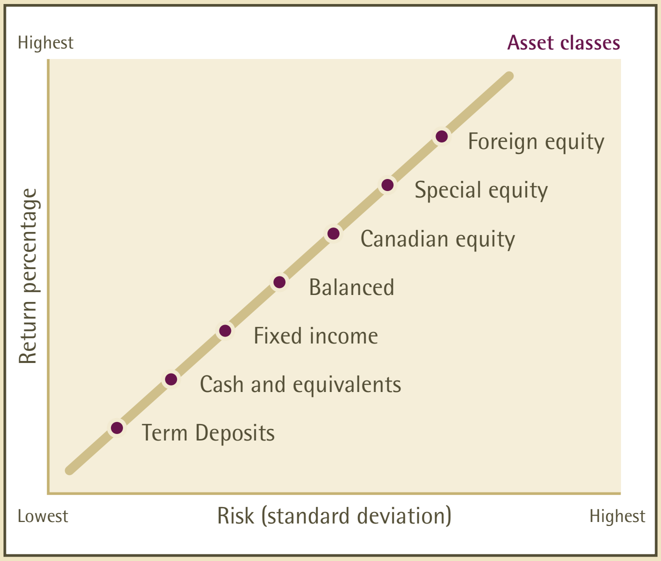
You should consider the following:

- **Your comfort with risk** – Can you sleep at night knowing that the value of your investment could drop in the short term?
- **Your investment objectives** – Do you want to preserve your retirement nest egg, generate income, or grow your investments?
- **Your time horizon** – How much time do you have before you retire?

Together, these three key factors will shape your investment strategy. So, before you go any further, you may want to make sure you've got a firm grasp on these concepts.

Balancing risk and reward

What is risk? In general, risk refers to the potential for loss. Different investment types and asset classes offer different levels of financial reward and carry different levels of risk. Generally speaking, the greater the risk, the greater the potential for long-term rewards. See the graph below to get an idea of how risk relates to the types of investments offered by your plan.



What's the best risk-reward mix for you? It depends on your comfort level. If you're the kind of person who lies awake at night worrying about your investments, you may sleep better if your investments lean toward the more conservative.

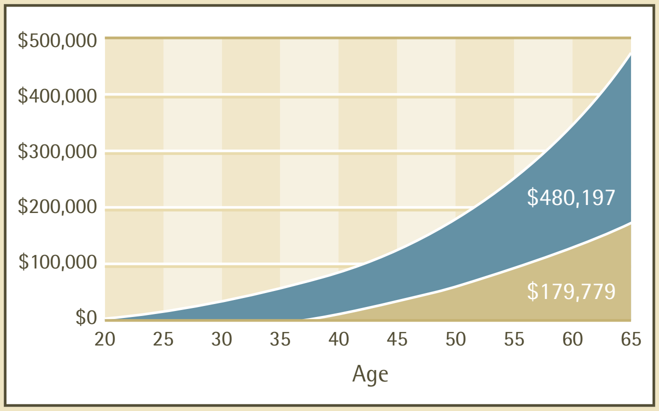
> **DEFINING RISK**
>
> When it comes to investing, risk simply refers to a given investment's volatility – that is, the potential that the value of the investment will rise or fall in the short term. In investment terms, investment funds tend to be riskier (i.e., more volatile) than, say, guaranteed interest accounts. Historically, these riskier investments have provided better rates of return over the long term.

But your risk comfort isn't the only factor to consider in determining your risk-reward mix. You should also look at your investment objectives and time horizon.

Start early, finish strong

Envisioning retirement in your twenties and thirties may be difficult – retirement seems a lifetime away. That's the exact reason to start saving. Putting time to work for you is one of the cardinal rules of successful retirement planning.

Mathematically, there are two big advantages to getting an early start on retirement savings. If you're going to build a retirement income over 30 years, rather than 15 years, you won't have to contribute as much overall to realize the same or even greater results as someone who starts at a later age. Early savers also get full benefit of "the magic of compounding." For each year you let your savings and interest accumulate, you'll earn more interest. This is how your money can approximately double in 12 years while earning six per cent interest each year. By starting your retirement plan while you're still young, more of your retirement savings will come from investment earnings rather than your contributions.



The graph above demonstrates how saving $2,000 at the beginning of each year from age 20 versus age 35 can make a significant difference in retirement savings.

How do you choose?

Not sure what your tolerance for risk is or what your asset mix should be? The *Investment personality questionnaire* can help. By answering this short questionnaire, you'll be able to determine your investment objectives and your risk tolerance. After determining your investment personality, you may also select a "preferred" asset mix based on these findings. Alternatively, you may want to sit down with a professional who can help you figure out an investment strategy that's right for you.

Investment funds offer a number of advantages – convenience, professional management, and the potential for higher returns, to name a few.

DIVING *into the* INVESTMENT POOL

Here's a more complete list of the pros and some cons of common investments available through group plans, to help you better understand your options.

CONVENIENCE – An investment fund is a collection of stocks and/or bonds (holdings). These holdings vary depending on the type of fund and a fund's investment objective. It's far easier for you to review and research an investment fund than each individual holding that makes up the fund.

PROFESSIONAL MANAGEMENT – It takes time and know-how to carefully research holdings and package them into a viable fund. Despite our best intentions, most of us simply don't have the time or expertise to do it right. Investment funds are assembled and monitored by seasoned investment managers. That means you don't have to worry about day-to-day investment decisions.

DIVERSIFICATION – With an investment fund, you can get a lot for a little cash. If you were an individual investor with $1,000, you might be able to buy a few shares in one or two companies, or maybe a bond. But with that same $1,000, you could buy units in a variety of investment funds – each with holdings in a wide range of securities, industries and even countries. In short, investment funds offer a level of diversity that's hard to achieve on your own, unless you've got big bucks to invest.

YOU CAN START SMALL – You don't need a large amount of money to start investing. Depending on your plan and your present investment level, you may be able to invest as little or as much as you want each month. *The secret is to simply get started on a contribution plan.*

CONTRIBUTION FLEXIBILITY – As well as choosing how much you contribute, payments are made easy through payroll deduction. Alternatively, you can make a lump sum payment. How you contribute is up to you.

MANY LEVELS OF RISK – Your plan will offer a variety of investment funds from which to choose. Some may be low-risk like money market and some high-risk growth stock funds. This gives you the flexibility to pick investments that best fit your investment personality.

LOW COST – Few things in life are free. There are investment management fees associated with these funds, however, you have the advantage of a professional investment manager handling your investments. These fees are also calculated using the combined power of your whole plan, so they're likely lower than the cost of retail funds available to you as an individual. Dare to compare!

As you can see, investment funds do offer advantages. You should also be aware that diving in does involve some potential issues:

THERE ARE NO GUARANTEES – Even the experts don't have a crystal ball, so no one can predict how investment funds will fluctuate in value. The more aggressive a fund is, the more ups and downs it's likely to experience. As an investor you must remember to look to the long term and not to jump ship if the fund experiences a downturn.

LESS CHANCE FOR THE "BIG SCORE" – Investment funds offer benefits such as dollar cost averaging and the diversification of assets, which both aid in reducing risk. Diversification protects you from experiencing a significant loss should one security fail, but it also prevents you from experiencing the "big score" of a hot stock's rapid rise in value. Attempting to time the market often results in a "big loss." The diversification offered by an investment fund may help to soften the blow of any decline in the market. Investing in just a few individual stocks likely won't offer this protection.

THE CHOICES ARE STILL YOURS – Doing your homework, choosing wisely, monitoring your progress, reworking your plan, ramping up contributions – in the end, your comfortable retirement's in your hands.

Investment funds offer a great way to get – and stay – invested.

Sign up for the right class!

An *asset class* is a group, or class, of similar types of investments, depending on what they invest in or how they earn a return. Here are explanations of asset classes.

ASSET ALLOCATION – Diversification in a single fund, based on specific investor personalities. These types of funds consist of a diversified mix of investments, and investment managers, which may include income, capital appreciation and dividends.

CASH AND EQUIVALENT – Consists of short-term, interest-bearing investments such as money market funds with investments that mature in less than one year. This asset class isn't usually used for long-term investing.

FIXED INCOME – Consists of income-bearing investments, such as bonds or mortgages. Corporations and governments issue bonds to get money they need today, knowing they'll have to pay the money back with interest. In effect, you lend money to the seller by buying a bond. A mortgage fund invests in mortgages, and earns money on the interest paid on those mortgages.

BALANCED – These funds are a diversified mix of investments. They can be made up of a combination of equities, bonds, mortgages and money investments.

EQUITY FUNDS – Equity funds are made up of many different stocks in companies that are traded on stock markets, both foreign and domestic.

Canadian equity – is predominately stocks of Canadian corporations.

Foreign equity – consists predominately of stocks of non-Canadian corporations.

Special equity – consists of industry or sector-specific holdings or don't fit under a specific fund type; for example, real estate, precious metals, natural resources.

It's all about style – investment style

When someone asks about the style of an investment manager, they're probably not asking about their fashion sense.

Investment style refers to the approach an investment manager takes to achieve their investment objectives. Two basic styles are "value investing" and "growth investing." But there are many other styles, such as investing with a focus on a particular industry (e.g., manufacturing, healthcare).

Growth investing means buying shares in companies whose total earnings are expected to grow at an above-average rate. This could include, for example, companies entering a period of vigorous and rapid expansion.

Growth stocks typically have a high price/earnings (P/E) ratio. In other words, you're paying more for a stock that has a history of, and potential for, strong earnings growth. At the same time, however, their very nature makes them more susceptible to volatility.

Value investing means buying shares in companies that are considered attractive because they are undervalued. Simply stated, it means picking up quality investments at a discounted price.

Value stocks typically have a low P/E ratio. In other words, the price of the stock is low, relative to the earnings it generates. Quite often, these are companies that are either being overlooked or have fallen out of vogue with investors. Value investors buy a stock with the hope that other investors will recognize the true potential of the company, buy more stock and, in doing so, drive up the stock price.

There are times when one style of investing will out-perform the other and vice versa. Based on this fact, some experts recommend holding a mix of value and growth stocks or investment funds in your portfolio. Incorporating both styles may allow you to pursue opportunities during market upswings and downturns. It can also help to reduce portfolio volatility.

How about a guarantee?

Guaranteed investments offer stability

Market-based investing not your thing? Would you prefer the predictability of a known return? Are you getting close to using your savings as an income? Investing in guaranteed investments may be for you.

Guaranteed investments pay an investor a predetermined rate of interest on money invested for a predetermined amount of time. The rate is guaranteed by the financial institution that is providing the investment and is determined at the time you purchase by the market conditions and the term that you select. You can choose to invest for different time periods from one to five years. The rate won't change over the term, even if the new rates are changing. You'll be "locked-in" at that rate and can only reinvest when the term is up or possibly pay a penalty if you make a withdrawal prior to maturity.

There's no shortage of "surefire" schemes that promise to get maximum returns with a minimum investment. But the truth is, these schemes rarely live up to expectations.

There are, however, some time-tested strategies that can help you make the most of your investments. Here are five strategies that can help you achieve your retirement income goals.

1 **Contribute** Allow your savings to grow over time by contributing to your retirement plan early and regularly. Increase your contributions whenever you can. Maximize employer matching of contributions, if your plan allows.

2 **Diversify** You've heard the saying "don't put all your eggs in one basket." When it comes to investing, truer words were never spoken. By investing your money in a variety of different investments, you can minimize the impact of a decline in any one asset.

3 **Maximize tax deductible contributions**
Registered savings give you a significant advantage over non-registered savings. First, the more you contribute, the bigger your tax deduction. But even more important is the fact that investments in a registered plan are tax deferred. This means your investment earnings aren't taxed until you withdraw them from the plan, so your savings inside a registered plan grow at a faster pace than savings held outside a registered plan.

STRATEGIES *for* SUCCESS

Time-tested investment strategies can help you achieve your savings goals

4 Invest to minimize tax

When it comes to taxes, not all investments are created equal. In non-registered plans, different kinds of investments receive different tax treatments. For tax purposes, investment income falls into one of three categories:

- **Interest income** – Interest income from savings, guaranteed investments and bonds is fully taxed as income.
- **Dividend income** – Dividends earned on Canadian stocks qualify for a federal tax credit. As a result, Canadian dividends are taxed at a lower rate than interest income.
- **Capital gains** – Capital gains (profits from the sale of investments) are also taxed at a lower rate than interest income. They're also reduced by capital losses (losses from the sale of investments).

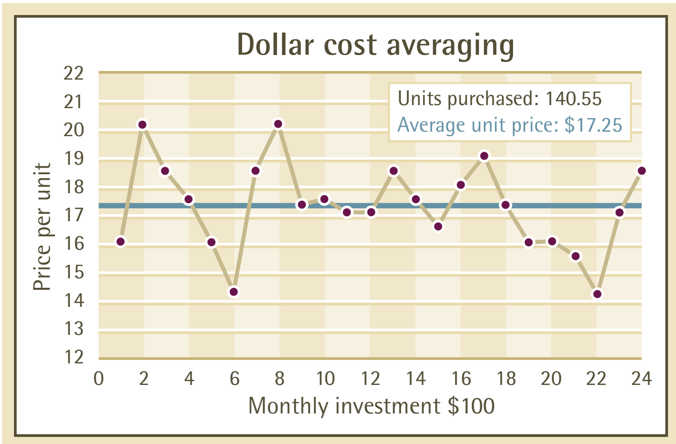
5 Dollar cost averaging

Some people save for retirement by making one contribution a year during RRSP season. What if the markets are high then? Your investment buys less.

You can smooth out the highs and lows of the market by making regular, ongoing contributions throughout the year. This strategy is called dollar cost averaging. The simplest way to contribute is through payroll deductions.

Dollar cost averaging is an excellent way to minimize volatility and maximize returns. By purchasing the same dollar amount of investments on a regular basis, you buy more units when prices are low. Similarly, when prices are high, you'll be purchasing fewer units. Overall, you may reduce your average cost per unit over the long term and take the guessing out of when to invest.

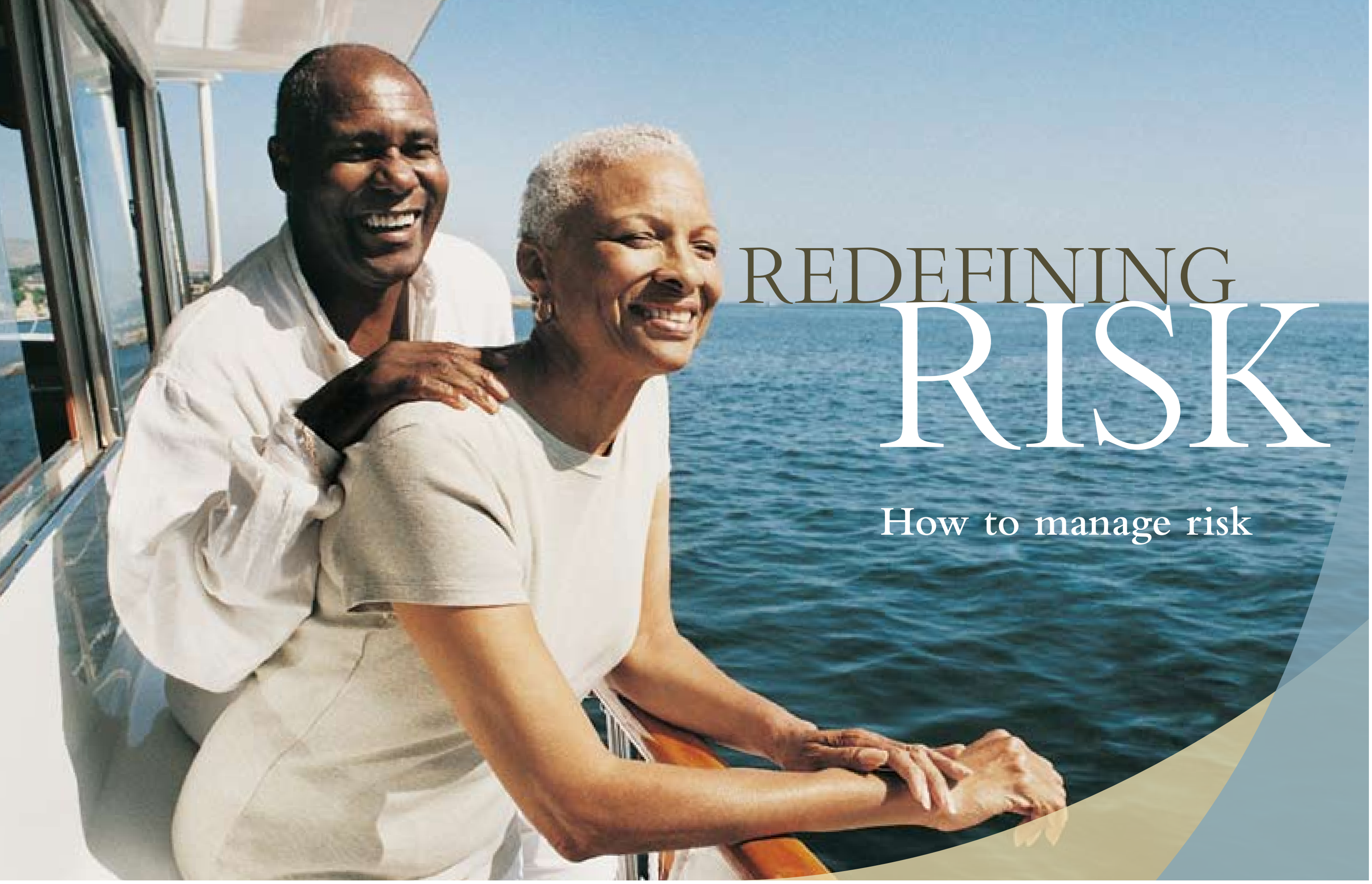
The chart below demonstrates the fluctuations of unit values over two years. Let's assume an investor contributes $100 per month for two years. Take a look at the numbers to see how dollar cost averaging evens out the highs and lows of investing in the market.



In this hypothetical situation, the investor will make $411 on the contributions of $2,400 – a healthy 8.6 per cent annual return over two years.

- Average unit price: $17.25
- Total units purchased: 140.55
- Total value of units at the end of two years: $2,811
- Total dollar amount invested after two years: $2,400
- Total return to the investor: $411

The bottom line is, dollar cost averaging is one of the easiest and most effective ways to build wealth over time. Contact your retirement plan administrator to have contributions deposited directly to your plan from your pay.



Every week, millions of Canadians take a big risk with their money – they buy a lottery ticket.

While they're ready to exchange their hard-earned money for a one-in-three-million chance to win big, many of those same people shy away from market investing. The reason: they think the market is too risky.

Granted, investment risk is a fact of life; there's always a possibility that the value of your investments will tumble in the short term. Compared to the lottery gamble, though, investing offers much better odds for success. Besides, there are steps you can take to manage your exposure to risk.

Managing your risk

You can't eliminate risk. It is, however, possible to manage risk – and even use it to your advantage. Here's how:

ASSET MIX – The mix of investments you hold in your portfolio will largely determine your position on the risk-return scale. You need to select an asset mix that reflects your comfort with risk, your investment objectives, and your investment time horizon. The *Investment personality questionnaire* will help you define your own personal investment style.

DIVERSIFICATION – By investing in funds that hold a wide range of securities, industries and even countries, your money may be better protected than if you selected only one or two stocks or bonds. Diversification helps to minimize the impact of an economic decline in a particular country or industry, as well as a decline in a particular type of security.

DOLLAR COST AVERAGING – This strategy smoothes out the ups and downs of investing. It means investing smaller amounts at regular intervals, rather than saving up to invest in one lump sum. You end up buying more units when values are low and fewer units when values are high. You also avoid jumping into the market with all your money just as the market peaks.

RISK SHIFTING – As you near retirement, your time horizon gets shorter. This means you have less time to recoup any investment losses. With that in mind, it's probably a good idea to gradually start "shifting" your investments as you get closer to retirement, to more conservative, less risky investments that will help you preserve your capital, generate income and provide increased liquidity: money market funds and guaranteed interest accounts, for instance.

STAGGERING THE TERMS – Stagger the terms of your guaranteed investments so they don't all mature (come due) at the same time. That way, if there's a dip in interest rates, you won't have to renew all investments during a period of poor interest rates, which could seriously affect the income generated by those investments.

GAIN *without* PAIN

How to save without feeling the pinch

Planning for retirement is easy. Saving for retirement… well, that's something else. There are, after all, 101 reasons not to save for retirement. Many obstacles to saving are very real and valid. But the fact of the matter is, if you're going to reach your retirement dream, you need to save… and the sooner you start, the better.

The following six-step saving program is designed to help you salt away retirement savings. But equally important, it's designed to help you save without the pain of penny pinching. After all, you still have to enjoy life.

> **> REWARD YOURSELF**
>
> Don't forget to reward yourself for saving. A little positive reinforcement will help you achieve your savings goal!

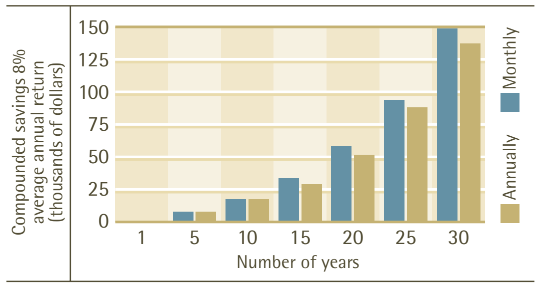
Step 1 Budget, if you can – How do you "find" money to save? One of the best ways is to analyze where you spend and then figure out where you can cut back. Maybe eat out less. Vacation at home every so often. After figuring out what you can do without, you can set up a simple budget to help you live within your means and save for retirement. It sounds good, in theory. But the truth is, most of us don't have the discipline to stick to a budget. That's where steps two through six come in. Remember, unless you actually contribute this "found money" to your plan, it can't grow into savings.

Step 2 Pay yourself first – It's human nature. Once we get hold of money, it's pretty hard not to spend it. So, one way to save money – a very effective way – is to pay yourself first. In other words, divert the money to your savings plan before you have a chance to spend it. For plan contributions, you can have the money deducted directly from your pay. The money is tucked away before you can spend it. Out of sight, out of mind.

Step 3 Save regularly – You may find it less painful to save a bit each month rather than try to scrape it together all at once. Simply put, you're less likely to miss $100 a month than a one-time, annual hit of $1,200. Besides being less painful, there are other reasons to save regularly.

- It's a good habit to get into. You'll establish a savings pattern that will dramatically increase your odds of achieving your retirement goals.
- It can be automatic. You can arrange for automatic deductions from your pay. You don't have to worry about it – it just happens.
- It can help you save faster. As the graph below shows, if you save $100 a month instead of $1,200 once a year for 30 years, you'll end up with $13,000 more (assuming an average annual return of eight per cent). The reason: the sooner you invest your money, the sooner it starts generating returns – and that means more money for you.
- It's more tax efficient. You'll benefit from immediate and automatic tax savings if you make contributions to a registered savings plan through regular payroll deductions.

Regular savings can make a significant difference over time
You could have $13,000 more after 30 years simply by saving $100 a month rather than $1,200 once a year



Graph compares saving $100/month vs. $1200/year over 30 years at an average rate of return of 8%. Doesn't take into account any taxation of income.

Step 4 Don't spend your raises – We tend not to miss what we've never had. So, if you've got a raise coming, divert some or or all of it to savings. Once again, the best way to do that is through payroll deduction.

Step 5 Invest your tax refund – One way to top up your annual savings is to use some or all of your tax refund. You just have to make sure you don't spend it before you get it.

Step 6 Don't waste a windfall – If you get a big bonus, receive an inheritance or are lucky enough to win the lottery, don't let it slip through your fingers. Squirrel away at least some of it for the future.

By following these simple steps, or at least some of them, you'll start to see your retirement nest egg grow. Chances are, you won't miss the money… too much.

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 plan" 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 reports 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 experienced an average inflation rate of about 2.5 per cent a year.* Assuming the same average inflation rate, in 20 years, your current dollar's buying power will be decreased by about 40 per cent. 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? Here are some suggestions on where to look. For more information on:

- **Income tax** – The CRA's Tax Information Phone Service (TIPS) provides information over the phone at 1-800-267-6999. Check in the government listings index in your phone book (under the keyword heading "taxes") for the CRA number to call in your area, or visit the agency's website at www.cra-arc.gc.ca.
- **Government income plans** – For information on the Canada Pension Plan and Old Age Security, contact Human Resources and Social Development Canada. You can reach them at 1-800-277-9914, or access their website at www.hrsdc.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.

GLOSSARY

Here are definitions of some of the more important terms used throughout this guide. For more definitions, please refer to the *Smart tools* CD-ROM.

Balanced fund. These funds are a mix of all types of investments. They can be made up of a combination of equities, bonds, mortgages, and money investments. The mix of these different investments is determined by experts that research and review where they feel the markets are going so that the best investments are purchased.

Bond. A bond is a debt instrument that promises to pay back the principal amount of the amount owed plus a predetermined interest rate. Corporations or governments issue bonds to get money they need today, knowing they'll have to pay the money back with interest. In effect, you lend money to the seller by buying a bond. The bond represents an agreement to repay the principal plus interest.

Book value. The book value is the total of deposits less withdrawals in your plan.

Canada Revenue Agency (CRA). The government branch responsible for administering tax, benefits and related programs and to ensure compliance on behalf of governments across Canada. For more information, visit its website at www.cra-arc.gc.ca.

Canada/Quebec Pension Plan (CPP/QPP). A government-sponsored plan that provides retirement benefits for working Canadians, whether they're employees or self-employed. The amount of the benefit depends on how long you've been contributing, your income level and when you start to take the benefits. The maximum CPP/QPP will pay is 25 per cent of your pre-retirement income subject to an overall maximum. Special benefits may be available if you're disabled, a surviving spouse or a dependent child.

Contribution limit. This is the total amount you can contribute to a registered plan for which you can receive a tax deduction. For RRSPs, the CRA calculates this amount for you and advises you of your contribution limit with the Notice of Assessment you receive after your tax return is processed each year. If you didn't make the maximum RRSP contribution, your unused limit is automatically carried forward and appears on your Notice of Assessment as unused contribution room.

CRA Notice of Assessment. A summary of your last year's tax return, sent by the CRA. It also outlines your current accumulated carry forward of unused RRSP contribution room.

Deferred profit sharing plan (DPSP). These plans are set up by employers as a way to share profits with their employees. Contributions depend upon the profits of the company. Employee contributions aren't allowed. The plan is registered with the CRA and contributions are tax deductible within certain limits, as defined by the Income Tax Act.

Defined benefit pension plan. A registered pension plan that provides an employee a specific benefit upon retirement usually based on earnings and years of service. Typically, a member's benefit calculation involves a combination of number of years' membership, salary and actual retirement date. With this kind of plan, members can determine exactly how much income they'll receive during retirement. (Compare to *defined contribution pension plan*.)

Defined contribution pension plan. A registered pension plan that doesn't promise an employee a specified benefit upon retirement. Benefits depend on the performance of investments made with contributions to the plan. Contributions are credited to an individual account for each member and invested, usually on the direction of the member, in a set of investment options chosen by the plan sponsor. When the member retires, the accumulated funds are used to purchase retirement income (life income fund, locked-in retirement account, annuity). The amount of the income depends on a number of factors, including the amount of money that's finally accumulated in the member's account, so the actual income can only be estimated prior to retirement. (Compare to *defined benefit pension plan*.)

Diversification. An investment technique intended to minimize risk by placing money in a number of different securities. In a diversified portfolio, a decline in the value of one stock, for example, should not dramatically affect the overall value of the holdings.

Dividend. A per share payment designated by a company's board of directors to be distributed among shareholders. For preferred shares, it's generally a fixed amount. For common shares, the amount is at the discretion of the company's board.

Dollar cost averaging. Investment of a fixed amount of money at regular intervals, usually each month, that over time should even out the effects of market fluctuations.

Early retirement date. The earliest date on which a member of a registered pension plan or a deferred profit sharing plan can elect to retire and commence retirement benefits. The early date is often 10 years prior to a normal age of retirement but is determined by plan provisions.

Employees profit sharing plan (EPSP). A non-registered, non-tax-sheltered plan that's governed by certain provisions of federal tax legislation. The plan may allow for employer-only or employer and employee contributions. Employer contributions are tied to company profits and may be either a fixed percentage of salary or a variable amount. Employee contributions aren't tax deductible, and all earnings within the plan, including company contributions, are taxable to the employee.

Employees incentive plans. Many companies choose to reward performance or encourage long-term commitment through share-based compensation. Generally, these types of compensation are based on set criteria and objectives and may have time restrictions. There is a wide range of incentive plans. Stock option plans, restricted share unit plans, long-term incentive plans and employee benefit plans are a few of the types of incentive plans available.

Equities. The common or preferred shares of a corporation, which represent the investor's ownership in the corporation. A company raises money by selling part ownership (pieces of equity) of the company. The equities, often called stocks, are then listed on a stock exchange to be traded. After the initial public offering (IPO), stocks are traded at prices determined in the market by the interaction of buyers and sellers. The price of a stock isn't guaranteed and can fluctuate from day to day. Equities are also called stocks or shares.

Equity fund. Equity funds (see *investment fund*) are made up of a number of individual securities (mainly stocks). A company raises money by selling part ownership (shares/stocks) of the company. The stock is then listed on a stock exchange to be traded. After the initial public offering (IPO), stocks are traded at prices determined in the market by the interaction of buyers and sellers. The price of a stock isn't guaranteed and can fluctuate from day to day.

Fund operating expense (FOE). FOEs are fees charged directly to a fund to cover costs including audit and custodial fees, fund transaction costs, taxes paid by the fund, bank fees, fund valuation and reporting. Fund operating expenses may be associated with third party investment manager underlying funds and/or segregated funds. Charged as occurred, the total amount of fund operating expense is calculated at the end of each year. Therefore, the amount reported to you will usually be the previous year-end charges calculated as a percentage of the fund. This does not include GST, which is also charged.

Group registered retirement savings plan (Group RRSP). A collection of individual RRSPs sponsored by an employer or association. Plan members contribute a portion of earned income (up to a maximum limit) and claim the contribution as a tax deduction. Because the contributions are made through payroll deduction, the tax savings can be immediate. Members choose their own investment options from the set of investments offered by the plan, and all the earnings within their RRSP remain tax-deferred while the money's in the plan. The amount of retirement income depends on a number of factors including the final accumulation of money within the plan and the type of retirement income chosen.

Guaranteed interest account (GIA). An investment offered by life insurance companies that guarantees the principal amount and pays a predetermined rate of interest for a specified term. Each deposit carries its own deposit date, interest rate and maturity date.

Income fund. An investment fund that invests primarily in fixed income securities such as bonds, mortgages and preferred shares. The objective is to produce income for investors while preserving capital.

Index fund. An investment fund that matches its portfolio to a specific financial market index, such as the S&P 500, with the objective of duplicating the general performance of that index.

Interest. The amount of money you earn from a borrower in exchange for a specified amount of money.

Investment fund. An investment entity that pools unitholder funds and invests in various securities. Mutual funds and segregated funds are two types of investment funds.

Investment management fee (IMF). IMFs represent fees paid to the investment manager for their professional services including the daily management of each fund. It also includes the fee for the cost of administering your plan and providing services such as service personnel, statements, websites and call centre support. IMFs are based on the asset value of each fund and are paid directly from the fund each day. The IMFs are unique to your plan and do not include GST, which is also charged.

Investment management fee and expense. This represents the combination of the fund operating expense and investment management fee, with GST excluded.

Investment manager. Also known as the money manager or fund manager, the organization responsible for the investment of the fund's portfolio.

Investment style. The manner in which an investment manager selects and manages investments.

Investment portfolio. The combined funds you have selected from your plan, which could include equities, bonds, mortgages and more. Having a portfolio reduces risk by providing diversification.

Locked-in retirement account. A retirement savings account consisting of locked-in funds transferred from a registered plan that may only be used to provide an annuity or life income fund when members attain the age specified by pension legislation.

Marginal tax rate. The tax rate that you pay on your next dollar of income. (Canada has a progressive or graduated tax system, which applies higher tax rates as income increases.)

Market timing. An attempt to move in and out of the stock market, buying low and selling high based on the predicted moves in the market.

Maturity date. The date on which a guaranteed investment comes due.

Money market fund. A money market fund invests in short-term interest-bearing investments – investments that mature in less than one year. A typical investment in the money market fund would be Government of Canada treasury bills. Investors often choose to "park" their money in a money market fund while they're deciding where they want to invest for the long term.

Money purchase pension plan (MPPP). (See *defined contribution pension plan*.)

Mutual fund. A pool of assets that gives individual investors access to a well diversified portfolio of equities, bonds, and other securities. Each unitholder holds units of the fund representing their proportionate share and participates in the gain or loss of the fund. Units can usually be redeemed as needed. The fund's net asset value (NAV) is typically determined each day and published on financial websites and in some newspapers. Each mutual fund portfolio is invested to match the objective stated in the fund's prospectus.

Non-registered savings plan (NRSP). Savings in a non-registered plan aren't tax sheltered and are subject to annual taxation. Although fairly unrestricted by government regulations, there may be employer-imposed limits or insurance or securities law regulations.

Old Age Security (OAS). A government income benefit that's based on age and how long you have lived in Canada. The program has three parts:

- The OAS pension
- The Guaranteed Income Supplement (GIS)
- The Spouse's Allowance (SA)

To receive the full OAS benefit you must have lived in Canada for 10 years prior to your application. However, in 1989 the government introduced a "clawback," which means that if your income exceeds a certain limit each year, your OAS pension will be reduced accordingly. The GIS is a monthly benefit paid to people who receive OAS, but have little or no other income. The SA is paid to the spouse of someone receiving OAS who is between ages 60 and 64 and whose family income doesn't exceed certain limits.

Pension adjustment (PA). An amount that reduces the allowable contribution limit to an RRSP based on the benefits earned from the employee's pension plan or deferred profit sharing plan. This amount is calculated by your employer and is on your T4 each year.

It is equal to:

- Dollar value of employee and employer contributions to a defined contribution registered pension plan
- Dollar value of the annual benefit earned for a defined benefit registered pension plan
- Employer contributions to a deferred profit sharing plan

Personal rate of return. This is the calculation of your own personal rate of return based on your investments. It is a precise mathematical calculation called the internal rate of return and is outlined on www.grsaccess.com under Know the jargon > Glossary of terms. Your personal rate of return appears on your member statement.

Rate of return. Measurement of the performance of an investment over a specified period of time.

Registered pension plan (RPP). A registered pension plan is an arrangement set up by an employer with the purpose of providing retirement income to employees. The plan's registered with CRA in order to provide tax advantages. It is also registered either provincially or federally and must be administered within certain rules and limits. Contributions you make to an RPP are tax deductible within certain limits. Investment income isn't taxed until it's paid out of the plan. A registered pension plan may be a defined benefit or defined contribution pension plan.

Registered retirement savings plan (RRSP). A registered and tax-deferred retirement plan that allows individuals to set aside tax deductible sums of money, within limits, up to the end of the year in which they turn 69 (or such age tax legislation in effect may provide).

Risk. The possibility of loss and the uncertainty of future returns. Specific risks are defined below.

Capital risk. The risk of losing your capital – or the money you've already saved. If you save in a bank account, the chances of losing the amount of your original capital are extremely low, because banks carry deposit insurance. With stocks, there's no such guarantee.

Credit risk. This is the risk that a company or individual will be unable to pay the interest or principal on a bond or loan you hold.

Currency risk. If you invest in foreign assets, currency exchange will be a factor when it comes time to buy or sell. That's because currencies like the Canadian dollar go up and down.

Geographic risk. The economy of a particular country or region can slow down, adversely affecting the value of stocks trading in that country.

Inflation risk. The risk that the buying power of your money will shrink over time unless the interest you receive keeps pace with (or, ideally, outpaces) inflation.

Income risk. If you invest to receive a fixed income, you may be locked in to a certain interest rate. If interest rates go up, you run the risk of losing out on the income that you would have received from the new, higher rate.

Interest rate risk. There's always a risk that interest rates will rise. Rising interest rates undermine the value of bonds and can also have a negative impact on stocks.

Liquidity risk. Liquidity refers to your ability to convert your investments to cash.

Market risk. The volatility of stock market prices due to company performance and political and economic conditions.

Political risk. Investing in a foreign country can be affected negatively by political instability, which can take the form of a coup or a sudden change in government policies.

Segregated fund. A segregated fund is an investment option available only through an insurance contract. It allows you to combine your money with many other clients. Each individual client is allocated a number of "units" of the segregated fund, which are then used to determine the value of their contract. A professional investment manager then takes the pool of money to the marketplace and invests in a variety of investments consistent with the fund's objective. The unit value of the segregated fund fluctuates with the performance of the underlying investments held by the fund. For example, if the segregated fund invests in shares of companies and the prices of those shares start to move upward, the unit value of the segregated fund will likely increase.

Spousal registered retirement savings plan (Spousal RRSP). An RRSP registered in the name of your spouse (as defined by the Income Tax Act). You deduct the annual contribution from earned income (the maximum is your contribution limit minus your personal RRSP contributions) and your spouse receives the eventual income generated. The Income Tax Act's definition of "spouse" includes common-law spouses in certain circumstances.

Stock. The common or preferred shares of a corporation which represent the investor's ownership in the corporation. Also called equities.

Today's dollars. The value of money today. Future dollars is the value of money in the future, factoring in the eroding effect of the inflation rate.

Time horizon. The period of time between now and when you will need an investment for other purposes (e.g., to provide a retirement income or to purchase an annuity).

Unit value. The cost or value of one unit of an investment such as an investment fund. Unit values are declared at a predetermined time.

Vested. The point in time that a member of a registered plan is entitled to the employer's contributions made to the plan on the member's behalf. These funds become available upon termination of employment, retirement or death. Vesting is determined by plan provisions and/or legislation.

Year's maximum pensionable earnings (YMPE). Maximum amount of earnings on which a member contributes to the Canada Pension Plan/Quebec Pension Plan. YMPE is determined in the late fall and is effective Jan. 1 each year.

smartPATH

Follow the *smartPATH* retirement education program to make your retirement dream a reality.

The information provided in this magazine is accurate to the best of our knowledge as of the date of publication, but rules and interpretations may change. This information is general in nature, and is intended for educational purposes only. For specific situations you should consult the appropriate legal, accounting or tax expert.

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