SPRING 2019

PERSPECTIVE

ARCA™ FINANCIAL GROUP

PEOPLE WHO CARE,
PLANS THAT PERFORM

Back to Basics

Focus on the fundamentals for an investment strategy that's right for you.

Invest your money. Three short, simple words. Or are they? With such a large array of investment choices, from stocks and bonds to closed-end funds and exchange-traded funds, it can be difficult to decide where to put your money. To further complicate matters, there's always something new being hyped in the marketplace. Current buzz is focused on cryptocurrencies and emerging technologies like artificial intelligence and self-driving vehicles. You might be eager to invest early and capitalize on potential growth, but are these sound opportunities?

Moreover, it seems as if everyone has advice for you. Unfortunately, platitudes like "buy low and sell high" aren't very helpful, and those stock tips from your friend's brother, or your uncle's golf buddy, rarely pan out. So how can you cut through all the noise and figure out what's right for you?

Consider these three words instead: back to basics. The best investment strategy is one that's focused on the long term, on tried and true strategies that have stood the test of time.

Define your goals

First and foremost, think about why you are investing. Whether it's for your retirement, education savings for your kids or a dream vacation, figure out how much money you'll need and how long you have to get there.

Weigh the risks versus the rewards

Higher risk can equal higher potential reward, but the amount of risk in your investment portfolio should correspond to the time horizon of the investment. For example, if you're investing for retirement 30 years in the future, your portfolio can tolerate greater risk because it has more time to ride out any market downturns. It's also important to consider your personal comfort with risk – how well you can handle a loss in the value of your investments if there is a market downturn. Make sure you are invested appropriately for both your risk tolerance and your time horizon.

Invest early and often

The sooner you start, the more time your investments have to grow, even if you can only afford a modest amount. Someone who starts in their 40s will have to invest a lot more than someone who began investing in their 20s in order to reach the same value. Give compounding returns as much time as possible to work their magic.[1]

Pay yourself first

A relatively painless way to save is through a pre-authorized deposit. Set one up on your payday or through your company's payroll, if available, so that money is deposited into your investments before you have a chance to spend it. You'll be surprised at how fast your savings will accumulate without you even noticing. It's also a good idea to set up a separate emergency fund in an easily accessible account, such as a high-interest savings account. If the need arises, you'll have access to money without having to dip into your investments.

Diversify

Don't put all your eggs in one basket. It's important to spread your investments across asset classes (stocks, bonds, etc.),

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industries and geographical locations. If you put all your money in one stock and its value plummets, you significantly reduce your investment. The same would hold true if you were to invest in one industry. For example, if you invest only in energy and the price of oil declines, so may the value of your investment. Diversification helps to balance individual investment risks across an entire portfolio, lowering your overall risk.

Have a plan and stick to it

Regardless of new investment opportunities that promise high returns, it's important to have a plan and stick with it. Markets may fluctuate, but a well-thought-out investment plan is designed to ride out those fluctuations.

And if you still want to invest in the latest and greatest growth opportunity, consider setting up a "core and explore" portfolio. This means the bulk of your portfolio (the "core") is designed to meet your goals and overall risk tolerance, while a small portion of your portfolio can be used to explore riskier, more speculative investments.

The best course of action? Speak with your advisor. He or she can help you cut through the market noise to determine the best investment strategy to help you meet your goals.

[1] www.theglobeandmail.com/globe-investor/personal-finance/taxes/stark-comparisons-show-the-importance-of-starting-early-in-building-wealth/article16459735

Have Grandkids – Will Spoil

How to be a generous grandparent while also being financially prudent.

Most grandparents agree – having grandchildren is one of the most fulfilling experiences in life. Loving grandparents undoubtedly want to ensure their grandkids want for nothing, but it can be easy to get carried away. From toys to clothing to school supplies and entertainment, the costs can really add up – and may even impact retirement savings if not managed carefully. If you are a doting grandparent, here are some strategies to help keep your finances on track without compromising your status as World's Best Grandma or Grandpa.

Create a budget and stick to it

Buying grandchildren gifts can be rewarding, but it's a good idea to set limits on spending. Consider setting up an annual budget for presents, taking birthdays and holidays into account. It's also helpful to find out what grandkids truly want, instead of trying to predict what they will like – this way; money will be spent on gifts they will actually use.

Open a separate "spending" account

You may want to keep your retirement savings apart from savings that are specific to helping your family. Depending on your situation, there are a couple of options to consider. If not already part of your retirement plan, a Tax-Free Savings Account (TFSA) is a great way to grow savings tax-free, and money can be withdrawn at any time without tax implications. But remember that any withdrawals are not added back to unused contribution room until the following calendar year. Another option is to set up automatic deposits into a non-registered savings account that pays high interest – even a small amount each month can add up pretty quickly.

Give the gift of education

A Registered Education Savings Plan (RESP) allows family members to contribute money towards the education of a child. The earlier contributions start, the longer the investment will enjoy tax-deferred growth. The RESP may also be eligible for the

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ARCA FAMILY ANNOUNCEMENTS

We are so happy to announce that Lauren & Chris Osborne had a beautiful baby girl on February 3rd. Welcome to the Arca family Peri!

Recently we welcomed 2 new staff members to the Arca family. Maria Rodriguez and Christine Farnham have joined the Vollmer team as associates on the investment team. We know you will give them both a warm welcome.

If you would like to receive the newsletter by email rather than paper, please let us know by emailing inquiries@arcafinancial.com and stating 'newsletter by email' in the subject line.

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Canada Education Savings Grant (CESG) – a 20 per cent match on contributions up to $500 annually. It may be worthwhile to coordinate with the child's parents to eliminate the confusion of multiple accounts while ensuring the plan qualifies for the maximum government benefit.

Consider gifting life insurance

A permanent life insurance policy in a grandchild's name can earn cash value that accumulates over time, giving grandchildren access to funds that may help them later in life. A policy for a youngster also has the added benefit of lower rates, allowing them more affordable insurance coverage for life. And when a grandchild becomes of age to access the policy or its cash value, they could use the value in the policy to help pay for their education, or even help purchase a new home.

Spend more time and less money

Consider giving grandchildren experiences rather than just things. Sometimes just spending time with grandchildren is worth all the money in the world. Playing board games or cards, tobogganing at the local hill or baking cookies are just a few fun activities you can share. Even small things like reading a book together can create fond memories. Being a grandparent is a rewarding experience. With a bit of planning and preparation, you can be generous while balancing the costs of your other needs. Speak to your advisor – he or she can help you decide which strategies best meet your goals.

Life After School

How young professionals can set themselves up for financial success.

About half a million Canadians graduate every year from a public post-secondary institution.[1] Degree, diploma or certificate in hand, they're ready to start their careers. For many, it's the first time in their lives they're earning a substantial paycheque and gaining financial independence – years of education are finally paying off. It's an exciting time full of opportunities, but it can also be a little daunting – after all, leaving student life behind often means added responsibilities like repaying student debt, establishing a career or practice and supporting your own lifestyle. It also means protecting what you have worked so hard to achieve, in case life throws you a curveball.

Whether you're a young professional or you're a parent who wants to give a new grad the best financial start in life, implementing strategies to effectively manage income can set young adults up for future financial security. It's an ideal opportunity to get things right at the very beginning – and it can help set the stage for good financial habits throughout life.

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Success strategy 1: Beware easy spending

That first paycheque in a new career is a thrill. But before celebrating at happy hour or splurging on a new work wardrobe, it's a smart idea to come up with a plan for those funds.

A good first step is to create a simple budget that includes the basics like food and shelter and takes into account new expenses associated with working – everything from transit to dry cleaning to fees for professional associations. Look for areas to trim to keep money-in and money-out in balance.

Success strategy 2: Manage credit carefully

Many recent grads are all too familiar with credit – after all, more than 40 per cent graduate with student debt and, unsurprisingly, more time spent in school means higher levels of student debt. For example, while bachelor graduates owe an average of $26,300, doctorate graduates owe an average of $41,100 and medical school graduates owe an average of $56,000.[2]

Paying off student debt has to be an important financial priority in the early years post-graduation – and it's equally critical not to rack up other types of debt. That said, using credit carefully helps to build a sound credit rating that makes it easier to get affordable car loans and mortgages in future years.

So, it's fine to use a credit card for convenience, but be sure to pay off the balance every month. And it's okay to take out a line of credit for a specific purchase, but have (and follow through on) a plan to pay it back as quickly as possible.

Success strategy 3: Build a safety net

Professionals starting out should consider putting strategies in place to protect the income they've worked so hard to achieve. Be sure to allocate a portion of your budget towards an emergency fund – cash that's available to pay life's inevitable unexpected costs without borrowing.

When considering insurance coverage, it can be difficult to weigh the options. Life insurance is often promoted as the most important protection to have – but for young professionals, a severe illness or injury is more likely than death. This can mean time away from work and a sudden drop in income. Disability and critical illness insurance can provide protection that can easily fit in a budget – and some disability insurance solutions are specifically designed with price breaks for select professional designations including architects, dentists, engineers, lawyers and physicians.

Success strategy 4: Jump-start savings

Already dreaming about a vacation next year – or even retirement? Start socking away cash now. Consider opening an account for a specific goal under the umbrella of a Tax-Free Savings Account (TFSA). Within a TFSA, all growth is tax free, and there are no taxes and no penalties if you withdraw money before retirement.

If your employer offers a Registered Pension Plan (RPP) or Group Registered Retirement Savings Plan (RRSP), definitely consider taking advantage. The way a defined-contribution pension plan may work, for example, is that the employee contributes a small percentage of their paycheque, and the company matches it – that's free money available for the taking. Yet, surprisingly, many workers don't make the most of these plans.

Even if you're just setting aside small amounts, the discipline of saving regularly helps to establish good habits. Then, with each increase in salary, those small amounts can become larger amounts.

Talk to your advisor about financial planning strategies for young professionals – whether you have just finished school, or you have children entering the workforce. The key is to establish solid foundations today that will support long-term prosperity.

[1] Statistics Canada, "Canadian Postsecondary Enrolments and Graduates, 2015/16," The Daily, December 7, 2017, Statistics Canada catalogue no. 11-001-x, www.statcan.gc.ca/daily-quotidien/171207/dq171207c-eng.htm (accessed June 15, 2018).

[2] Statistics Canada, Graduating in Canada: Profile, Labour Market Outcomes and Student Debt of the Class of 2009–2010 – Revised, section 4, last modified November 27, 2015,

www.statcan.gc.ca/pub/81-595-m/2014101/section04-eng.htm (accessed June 15, 2018).

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