

SECTION E

# Report on RRSPs



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INVESTMENT STRATEGY

## Inside the portfolios of the pros

Should you sell Canadian stocks, go international or buckle down with fixed interest? Four financial experts share their RRSP tactics with **JEFF BUCKSTEIN**

Last year was another bad one for the Toronto Stock Exchange, which continues to be one of the best performing markets in the world. This year, combined with the lifting of foreign investment restrictions on RRSP portfolios, will provide more investors with an interesting decision: Should they sell some Canadian equities or mutual funds when the market is performing so well and take advantage of greater international diversification?

These experts do have other investment decisions to make this year, though, and they have agreed to provide a general outline of what they keep in their RRSP portfolios, along with their strategies for 2006. They emphasize that their decisions they've made reflect their own personal investment objectives and not necessarily consistent with advice they might provide to clients.

**Doug Macdonald**  
Partner, Principal at Macdonald, Sherrin & Company Ltd., Toronto-based financial adviser, Vancouver

**Age 57**  
RRSP portfolio breakdown: Mr. Macdonald's asset mix is highly weighted toward fixed-income investments.

His portfolio consists of about 65 per cent fixed-income and 35 per cent equities, including mutual funds and exchange-traded funds. The fixed-income component of his RRSP portfolio consists primarily of coupon and guaranteed investment certificates (GICs). About 85 per cent of the fixed-income investments mature within five years, with limited longer-maturity dates. There are no longer-term GICs. Mr. Macdonald's RRSP strategy just a small part of his investment.

"There isn't anything going to increase the fixed-income yields of RRSPs, and the equities outside to maintain a overall mix of 30 per cent fixed-income and 60 per cent equities, including mutual funds."

Target rate of return: Mr. Macdonald doesn't like to specify an expected return for his RRSP portfolio. He takes an asset-class investment ap-

proach so he doesn't have to worry about trying to time the market or pick the best investments.

"As an asset-class strategy investor I accept the fact I can't do anything about whatever the market gives me. I take what I give me. If Canadian equities are going to be up 20 per cent this year, I would be put together that 20 percent. So sure that I have absolutely no control over it."

Generally however, Mr. Macdonald likes to achieve a rate of return that is 1 percentage points in excess of inflation, and 2005 is no exception. "If, for example, the inflation rate is 2 per cent, and I get a 3 per cent rate of return, I've achieved my target," he says.

However, Mr. Macdonald doesn't expect the Canadian economy to perform as strongly in 2006 as it did last year. In large part, that's because he sees the heavily commodity-sensitive sectors such as oil and gas and mining as off target, which will in turn bring on capacity and depress prices.

"I'm not suggesting it's going to be negative, but I'm certainly expecting a much flatter year," Mr. Macdonald says, noting that key economic indicators, such as the interest rate curve, indicate softening in both Canada and the United States.

**Fixed strategy:** Mr. Macdonald likes to make his RRSP contributions as early as possible to taking the year-to-year compounding effect of 10 months of compounding. "It's one of those little things that make the difference. Most people think it's big things that make the difference, but it's not. It's little things that compound over a long period of time," he says.

Mr. Macdonald handles himself as a "moderately conservative investor" who likes to "buy and hold." He prefers to keep things simple, focusing on the RRSP to take advantage of tax breaks. Inside the RRSP, he uses everything he knows as an investment and an investor to get favourable tax treatment on capital gains and dividends.

However, having a high position of fixed-income investments within the RRSP has also helped during bad times. For instance, during the eight years of 2000, 2001 and 2002, when most markets performed poorly, because of the high position of fixed income within my RRSP, I



Doug Macdonald, a principal at Macdonald, Sherrin & Company Ltd., likes to achieve a rate of return that is 1 percentage points in excess of inflation, and 2006 is no exception.

actually did a little better than one might have expected," he says.

Mr. Macdonald likes to invest the asset allocations within his portfolio on an annual basis.

**Margaret Rankin**  
Partner, Self-employed financial adviser, Winnipeg

**Age 46**  
RRSP portfolio breakdown: Mr. Rankin holds 36 per cent in income from the banking and insurance trusts, and 64 per cent in diversified funds, 10 per cent in resource equities, 10 per cent in emerging markets equities,

and the remaining 20 per cent split between Canadian small- and large-cap equities such as the Canadian Group of Funds (CGGF) Foreign Growth and CGGF Canadian Growth Fund, respectively.

"Income trusts are a good part of the Canadian market. The premiums from the issuers who want to use a monthly income will keep income trusts up there for the next 30 or 40 years," Ms. Rankin predicts.

"A lot of my money goes into the Canadian Monthly High Income Mutual Fund, which I've been very happy with. The fund manager has

that fund has shown consistent, steady returns."

With respect to dividend funds, Mr. Rankin favors the CGGF Monthly Dividend Fund as a "nice, steady and true" investment. Other major holdings in her RRSP include the CGGF Canadian Resource Fund and CGGF Resource Fund, as well as the CGGF Emerging Markets Fund.

"It's a little more volatile, obviously, but over the past couple of years, emerging markets have certainly been a good place to be."

See FUNDING on page E11

MUTUAL FUNDS

## Think you can pick winners? Think again



**JOHN DE GOEIJ**  
ALTERNATIVE VIEW

A decade or so ago, it seemed everyone had a take on how to identify top performing mutual funds. Investors couldn't get enough information about what mutual funds were and how to build portfolios using them.

But as market annual funds approached their shelves, particularly to help investors make smart, trackless investment decisions, investors were always on the lookout for the latest investment ideas and could be convinced only to see out and buy the latest version of their former best-selling fund book each year.

Today, most fund investors in their 40s or 50s are not looking for advice on how to pick winners. They need to make more informed decisions.

Why did these books disappear when the best funds actually went? If the reason was indeed empirical and predictive, shouldn't they have all disappeared for some time? If fund companies, fund managers and financial advisers are consistently selling them, why are they long-term performers, why were these books updated annually? Why did so many of the so-called "revealed" funds change from one year to the next — even from the same author?

These authors weren't selling trackless and useful information at all — they were simply selling books. And fund picking books that need to be updated annually have the handy attribute of being in evidence, meaning they could be tracked, reported and sold again 12 months later.

The whole exercise legitimized the notion of stock picking as a viable pursuit. Whether performed at the stock level by a best stock broker or not, independent or as the main level by a registered money manager, the books best evidence in the notion that one could pick securities that would outperform the markets.

The problem, as any professional money manager would tell you, is that past performance is not to be used as an indicator of future performance. Between the ubiquitous prospectus disclosure and the well-documented fund-picking game, only one could be right.

See FUNDING on page E11

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## Inside the portfolios of the pros

**Should you sell Canadian stocks, go international or buckle down with fixed interest? Four financial experts share their RRSP tactics with JEFF BUCKSTEIN**

**BY JEFF BUCKSTEIN**

TUESDAY, FEBRUARY 14, 2006  
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Last year was another hot one for the Toronto Stock Exchange, which continues to be one of the best performing exchanges in the world.

That statistic, combined with the lifting of foreign-investment restrictions on RRSP portfolios, will provide some investors with an interesting decision this season: Should they sell some Canadian equities or mutual funds when the market is performing so well and take advantage of greater international diversification?

That question won't have much of an impact on other investors, however, including some of the experts here, who have always tried to keep most equities outside of their RRSPs for tax reasons anyway.

These experts do have other investment decisions to make this year, though, and they have agreed to provide a general outline of what they keep in their RRSP portfolios, along with their strategies for 2006.

They emphasize that the decisions they've made reflect their own personal circumstances and are not necessarily consistent with advice they might provide to clients.

### **Doug Macdonald**

**Position:** Principal at Macdonald, Shymko & Company Ltd. (fee-only financial advisers), Vancouver.

**Age:** 57

**RRSP portfolio breakdown:** Mr. Macdonald's asset mix is highly weighted toward fixed income investments.

His portfolio consists of about 65 per cent fixed income and 35 per cent equities, including mutual funds and exchange traded funds. The fixed income component of his RRSP portfolio consists primarily of coupons and guaranteed investment certificates (GICs). About 85 per cent of the fixed income instruments mature within five years, with laddered, or staggered, maturity dates. The rest are longer term.

Mr. Macdonald's RRSP makes up just a small part of his investments.

"Over time, I'm probably going to increase the fixed income within my RRSPs and the equities outside to maintain an overall mix of 40 per cent fixed income and 60 per cent equities, including real estate."

**Target rate of return:** Mr. Macdonald doesn't like to specify an expected return for his RRSP portfolio. He takes an asset-class investment approach so he doesn't have to worry about trying to time the market or

pick the best investments.

"As an asset-class strategy investor I accept the fact I can't do anything about whatever the market gives me. I take what it gives me. If Canadian equities are going to be up 20 per cent this year, I would expect to get that 20 per cent," he says. "But I have absolutely no control over it."

Generally however, Mr. Macdonald likes to achieve a rate of return that is 3 percentage points in excess of inflation, and 2006 is no exception. "If, for example, I'm looking at inflation of two per cent, and get a five-per-cent rate of return, I've achieved my target," he says.

**Forecast:** Mr. Macdonald doesn't expect the Canadian economy to perform as strongly in 2006 as it did last year. In large part, that's because he sees the heavily weighted commodity sector such as oil and gas attracting a lot of capital, which will in turn bring on capacity and depress prices.

"I'm not suggesting it's going to be negative, but I'm certainly predicting a much flatter year," Mr. Macdonald says, noting that key economic indicators, such as flattened yield curves, indicate softening in both Canada and the United States.

**Basic strategy:** Mr. Macdonald likes to make his RRSP contributions as early as possible during the year in order to get up to an extra 14 months of compounding.

"It's one of those little things that make the difference. Most people think its big things that make the difference, but it's not. It's little things done consistently over a long period of time," he says.

Mr. Macdonald classifies himself as a "moderately conservative investor" who likes to "buy and hold."

He prefers to keep foreign equities outside the RRSP to take advantage of tax breaks. Inside the RRSP, he says, everything is treated as interest income, and investors give up favourable tax treatment for capital gains and dividends.

Moreover, having a high portion of fixed income instruments within the RRSP has also helped during bad times. For instance, "during the ugly years of 2000, 2001 and 2002 (when most markets performed poorly), because of the high portion of fixed income within my RRSP, it actually did a little better than one might have expected," he says.

Mr. Macdonald likes to review the asset allocation within his portfolio on an annual basis.

## **Margaret Koniuck**

**Position:** Self-employed financial planner, Winnipeg.

**Age:** 46

**RRSP portfolio breakdown:** Ms. Koniuck holds 30 per cent in income trusts (including real estate investment trusts and oil and gas), 30 per cent in dividend funds, 10 per cent in resource equities, 10 per cent in emerging markets equities, and the remaining 20 per cent split between Canadian small- and large-cap equities such as the Guardian Group of Funds' (GGOF) Enterprise Classic and GGOF Canadian Growth Fund, respectively.

"Income trusts are a growing part of the Canadian market. The pressures from baby boomers who want to see a monthly income will keep income trusts up front for the next 10 or 20 years," Ms. Koniuck predicts.

"A lot of my money goes into the Guardian Monthly High Income Mutual fund, which I've been very happy with. The lead manager for that fund has shown consistent, steady returns."

With respect to dividend funds, Ms. Koniuck favours the GGOF Monthly Dividend Fund as a "steady, tried and true" investment. Other major holdings in her RRSP include the AGF Canadian Resource Fund and GGOF Resource Fund, as well as the GGOF Emerging Markets Fund.

"It's a little more volatile, obviously, but over the past couple of years, emerging markets have certainly been a good place to be.

"With just about 10 per cent or so in there, it gives a nice kick to my portfolio," she says.

**Target rate of return:** Ms. Koniuck is aiming for an aggressive 20-per-cent return in her RRSP portfolio for 2006. Furthermore, she expects the market to be able to sustain that high rate over the next three to five years, before conditions reduce those expectations closer to her long term goal of 12 to 15 per cent.

**Forecast:** The current investment climate favours such better-than-average returns in large part because of the influence of China and India on the world market, Ms. Koniuck says. She expects their dependence on Canadian resources will last as long as 15 years.

Consequently, Ms. Koniuck expects resources to do well, even with oil off the high it established last summer when prices hit \$70 a barrel (U.S.). She expects the TSX to advance about 10 to 12 per cent in 2006, especially given Canada's heavy weighting toward resource and financial companies, from which she is expecting strong growth.

**Basic strategy:** Ms. Koniuck describes her style as buy and hold, or steady. It would take a major "shift in the fundamentals," such as a change in an income tax structure, or a threat that negatively affected her portfolio over six consecutive months, with no reasonable expectation of a turnaround, to make Ms. Koniuck question that strategy.

Although she doesn't mind "getting into some of the risky stuff, like emerging markets," generally her pattern is to invest in tried and true investments. Moreover, "I don't chase returns from last year. I look at what's been around for a long time and just keeps on pumping steady results," she explains.

Nor does Ms. Koniuck like to engage in market timing. "I think it's best to just get into the market and let it grow."

Ms. Koniuck generally favours investing in a mutual fund as opposed to purchasing individual equities because of the diversification it offers. When purchasing a mutual fund, she examines management style, including "a manager's long-term experience and his or her proven track record."

She reviews her portfolio on an ongoing basis. "Because I consistently see clients, I'm constantly keeping an eye on what's going on in the RRSP sector."

## **Sandra Foster**

**Position:** President, Headspring Consulting Inc. (financial planning firm), Toronto.

**Age:** 50

**RRSP portfolio breakdown:** Ms. Foster holds 48 per cent in fixed income instruments and 47 per cent in equities (of that, 33 percentage points Canadian and 14 U.S. and international), with 5 per cent in cash.

Fixed income instruments in Ms. Foster's portfolio include Ontario Savings Bonds with a 6.5-per-cent interest rate as well as strip bonds and term investments.

"I'm working towards building a nice ladder of fixed income maturities," she says, adding that the fixed income component of her RRSP is important because "I want to know exactly how much they're going to be worth when they mature."

On the equity side, Ms. Foster holds a mixture of individual stocks and mutual funds. She is considering switching to a larger proportion of stock relative to funds.

Lifting the RRSP foreign investment restriction has had no impact on her portfolio, Ms. Foster says, noting that she holds only 14 per cent in foreign equities and that she has always been conscious about taking on too much foreign risk.

**Target rate of return:** Ms. Foster expects to earn 4 to 6 per cent on her RRSP portfolio this year, after fees. "If I do better than that, it will be a bonus," she says.

**Forecast:** Ms. Foster says a lot of uncertainties are affecting the financial markets.

"It really depends on a number of events, including the direction in interest rates over the next year. It also depends on developments on a couple of major political fronts -- ours being one of them. I can't predict those things. My crystal ball has always been a little bit cloudy," she jokes.

Although Ms. Foster expects that oil and gas will continue to perform well, she cautions that "torrid rates are never sustainable. There's always going to be a breather, for whatever reason. Whether it comes this year, next year, or the year after, it will come."

**Basic strategy:** Ms. Foster utilizes a monthly savings plan to contribute regularly to her RRSP, primarily for organizational reasons and to "pay myself first," adding that a side benefit of that practice is it sets a good example for her four adult children.

Ms. Foster also does her homework. "I read annual reports for the individual companies that I hold, as well as for individual companies that I'm considering holding."

For tax reasons, she generally favours holding fixed income investments inside the RRSP, and equities with potential capital gains outside. But that is not an absolute rule, especially in a low-interest-rate environment where the RRSP returns would be too low without assuming a certain degree of risk, Ms. Foster explains.

However, she has clearly chosen to bear a higher proportion of risk outside of her RRSP. "The RRSP is my pension, so I want to make sure that money will be there."

Ms. Foster, who describes herself as a buy-and-hold investor, says she doesn't believe in making trendy investments. For example, while income trusts have attracted a great deal of attention, she holds only one, which comprises a mere 5 per cent of her RRSP portfolio because of potential risk.

She selects stocks based on profitability, management performance and considerations about the overall sector. Management performance also weighs heavily on her mutual fund choices, much more so than other factors such as management expense ratio, Ms. Foster explains, because she's not heavily weighted in mutual funds.

Ms. Foster, who expects to begin drawing down some of her RRSP at about age 60, reviews her finances

every three years.

"I pull in all my numbers and do my personal financial plan to determine whether I am on target."

### **Warren Baldwin**

**Position:** Regional vice-president, T.E. Financial Consultants (fee-only financial advisers), Toronto.

**Age:** Early 50s.

**RRSP portfolio breakdown:** In 2004, Mr. Baldwin decided to place his RRSP into a temporary "short term mode," heavily weighted with fixed income instruments such as strip coupons and laddered bond maturities, due to concerns about rising interest rates. It was the only time in 30 years of owning an RRSP that he'd made such a major structural change.

"I wanted to ride out the anticipated rises in interest rates and get outside of the upward moving rates as much as I could, rather than go with a traditional structure," he explains.

About 75 per cent of the assets in Mr. Baldwin's RRSP portfolio will be maturing within a year, with most of the remainder to mature by 2009. "I've gone relatively short, but that's an aberration."

Now, with the U.S. Federal Reserve signalling that its multi-year string of rate increases are nearly complete, Mr. Baldwin is thinking about establishing a longer-term strategy for his RRSP instruments around the middle of 2006. "Ideally, I'll go back to a more traditional fixed income type portfolio."

In general, Mr. Baldwin's RRSP, which constitutes about 40 per cent of his total investment portfolio, exclusively contains fixed income instruments, while another portion of his portfolio, held outside the RRSP, consists entirely of equities.

"That's a more tax effective way of planning," he explains.

"I've heard that just by virtue of being more tax effective in structuring your assets between your RRSP and (other investment) accounts, it might be worth as much as a quarter of a point in overall returns."

**Target rate of return:** Mr. Baldwin's target for 2006 is about 4 per cent. But because of the unusually short-term nature of his RRSP portfolio that figure is something of an anomaly.

Typically he expects a return of more than 7 per cent, which is another reason he will likely pick a new strategy later this year.

**Forecast:** Mr. Baldwin expects Canadian interest rates to rise this year, perhaps to as much as 4.5 per cent.

"The market has been wonderful in the last several years, no questions about that. But Canada does have some fairly heavy weightings in the average equity market," such as the energy, resource and financial sectors, "which causes me some concern, so I wouldn't be committing heavily to Canada right now," he says.

Moreover, with the Canadian dollar in the high 80-cent (U.S.) range, he sees this as a good time to re-evaluate the geographic distribution of his portfolio, including the RRSP, and add U.S. and international exposure.

**Basic strategy:** Mr. Baldwin, who describes himself as a conservative investor, likes to make his

maximum RRSP contribution at the start of the year in order to get the money compounding tax-deferred as soon as possible.

One thing he doesn't like to do is try to time the market, especially when investing in equities outside the RRSP.

"I would expect that the structure (of my portfolio) will ride me through market cycles. I don't believe in market timing. I just get on with the investments and continue to commit to my strategy," says Mr. Baldwin, who usually reviews both his RRSP and overall investment strategy a couple of times a year.

Rather than try to determine on his own which sectors are best to invest in, Mr. Baldwin relies on professional managers.

"If they want to overweight or underweight a particular area of the economy, that's what they're being paid to do, so let them do it. I don't second guess the managers by buying specific stocks," he says.

"That's cherry picking, which probably involves more good luck than good management."