Freedom 55 Financial
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Your Financial Security

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NEW IDEAS FOR YOUR STRONGER FINANCIAL FUTURE

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Stay focused during market downturns

You may be concerned about the state of equity markets given their recent volatility.

Too often, investors, trying to predict the market, act on what they think might happen. It's critical you invest using sound investment principles that stand the test of time and are in line with your overall financial security goals.

If you are anxious or worried, here are some things to consider.

Ignore the media hype

When newspaper headlines and TV news anchors talk of economic turmoil, it's important to remember bad news is of more interest to the media than good news. And media outlets tend not to focus on long-term trends. So while a sharp drop in the markets could make headlines on Monday, a steady rebound over the next four days may not. Relying solely on the media means you could make a decision with incomplete information.

Leave emotions out of investing

Worrying about investments during tough economic times is natural. But when your concern becomes panic, there's a chance you could make a hasty decision with long-term consequences. Remember, selling when the market is down means you lose money on your investments. Given the cyclical nature of equity markets, by selling today you may miss out on earning potential when markets recover.

Sitting on the sidelines equals lost potential

Many investors hold cash or cash-like investments, waiting for the market to go up. In 2008, *Investor Economics* suggested this cash was close to $1 trillion. However, no one knows when the market will turn around. Trying to predict the market can lead to frustration and lost opportunity when it comes to long-term investment growth.

Get another perspective

Talk to your financial security advisor if you have concerns. Your financial security advisor has the experience and resources to answer your questions and help select the right option for you. Here are some things you may want to discuss:

- **Review the foundation of your financial security plan:** Now is a good time to go back and look at the principles of your financial security plan. This is where your financial security advisor can help. Your advisor will show you how long-term planning, and staying invested can help you achieve your financial security goals regardless of the market condition.

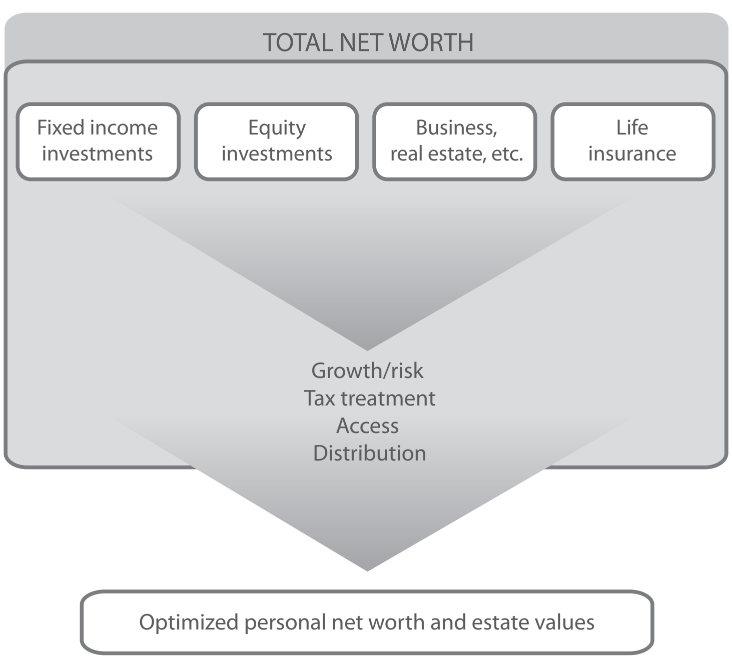
- **Are you on track?** If you're nervous about investing, talk to your financial security advisor about a process designed to help set, and follow your financial security goals. It can help you re-affirm your risk, re-align your expectations, rebalance your portfolio and re-invest in your plan.

Product diversification important too

Asset class diversification is often identified as a foundational investment philosophy because each asset class presents different opportunities for investment growth and risks within an investment portfolio. However, it's also important to consider a strategy which incorporates diversification among different products with potential growth attributes.

A closer look at diversified products

You can take diversification one-step further to include diversification by product types, which have some component of potential growth. The differences between each product can be used to your advantage when creating a financial security plan specific to your needs.



While life insurance is first and foremost protection in the event of premature death, many Canadians are buying participating life insurance as part of their overall portfolio because they recognize its advantages.

Benefits of participating life insurance include:

- Combines the option of a retirement income supplement with life insurance protection
- The policy's death benefit can help protect savings and your estate at death.
- Tax-advantaged growth within the policy, important if you are concerned about money you'll have to pay in taxes on non-registered investments.

It's also worth remembering since it's a life insurance product, you will need to qualify medically before coverage can be offered. In addition, there may be limits on how much insurance you can obtain.

Contact your financial security and tax advisor to discuss how the benefits of participating life insurance can be incorporated into your financial security plan.

Talk to your financial security advisor about borrowing-to-invest strategies

A well-planned leveraging program, while not for everyone, can put much more money to work for your retirement goals right away.

Borrowing to invest a large amount of money up front instead of putting a smaller amount away every month enables you to take advantage of compounding growth. Thus it can potentially build your savings faster.

Let's take a look at two borrowing-to-invest strategies:

RRSP catch-up loans

A registered retirement savings plan (RRSP) loan can help you catch-up after a late start or get your savings back on track after an economic downturn. It accelerates your contributions, adding dollars today so you can take advantage of the power of compounding. Whether you're looking to top-up your annual RRSP contribution or to take advantage of unused contribution room, an RRSP loan can be a great solution.

As an example, let's compare traditional investing with leveraging for Richard and Susan. For this example we'll assume the annual rate of return and the borrowing interest rate are both six per cent while the term of the loan is four years and their annual tax rate is 40 per cent.

At age 40, both Richard and Susan have $350 a month to invest in RRSPs. Richard chooses monthly contributions and invests the annual tax refund generated by these contributions. Susan uses a $25,000 RRSP catch-up loan. She receives a $10,000 tax refund which she immediately applies to the loan, lowering the balance to $15,000. When they retire at age 65, Susan's RRSP is worth $111,624 while Richard's is worth $92,435. **Susan's RRSP is 21 per higher.** Keep in mind results will vary based on individual circumstances.

Manage your risk – use conservative leveraging

It's important to know while borrowing-to-invest strategies can magnify gains, they may also magnify losses and a leveraged purchase may involve greater risk than a purchase using cash resources only. However, conservative leveraging can help manage this risk because it provide manageable repayment commitments, appropriate and diversified investments, and the option of paying down the principal – reducing loan exposure and raising your awareness of the cost of borrowing.

Talk to your financial security advisor to learn more about RRSP catch-up loans and the 2012 deadline.

Tax-effective hedging strategies for business owners

Business owners may benefit from another strategy – business owner hedging. As a business owner, you may be able to hedge the risk of your investment portfolio being too concentrated in your company by using an investment loan to create a diversified non-registered portfolio held outside your business.

This can be an effective way to participate in the growth of your business while moving profits outside of your business in a tax-efficient manner.

Again, talk to your financial security advisor to learn more about the risks of having most of your net worth in your business and the importance of having a diversified portfolio.

Pay off your mortgage sooner and save thousands

A mortgage is a significant piece of the overall financial puzzle for many people. How you structure and manage your mortgage can go a long way to helping you achieve your long-term financial goals.

Paying off your mortgage as quickly as possible frees up funds sooner to put towards other important priorities . . . like your retirement.

A popular way of paying off a mortgage sooner is to shorten the loan's amortization period – the number of years it will take to repay the mortgage loan in full. Shortening the amortization period increases your mortgage payment, but, potentially, saves thousands of dollars over the life of the mortgage. You'll be surprised at how much you can save by reducing the amortization period by just two or three years.

Payment frequency can also reduce the amount of interest you pay over the life of your mortgage. In addition to monthly payments, most lenders also offer accelerated weekly, bi-weekly and semi-monthly payment options.

Another strategy is to take advantage of any prepayment or additional payment features of your mortgage. Consider using a portion of any bonus, tax refund, or inheritance to pay down your mortgage. Again, this strategy could save you thousands of dollars in interest over the life your mortgage.

The key to effectively managing your mortgage is to ensure you select the right type of mortgage for your needs at the outset. This means looking at your mortgage as a key part of your total financial security plan.

Questions to ask yourself when considering a mortgage

- Can I take advantage of the federal government's first time home buyers' plan?
- What type of mortgage suits my budget and lifestyle?
- How sensitive am I to interest rate changes – whether they go up or down?
- Should I choose a short or a long-term mortgage?
- What type of life insurance to cover my mortgage best suits my needs?
- Should the insurance pay the financial institution or my family?
- Do I need disability insurance?

Questions to ask yourself when it's time to renew your mortgage

- Can I afford to increase my regular payment?
- Can I pay down the mortgage?
- Should change my payment frequency – i.e. monthly to semi-monthly?
- Do I plan to sell the property in the near future?
- Is now the time to refinance my mortgage to complete renovations, consolidate other debts, top-up my registered retirement savings plan?
- Fixed rate or variable rate – how sensitive am I to potential interest rate changes?
- Should I choose a short or a long-term mortgage?

Answering these questions enables you to structure and manage your mortgage and goes a long way to helping you achieve your long-term financial goals.

Tax rules and interpretations subject to change.

A description of the key features of the segregated fund policy is contained in the information folder. Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.