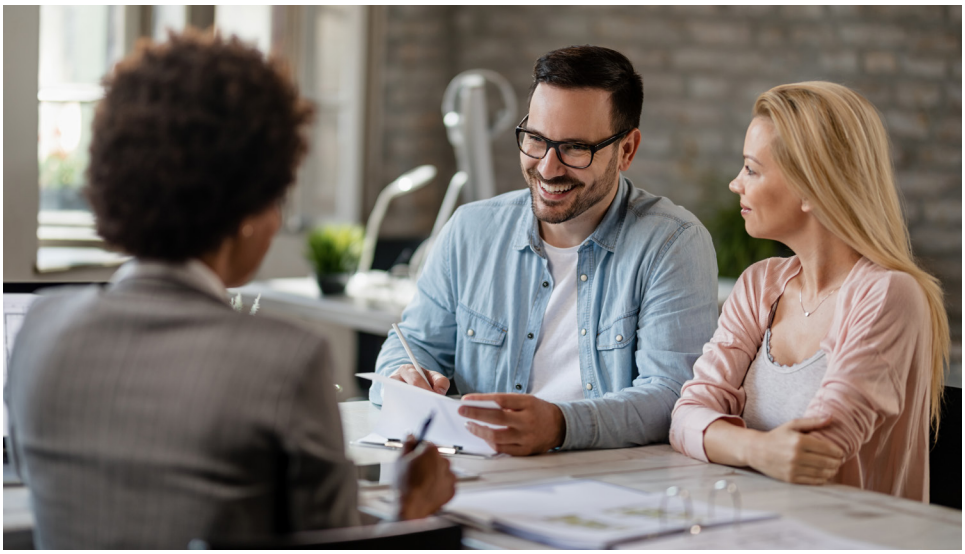
CI ASSANTE WEALTH MANAGEMENT

WELL-ADVISED

SUMMER 2022



CAN YOUR RISK TOLERANCE CHANGE?

Risk tolerance can be described in several ways, but it often comes down to this question: How much of a decline in the value of your investments are you comfortable accepting in exchange for higher potential returns over the longer term?

For most people, risk tolerance doesn't change—at least not until retirement nears. However, certain factors can make some individuals become less or more tolerant to investment volatility.

REACTIONS TO THE MARKET CYCLE

Some experienced investors who have lived through multiple market cycles can find their risk tolerance changing. A conservative investor could be open to holding more equities in their portfolio, reassured that past market declines were all followed by recoveries. On the other side of the coin, a growth-oriented investor could become less tolerant to risk. When they were just starting to save, they may have tolerated a 20% decline in their portfolio value, but now it may not be so easy to accept the dollar value of a 20% drop in a large portfolio balance.

CHANGES IN YOUR FINANCIAL SITUATION

Tolerance to risk can increase or decrease following a significant change in someone's financial situation. For example, a recently divorced individual may re-examine their portfolio after considering the costs of a divorce settlement and child support. Fulfilling their new financial responsibilities could make this person less tolerant of investment risk.

SHORTENED TIME HORIZON

Someone's investment time horizon—the number of years until they need to access their funds—also affects risk tolerance. When retirement approaches, an investor typically reduces their portfolio's risk level. No one wants to risk a market collapse, jeopardizing a happily anticipated retirement date.

If your tolerance to investment risk ever changes, please talk to us. We'll make sure your portfolio aligns with the change and you remain on track to meet your financial goals. ■

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When life gets busy, it's easy to set aside some things that need attention, including financial matters. Thankfully, life slows down in the summer, and it's a chance to catch up. Think of anything in your financial life that you've been putting off. Whatever you choose to do, we're here to help.

BUY LOW, SELL HIGH—THE CHALLENGES AND OPPORTUNITIES

Buy low, sell high is one of the most famous mantras in investing. It's the investment ideal, if you could do it regularly and successfully. The trouble is, if you aim to buy low and sell high by trying to time the market, you'll face conditions that are unpredictable.

CHALLENGES OF MARKET TIMING

Let's start with selling high. What happens if you sell investments when markets are on an upswing, and then the investments continue to climb? You'll miss out on further gains and be hard-pressed to invest your redeemed funds in better-performing investments. Choosing the optimal point to sell is just a guess.

The next challenge is buying low. This time, you must guess when the market, or an investment, has bottomed out. Wait too long and you can miss the rebound. Meanwhile, you've parked money on the sidelines, missing out on opportunities.

For individual investors, it's this guesswork and luck that makes market timing a hopeful ideal more than a sound practice.

OPPORTUNITIES TO BUY LOW AND SELL HIGH

Fortunately, there are ways to profit from buying low and selling high apart from trying to time the market. All you have to do is follow traditional investment practices.

Invest on a regular basis. One of the simplest parts of investing—making regular contributions—is also one of the most impactful. By investing the same amount each month or other interval, regardless of market performance, you won't over-invest when prices are higher, and you'll buy more shares or fund units when prices are lower. You automatically buy low when the market presents a buying opportunity, and are positioned to boost your portfolio's value when the market recovers.

Experience the wonder of rebalancing. Each investor's portfolio is built with an asset allocation among equity, fixed-income, cash and any other investments, in proportions designed for the highest potential returns at the investor's accepted level of risk. However, each asset class can react differently to changing market conditions, causing the proportions to drift. You could end up holding too much of your portfolio in fixed-income, which limits your returns, or too much in equities, straying beyond your risk tolerance. So, your portfolio is periodically rebalanced to restore your investments to their original asset allocation.

Here's where buy low and sell high enters the picture. The act of rebalancing redeems some of the assets that have outperformed and become too large, selling high. And rebalancing purchases more assets in the underperforming class, buying low.

Say it's a period when the stock market plummets, and the percentage you hold in equities falls below your original asset allocation. Rebalancing during this down market would likely lead to the sale of fixed-income investments and the purchase of equities at reduced prices. That sets you up for potential portfolio gains when stock markets rebound.

Count on the money managers. The aim to buy low and sell high is embedded in every company in your portfolio, since experts chose these companies because they believed the share price would rise. This may be more obvious with value money managers, who choose stocks with low prices and high potential. But the principle is still the same with growth money managers, who search for companies demonstrating above-average growth with the potential to grow further.

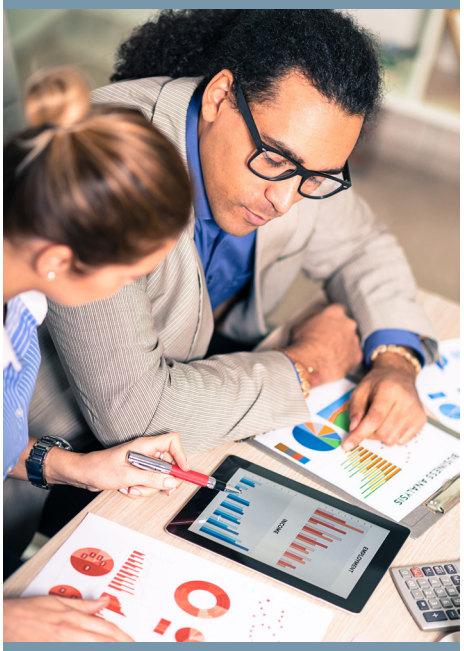
Buying low and selling high is best left to the experts choosing stocks, rather than individual investors trying to time the market with their portfolio contributions. ■

WAYS TO REBALANCE

When the proportions of asset classes drift, several methods can restore a portfolio to its original asset allocation. Here are three common rebalancing methods.

Calendar rebalancing. On a monthly, quarterly or annual basis, a portfolio's original asset allocation is restored by selling assets from an overweight class and adding assets to an underweight class.

Threshold rebalancing. With this method, a portfolio is rebalanced any time an asset class deviates by a specified percentage from its original weighting—for example, by 5% or 10%.



Targeted rebalancing. Instead of selling assets from an overweight asset class, new contributions to an underweight asset class bring the portfolio back into balance.

Different methods suit different situations. Studies show that any rebalancing approach used consistently will outperform a portfolio that has not been rebalanced at all.[1]

[1] Vanguard Research, "Best Practices for Portfolio Rebalancing," 2015.

LIFE DECISIONS AND THE FINANCIAL FACTOR

How do you make important life decisions? Make and evaluate a list of pros and cons? Discuss the matter with your spouse or a close friend? Trust your intuition? Everyone has their own style, and you might use different methods depending on the issue.

Whichever method you use, you'll probably find that many life decisions, in addition to all of the personal considerations, also involve a financial factor. Here are several scenarios that illustrate how it helps to understand the financial side of a situation.

FUNDING A SECOND DEGREE

Gordon and Fatima have a child who received their degree in social sciences a year ago—an education paid for with the couple's Registered Education Savings Plan (RESP). Now the child wants to return to school to study law. The spouses are discussing on a personal level whether they believe they should assume responsibility for the education costs, or whether their child, now a young adult, should take out a student loan. Considering the issue of parental responsibility is one thing, but then there's the significant financial factor—tuition is extremely high and rent will also be expensive.

The couple, with costs of tuition and accommodation in hand, talk about the financial side with their advisor. It turns out that to cover these expenses they would need to withdraw funds from accounts designated for retirement savings, which is a cause for concern. They talk about various options, and Gordon and Fatima are now considering partially funding their child's law studies using funds from their Tax-Free Savings Accounts (TFSAs), so there won't be tax implications.

CARING FOR A PARENT

Jocelyn and Mike are planning to retire in 15 years, when Jocelyn will be 65 and Mike will be 60. However, a situation has come up that has the couple wondering about their current retirement plans. Jocelyn's mother, who now needs assistance with personal care and preparing meals, isn't fond of getting help from someone she doesn't know. Jocelyn is thinking about helping her mother on a daily basis.

She's fairly sure her employer will allow a switch to part-time hours, but Jocelyn needs to decide if she's up to the task of being a caregiver. Then there's also the financial factor. Jocelyn and Mike meet with their advisor to discuss whether Jocelyn's reduced income would affect their retirement plans. Their advisor tells them it would require an adjustment to their plans and outlines several options. They can postpone retirement, with Mike working to age 65. Or, to keep their planned retirement date, the couple could increase the amount they save and invest, or modify their desired retirement lifestyle.

Now that they understand their options, Jocelyn and Mike can consider personal and financial factors to make an informed decision.

PURCHASING A VACATION PROPERTY

Stefan and Lydia, a recently retired couple, are thinking about purchasing a vacation home as a second property, but they're also weighing the pros and cons of purchasing versus renting. The couple love the convenience and warm feelings of being in a place that's their own, but also like the idea of the variety and freedom that renting offers.

First, they need to make sure that purchasing is financially feasible. The couple present their advisor with the estimated amounts of a down payment and monthly mortgage payments they received from a mortgage broker. The advisor shows Stefan and Lydia how they can afford the purchase without worrying about outliving their savings. However, the advisor cautions that they may need to budget to cover the related expenses, such as property tax, insurance, repairs and utilities. Also, they'll eventually need a plan for one of their estates to cover any capital gains tax on the vacation property.

Stefan and Lydia now have additional pros and cons to consider, but they do have all the information they need to make a decision.

Your important life decisions may be quite different from these, but what you'll likely have in common with the people in these scenarios is the need to explore a financial factor affecting your plans. When you do face a choice, please feel free to contact us—decision-making will be easier with our input. ■

MANAGING FINANCIAL LIFE IN A SECOND MARRIAGE

According to Statistics Canada, more than one in four Canadians in a couple is in a second or subsequent marriage or common-law relationship. For most people getting together as a new couple, financial life will change. Here's a look at several financial and wealth planning matters that may be different the second time around.

YOURS, MINE AND OURS

There are many variations on how a couple can share—or not share—bank accounts, assets and expenses. They could share expenses from a joint account or split up who pays which bills. They could invest separately or in a joint non-registered account. They could combine some, all or none of their assets.

It's also quite possible that spouses in a second marriage will make different choices in how they share finances with previous partners. Now they need to determine how they'll combine or separate assets and expenses in a way that's agreeable to both partners in the new relationship.

Another consideration is whether finances will be shared *equally*. In a second marriage, there may be a sizable imbalance in the spouses' net worth or income level. So, financially, one might contribute more than the other. In some cases, an imbalance could lead to a discussion about a marriage contract.

SPENDING VERSUS SAVING

Two spenders could jeopardize saving goals. Two savers might not enjoy life now. A spender and saver could either lead to friction or form the basis of an ideal compromise. Whatever your situation, it's worthwhile to have the saving versus spending discussion to prevent conflict over finances from affecting the relationship.

WHEN CHILDREN ARE INVOLVED

Additional planning is required when there are children in the picture. If the children are younger, and especially if both spouses have children from a first marriage, the couple will need to agree on such financial matters as how or whether to give allowances and how much can be spent on arts and sports programs. If there are adult children, they may need to discuss what happens if a child needs financial help. One set of rules promotes family harmony.

Having children from a first marriage can also affect home ownership. Couples in a first marriage typically own their home as joint tenants, which gives ownership to one spouse when the other passes away. In a second marriage, some couples register the home as tenants in common. This way, each spouse owns a share of the home and can arrange for that share to go to their children upon their passing.

NEW RETIREMENT PLANS

Retirement plans usually change with a new spouse. Will you retire earlier or later? At the same time as your spouse? Where will you retire? Will retirement include travel or purchasing vacation property? Do you have a new financial goal? With our help, you can make any necessary adjustments to your saving and investment program to achieve your desired retirement lifestyle. ■

BEWARE OF FRAUD TARGETING SENIORS

A person claiming to be a lawyer phones a targeted senior with an urgent request. Their grandchild crossed the border and got into legal trouble. They need $5,000 to avoid jail and said please don't tell mom or dad. The grandparent scam is an old one that's now making a resurgence across Canada. And there are a dozen or more other common scams, each one victimizing a senior for hundreds or thousands of dollars.

WIDESPREAD SCAMS

In a telephone scam, a supposed Canada Revenue Agency (CRA) official asks for the person's social insurance number (SIN) and bank account details to deposit COVID-19 benefits.

A fraudster professing to be a contractor rings the doorbell. They noticed the senior needs a roof, chimney or other home repair. Just pay upfront for the supplies—no labour charge until the job is done.

Scams involving computer messages come in many forms, some asking for personal information from what appears to be an official source, such as Canada Post, and others claiming the computer is infected with a virus that can be eliminated for a fee.

WARN YOUR LOVED ONES

If you have a senior parent or other seniors in your life who could be susceptible to fraud, you may want to talk to them about fraudulent scams. Ideally, ask them to contact you if they're approached with any demand or offer they didn't request—whether it's online, through the mail, over the phone or at the door. And remind them not to give out any personal or financial information. ■