Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

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Please do not hesitate to contact your advisor for a Confidential Financial Review.

Focus on: FUND MANAGEMENT

Each equity fund manager utilizes a unique style when investing in securities.

Bottom-up and Top-down Viewpoints

Bottom-up Approach
Simply put, an investment style refers to the approach that a manager uses to choose investments. Some managers look at a company's bottom-line profitability first as the criteria to purchase. Next, they look at the company's industry and the effect on the security by the economy. This is referred to as a bottom-up management approach.

Top-down Approach Another method is to look first at the strongest sectors of the economy within the much bigger picture. Once managers believe a sector will experience expansion, then they look for the best companies operative in that sector. Beginning at the top - assessing the economy and its sectors - s referred to as a top-down approach.

Determining Style

Beyond the bottom-up and top-down approaches we need to look at what the manager actually looks for in the economy, in the industry sector, or in an individual company. This way we can get to the nitty-gritty of the manager's style. Please understand that one style is not essentially better than another, but we should understand how the styles work.

Equity Mutual Fund Management Styles

Value investing These fund managers, find, and purchase undervalued companies' out-of-favour stocks, that pay above average dividends with a potential for share price growth. When they spot a company of interest they work hard at

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Please read the funds' prospectus before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Any indicated rate of return is for illustration purposes only and is not intended to reflect future values of returns on investment. Please seek professional advice prior to investing. Financium, the publisher does not guarantee accuracy of information, and will not be held liable in any way for any statements or statistics in this publication, though we seek to present reliable, precise and complete information. Written permission of Financium who retains all rights, must be obtained prior to any reproduction. ©Financium. email: admin@adviceon.com

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assessing its potential. They buy stocks of fewer companies (in most cases) and hold them for a long time. Value investing takes a bottom-up approach because the fund managers study the company first, generally before they interpret the industry sector or the economy. Value stocks tend to be less volatile because a) they are priced low to begin with, and b) they pay higher dividends which are factored in as part of the return potential. With less volatility, conservative managers tend to favour value stocks. When assessing companies, value managers look for profitability, dividends, a strong cash flow, along with excellent corporate management, competitive products and established brand names and trademarks. Value managers tend to hang onto their stocks resulting in fewer turnovers. Therefore, there is infrequent triggering of capital gains allowing for more tax deferral on these unrealized gains. Deferral of taxes, on the flip-side, means that you will pay taxes on these gains when you sell the fund (if not registered in an RRSP/RRIF).

Growth investing These managers invest in companies offering stock that has hot potential for aggressive growth in earnings. They want to see short to mid-term profits when the market moves up. They will pay more to purchase stocks in companies offering innovative new products. The manager will sell off poor performing stocks more often than a value investor will. Growth funds rarely pay dividends, making them a little more volatile than value funds because dividends (offered with value funds) can stabilize the value of stocks.

Qualified
RRSP/RRIF BENEFICIARIES

Think carefully about naming a beneficiary for your RRSP or RRIF. It can have serious implications with respect to the amount of money that your heirs receive after your death. If you do not specify a beneficiary, your RRSP/RRIF becomes part of your estate. There is a risk that it will be taxed in its entirety in the year that you die. That can mean a substantially smaller inheritance for your family. The best way to avoid paying this "death tax" is to name your spouse as beneficiary. This allows your registered plan to be transferred, tax-free, to your spouse's plan.

What if you have no spouse? You may want to name dependent children or grandchildren. Heirs who are "financially dependent" on you may purchase an annuity with the funds which spreads the tax on income until they reach age 18. Alternatively, they could retain the lump sum, and be taxed, in most cases, at a lower marginal rate.

Be careful when naming any other beneficiary, such as a friend. In this case, your registered plan assets can be passed over to the beneficiary, while your estate remains liable for the income tax thereon. It may have to be paid out from your other assets, leaving a smaller inheritance for immediate family members.

Know the facts and plan prudently to decide which beneficiary option is best for you.