Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

Canfin Financial Group, Client Services Dept.

2829 Sherwood Heights Dr., Suite 102,
Oakville, ON L6J 7R7

For immediate service, contact your Canfin Advisor or,
Tel. 1-877-4-CANFIN
Fax. 905-829-0052
email: clientservices@canfin.com
web: www.canfin.com

Services we can provide through our Group of Companies

Investment Planning
Insurance Planning
Mortgage Planning
Tax Planning
Financial Planning
Estate Planning

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

The Necessity OF RISK

Any successful business person or investor will tell you, “there is no such thing as gaining wealth without risk”. In fact, within any business or investment, risk increases when the potential for gain is greater. When you are investing in equity mutual funds, the chances of both gain and loss are similar to investing in any given business because mutual funds actually invest in the stocks of many businesses. If any business succeeds, its stock will increase in value and pass that value onto the shareholders. If many businesses' stocks increase in value in a mutual fund, the investors' wealth can increase relative to the resulting net increase in value of each fund unit. In the short term a mutual fund, like any business, can fluctuate in value, so the risk of losing money in the stock market increases if equity fund investments are held for only a short period of time. In most cases, the risk decreases the longer you hold equity fund investments. Because economic performance is uncertain, an investor who seeks growth by investing in the ownership of companies via equity mutual funds cannot have zero risk. In fact risk is part of our lives. Any successful investor actually realizes that the following risks exist, yet invests in spite of them.

• **Interest rate risk** when increasing, could negate gains of certain income funds investing in bonds.
Solution: Maintain a balanced portfolio including equity funds along with different types of income funds: money market, short-term bond, and long-term bond funds.

• **Business failure risk** that could deplete the value of any one stock.
Solution: Invest in equity mutual funds because they hold many different stocks.

• **Purchasing power risk** is a reality faced by everyone due to inflation over time.
Solution: Calculate inflation into your retirement planning and invest in equity mutual funds over the

Continued on page 2...

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

Continued from page 1...

long term, building sufficient wealth to meet increased future budget demands due to inflation.

• **Market risk** occurs as markets are cyclic, rising, correcting, and occasionally declining.
Solution: Diversify your funds investing geographically among Canadian and foreign funds as not all markets move together.

• **Opportunity risk** occurs when you cannot invest your money for a potentially better return, such as when you are invested in a locked-in type of investment such as GICs, or have tied up your income in monthly payments.
Solution: Try not to lock all of your money up over any given period of time.

• **Liquidity risk** occurs when you cannot quickly sell a given investment such as a large real estate portfolio.
Solution: Invest in mutual funds. If money is urgently needed, funds can be sold and money accessed on any business day with some possible costs incurred.

Unique EQUITY INVESTMENT STYLES

There are many strategies used by fund managers to achieve growth on capital. The effectiveness of any strategy will depend on the manager's skill.

Sector rotators

After a top-down assessment of economic prospects, these managers invest in an industry sector, at any given time, most likely to outperform the entire stock market. Sector rotators will utilize a value or a growth style or a combination thereof. Extremely difficult to execute accurately, managers constantly rotate to the sector appearing to be next with the greatest potential for growth. They trigger capital gains often because the managers sell when they rotate to the next sector.

Mirroring an index

Using this strategy, there is no need to take a top-down or bottom-up approach. Managers of index funds simply hitchhike the ongoing performance of an index such as the TSE 300 (the 300 most widely traded stocks on the Toronto Stock Exchange). They have no intent to outperform the market, only mirror it. Unlike the growth fund managers, they do not shift portfolio holdings. Thus if the market turns down, the fund will also slip with it in tandem. There may be a potential capital gains tax advantage, as the fund's stocks are not turned over frequently.

Combinations of styles

By combining, for example, a growth style with a value style, a mutual fund would be comprised of stocks with the potential to grow over the mid to long-term. Another variation may be to use top-down analysis to assess the economy, then the sectors, before using a value style (normally approached bottom-up) to assess a sector-specific company. Some may divide their mutual fund into different styles so as to achieve style diversification.

Two Key Equity Investment Styles Compared

Value Fund	Growth Fund
Fewer out-of-favour stocks	Many hot stocks
Higher dividend yield	Lower or no dividend yield
Infrequent gains triggered	Frequent gains triggered
Less volatile	More volatile