

Snapshots™



MUTUAL FUNDS 101

Name	<input type="text"/>
Date	<input type="text"/>

Advisor Name
Approved Title
Dealer Name
123 Street Name Road
Town or City, PN A1B 2C3
Tel: 123-456-7890
Cell: 123-456-7890
email@address.com



TABLE OF CONTENTS

MUTUAL FUNDS: What They Are And How They Work	2
1. Why invest in a mutual fund?	2
2. How does a mutual fund work?	3
3. What is a prospectus?	3
4. Do mutual funds charge fees?	4
PERFORMANCE AND TAXATION	6
5. How do I make money on a mutual fund?	6
6. How am I taxed on mutual funds?	7
7. Tax sheltering with RRSPs	8
8. How can I track my fund's performance?	9
9. What is asset allocation?	12
UNDERSTANDING RISK	13
10. What are the risks of investing in mutual funds?	13
11. How is my money protected?	15
TYPES OF FUNDS	16
12. What are the different fund types?	16
BUYING AND INVESTING STRATEGIES	19
13. How do I buy a mutual fund?	19
14. How long should I hold a mutual fund?	20
Frequently Asked Questions	21
Glossary	22
Notes	31

MUTUAL FUNDS: WHAT THEY ARE AND HOW THEY WORK



1. Why invest in a mutual fund?

A mutual fund provides investors access to a diversified portfolio of investments. Your money is pooled with other like-minded investors, and is invested on your behalf by qualified investment professionals. Mutual fund investing provides many benefits:

1. Convenience

Mutual funds take the guesswork out of investing. They allow you to purchase a well-researched portfolio of investments that are monitored on a continual basis.

2. Affordability

A mutual fund account can be opened, through your Financial Advisor, with a relatively small amount of money. Most fund companies either have a low or no minimum initial purchase amount to make getting started easier. Also, you can arrange to make low pre-authorized monthly payments to your account so you can keep investing.

3. Access to your money

Your investment is not locked in. You can easily sell mutual fund units on any business day – in virtually any amount – and have access to your funds within days. Your investment choice is not locked in either.

4. Professional management

Mutual funds give you access to professional money management previously available only to the very wealthy or to large institutions. These managers and their research analysts are specifically trained to evaluate investment opportunities based on the potential to make money while controlling for risk. They have better access to information than most individual investors and can execute trades at much lower costs.

5. Diversification

The typical mutual fund holds a wider range of investments than you could realistically buy on your own. This ability to diversify your investments generally lowers the overall risk of your portfolio.

6. Access to markets

Mutual funds provide access to markets that are virtually unavailable to the individual investor. For example, China is touted as a great long-term investment prospect, but how would you research Chinese companies and purchase their shares?



2. How does a mutual fund work?

Every mutual fund has an investment objective. For example, some funds are designed to pay out periodic income while others are designed to grow your savings over time. Some invest in specific sectors or certain geographic areas, while others invest quite broadly. Every mutual fund company must publish a legal document called a “simplified prospectus” for each fund it offers which, among other things, spells out the investment objective for that particular fund.

Professional managers invest the fund’s money in a variety of holdings aimed at meeting the specified investment objective. An equity fund manager primarily buys shares in publicly traded companies whereas a bond fund manager will buy a portfolio of bonds. Some funds combine both strategies. The fund’s managers constantly review these holdings. As new money comes into the fund, the managers decide whether to broaden the range of holdings, increase or decrease existing holdings, or hold cash for a while depending on the market conditions.

Most mutual funds value their holdings at the end of each business day. Then they calculate the “net asset value per share” or NAVPS – the total value of the fund divided by the total number of units that investors hold. If a fund’s value – the sum total of its investments and its cash – is worth \$10 million and it has one million units outstanding, the NAVPS will be \$10. That’s the price at which orders to purchase and sell the fund during the day are processed.

3. What is a prospectus?

A prospectus is really your owner’s manual. It’s a legal document that the mutual fund company must file with securities regulators and update each year. The booklet contains a great deal of information about the terms and conditions of your fund as well as your legal rights as an investor. Perhaps the most relevant sections to check are:

1. The fund’s fees and charges, and how your dealer is paid. That’s always detailed in the first few pages.

2. The investment objective for each fund you’re considering. You will find a brief explanation of the type of investments the fund primarily makes to meet its objective.

3. The risks associated with your fund. These risks might be listed one fund at a time or consolidated by fund types.

You will also find details on exactly how to buy and sell units, how often the fund pays out distributions, whether the fund is eligible for Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs), and whether there are any special tax considerations.

A prospectus is really your owner’s manual. It’s a legal document that the mutual fund company must file with securities regulators and update each year.



4. Do mutual funds charge fees?

Yes. As a mutual fund investor, you hire a group of investment professionals to manage your money. They provide you with access to a diversified portfolio of stocks, bonds and other securities that would be extremely costly to replicate on your own. In return, you pay their salaries and related investment expenses through various fees which can be directly and indirectly charged. These fees are explained at the beginning of the fund's Simplified Prospectus or Fund Facts document. You also pay, either directly or indirectly, for the advice you receive from your advisor.

There are three broad categories of fees:

1. Management expenses

The management expense ratio (MER) is an annual fee that is charged by the fund manager to a mutual fund to pay for costs associated with running the mutual fund. The MER includes a management fee component and a component to cover operating expenses.

The management fee component covers management costs including salaries and costs for the portfolio managers. The component covering operating expenses includes marketing and administrative costs, audit fees, GST or HST, and unit holder communications.

The MER is expressed as a percentage related to the fund's value. For example, if a \$100 million fund has \$2 million in costs in a year, its MER for that year is 2%. The costs are deducted before the fund's performance return is calculated. If your fund made 8% and the MER was 2%, the reported return for the year is 6%.

Usually funds that invest in company stocks have a higher MER than those that invest in bonds – that's generally a result of two factors:

- it typically takes much more research to choose a company to invest in than it does to choose a bond; and
- there are greater trading costs associated with buying and selling stocks.

2. Sales fees

Sales fees compensate dealers and advisors who sell you funds. When evaluating mutual funds, you'll encounter front-load, low-load and no-load funds.

Front-load fees: You pay this fee to the dealer up front when you buy a fund. It is taken from the amount of money you are investing. For example, if you have \$1,000 to invest in a fund and the front load fee is 1%, \$990 will go into the investment and \$10 will go to the dealer where your advisor works. The dealer shares a part of these fees with your advisor. These fees may be negotiable and vary from dealer to dealer.

Low-load fees: You are placed on a decreasing redemption schedule, and if you sell a fund before the redemption schedule is up, there is an early redemption fee to the fund company. For example, there may be no fees after three years with a low-load fund. The dealer and its advisors are paid commissions by the fund company at the time of purchase.

No-load fees: There are no fees for investing in these funds, but you often pay a separate fee to the dealer or advisor for advice received – or it may be that you don't receive any advice at all.



3. Other fees and charges

In addition to the MER and sales fees, investors may also pay other fees related to performance, transferring and trading.

Performance fee: If the fund's performance exceeds a pre-set threshold or benchmark over a certain period of time, performance fees may be payable to the mutual fund manager for some funds in recognition of superior performance.

Short-term trading fee: These fees are designed to discourage short-term trading into and out of a mutual fund in an attempt to make a quick profit by "timing" the market, as mutual funds are designed to be long-term investments. Mutual fund companies may charge a penalty fee (often up to 2% of the value of the trade) if mutual fund units are sold within a certain period, generally 30 to 90 days depending on the fund type.

The following fees could be charged to you by your advisor's dealership:

Switch fee: Advisors or dealers may charge a small fee when you switch among funds in the same family.

Annual RRSP, RRIF or RESP trustee fees: These fees cover the cost of administering your plan or plans.

Account set-up fee: Some dealers may levy a one-time charge for new clients.

Processing fees: You may incur a fee if you close an RRSP account, wire money to your bank account or perform other transactions.

Fees charged by the mutual fund manager are disclosed in the mutual fund's prospectus as well as its Fund Facts document, which you receive at the time of purchase. Fees charged by your dealer should be explained in the Relationship Disclosure Information package your advisor provides to you at account opening.

PERFORMANCE AND TAXATION



5. How do I make money on a mutual fund?

Here are three ways in which you can make money on a mutual fund:

1. Capital growth

When your fund manager buys securities that rise in value, the value of the fund's unit costs reflects this rise, even if the securities have not been sold. For example, if you bought your units for \$8 per unit and sell them for \$10, you will have realized a \$2 per unit capital gain.

2. Capital gains distributions

Occasionally fund managers will sell securities in the fund that have experienced a change in value. If the manager made a profitable investment on your behalf – if the security was sold for more than it was purchased – there will be a capital gain on the sale. At the end of the year, the fund distributes the net capital gains to you, the shareholder, according to the number of units you own. You have a choice between taking capital gains distributions in cash or having them automatically reinvested in more units.

3. Income distributions

During the year, the fund receives interest and dividends on its holdings. From time to time, it distributes that money to unitholders after covering its expenses. The timing and amount of those distributions will depend on the type of fund. Equity funds pay income distributions only if the stocks they own pay dividends. Bond funds pay frequent interest distributions because they hold bonds that pay steady interest throughout the year.

Be aware that as a fund earns net income or realizes capital gains, its NAVPS – the price paid for a unit – goes up. Then, when those distributions are made, the NAVPS drops by the amount of the payout.

Example:

Today

Suppose you invest \$1,000 and buy 100 units of a fund priced at \$10 each.

For illustration, let's make two assumptions:

1. At the time of purchase the \$10 NAVPS consists of \$1 of previously earned distributable income or capital gains.
2. The fund earns \$0.50 per unit of capital growth over the next year since the time you invested.

In this example, the NAVPS rises to \$10.50 and your \$100 units will be worth \$1,050.

One year from today

Let's assume that after one year, the fund pays the \$1 of previously earned distributable income or capital gains on the distribution date.

On the distribution date, you and the other fund holders will be paid \$1 per unit. The fund's NAVPS will therefore drop accordingly – to \$9.50 per unit. At this point, you might look at the new \$9.50 NAVPS and feel you've suddenly lost money, but you really haven't. You still have \$1,050 in all, though the make-up will depend on how you take your distribution:

- If you have the distribution automatically reinvested – as most people do – your \$100 payout will purchase 10.526 additional units at \$9.50 each. So, after the distribution you will hold 110.526 units valued at \$9.50 each. Total = \$1,050.
- If you take the distribution in cash, you'll have 100 fund units valued at \$9.50 each for a total of \$950. Plus you'll have the \$100 cash payout. Total = \$1,050.

Notice that the \$0.50 per unit of capital growth was not paid out. That will remain in the fund's valuation – and hopefully continue to grow – until you realize it by selling your units for a capital gain.



6. How am I taxed on mutual funds?

The way you are taxed depends on whether you invest on a sheltered or unsheltered basis.

1. Sheltered

If all of your funds are held in a Registered Retirement Savings Plan (RRSP) or some other tax-sheltered plan, you won't face any tax at all until you withdraw money from that plan. At this time, your withdrawal will be fully taxed as ordinary income at your marginal tax rate.

2. Unsheltered

If you invest on an unsheltered basis, here are the tax implications:

Capital growth: When a fund's portfolio appreciates, the value of your fund units will grow in value. Any time you sell fund units with capital gains, you will be liable for tax on half the gain – at your marginal tax rate. The longer you put off realizing the capital gain, the longer you will benefit from tax-sheltered compound growth.

Capital gains distributions: When the fund manager locks in gains on the fund's portfolio by selling investments at a profit, he or she will proportionally distribute the capital gain to you. The tax consequence of the distribution is, once again, half the gain at your marginal tax rate. Note that if the fund company chooses not to pay a distribution to you, they will pay tax on your behalf at the highest marginal rate.

Income distributions: The tax bite depends on the type of distribution, but is always higher than tax on capital gains. Interest is fully taxed as ordinary income at your marginal tax rate. The same goes for dividends on shares of foreign corporations. Dividends on most shares of Canadian corporations are eligible for the dividend tax credit, which reduces your tax bill. In all instances, your tax bill is no different than if you were to directly hold the underlying securities in the fund.



7. Tax sheltering with RRSPs

An RRSP is simply a tax-sheltered investment account that meets certain legal requirements. This account can hold a wide range of investments – including mutual funds.

Each time you make a contribution into your RRSP, you will reduce the amount of your annual taxable income by the amount of the contribution. This usually results in a tax refund in April.

On top of the refund, the RRSP allows your investments to grow tax free. This means your investments can compound and grow more quickly than if they were taxed annually.

Mutual funds are ideal RRSP investment vehicles because of their long-term orientation, professional management and diversification. Monthly mutual fund investment plans also make it easier for you to maximize your tax-deductible RRSP contributions while reducing your market risk. That's one big reason why more and more employers are turning to mutual funds for the Group RRSPs they offer employees.

The RRSP is designed for creating retirement income and cannot be held beyond the end of the year the investor turns 71. A common alternative at that time is to set up a Registered

Retirement Income Fund (RRIF). You will then withdraw income from your RRIF and pay tax on that income. With a RRIF, all income (capital gains, interest or dividend) is treated as personal income, and is taxed at your marginal tax rate.

Tax-Free Savings Accounts

A recent investing alternative is the Tax-Free Savings Account or TSFA. Contributions of up to \$5,500 can be made to the plan each year, and the money will grow tax free within the plan and can be withdrawn tax free at the holder's discretion. The annual limit will rise along with inflation in future years, in \$500 increments. Mutual funds are considered eligible investments for TSFAs.



8. How can I track my fund's performance?

You can track your fund's performance online through an investment account or on the website of your mutual fund company. Most major newspapers print mutual fund unit values every day, organized by company. The benefit of using online sources is that the nature and quality of information you have at your disposal is much greater than what is typically available through a newspaper. While the following examples are hypothetical, you can find comparable information on many personal investment websites.

As of March 30, 2014

Fund name	Price \$	1 day \$ chg	30 day %	3 mo %	6 mo %	1 yr %	3 yr %	Inception (mm/yy)
ABC Fund	36.490	0.220	4.1	2.1	1.9	12.9	0.7	11.5 (10/85)
XYZ Fund	24.040	0.000	6.6	4.1	8.3	25.7	8.9	18.2 (09/98)

The table above provides a snapshot of the type of information you can find online.

The first column displays the name of the fund. The second column gives the price for each unit of the fund. For example, each unit of the ABC Fund was valued at \$36.49 at the close of the previous day, up \$0.22 per unit from the day before (the "1 day \$ change"). So, if you held 100 units, your investment was worth \$3,649, up \$22 from the day

before. When the price per unit of a fund does not change from the previous day's price, it is noted as 0.000, as you can see in the case of the XYZ Fund. The remaining columns display price changes in the fund units over increasing periods of time, expressed as a percentage. The "Inception" column tells you the change in the value of a fund's units since inception, which is the date that the fund was created – marked in brackets beside the value.

As of March 30, 2014

Fund name	Asset class	Assets (\$M)	MER %	Sales charge	Minimum investment	RSP
ABC Fund	Canadian Focused Equity	1731.5	2.4	FE	500	Yes
XYZ Fund	Natural Resources Equity	638.3	2.7	FE	500	Yes

This view provides certain key information about each of the funds. The "Asset class" describes the category under which the investments in the fund fall. The XYZ Fund, for example, is classified as Natural Resources Equity, which indicates that the majority of the fund's holdings are focused on natural resources, such as energy companies and gold producers.

The next column ("Assets") indicates that at the end of the prior month, the fund size was \$638.3 million. The management expense ratio (MER) is listed in the following column. "Sales charge" refers to the kind of sales charge on a fund.



The most common sales charge options:

FE – front-end

NL – no load

LL – low load

For a description of these terms, see Section 4.

“Minimum investment” tells you the minimum amount of money you can invest into the fund at any one time. For both funds on this list, that amount is \$500. The last column deals with whether a fund is 100% eligible for RRSPs and RRFs.

As of March 30, 2014

Fund name	Star rating	1 yr %	3 yr %	5 yr %	10 yr %	15 yr %	Status	Inception (mm/yy)
ABC Fund	★★★★★	12.9	0.7	8.6	8.5	9.5	–	11.5 (10/85)
XYZ Fund	★★★★★	25.7	8.9	18.8	21.4	–	–	18.2 (09/04)

You can also obtain long-term data that shows fund returns over a longer historical period of time – in the above example, up to the past 15 years. Some funds may not be old enough to offer full historical information, in which case the entries will appear blank after a given time period – as in the case of the XYZ Fund.

This view also highlights two other important pieces of information about each of the funds. One is the “Star rating” attributed to the fund by whichever rating agency the website is quoting. Each agency has its own methodology for ranking the investment quality of a fund, with more stars generally indicating a higher quality.

It’s vital to understand that these tables are meant only as a guide. They are unlikely to reflect your precise returns because the calculations assume:

- Just one investment was made at this particular month-end exactly one month ago, six months ago, one, three, five or 10 years ago;
- All distributions were reinvested in more units; and
- No sales fees were paid (though management fees and expenses deducted from the fund are included).



Statements

Unitholders are automatically provided with account statements and periodic updates showing the market value of their mutual fund investments. In some cases, the information is not sent directly to the unitholder but to the investment dealer that holds his or her account. The investment dealer then issues its own account statement.

What you'll see on statements:

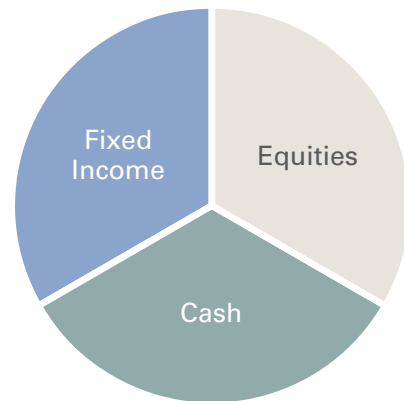
- The market value of each mutual fund you hold as well as the combined value of your funds is shown on the statement. To make it easy to check your progress, you'll see these amounts for the last statement date and the new one with the change in value calculated;
- If you're invested in an RRSP, LIRA, RRIF or LIF you'll generally see how much was contributed in the first 60 days of the year as well as the remainder of the year; and
- All cash movements to and from your account will be recorded for the reporting period. Portfolio gains or losses are also shown for the reporting period.



9. What is asset allocation?

Asset allocation is a process in which you divide your investment money over the three main asset classes – stocks, bonds and cash. Over the years, academic researchers have found that asset allocation accounts for up to 80–90% of the difference in performance between portfolios. In other words, over time, the way you carve your investment pie is more important than the actual securities you select. A further refinement can divide one or more slices among geographic areas or industry sectors.

Your Advisor will help you choose an asset allocation for your portfolio based on your investment goals and your tolerance for risk. Growth investors prefer an asset allocation that is tilted toward mutual funds invested in stocks, or “equities”; income investors tend to invest in mutual funds that are focused on maintaining their original investment – or “capital preservation” – and generating income. As you close in on retirement, most Advisors will adjust the asset allocation of your portfolio from growth to income. While this can lower the potential for returns of a portfolio, it also reduces overall volatility and helps to preserve the money you have invested so that you can enjoy a more stable income stream.



Advisors will choose an asset allocation for your portfolio based on your investment goals and your tolerance for risk.

The asset allocation of your portfolio can change passively if certain asset classes go up or down in value. For example, if half of your portfolio is in an equity fund and half is in a bond fund, and the equity fund appreciates 50% in three years but the bond fund remains unchanged, the asset allocation is now 60% in equities and 40% in bonds. Your Advisor will review your allocation periodically to ensure that it meets your needs and to rebalance your portfolio if necessary.

UNDERSTANDING RISK



10. What are the risks of investing in mutual funds?

There are a variety of ways to define risk, but the most basic concept of risk is the chance of losing money. Many types of risk can impact the performance of your investment. If your assets are held in another currency, then movements in the value of a currency can affect the value of your investment – this is called currency risk. Liquidity risk impacts how easy it is to sell your investment on the open market. A lack of diversification in your investments may increase concentration risk. Your investment can also face potential losses as the result of political decisions made by or forced upon governments, which is known as political risk. Be sure to carefully read the section of the prospectus that deals with risk as it details the kinds of risk specific to the mutual fund in which you are considering investing.

The main risks that you are likely to encounter in your investments are in the form of capital loss or inflation. A capital loss risk is the risk that your investment will decline in value. Investors are protected from capital losses with Guaranteed Investment Certificates (GICs) because at maturity you receive back what you invested. Most mutual funds, however, fluctuate in price on a regular basis and at times can experience a loss of capital. However, the longer the period that you invest your money, the less likely it is that you will suffer a net capital loss.[†]

Economists acknowledge a general relationship between risk and return that implies if you seek higher returns, you must be prepared to take on more risk of capital loss. For example, a five-year GIC purchased at the end of December 1999 and rolled over for a ten-year period would have guaranteed a return of 3.4% a year with no risk of losing your capital. If you had invested \$10,000, you were due \$14,000 at maturity in 2009.^{**}

The longer the period that you invest your money, the less likely it is that you will suffer a net capital loss.

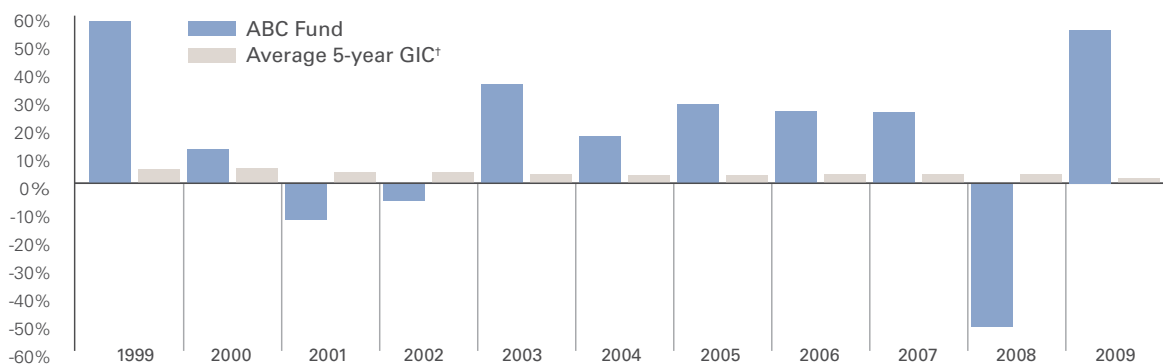
Going back to the hypothetical example highlighted in Section 8, had you invested in ABC Fund over the same period, your \$10,000 would have earned a much higher 8.5% annually for a total value of more than \$22,000. However, you would have experienced occasional periods of negative returns. As the chart on the next page demonstrates, the fund had gains in some years and losses in other years. However, this volatility averaged out to a much greater total return than the GIC investment.

[†] Mutual funds and GICs offer different investment objectives. Mutual funds, unlike GICs, are not insured by the Canada Deposit Insurance Corporation or any other deposit insurer nor guaranteed by any entity.

^{**} The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the funds or returns on investment. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit values and reinvestment of all distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by another unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.



Annual returns – ABC Fund vs. 5-year GIC



In fact, over the long term, the return on GICs has been exceeded by the return on most equity and bond funds. And there is a risk to holding GICs in the form of inflation. With a GIC you still face the possibility that your money won't grow enough to cover the long-term increase in the cost of living. Even with a seemingly low 2% inflation rate, today's dollar will lose one-third of its purchasing power over the next 20 years.

So while you cannot avoid risk, you can understand and manage it. The GIC return in the example above was perfectly predictable and never fell in value. Mutual funds, however, are not guaranteed and returns do fluctuate. The fund had large gains over the ten years but also experienced losses over individual calendar years. All in all, though, the fund's average return was more than twice that of the GIC.

History has shown that the longer your investment period, the less risk you face. Let's look at the Toronto Stock Exchange S&P/TSX Total Return Index for the 53 years from 1957 through 2009. Fifty-three years might seem awfully long, but investing should be a lifetime process. Annual calendar year returns during 1957 - 2010 ranged as high as 44.7% in 1979 to as low as -25.9% in 1974. The index lost money in 17 of those 53 years but that changes dramatically when you look at rolling five-year periods (1957 - 61, 1958 - 62, etc.). There were 49 of these in total and only one – 1970–74 – had a negative average compound annual return. When you add it all up, the good years more than made up for the down ones. Notice that all 44 of the 10-year periods had positive returns.

Annual returns – S&P/TSX Total Return Index

	1-year	5-year	10-year
Total periods	53	49	44
Total with negative returns	17	1	0
Highest return (%)	44.8 (1979)	24.6 (1976–80)	16.8 (1976–85)
Lowest return (%)	-25.9 (1974)	-0.3 (1970–74)	3.4 (1965–74)
Average return (%)	10.7	10.1	10.0

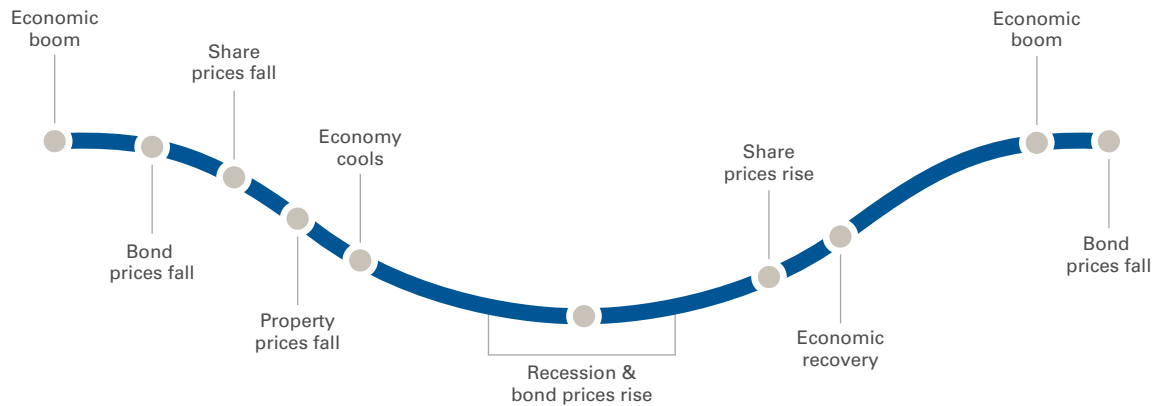
Source: Morningstar Direct, PerTrac

A Financial Advisor can help you determine the average return you need to meet your goals and then design a prudently diversified portfolio aimed at producing the growth you need while keeping risk at a comfortable level.

¹ Mutual funds and GICs offer different investment objectives. Mutual funds, unlike GICs, are not insured by the Canada Deposit Insurance Corporation or any other deposit insurer nor guaranteed by any entity.



Economic cycle



Mutual funds generally reflect the performance of the securities they hold. An equity fund reflects the performance of the stocks in the portfolio and its level of cash. Normally, broadly diversified funds move less than more narrowly focused funds, both on the upside and downside. Fixed-income funds generally

reflect interest rate movements – when interest rates rise, the value of a bond fund will fall. When interest rates fall, bond funds normally rise in value. We'll look at that in more detail later.

11. How is my money protected?

Mutual fund manufacturers in Canada are required to adhere to the rules and regulations set out by provincial regulators. Mutual fund dealers must belong to either the Investment Industry Regulator of Canada (IIROC) or the Mutual Fund Dealers Association of Canada (MFDA), which are the two national self-regulatory organizations that oversee the industry in Canada. The Global Association of Investment Professionals (CFA Institute) also advocates a voluntary Code of Ethics and Standards of Professional Conduct.

Mutual fund companies in Canada are also mandated to protect the interests of unitholders by creating and empowering an Independent Review Committee. This Committee acts in an advisory capacity to the funds' investment manager; its mandate is to enhance, protect and represent the long-term interests of unitholders.

All mutual fund companies in Canada are required to create an Independent Review Committee to protect the interests of unitholders.

TYPES OF FUNDS



12. What are the different fund types?

The choices may seem overwhelming, but there are basically three broad types of mutual funds:

1. Asset Allocation and Balanced Funds

A mutual fund that provides investors with a mix of the three main asset classes – stocks, bonds and cash – is called an asset allocation fund. In general, these funds vary the proportion of each asset class in response to changes in the economy and investment markets. So, for example, a fund may have 60% invested in stocks, 20% in bonds, and 20% in cash or money market. However, if the stock market is expected to do well, the Portfolio Manager could increase the stock component to 80% stocks, and reduce bonds and cash investments to 10% each. If, on the other hand, the stock market is expected to perform poorly, the Portfolio Manager may decrease the stock holdings.

Balanced funds are a type of asset allocation fund that stick to a more or less fixed proportion of stocks, bonds and cash. This proportion can reflect either a moderate (higher equity component) or conservative (higher fixed-income component) orientation. A balanced fund is geared toward investors who are looking for a mixture of safety, income and modest capital appreciation. The amounts that these types of mutual fund can invest into each asset class usually must remain within a set minimum and maximum. That can provide a cushion against sharp stock market downturns.

Life-cycle or target-date funds are a type of asset allocation fund often used in retirement plans. These funds typically have a mix of stocks, bonds and cash structured to initially offer more growth potential but gradually become less risky as an investor nears retirement and starts drawing money from his or her savings.

Instead of holding securities directly, some funds hold units of other mutual funds – often called fund of funds. In most cases, funds of funds provide investors with investment options tailored to their level of risk tolerance.

It's important to note that though fund of funds invest in other mutual funds, management fees are not duplicated.

2. Income funds (long term or short term)

Income funds invest primarily in Treasury Bills (T-bills), bonds and preferred shares. The main objective of these funds is to pay a fixed or steady level of income. Financial Advisors often recommend these funds to lower the overall risk in your portfolio. The most straightforward income fund is a "money market" fund, which invests mainly in short-term T-bills. Varying amounts of interest are paid weekly or monthly and automatically reinvested in more units. Money market funds are normally used to park cash for emergency use, for an upcoming major expense or until a more permanent investment decision is made.^{†††}

Other types of income funds do fluctuate in value, reflecting the market value of the bonds and preferred shares they hold. Those market values are based largely on:

The bond yield

The yield is the return on the price of the bond. A bond that pays a higher yield earns more money for every dollar invested, but a higher yielding bond is usually a riskier bond.

Interest rate movements

Bond prices fluctuate with changes in interest rates. When interest rates rise, bond prices fall and vice versa for a fall in rates.

Time left until maturity

Long-term bonds are generally more volatile than short-term and mid-term bonds. The longer the time to maturity, the more sensitive a bond is to movements in interest rates. Bond fund managers will make predictions on the movements in interest rates and buy long dated bonds in anticipation of a fall in rates. For this reason, investors should consider the type of bonds in the bond fund they own.

^{†††} The net asset value of a money market fund is normally \$10, but it might fall below that level temporarily under very extraordinary circumstances.



Credit quality

Independent agencies determine ratings for bonds and preferred shares, reflecting the issuer’s ability to pay the principle at maturity and the promised interest and dividends in the meantime. The higher the risk of default, the higher the yield on the bond. So, government-guaranteed bonds usually get higher ratings and therefore pay lower interest rates than bonds from corporations. Most funds invest in both government-guaranteed and corporate bonds to balance the risk-return tradeoff.

Some income funds, called equity income funds, provide investors income by investing in stocks that pay a dividend. These are normally high-quality companies with a reliable history of dividend payments and growth in the dividend rate.

Currency

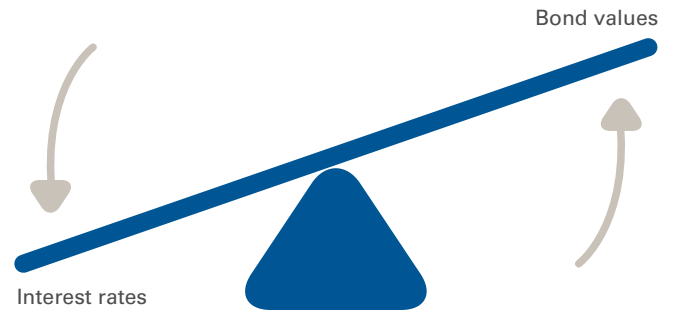
Many income funds hold bonds denominated in foreign currencies that will experience fluctuations in the exchange rate with the Canadian dollar. Those foreign-denominated bonds may make up only a small part of the portfolio or they might be one of the core holdings. Each bond’s market value is affected by movements in the foreign exchange value of its currency. For example, a bond denominated in Japanese yen will gain value if the yen appreciates in terms of the Canadian dollar.

3. Equity funds (diversified or specialty)

Equity funds invest primarily in shares (stock) of publicly listed companies. Historically, stocks have delivered the greatest growth over all asset classes over the long term, though also with the greatest variation in returns from year to year.

When you buy a company’s shares – either directly or through a mutual fund – you actually buy a small part of the business and participate in the company’s success or failure. The value of those shares will rise and fall based largely on the company’s current and projected earnings, the market’s assessment of its management and the outlook for its industry.

There are many types of equity funds. One way to categorize them is by their level of diversification:



The size of the companies

Funds can focus on a specific range of company sizes, called “capitalization”. A fund’s mandate will often vary between riskier small capitalization companies and more stable large capitalization companies.

A specific industry sector

The stock market and the economy are divided into specific sectors such as natural resources, technology, and financial services. Sector funds will invest only in specific sectors, like real estate or gold.

A specific geographic region

The regional variation for equity investing is enormous and can be based on either continental differences or national borders. Some funds, for example, invest mainly in Canadian companies while others invest in European, Asian or even emerging market economies.



Investing discipline

The two most common investment disciplines are value and growth, two different approaches to investing that differ in how companies are chosen for a portfolio. Growth managers seek to identify companies that have the ability to grow their earnings at a rate in excess of the market. Value managers are focused on well-run companies whose stocks are trading at prices below their intrinsic (or “real”) value. This presents an opportunity to purchase strong companies “on sale”. Growth and value investment styles are natural complements to each other. Holding both can provide extra protection when markets fall and more chances for growth when they rise.

A third discipline to consider is a combination of value and growth; some fund companies offer specialty funds that give you exposure to both investment styles in the same fund.

The standard rule of thumb is that broadly diversified funds should form the core of your portfolio with more specialized funds providing enhanced return potential. Generally, the narrower a fund’s focus, the greater the swings – both up and down. Many Advisors recommend holding several equity funds with complementary investment disciplines. Your Financial Advisor can help you determine a good mix for your objectives and risk tolerance.

Your Financial Advisor can help you determine a good mix for your objectives and risk tolerance.

BUYING AND INVESTING STRATEGIES



13. How do I buy a mutual fund?

One of the best ways to buy a mutual fund is through a Financial Advisor who can assess your needs, recommend appropriate funds to meet them and then provide ongoing assistance.

If you feel confident enough and have the time to do your own research and self-assessment, you might prefer to buy funds directly from a discount brokerage. If you purchase funds through this route, you are forgoing financial advice, an extremely crucial element to investing. That being said, you can open up a trading account through any of the leading financial institutions or online and purchase mutual funds.

Mutual fund investments can be made in lump sums from time to time or on a scheduled periodic basis. Nearly all mutual funds are valued once each business day after the market close. The price per unit is then calculated and orders received during that day are processed at that price. This means your Financial Advisor cannot tell you right away exactly how many units you're buying or their precise price. What matters is that you're investing a given sum, say \$1,000, in a pool of securities and you'll benefit on a proportional basis.



14. How long should I hold a mutual fund?

That depends on the fund type, your investing time horizon, your appetite for risk and your financial plan. Most Advisors suggest that a fund should be held for a minimum of three to five years to account for the volatility of investing.

Fund type

Some funds, such as fixed income funds, experience little or no volatility, so you can own them for as short or long as you like with little risk. A short-term bond fund is a good example of a low risk fund. Equity funds, however, rise and fall with the economy, which goes through multi-year cycles. When you buy an equity fund, ideally you should hold it for a complete market cycle to avoid missing out on potential returns. Most Advisors would recommend a minimum of three to five years for an equity fund.

Time horizon

If you are investing with a specific time frame in mind, then be sure to buy funds that fit this need. For example, if you know you will need your money in two years to purchase a home, then check with your Advisor as to whether equity investments are advised.

Appetite for risk

Your risk profile will dictate how long you should hold a fund. The shorter the time period that you hold a fund, the greater the risk that you will not achieve the return you seek from the fund. Equity fund managers have good years and bad years, and over the long run these returns tend to average out.

Financial plan

Your plan will determine what funds you should hold and for how long. As you age, your investments will likely shift from equity to fixed-income investments in order to preserve capital. Only you and your Advisor can determine the appropriate time frame to hold a specific fund.

Your risk profile will dictate how long you should hold a fund.

FREQUENTLY ASKED QUESTIONS

Why am I taxed in distribution when I didn't receive any cash?

This is asked all the time by people who have distributions automatically reinvested. Automatic reinvestment is really no different than if you receive a cheque from the mutual fund company, deposit it to your bank account, and then go back to your Financial Advisor to buy more units.

When you redeem your fund units, your taxable gain or loss will depend on their average cost. Make sure that cost includes the value of your reinvested distributions. Otherwise, you'll pay more tax than you have to. Consult your Financial Advisor.

Why did I get a taxable capital gains distribution for the full year even though I invested only in December?

Most mutual funds pay all capital gains distributions, if any, on December 31. Those payments are based on how many units you held on that date, and not on how long you held them. That can be a costly surprise for people who invest toward year-end because the value of those capital gains was already reflected in the unit price they paid. So the distribution is really a taxable return of their own money. If you invest outside an RRSP or other tax-sheltered plans late in the year, ask your Financial Advisor to see if the fund expects to distribute any capital gains and whether you'd be better off waiting until January.

Do all mutual fund dividends qualify for the dividend tax credit?

When people talk about mutual fund "dividends" they really mean "distributions". A distribution might contain a Canadian corporate dividend that does qualify for the tax credit, but it might also contain other payments that don't. Early each year, the fund company sends you a T3 or T5 tax slip that indicates the amount and type of each distribution payment.

Can I make a capital gain on a bond fund?

Yes. It is possible to make a capital gain on a bond fund. As explained in the "Types of funds" section above, bonds rise in value when interest rates fall. That increase is taxed as a capital gain when the bond is sold before maturity.

Are mutual fund sales fees tax-deductible for me as an investment expense?

No, but you do get an indirect tax break on sales charges. Those fees reduce the taxable gain, or increase the capital loss, realized when you redeem your units.

GLOSSARY

A

Accrued interest: Interest that has been earned but not received.

Accumulation plan: An arrangement which enables an investor to purchase mutual fund shares regularly in large or small amounts.

Annual report: A financial report sent yearly to a publicly held firm's shareholders. This report must be audited by independent auditors.

Annuitant: An individual who purchases an annuity and will receive payments from that annuity.

Annuity: A contract that guarantees a series of payments in exchange for a lump sum investment.

Ask price: A proposal to sell a specific quantity of securities at a named price.

Assets: What a firm or individual owns.

B

Back-end load: A sales charge levied when mutual fund units are redeemed.

Balance sheet: A financial statement showing the nature and amount of a company's assets, liabilities and shareholders' equity.

Balanced fund: A mutual fund which has an investment policy of "balancing" its portfolio generally by including bonds and shares in varying proportions influenced by the fund's investment outlook.

Bank Rate: The rate at which the Bank of Canada makes short-term loans to chartered banks and other financial institutions, and the benchmark for prime rates set by financial institutions.

"Bankers" acceptance: Short-term bank paper with the repayment of principal and payment of interest guaranteed by the issuer's bank.

Bear market: A declining financial market.

Beta: A statistical term used to illustrate the relationship of the price of an individual security or mutual fund unit to similar securities or financial market indexes.

Bid price: A proposal to buy a specific quantity of securities at a named price.

Blue chip: A descriptive term usually applied to high grade equity securities.

Board lot: A standard number of shares for trading transactions. The number of shares in a board lot varies with the price level of the security, although in most cases a board lot is 100 shares.

Board of directors: A committee elected by the shareholders of a company, empowered to act on their behalf in the management of company affairs. Directors are normally elected each year at the annual meeting.

Bond: A long-term debt instrument with the promise to pay a specified amount of interest and to return the principal amount on a specified maturity date.

Bond fund: A mutual fund whose portfolio consists primarily of bonds.

Book value: The value of net assets that belong to a company's shareholders, as stated on the balance sheet.

Broker: An agent who handles the public's orders to buy and sell securities, commodities, or other property. A commission is generally charged for this service.

Bull market: An advancing financial market.

Buying on margin: Purchasing a security partly with borrowed money.

C

Callable: Preferred shares or bonds that give the issuing corporation an option to repurchase, or "call" those securities at a stated price. These are also known as redeemable securities.

Canada savings bond: A bond issued each year by the federal government. These bonds can be cashed in at any time for their full face value.

Capital: Generally, the money or property used in a business. The term is also used to apply to cash in reserve, savings, or other property of value.

Capital cost allowance: A taxation term, equivalent to depreciation, that makes allowance for the wearing away of a fixed asset.

Capital loss: The loss that results when a capital asset is sold for less than its purchase price.

Capital stock: All ownership shares of a company, both common and preferred.

Capitalization: The total amount of all securities, including long-term debt, common and preferred stock, issued by a company.

Cash equivalent: Assets that can be quickly converted to cash. These include receivables, Treasury bills, short-term commercial paper and short-term municipal and corporate bonds and notes.

Cash surrender value: The amount of cash a person may obtain by voluntarily surrendering a life insurance policy.

Certificate: A document providing evidence of ownership of a security such as a stock or bond.

Closed-end fund: A fund company that issues a fixed number of shares. Its shares are not redeemable, but are bought and sold on stock exchanges or the over-the-counter market.

Commercial paper: A negotiable corporate promissory note with a term of a few days to a year. It is generally not secured by company assets.

Commissioner for oaths: A Commissioner for Oaths is authorized by law to take and receive oaths and affirmations. He or she must verify the identity of the individual swearing or affirming the oath. A Commissioner for Oaths cannot certify that a statement being made is true nor can he or she certify documents as true copies of the originals. The following are examples of Commissioners for Oaths in Ontario: judges, justices of the peace, barristers and solicitors entitled to practice law, clerks, deputy clerks and treasurers of local municipalities, heads of municipal councils.

Common stock: A security representing ownership of a corporation's assets. Voting rights are normally accorded to holders of common stock.

Compounding: The process by which income is earned on income that has previously been earned. The end value of the investment includes both the original amount invested and the reinvested income.

Consumer price index: A statistical device that measures the change in the cost of living for consumers. It is used to illustrate the extent that prices have risen or the amount of inflation that has taken place.

Contractual plan: An arrangement whereby an investor contracts to purchase a given amount of a security by a certain date and agrees to make partial payments at specified intervals.

Convertible: A security that can be exchanged for another. Bonds or preferred shares are often convertible into common shares of the same company.

Corporation: A legal business entity created under federal or provincial statutes. Because the corporation is a separate entity from its owners, shareholders have no legal liability for its debts.

Coupon rate: The annual interest rate of a bond.

Current asset: An asset that could be converted into cash within 12 months.

Current liability: A liability that has to be paid within 12 months.

Current yield: The annual rate of return that an investor purchasing a security at its market price would realize. This is the annual income from a security divided by the current price of the security. It is also known as the return on investment.

Custodian: A financial institution, usually a bank or trust company, that holds a mutual fund's securities and cash in safekeeping.

D

Debenture: A bond unsecured by any pledge of property. It is supported by the general credit of the issuing corporation.

Debt: An obligation to repay a sum of principal, plus interest. In corporate terms, debt often refers to bonds or similar securities.

Deferral: A form of tax sheltering that results from an investment that offers deductions during the investor's high-income years, and/or postpones capital gains or other income until after retirement or during another period when the income level is expected to change.

Deferred profit sharing plan: A plan that allows an employer to set aside a portion of company profits from the benefit of employees. A corporation makes a contribution to the plan on behalf of an employee.

Defined benefit pension plan: A registered pension plan that guarantees a specific income at retirement, based on earnings and the number of years worked.

Defined contribution pension plan:

A registered pension plan that does not promise an employee a specified benefit upon retirement. Benefits depend on the performance of investments made with contributions to the plan.

Denomination: The principal amount, or value at maturity, or a debt obligation. Also known as the par value or face value.

Depreciation: Charges made against earnings to write off the cost of a fixed asset over its estimated useful life. Depreciation does not represent a cash outlay. It is a bookkeeping entry representing the decline in value of an asset that is wearing out.

Discount: The amount by which a bond sells on the secondary market at less than its par value or face value.

Distributions: Payments to investors by a mutual fund from income or from profit realized from sales of securities.

Diversification: The investment in a number of different securities. This reduces the risks inherent in investing. Diversification may be among types of securities, companies, industries or geographic locations.

Dividend: A per-share payment designated by a company's board of directors to be distributed among shareholders. For preferred shares, it is generally a fixed amount. For common shares, the dividend varies with the fortunes of the company and the amount of cash on hand. It may be omitted if business is poor or the directors withhold earnings to invest in plant and equipment.

Dividend fund: A mutual fund that invests in common shares of senior Canadian corporations with a history of regular dividend payments at above average rates, as well as preferred shares.

Dividend tax credit: An income tax credit available to investors who earn dividend income through investments in the shares of Canadian Corporations.

Dollar cost averaging: A principle of investing which entails the use of equal amounts for investment at regular intervals in the hope of reducing average share cost by acquiring more shares in periods of lower securities prices and fewer shares in periods of higher securities prices.

E

Earned income: For tax purposes, earned income is generally the money made by an individual from employment. It also includes some taxable benefits. Earned income is used as the basis for calculating RRSP maximum contribution limits.

Earnings statement: A financial statement showing the income and expenses of a business over a period of time. Also known as an income statement or profit and loss statement.

Equity: The net worth of a company. This represents the ownership interest of the shareholders (common and preferred) of a company. For this reason, shares are often known as equities.

Equity fund: A mutual fund whose portfolio consists primarily of common stocks.

F

Face value: The principal amount, or value at maturity, of a debt obligation. Also known as the par value or denomination.

Fair market value: The price a willing buyer would pay a willing seller if neither was under any compulsion to buy or sell. The standard at which property is valued for a deemed disposition.

Fiduciary: An individual or institution occupying a position of trust. An executor, administrator or trustee. Hence, "fiduciary" duties.

Fiscal policy: The policy pursued by government to manage the economy through its spending and taxation powers.

Fixed assets: Assets of a long-term nature, such as land and buildings.

Fixed dollar withdrawal plan: A plan that provides the mutual fund investor with fixed-dollar payments at specified intervals, usually monthly or quarterly.

Fixed liability: Any corporate liability that will not mature within the following fiscal period. For example, long-term mortgages or outstanding bonds.

Fixed income investments: Investments that generate a fixed amount of income that does not vary over the life of the investment.

Fixed-period withdrawal plan: A plan through which the mutual fund investor's holdings are fully depleted through regular withdrawals over a set period of time. A specific amount of capital, together with accrued income, is systematically exhausted.

Front-end load: A sales charge levied on the purchase of mutual fund units.

Fundamental analysis: A method of evaluating the future prospects of a company by analyzing its financial statements. It may also involve interviewing the management of the company.

G

Growth stocks: Shares of companies whose earnings are expected to increase at an above-average rate. Growth stocks are often typified by their low yields and relatively high price/earnings ratios. Their prices reflect investors' belief in their future earnings in growth.

Guaranteed investment certificates: A deposit instrument paying a predetermined rate of interest for a specified term, available from banks, trust companies and other financial institutions.

H

I

Income funds: Mutual funds that invest primarily in fixed-income securities such as bonds, mortgages and preferred shares. Their primary objective is to produce income for investors, while preserving capital.

Index fund: A mutual fund that matches its portfolio to that of a specific financial market index, with the objective of duplicating the general performance of the market in which it invests.

Inflation: A condition of increasing prices. In Canada, inflation is generally measured by the Consumer Price Index.

Interest: Payments made by a borrower to a lender for the use of the lender's money. A corporation pays interest on bonds to its bondholders.

International fund: A mutual fund that invests in securities of a number of countries.

Intrinsic value: The amount by which the price of a warrant or call option exceeds the price at which the warrant or option may be exercised.

Investment adviser: Investment counsel to a mutual fund. Also may be the manager of a mutual fund.

Investment company: A corporation or trust whose primary purpose is to invest the funds of its shareholders.

Investment counsel: A firm or individual which furnishes investment advice for a fee.

Investment dealer: A securities firm.

Investment fund: A term generally interchangeable with "mutual fund."

Investment funds institute of Canada (IFIC): The mutual fund industry trade association set up to serve its members, cooperate with regulatory bodies, and protect the interests of the investing public that use mutual funds as a medium for their investments.

Issued shares: The number of securities of a company outstanding. This may be equal to or less than the number of shares a company is authorized to issue.

J

K

L

Letter of intent: An agreement whereby an investor agrees to make a series of purchases of mutual fund units.

Letters of administration – the Certificate of Appointment of Estate Trustee without a will: A certificate, issued by the court, certifying who has the authority to administer the estate of an individual who died without leaving a valid will.

Letters probate – the certificate of appointment of estate trustee with a will?: A certificate, issued to an executor/estate trustee by the court, confirming the executor/estate trustee's authority, as set out in the will, to administer a particular estate. This document is not complete unless it has a copy of the valid will attached.

Leverage: The financial advantage of an investment that controls property of greater value than the cash invested. Leverage is usually achieved through the use of borrowed money.

Liabilities: All debts or amounts owing by a company in the form of accounts payable, loans, mortgages and long-term debts.

Life annuity: An annuity under which payments are guaranteed for the life of the annuitant.

Life expectancy adjusted withdrawal plan: A plan through which a mutual fund investor's holdings are fully depleted while providing maximum periodic income over the investor's lifetime.

Liquidity: Refers to the ease with which an investment may be converted to cash at a reasonable price.

Load: Commissions charged to holders of mutual fund units. (See sales charge.)

Long-term asset: A mutual fund that charges a commission to purchase its shares.

Long-term debt: Debt that becomes due after more than one year.

M

Management company: The entity within a mutual fund complex responsible for the investment of the fund's portfolio and/or the administration of the fund. It is compensated on a percentage of the fund's total assets.

Management expense ratio: A measure of the total costs of operating a fund as a percentage of average total assets.

Management fee: The sum paid to the investment company's adviser or manager for supervising its portfolio and administering its operations.

Margin: An investor's equity in the securities in his or her account. The margin purchaser puts up a portion of the value of the securities, borrowing the remainder from the investment dealer.

Marginal tax rate: The rate of tax on the last dollar of taxable income.

Market index: A vehicle used to denote trends in securities markets. The most popular in Canada is the Toronto Stock Exchange 300 Composite Index (TSE 300).

Market price: In the case of a security, market price is usually considered the last reported price at which the stock or bond is sold.

Maturity: The date at which a loan or bond or debenture comes due and must be redeemed or paid off.

Money market: A sector of the capital market where short term obligations such as Treasury bills, commercial paper and bankers acceptances are bought and sold.

Money market fund: A type of mutual fund that invests primarily in treasury bills and other low-risk, short-term investments.

Money purchase pension plan: Another term for defined contribution pension plan.

Mortgage fund: A mutual fund that invests in mortgages. Portfolios of mortgage funds usually consist of first mortgages on Canadian residential property, although some funds also invest in commercial mortgages.

Mortgage-backed securities: Certificates that represent ownership in a pool of mortgages. The holders of these securities receive regular payments of principal and interest.

Mutual fund: An investment entity that pools shareholder or unitholder funds and invests in various securities. The units or shares are redeemable by the fund on demand by the investor. The value of the underlying assets of the fund influences the current price of units.

N

Net asset value: The value of all the holdings of a mutual fund, less the fund's liabilities.

Net asset value per share: Net asset value of a mutual fund divided by the number of shares or units outstanding. This represents the base value of a share of unit of a fund and is commonly abbreviated to NAVPS.

No-load fund: A mutual fund that does not charge a fee for buying or selling its shares.

Notary public: A Notary Public is authorized by law to take and receive oaths and affirmations. He or she must verify the identity of the individual swearing or affirming the oath. A Notary Public is authorized by law to notarize (certify the accuracy of) copies of documents.

O

Odd lot: Any number of securities that represents less than a board lot.

Open-end fund: An open-end mutual fund continuously issues and redeems units, so the number of units outstanding varies from day to day. Most mutual funds are open-ended.

Option: The right or obligation to buy or sell a specific quantity of a security at a specific price within a stipulated period of time.

Over-the-counter market: A securities market that exists for securities not listed on stock exchanges. Bonds, money market securities and many stocks are traded on the over-the-counter market.

P

Par value: The principal amount, or value at maturity, of a debt obligation. It is also known as the denomination or face value. Preferred shares may also have par value, which indicates the value of assets each share would be entitled to if a company were liquidated.

Pension adjustment: An amount that reduces the allowable contribution limit to an RRSP based on the benefits earned from the employee's pension plan or deferred profit sharing plan.

Pension plan: A formal arrangement through which the employer, and in most cases the employee, contribute to a fund to provide the employee with a lifetime income after retirement.

Permanent life insurance: Life insurance coverage for which the policyholder pays an annual premium, generally for the life of the insured. This type of policy features a savings component, known as the cash surrender value.

Portfolio: All the securities which an investment company or an individual investor owns.

Preferred share: An ownership security, senior to the common stock of a corporation, with preferred claim on assets in case of liquidation and a specified annual dividend.

Premium: The amount by which a bond's selling price exceeds its face value. Also, the amounts paid to keep an insurance policy in force.

Present value: The current worth of an amount to be received in the future. In the case of an annuity, present value is the current worth of a series of equal payments to be made in the future.

Price earnings ratio: The market price of a common share divided by its earnings per share for 12 months.

Primary distribution: A new security issue, or one that is made available to investors for the first time.

Principal: The person for whom a broker executes an order, or a dealer buying or selling for his or her own account. Also, an individual's capital or the face amount of a bond.

Prospectus: The document by which a corporation or other legal entity offers a new issue of securities to the public.

Q

R

Ratio withdrawal plan: A type of mutual fund withdrawal plan that provides investors with an income based on a percentage of the value of units held.

Real estate fund: A mutual fund that invests primarily in residential and/or commercial real estate to produce income and capital gains for its unitholders.

Real estate investment trust: A closed-end investment company that specializes in real estate or mortgage investments.

Redeemable: Preferred shares or bonds that give the issuing corporation an option to repurchase securities at a stated price. These are also known as callable securities.

Registered education savings plan (RESP): A plan that enables a contributor, on a tax deferral basis, to accumulate assets on behalf of a beneficiary to pay for a post secondary education.

Registered retirement income fund (RRIF): A maturity option available for RRSP assets to provide a stream of income at retirement.

Registered retirement savings plan (RRSP): A retirement savings plan to hold amounts deducted from taxable income, within certain limits, in a tax deferred state. There are various investment options and a tax deferral on investment income and gains. Available to individuals to and including 69 years of age, but must be collapsed by the end of the year in which the holder turns 69 years of age.

Retained earnings: The accumulated profits of a company. These may or may not be reinvested in the business.

Retractable: Bonds or preferred shares that allow the holder to require the issuer to redeem the security before the maturity date.

Rights: Options granted to shareholders to purchase additional shares directly from the company concerned. Rights are issued to shareholders in proportion to the securities they may hold in a company.

Risk: The possibility of loss; the uncertainty of future returns.

S

Sales charge: In the case of mutual funds, these are commissions charged to holder of fund units, usually based on the purchase or redemption price. Sales charges are also known as "loads."

Securities Act: Provincial legislation regulating the underwriting, distribution and sale of securities.

Shares: A document signifying part ownership in a company. The terms "share" and "stock" are often used interchangeably.

"Shareholders" equity: The amount of a corporation's assets belonging to its shareholders (both common and preferred) after allowance for any prior claim.

Short selling: The sale of a security made by an investor who does not own the security. The short sale is made in expectation of a decline in the price of a security, which would allow the investor to then purchase the shares at a lower price in order to deliver the securities earlier sold short.

Simplified prospectus: An abbreviated and simplified prospectus distributed by mutual funds to purchasers and potential purchasers of units or shares (see prospectus).

Specialty fund: A mutual fund that concentrates its investments on a specific industrial or economic sector or a defined geographical area.

Spread: The difference between the rates at which money is deposited in a financial institution and the higher rates at which the money is lent out. Also, the difference between the bid and ask price for a security.

Stock options: Rights to purchase a corporation's stock at a specified price.

Strip bonds: The capital portion of a bond from which the coupons have been stripped. The holder of the strip bond is entitled to its par value at maturity, but not the annual interest payments.

Systematic withdrawal plan: Plans offered by mutual fund companies that allow unitholders to receive payment from their investment at regular intervals.

T

Tax credit: An income tax credit that directly reduces the amount of income tax paid by offsetting other income tax liabilities.

Tax deduction: A reduction of total income before the amount of income tax payable is calculated.

Technical analysis: A method of evaluating future security prices and market directions based on statistical analysis of variables such as trading volume, price changes, etc., to identify patterns.

Term insurance: Temporary life insurance that covers the policyholder for a specific time.

Term to 90 annuity: An annuity that pays a fixed amount each year until it is exhausted in the year that the annuitant turns 90.

Trade: A securities transaction.

Treasury bill (T-bill): Short-term government debt. Treasury bills bear no interest, but are sold at a discount. The difference between the discount price and par value is the return to be received by the investor.

Trust: An instrument placing ownership of property in the name of one person, called a trustee, to be held by the trustee for the use and benefit of some other person.

U

Underwriter: An investment firm that purchases a security directly from its issuer for resale to other investment firms or the public or sells for such issuer to the public.

Unit trust: An unincorporated fund whose organizational structure permits the conduit treatment of income realized by the fund.

Universal life insurance: A life insurance term policy that is renewed each year and which has both an insurance component and an investment component. The investment component invests excess premiums and generates returns to the policyholder.

V

Variable life annuity: An annuity providing a fluctuating level of payments, depending on the performance of its underlying investments.

Vesting: In pension terms, the right of an employee to all or part of the employer's contributions, whether in the form of cash or as a deferred pension.

Voluntary accumulation plan: A plan offered by mutual fund companies whereby an investor agrees to invest a predetermined amount on a regular basis.

W

Waiver of probate bond: If an executor/estate trustee does not wish to apply for Letters Probate or a Certificate of Appointment of Estate Trustee, and the value of a specific amount is above the threshold of a given financial institution, the executor/estate trustee can apply for a Waiver of Probate

Bond from an insurance company. The Waiver of Probate Bond serves as insurance cover to an institution in the event that any claims arise as a result of it having paid out assets without requiring that a formal appointment of an executor/estate trustee be obtained. A premium calculated as a percentage of the value of the account at the specific financial institution (e.g. 1.5% of \$175,000) is paid to the insurance company.

Warrant: Certificates allowing the holder the opportunity to buy shares in a company at a stated price over a specified period. Warrants are usually issued in conjunction with a new issue of bonds, preferred shares or common shares.

Wrap account: The term wrap account often is used to describe an arrangement between a client and the client's dealer whereby the dealer agrees to be compensated through a fixed annual fee from the client (usually calculated as a percentage of the value of the client's account) in lieu of all other forms of compensation including commissions, service (trailer) fees and other fees. Wrap accounts typically are available only for larger account sizes (for example, a minimum of \$100,000 of assets) and include additional services. The additional services vary, but may include: asset allocation and rebalancing services, enhanced reporting, and access to select investment managers. These additional services and annual fee are "wrapped" together as a single comprehensive investment solution for the client. Wrap accounts that invest in mutual funds usually are eligible to purchase classes of securities that are charged lower management fees to reflect that the mutual funds' manager is not paying any compensation to the client's dealer.

X

Y

Yield: Annual rate of return received on investments, usually expressed as a percentage of the market price of the security.

Yield curve: A graphic representation of the relationship among yields of similar bonds of differing maturities.

Yield to maturity: The annual rate of return an investor would receive if a bond were held until maturity.

Z

Zero coupon bond: A bond that pays no interest and is initially sold at a discount.

Source: The Investment Funds Institute of Canada (www.ific.ca)

I CAN HELP BRING
FINANCIAL ADVICE INTO FOCUS
WHEN YOU NEED IT THE MOST.

ASK ME ABOUT
SNAPSHOTS TODAY.

This publication is intended as a general source of information and should not be considered as estate, tax planning, personal investment or tax advice, nor should it be construed as being specific to an individual's investment objectives, financial situation or particular needs. We recommend that individuals consult with their professional financial or tax advisor before taking any action based upon the information found in this publication. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. While we endeavour to update this information from time to time as needed, information can change without notice and Dynamic Funds' does not accept any responsibility for any loss or damage that results from any information contained herein.

© 2017 1832 Asset Management L.P. - All rights reserved. Reproduction in whole or in part of this content without the written consent of the copyright owner is forbidden. Snapshots™ is a trademark of its owner used under license.