Med-Wealth

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Currency Impact on your Portfolio

Question: When is a 63% gain in an investment portfolio, actually a 64% loss?

Answer: When you invest in a foreign market during a period when the Canadian dollar is experiencing relative strength.

From Canada Day, 2002 until early November 2007, the S&P500 index as measured by the SPY ETF, gained just over 63% or about 9.25% compounded annually. For American investors, this was clearly a very prosperous time frame. However, if you lived in Canada and had placed your money in the same investment, you would actually have experienced a 64% cumulative loss over this very same time frame.

This is the reality of investing outside of your own country, the relationship between the Canadian dollar and the currency of the market you are investing into can have a meaningful impact on your investment results. Since most people's investment portfolios are proportionately larger in their retirement accounts, currency impact can cause significant damage. On the other

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TFSA: SAVINGS OR INVESTMENT ACCOUNT?

Since its' inception in 2009, the TFSA contribution limit has accumulated to $52,000. Depending on potentially changing government rules, this limit will continue to grow by $5,500 each year.

This makes the effective utilization of the TFSA an integral part of a family's retirement plan.

I come across many Canadians who keep their TFSA money in savings accounts, or GICs. Given the low level of interest rates, it is not beneficial to tax-shelter 1-2% interest rates.

The TFSA was created by the Harper government due to the complexity and cost of eliminating capital gains taxes. It was meant to be used as a 'growth'

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hand, it can also act as a tailwind to enhance performance. From Nov.1, 2011, the Canadian dollar has declined 40% against the American dollar while the SPY ETF has gained about 112%. This has resulted in Canadian investors making a 152% return over this same time frame. Watch oil prices to provide you with clues on the direction of the Canadian dollar. Currency risk, or reward, can determine the ultimate fate of your retirement. When allocating your investment portfolio, your advisor must incorporate a currency strategy, or your retirement plan could end up in the ER. ■

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vehicle for tax-free wealth accumulation, not a regular savings account. Tax sheltering a growth fund or portfolio of stocks with potential returns in the area of 5-8% per year, will make a significant contribution to your long-term retirement plan, among other things. Compared to a 1.5% average annual return, investing $52,000 plus $5,500 annually over a 15-year period at a 6% annual return can add over $100,000 to your wealth. Clearly, this gift to Canadian taxpayers is best treated as an 'investment account' and NOT as a 'savings account'.

A well-structured investment strategy is crucial to wealth accumulation. Seek the guidance of a well-qualified and experienced professional. ■