DANIELLE ALEXANDRIA

INVESTMENTS AND BENEFITS ANALYSIS AND RECOMMENDATIONS REPORT

Prepared for: x
Date: March 10, 2018
(amounts have been changed for privacy)

Overall, I identified 3 areas of concern:

1) You have a lot of duplication of the same funds and securities across your entire portfolio. This is an opportunity for more diversification and to reduce your concentration/exposure risk.

2) Your portfolio is **very** high risk because most of your investments are in equities. Your breakdown is:
-65% stocks in your Defined Contribution pension
-100% stocks in your employee share plan
-100% stocks in your company RSP
-Virtually 100% in your bank RRSPs.

This places your overall portfolio concentration at approximately 87% stocks. As a reference, 80% equities is typically considered the highest level of risk for the most aggressive investors. Based on your age and risk tolerance, this is an opportunity to consider re-allocating into other asset classes such as fixed income and real estate.

3) You are paying extremely high fees in your bank RRSP mutual funds at 2.33%. This is an opportunity to dramatically reduce your fees and lower your risk by moving to ETFs (Exchange Traded Funds). The difference works out to **6 figures!**

DEFINED CONTRIBUTION PENSION

Your current allocation of 100% of your assets is in x fund. As per the Fact Sheet, it invests in 70% equities, 8% real estate, and 20% fixed income securities. The fees are only 0.10%. Based on the low fees, fund performance, your age, and the asset allocation, it appears to be a suitable choice for you to maintain at this time.

Suggestions:
You are currently contributing 6% of your base salary. Based on the information you provided, it appears your company match does not increase beyond employee contributions of 2%. There is an opportunity to consider dropping your personal contribution down to 2% to receive the maximum company benefit. This keeps your pension contributions at a healthy 4% annually.

<u>Potential savings:</u> This strategy would save you 4% of your salary, increasing your annual cash flow by $3,200

EMPLOYEE SHARE PLAN

The benefits you are receiving from this program appear to be limited for the following reasons:

1) From the information provided, it appears you will have to wait until an additional year to begin receiving any company match to the shares you have already purchased.

2) Since the shares are not held in a tax-advantaged account (for example a TFSA or RRSP), you are missing out opportunities for at least one year to leverage tax deferral or non-tax income strategies. As one example, you could transfer the shares you already own into a TFSA and receive the dividends as tax-free income as long as you hold them in that account. Or you could transfer them to your RRSP and receive a deduction in this year's taxable income. You will also have more control over market timing/stock price should you ever decide to sell them.

3) It's important to know that your company is a major Canadian stock, often appearing in the top 10 holdings of Canadian equity funds. This means it will duplicate in all of your Canadian index mutual funds and ETFs. It is recommended to avoid over-concentration and exposure to specific companies in order to reduce risk. As you have accumulated $x amount of stock already, it may not be in your best interests to buy more.

Suggestions:
Based on these factors, you could consider stopping purchasing shares all together and redirect these funds towards paying down your debt or saving for your emergency cushion and/or mortgage down payment.

<u>Potential savings:</u> $4700 a year

GROUP RRSP (COMPANY RRSP)

You are currently contributing $200 per pay period into this RRSP. As it is a Group RRSP, you are receiving an immediate reduction in income tax on each paycheck by your contribution amount. Your current allocations are **very** high risk, in 100% stocks. This breaks down further as 60% in Canadian stocks, and 40% in Global stocks. There is currently no exposure to USA stocks (which are considered a fairly necessary part of a well-allocated portfolio), and no investments in fixed income or real estate to smooth out returns.

The mutual fund fees are in the 0.35% - 0.50% range, so reasonable, however there are only a few different fund options for you to choose from. Most are also duplication of other investments you own in your pension.

Suggestions:
In order to increase diversification and reduce risk, you should consider changing your asset allocation to include USA equities and fixed income funds.

Another option to consider is weighing out the following benefits of amalgamating all of your RRSP assets in one place to:
-give you more options to invest because you have more funds in one place;
-dramatically increase your investing options available;
-reduce your fees.
You can theoretically accomplish this by transferring your Group RRSP assets (once sold to cash) to your bank RRSP.

The potential downside is;
-a decrease in after-tax income on each paycheque.

This is because your Group RRSP contribution is taken from your pre-tax pay through payroll deductions, reducing your tax burden immediately, while a personal contribution to your financial institution directly is made with after-tax income. **You aren't losing any money** however, since you would receive the entire tax difference back in one lump sum when you filed your taxes, rather than as you go currently.

If you did want to proceed, you would need to ensure you are in fact able to transfer assets to a personal RRSP, and you would have to have either a chequing or savings account in order to make contributions. You can set up an automatic contribution with your bank directly.

This decision is not as obvious as others and impacts your cash flow negatively for 11 months of the year. I suggest deferring until we discuss asset allocation so you can accurately evaluate which ETFs you might actually invest the funds in, and then use the calculators to compare real returns.

BANK RSPS

Based on the information you provided, there is exact duplication in these accounts, with the exact same 3 funds in each RRSP. Your allocation is virtually 100% equities, with the exception of a very small amount in a money market fund (essentially this is cash, and you are paying to store it here.) Your allocation is **very** high risk because not only are you in stocks, you are in specialized segments like technology and sciences. This means if the industry suffers, your entire fund is directly affected.

Your mutual funds are charging you amongst the highest fees in the market. As an example, I performed some calculations on the “Life Science and Technology Fund” which charges a fee of 2.33%. You have ~$x in this fund in one of your RRSPs. If you left this money here for 21 years, it would generate $637,693 (the calculator works based on continuing the 13.88% annual return - which is unlikely), but it illustrates that **fees would cost you $99,873!**

If you invested in an ETF that charged you much lower fess, for example 0.09% in the “Vanguard S&P 500” (which actually produced a higher average return of 14.14% over the same period AND is much less risky), you would have only paid $3,799 in fees. **A real difference of almost 97%, or $96,074!**

Further, the total opportunity cost is more than this, because if you instead invested those fees of $99,873 in the fund itself (hypothetically), you would have an extra $237,468!

Suggestions:
Consider selling all of these mutual funds to cash and moving the proceeds to an ETF index investment strategy which offers numerous investment options at significantly reduced costs. This process will require you to open an online investing account (free). From here you can buy and sell stocks, bonds, real estate investment trusts, and ETF’s as you wish. We can discuss this process in more detail at a later date and I can support you to get set up.

<u>Potential increased earnings:</u> $226,568

TOTAL SUGGESTED SAVINGS: $3,200 x 21 years = $67,200
$4,700 x 21 years = $98,700
<u>+ additional $226,568 earned</u>

= $392,468