Should You Use Dollar Cost Averaging?

You may have heard of something called dollar cost averaging. It's when you buy a certain dollar amount of an investment on a regular schedule. Meaning that if you are committed to spending $100 and units were at $2.00 you would purchase 50 units. If they were at $5.00 each you would purchase 20 units. Can it be a good strategy? One of my clients asked me this exact question.

Opponents of dollar cost averaging say it is a reasonable financial planning strategy. But as an investment strategy, it doesn't make a lot of sense. It is a bearish bet on the markets. You buy a few units now, in the hope you will be able to buy more later when they get cheaper. Dollar cost averaging boils down to market timing, and any investment strategy that tries to outguess the market is pre-designed on mediocrity.

Proponents of dollar cost averaging, say if you invest in markets gradually, you reduce the general level of risk in your portfolio. But having a properly diversified portfolio from day one lowers volatility and delivers higher returns.

Some will say that dollar cost averaging allows you to make a saving and investing habitual. For some that may be the only way for them to invest. It does take the emotional factor of when and how much to invest. If you buy investments once or twice a year, you risk buying based on emotion. Also squeezing a lump sum RSP contribution at the end of February could mean you are buying at the most expensive time of the year.

But again, your portfolio should be well diversified and designed for your personal needs.

Probate: What Is It And Why You Need To Know About It

Probate is a process that validates your will and confirms the appointment of your executor. Probate fees, now called Estate Administration Fee, is a fee charged on the value of your estate by the government.

There is no probate for life insurance, registered accounts, savings or tax free accounts with named beneficiaries in a Life Insurance contract. These assets usually pass on quickly to a named beneficiary or beneficiaries outside the estate bypassing the probate process and fees.

Probated wills are not private, your will becomes a public document, available for anyone to view. Probate is a complex topic and that is why you should consult a professional both when you're making your will and when you're the executor for someone else's.

How Will Canadians Spend Their RRSP Tax Refunds?

One third of Canadians who expect to receive a tax refund after making an RRSP contribution will save or invest the money, finds a BMO survey.

This is down slightly from 34% in 2015 and 36% in 2014. Other ways they will spend their tax refund include:

- Paying down a mortgage (16%, compared to 15% last year)
- Home renovations (14%, compared to 13% last year)
- Travel or leisure items (13%, up slightly from 11% last year)

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One In Three Have Raided Their RRSPs

According to a survey conducted by BMO, one third of Canadians have withdrawn funds from their RRSPs before retirement.

The poll of more than 2000 people reveals that one in three Canadians have withdrawn an average of $15,908 from their RRSPs. Only a third have repaid the funds, and a quarter of respondents say they will never pay it back.

Asked why they removed money from their retirement savings, 25% used it to purchase a home, 21% paid off debt, and 21% needed cash to help pay living expenses, while 15% needed to cover costs after an emergency such as a car accident or house flood. People in British Columbia removed the highest average amount of $24,100 with the main reason (28%) being that they needed money to buy a home. Those living in the Atlantic provinces took out the smallest average amount, $8,509, and the top reason (34%) was to help pay living expenses.

The report found that 84% of those who made withdrawals from their RRSPs only did so as a last resort, and 75% said they were "very concerned" about the potential consequences of this decision. In particular, 79% were worried about lower retirement income, 77% were concerned about not being able to save effectively for retirement, and 62% lamented the loss of contribution room.

Avoiding The Cycle Of Fear And Greed

Most of us make the same mistake with our money over and over again. We buy high out of greed and sell low out of fear, despite knowing on an intellectual level that it is a bad idea.

The easiest way to see this behavior in action is to watch money flow in and out of mutual funds. If we go back to 2000, the dot-com market had reached a fevered pitch. People were using their home equity to buy the stocks right after the Nasdaq had a single year return of better than 80 percent. Then in January 2000, investors put billions of dollars into stock mutual funds. We all know the story from there. Money continued to pour into stock funds pushing the Nasdaq to 5000, only to lose half of its value by October 2002.

The same October (at the low for the cycle) as investors were selling stocks as fast as they could. Where was all the money going? Into bond funds at a time that bond prices were near record highs.

At the top of the market we can't buy fast enough, and at the bottom, we can't sell fast enough, and we repeat that over and over again. That is what causes people to be unsatisfied with their investing experience.

It appears we are doing it again. Investors are taking money out of stock funds and putting money into bond funds. But with interest rates near record lows, which mean bond prices are near record highs, you could end up losing money in the bond fund you bought for the purpose of making sure you don't lose money.

The solution is not to sell bond funds or buy stock funds. The point to recognize is that investors tend to be bad at timing the market. It makes more sense to ignore what the crowd is doing and base your investment decisions on what you need to reach your goals, then stick with the plan despite the fear or greed you may feel.

CPP To Be Expanded Within The Year

The Canada pension plan will be enhanced in 2016 says Federal Finance Minister Bill Morneau. "Our goal is to work together with all provinces and territories to get to a Canada pension plan enhancement, and our aim is to do that in a collaborative way this calendar year" he told the House of Commons February 2016.

"We are working diligently with provinces and territories across this country in order to improve the Canada pension plan to enhance it so that Canadians can retire in dignity", he added.

He says the government has also be working with Ontario to co-ordinate pension enhancements as the Ontario government gears up to start its own plan.

The Ontario retirement pension plan is scheduled to begin in 2017. Which some have said is just another tax.

I have always wondered why governments keep burdening us with more taxes. If governments were to reduce taxes, people would be able to meet their expenses and save for retirement.

A Critical Illness Can Affect Anyone At Anytime

Consider the following facts:

1) About 2 out of 5 Canadians will develop cancer during their lifetime.
2) About 70,000 heart attacks occur in Canada every year.
3) More than 50,000 strokes occur in Canada every year.

Advances in medical science means that you have a better chance of surviving a critical illness.

Are you financially prepared to survive a critical illness? How will you manage your expenses at a time when your focus should be on recovery?

Disability insurance can help, but often many people find themselves tapping into their TFSA, RRSP, lines of credit to cover extraordinary expenses.

Critical illness can help. Allow me to show you how to financially cope in the event of critical illness.

Mistakes People Make After Retirement

1. Not changing lifestyle after retirement.
2. Failing to move to more conservative investments.
3. Spending too much money too soon.
4. Failure to be aware of frauds and scams.
5. Being house rich and cash poor.
6. Not staying active socially and physically.

"The goal of retirement is to live off your assets, not on them"
- Frank Eberhart

"An investment in knowledge makes the best interest."
- Benjamin Franklin

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."
- Robert Kyosalec