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When it comes to RRSP investing, stick to the plan

Mark Noble / January 25, 2008



With recent market turbulence, clients may be having second thoughts about investing their RRSP contribution. Seasoned advisors say today's markets provide a great way to demonstrate to clients the value of the long-term financial plan you have created.

Even the worst down-market can't take away the immediate tax deduction. Nevertheless, Kim Buitenhuis, vice-president of marketing and communication at RBC Asset Management, has noticed increased reluctance on the part of investors to contribute to their RRSPs right now. She expects a deluge of contributions to come in just before the February 29 deadline.

RBC conducted a poll in November that found that 49% of Canadians plan to invest in their RRSPs. Buitenhuis suspects this number has since dropped as a result of the market volatility.

"I think there are two things that are happening. People who are investing are tending to be staying more in cash, putting more in money market funds. I think that other investors are waiting on the sidelines until a little later in February to see what happens to the markets so that they will be nipping in there just right under the deadline," she says.

Rather than viewing this nervousness as a barrier to business, Kathryn Del Greco, a senior investment advisor with TD Waterhouse, says it provides the perfect opportunity to discuss with clients why you construct a balanced and diversified portfolio.

"This market can test the patience of even the most seasoned investor, but I will say that I have not had any panicked phone calls," Del Greco says. "During this period of time, it's important that we talk to our clients and reaffirm their time horizon and let them know we are not planning on touching their assets for 10, 20 or, in some cases, 30 years.

Del Greco says investors' fears can be alleviated if they understand markets have a tendency to price in bad news before it happens, building a stronger foundation for long-term investing.

"It's a forward discounting model. The market will price in worst-case scenario news today," she says. "Time horizon is your best friend in this period of volatility. We really need to let this market sort out all this complicated, confusing news between the sub-prime mess and the impact on the Canadian economy vis-à-vis the U.S. and the global economies."

Winnie Go, an associate portfolio manager and senior investment executive at Scotia Private Client Group, reviews her clients' portfolios with them at RRSP contribution time. She advocates sticking to a long-term plan, since it is designed to weather market turbulence, but it's also an important time to get a sense of clients' risk tolerance.

"Most people are not 100% in equities. We sit down with them in times like these when they do make contributions so we can review their asset allocation, make sure they are comfortable with it and it does match with their long-term plan," she

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says. "Market volatility creeps up every now and again. It will happen because markets don't go straight up, and clients know that."

Buitenhuis stresses that reviewing risk tolerance is important because many clients do overestimate their risk tolerance during a bull market.

"I think what is happening is investors are coming in and saying 'I thought I didn't care, and I thought I could handle this much risk.' But it feels a lot different to say I can handle it when the market is going down than it was when it was going up," Buitenhuis says.

The most important thing is to make sure clients maximize their contributions first. To ease client fears may mean investing that money in a more conservative investment, which they can transition out of when they are feeling more confident, says Frank Wiginton, a CFP and senior financial planner with TriDelta Financial Partners.

"Clients aren't hesitant to make contributions, but they are concerned about the bigger picture goal of whether this will affect them achieving the goals we set out for them. Most of my clients understand that just because you make an RRSP contribution doesn't mean it has to be invested in the volatile equity markets," he says. "We help them to understand that they should make their full RRSP contribution and if they are not comfortable with the volatility of the markets, that the contributions be simply deposited to a high interest savings account within the RRSP."

Buitenhuis says RBC offers an auto switch plan that can be set up, where client money can be transferred incrementally from more conservative investments, like money market funds, to long-term mutual funds.

Peter Andreana, a CFP and partner with Continuum II Inc. in Burlington, Ontario, is very hesitant to recommend changing the asset allocation unless there is a significant change with his client's goals or circumstance, but he does advocate staggering investment into the market during periods of high volatility. Such dollar-cost averaging will prevent investors from getting the maximum benefit of a market upswing but will protect them from the maximum damage of a downswing.

"If their risk tolerance, goals or current situation has had a material change, we will recommend a change to their investments. Buying and selling on market conditions is a tactical maneuver which should only be executed at the fund manager level and not at the client level," he says. "The type of asset will remain unchanged, but how we enter the market will be very different in these volatile times. For example, [for] someone who has a significant amount of wealth currently not in the market i.e., in cash), we might recommend entering the market a little at a time through monthly or biweekly payments over six months to a year."

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