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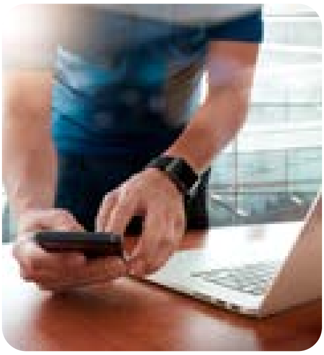
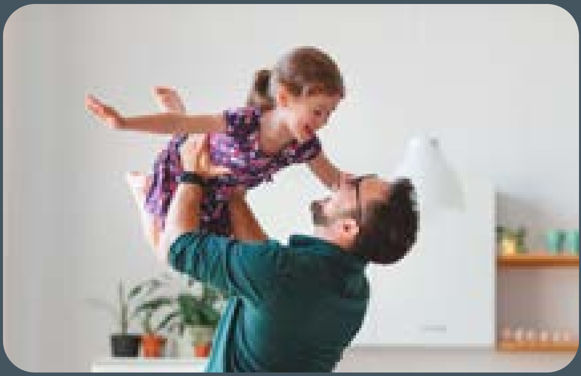


Choosing Investments

5 steps to choosing the right investments for you

AUTORITÉ DES MARCHÉS FINANCIERS



ABOUT THE AMF

The Autorité des marchés financiers (AMF) is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. The AMF is an integrated regulator, ensuring oversight of, in particular, the insurance, securities, derivatives and mortgage brokerage sectors, deposit institutions (other than banks) and the distribution of financial products and services.

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DID YOUR LAST INVESTMENT PAY OFF FOR YOU?

Think back to the last time you contributed to your RRSP or TFSA, for example. Now, answer the following questions:

1. What did you choose to invest your money in (e.g., stocks and bonds)?
2. Are the amount you invested and the return guaranteed? If so, by whom?
3. What are the conditions under which you can get your money back?
4. What is the expected return?
5. How much income tax will you have to pay on the return?
6. What fees apply?
7. Are there other types of investments that might have met your needs better?

You need to answer these questions in order to invest.

This brochure proposes five steps to help you choose the kinds of investments that will help you reach your financial goals and avoid costly mistakes.

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Step 1

Before you invest, check that the person or firm offering you the investment is authorized to do so

A person who offers you financial products (usually called a "representative") and the firm for which they work must be authorized to sell them to you.

To determine if an individual or firm is authorized to practise, call the AMF Information Centre at 1-877-525-0337 or check the *Register of firms and individuals authorized to practise*.

Before choosing a representative and firm, read *Choosing an Investment Dealer or Representative*.

Step 2

Determine your investor profile

Your investor profile is a key element in determining what percentage of your portfolio will be allocated to each type of investment (asset allocation). You can determine your investor profile by answering questions such as “When will I need the invested money?” “What are my investment objectives?” “How much do I know about investing?” “What is my current financial situation?” and “If my investments went down in value, how would I react?”

Some people lose sleep over their investments when they decrease in value. So, before you choose a risky investment, make sure you consider every possible scenario—especially worst cases—so you understand all the possible consequences for each one. Knowing your investor profile will be helpful when you meet with a representative. Feel free to share your concerns with the representative, who has an obligation to know you as an investor before suggesting investments to you. The more information the representative has about your situation, the better equipped he or she will be to help you achieve your financial goals.

Use the AMF calculator to estimate your investor profile

To help you determine and understand your investor profile, you can use the calculator available in the *Calculators and tools* section of the AMF website.

Step 3

Take the time to really learn about the types of investments that fit your investor profile and about the tax-registered plans you can keep them in.

In order to know an investment, you need to find out what return it is expected to generate, how liquid it is, how much risk is involved, what fees are associated with it, and what income taxes may apply. If your investments are held in an RRSP, VRSP, TFSA, RESP or another similar plan, you should also know how they are taxed. If necessary, refer to the section on registered plans in this brochure.

Expected return

The expected return is the amount you would like to earn on your investments. Investments can produce various forms of income, including interest, dividends or capital gains.

Liquidity

Liquidity is the ability to buy or sell an investment in a timely manner, without incurring significant fees or causing a significant movement in its price.

Risk

Risk is the possibility of earning a lower-than-anticipated return or losing some or a lot of money.

Fees

There are a number of fees that can decrease the potential return on your investments, including transaction fees, sales charges, management and operating expenses and currency conversion charges. When determining whether an investment suits you and could help you achieve your financial goals, the applicable fees should be taken into account.

Step 3 (continued)

Income tax

The income tax payable on your investment income depends on the type of income that is earned on your portfolio. For example, capital gains are generally taxed at a lower rate than interest income. Therefore, to determine the actual return on an investment, you should take income tax payable into account. If you invest in a registered plan such as an RRSP or TFSA, the type of investment income no longer matters from a tax perspective. For more information, see the section on registered plans beginning on page 23.

The main types of investment income	Definitions	Examples
Interest	The amount you receive for lending money to a borrower.	A $1,000 investment in a guaranteed investment certificate (GIC) earning 2% per year will generate $20 in interest after one year.
Dividend	A portion of the profits that a company distributes to its shareholders.	Company ABC pays its shareholders a dividend of $0.30 every three months (quarterly) on each common share they own.
Capital gain	The difference between the sale and purchase price of an investment.	After buying shares for $12 each, you sell them for $20 each. Your capital gain is $8 a share.

Step 4

Choose your asset allocation and diversify your portfolio

After determining your investor profile, you should have a good idea of how to allocate the amounts to be invested among the different types of investments. When allocating your money, plan on diversifying your investments so you don't put all your eggs in one basket. For example:

- Hold different types of investments (e.g., real estate, stocks, bonds and mutual funds)
- Diversify the maturities of your investments, when applicable. For instance, invest in 1-, 2-, and 5-year GICs or bonds
- For equity securities such as common or preferred stocks, invest in different industry sectors. For example, own shares in the financials, resources and technology sectors

Step 5

Read and make sure you understand the information on which your decisions will be based

Refer to the following sources:

- The Fund Facts, ETF Facts and Fund Facts documents for segregated funds: These documents provide clear and concise information concerning the fund offered (past performance, asset allocation, risk level, applicable fees, etc.)
- The prospectus: For more detailed information, or if you want to invest in other types of vehicles such as stocks, a prospectus provides information about the company and the investment offered. It includes the characteristics of the security offered, risk factors and past financial statements
- The website *sedar.com* (System for Electronic Document Analysis and Retrieval): This site contains all the regulatory documents (including financial statements, MD&As, annual information forms and proxy solicitation circulars) that must be filed by companies and investment funds
- The company's or fund's website
- The company's investor relations department: This is where you can get answers to questions about dividends, dates of shareholders' meetings and other matters of interest to shareholders. Most large companies have either an investor relations department or a public relations department
- The representative authorized to offer you the investment

Get your information from more than one credible source. Not everything posted on the Internet is true!

Once you have made the investment:

- Keep a copy of any documents you signed
- Read and retain any documents you receive about your investments
- Stay on top of your investments
- Review your investor profile periodically (ideally, once a year, or more often if your financial situation changes)

MAIN TYPES OF INVESTMENTS

Debt securities

Debt securities are securities through which a borrower, typically a government or a company, acknowledges its debt to the security holder. When you invest in a debt security, you lend money in exchange for interest. In the case of a company, you do not become a part owner of the company but, rather, one of its creditors (lenders). For example, whenever you invest $1,000 in a GIC, you lend the money to a financial institution. The financial institution is therefore the borrower and you are the creditor.

GUARANTEED INVESTMENT CERTIFICATES (GICS) AND TERM DEPOSITS

Debt securities issued by financial institutions through which you lend them money.

	Conventional GIC	Index-linked GIC
Term	30 days to 10 years	
Return	Fixed rate of interest at maturity	Varies according to the performance of an index such as a stock market index
Liquidity	Most GICs must be held until maturity, but some may be redeemed early. In the event of early redemption, penalties may apply.	
Risk	Generally guaranteed by the issuer. The capital may be insured under a deposit protection plan in the event the issuer goes bankrupt (some restrictions apply).	The amount invested may be guaranteed by the issuer.

Guaranteed investments

Before putting money in a guaranteed investment, ask yourself the following questions:

- Who is guaranteeing the investment? An investment is not guaranteed by the individual selling it but, rather, by an institution.[1]
- What exactly is guaranteed? The return, the capital, or both?
- What are the conditions of the guarantee? Does the investment have to be held for 10 or 20 years for the capital to be guaranteed?
- Are there exclusions to this guarantee?
- How much does the guarantee cost?

1 Under certain conditions, the AMF and the Canada Deposit Insurance Corporation (CDIC) insure deposits with registered financial institutions in the event they become bankrupt.

BONDS AND DEBENTURES

Debt securities through which you lend money to the issuer, e.g., a government or company. Debentures are similar to bonds but are not backed by specific assets of the issuing company (e.g., land, buildings and machinery.). The issuer typically promises to pay a fixed interest rate to the buyer at certain set intervals and pay back a predetermined amount at maturity, usually a face value of $1,000.

Term

Typically 1 to 30 years.

Expected return

Mainly in the form of interest.

The value varies with changes in interest rates and the issuer's credit rating.[2] If the bond or debenture is held until maturity, the buyer will receive the return stipulated at the time of purchase, except where the issuer is no longer able to honour its financial obligations.

Liquidity

Bonds and debentures are offered through dealers. If interest rates increase or the issuer experiences financial difficulties, it could cause a decrease in bond and debenture liquidity.

Risk

The farther off the maturity date, the more a bond's value may fluctuate owing to factors such as actual or anticipated changes in interest rates or the issuer's financial situation. Holders are entitled to a portion of the company's remaining assets if it is dissolved (ranking ahead of shareholders).

2 Independent agencies rate the quality of certain debt securities.

PRINCIPAL-PROTECTED NOTES (PPNS)

Debt securities generally issued by financial institutions in exchange for the money you lend them. This type of investment does not necessarily have a fixed interest rate. Its value may fluctuate based on the performance of a benchmark portfolio. A benchmark portfolio is generally made up of a set of securities, stock market indexes or currencies, the fluctuations in which are used to determine the PPN's value and return.

Term

Typically between 3 and 10 years.

Expected return

The return is tied to the performance of a benchmark portfolio. Some PPNs guarantee a rate of return for specific years (e.g., the first year only). In some cases, the issuer may limit the return on the notes or redeem them before maturity.

Liquidity

It is not always possible to sell the notes before maturity, but if you can, fees may apply.

Risk

The capital (principal) is usually guaranteed by a financial institution. However, the guarantee does not apply if the note is redeemed before maturity, so investors may not get all their money back. Since the return is tied to a benchmark, the investor may be paid less interest than expected or none at all.

Equity securities

Equity securities evidence an investor's share of ownership in a company. When you buy an equity security, you acquire an interest in the capital of a company. Here are some examples:

COMMON SHARES

Securities issued by companies. The investor owns a share of the issuing company's capital and usually has a right to vote on decisions affecting the company.

Term

None

Expected return

Takes the form of:

- Dividends
- Capital gain (loss)

Liquidity

Typically traded on stock exchanges or in over-the-counter markets (where unlisted stocks are traded among dealers).

Risk

Share price may increase or decrease substantially.

If the company is dissolved, shareholders are entitled to a portion of the remaining assets, but only after all creditors have been paid, including governments and holders of debt securities such as bonds and debentures. Holders of preferred shares will also get paid ahead of common shareholders.

PREFERRED SHARES

Securities issued by companies.

The investor owns a share of the issuing company's capital.

The company must pay the dividends to preferred shareholders first before paying dividends to common shareholders.

Term

Most don't have a term, but some are redeemable at the issuer's option.

Expected return

Takes the form of:

- Cumulative or non-cumulative dividends
- Capital gain

Some companies offer dividends that are adjusted periodically based on interest rates (e.g., every five years).

A share's value depends on the interest rates demanded by other investors on similar securities.

Liquidity

Typically traded on stock exchanges or in over-the-counter markets.

Risk

The board of directors may decide to suspend the payment of dividends for certain periods, particularly when there are financial difficulties. In such a case, not only do investors not receive dividends, but the value of their shares may fall sharply. Rising interest rates can also drive the value of preferred shares up or down.

If the company is dissolved, holders of preferred shares are entitled to receive a portion of the company's remaining assets ahead of common shareholders, but only after all creditors, including governments and holders of debt securities, such as bonds and debentures, have been paid.

Funds

Funds come in different forms, grouped into four broad categories: mutual funds, exchange-traded funds (ETFs), tax-advantaged funds and segregated funds. They are a pool of investors' money managed on their behalf by professionals in accordance with an investment policy.

MUTUAL FUNDS

Mutual funds are managed by a manager, who invests a pool of investors' money in various types of securities in accordance with the fund's investment objectives. Examples of investment objectives include:

- preserve the amounts invested (capital)
- generate a steady income
- maximize capital growth

There are many types of mutual funds, including money market, fixed income, balanced, equity and international funds.

Term

None

Expected return

Takes the form of:

- Dividends
- Interest
- Capital gain (loss) realized by the fund or when investors redeem their units

Liquidity

Usually can be redeemed at any time with the fund.

Risk

The risk depends on what the fund invests in (e.g., stocks and bonds). These securities are not guaranteed.

EXCHANGE-TRADED FUNDS (ETFS)

ETF securities are traded on a stock exchange. Many ETFs track benchmark indexes, such as stock indexes (S&P/TSX and S&P 500). Others track the prices of raw materials such as oil, gas, gold or grain. Still others mirror bond, precious metal, commodity or currency indexes. ETFs that mirror a currency index move up and down with foreign exchange rates.

Term

Some have a maturity date; others do not.

Expected return

Takes the form of:

- Dividends
- Interest
- Capital gain (loss)

Liquidity

Usually very liquid because they are traded on an exchange.

Risk

The risk depends on the securities selected and strategies used. For example, an ETF that replicates an emerging market index could be riskier than one that tracks an index composed of the largest companies that trade on a developed country's stock exchange.

TAX-ADVANTAGED FUNDS

Securities issued by a labour organization or financial institution.

Investors buy equity securities of the fund, which may provide them with tax benefits.

One of the goals of such funds is to create and maintain jobs in Québec.

Term

None

Expected return

- Mainly in the form of a capital gain (loss)
- Depends on the performance of the fund assets
- Investors could also benefit from tax benefits that increase their return

Liquidity

Securities of a labour-sponsored fund (*Fonds de solidarité FTQ* and *Fondaction*) can be redeemed only at retirement or upon early retirement as of age 55, subject to certain conditions.

They can also be redeemed when certain exceptional circumstances arise, such as the purchase of a home, a return to studies, loss of employment, the start-up of a business, a disability, or a terminal illness.

There is also a regional development fund (*Capital régional et coopératif Desjardins*) whose securities must be held for a minimum of 7 years before they can be redeemed (except in the event of a death, disability or terminal illness).

The redemption criteria differ from one fund to the next.

Risk

These funds invest a percentage of their assets in start-ups or SMEs, which could increase the risk.

SEGREGATED FUNDS

Segregated funds are created by insurers. They resemble mutual funds, but the securities typically include a death benefit and a maturity guarantee.

The funds are "segregated" (held separately) from the insurer's assets, which is why they are called "segregated funds".

Term

In many cases, in order to benefit from the maturity guarantee, the investment must be held for 15 or 20 years. If the investor chooses to forgo the guarantee, the securities are redeemable at any time.

Expected return

Takes the form of:

- Dividends
- Interest
- Capital gain (loss) realized by the fund or when the securities are redeemed by the investor

Liquidity

Can be redeemed at any time with the fund. However, as a general rule, in order to benefit from the maturity guarantee, the investment must be held for 15 or 20 years.

Risk

Depends on what the fund invests in.

Individual segregated fund contracts offer a guarantee that protects, at maturity, at least 75% of the amount invested. Insurers also typically offer a death benefit guarantee.

REGISTERED PLANS

If you invest in non-registered accounts, you will have to determine the income tax applicable on your investment income. See page 7 for more information. If you invest in registered plans, such as an RRSP or TFSA, be aware that how investment income is taxed differs completely from one plan to the next. You need to understand the different plans so you can make an informed choice.

Registered Retirement Savings Plan (RRSP)

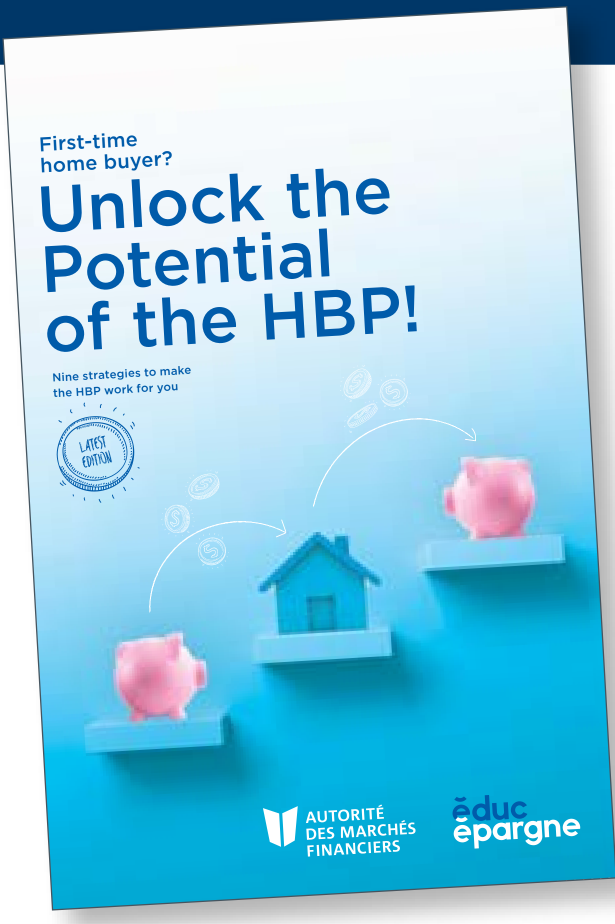
An RRSP is a plan that allows you to grow your investments in a tax shelter. Stocks, bonds, mutual fund securities, ETF securities, GICs and other types of investments can be held in an RRSP. You can deduct the amount of your RRSP contributions from your earned income and thereby reduce your taxable income.

You can always cash in your RRSPs, but you will get only a portion of your money back. The money you withdraw will be added to your income for the year and you will be taxed accordingly. Careful! Unlike the TFSA, amounts withdrawn from your RRSP usually cannot be recontributed.

Home Buyers' Plan (HBP)

The HBP is a program that lets you withdraw money from your RRSP, without paying income tax, for the purpose of buying or building your first home. If you buy the home with your spouse, you can each withdraw money from your respective RRSPs. However, you must make an annual repayment to your RRSP equal to 1/15th of the total amount withdrawn until the withdrawn amount is fully repaid. You will not receive a reduction in income taxes for the amounts repaid.

Did you know that you can use the funds withdrawn under the HBP as you see fit, provided the conditions for participating in the HBP are met? You could use them to pay off expensive debts. The guide First-time home buyer? Unlock the potential of the HBP! offers up a range of attractive strategies to get the most of the HPB.



Voluntary Retirement Savings Plan (VRSP)

The VRSP is a retirement savings plan that helps employees save for their retirement through payroll deductions. Employees and employers are not required to contribute to a VRSP, although some employers are required to offer one. Where a VRSP is offered by the employer, employees are automatically enrolled in the plan. Employees must submit a request if they do not wish to contribute to it automatically. **Every $1 contributed to your RRSP lowers the amount you are allowed to contribute to a VRSP, and vice versa**.

Investments held in your VRSP are tax-sheltered. You can deduct the amount of the contributions you make to your VRSP from your earned income, thereby lowering your taxable income and possibly reducing your income tax payable. When you withdraw money from the plan, you'll have to add it to your taxable income.

You cannot choose the investments in your VRSP directly. However, you can choose from among various investment options (e.g., a fund composed of low-risk investments or a fund made up of riskier investments but with a higher potential return).

WHEN CAN YOU WITHDRAW MONEY FROM YOUR VRSP?

It depends on the source of the funds: You can withdraw your contributions at least once in a 12-month period. Employer contributions cannot be withdrawn before age 55, except if your employment ends.

In all cases, amounts withdrawn will be added to your income for the year and be taxed accordingly.

Tax-Free Savings Account (TFSA)

A TFSA is a plan that allows you to grow investments (e.g., stocks, bonds and GICs) in a tax shelter. With a TFSA, you can save up for anything you want (e.g., a home or a car). Unlike in the case of an RRSP or a VRSP, contributions to a TFSA cannot be used to reduce your income taxes. However, you pay no income tax when the money is withdrawn. In other words, the income earned on investments held in a TFSA, whether in the form of interest, dividends or capital gains, will not be taxed.

TFSA	RRSP	VRSP
When can I start contributing to the plan?		
As of 2009, provided you are 18 years or older.	At any age. You're entitled to contribute the moment you start reporting income for tax purposes.	
How much can I contribute?		
The contribution limit is set each year, regardless of income. For more information about your TFSA contribution room, check *My Account* on the Canada Revenue Agency (CRA) website.	18% of your income for the RRSP and VRSP combined (up to a maximum amount), minus the pension adjustment indicated on your Canada Revenue Agency T4 slip.	
Unused contribution room can be carried forward to subsequent years.		

TFSA	RRSP	VRSP
What happens if I exceed the maximum allowable amount?		
You will be charged a 1% overcontribution penalty for every month that overcontributions in excess of $2,000 remain in the account (there is no penalty on excess contributions up to $2,000).		
If I withdraw money from the plan, can I replace it later?		
Yes, but only as of the following year.	No, not unless it was taken out under a plan such as the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP).	No.
What happens if I don't contribute the maximum amount?		
Your contribution room is carried forward, meaning you can contribute the amounts at a later time.	Since 1991, you've been able to accumulate and carry forward the unused contribution room, meaning you can contribute the amounts at a later time.	Your unused contribution room is carried forward, meaning you can contribute the amounts at a later time.
When does the plan have to be wound up?		
Upon death.	On December 31 of the year you turn 71. At that time, you may transfer the funds to a Registered Retirement Income Fund (RRIF), purchase an annuity, or cash in the RRSP.	

Registered Education Savings Plan (RESP)

An RESP is a plan that allows you to grow your savings in a tax shelter for the purpose of financing all or part of your children's post-secondary education. While contributions cannot be deducted from your income for tax purposes, government grants can be deposited in the RESP, including:

- Québec Education Savings Incentive (QESI)
- Canadian Education Savings Grant (CESG)
- Canada Learning Bond (CLB)

To understand how an RESP works, you have to distinguish between the amounts contributed, the grants received and the income earned on investments within the plan.

INVESTMENT INCOME AND GRANTS

When money is withdrawn from an RESP, the investment income and grants are taxable in the hands of the person who is studying, rather than in the hands of the subscriber. If the student's income is very low at the time of withdrawal, as is likely to be the case, he or she could end up paying less income tax than had the amounts been taxable in the hands of the subscriber. The amount payable might even be nil.

AMOUNTS CONTRIBUTED TO THE PLAN

When the student continues his or her education after high school, the plan's subscriber can get his or her contributions back without paying income tax. In short, the amounts paid into the plan by the subscriber continue to belong to the subscriber. The subscriber can choose to keep them or give them to the student.

Amounts withdrawn from an RESP do not affect the amounts that the student can receive from the Québec loans and bursaries program.

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