THE GLOBE'S

Practical Guide To All Things Money

THE GLOBE AND MAIL

The Globe's Practical Guide To All Things Money

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EXCEPT FOR PAGE 276,
BY JOANNE JOO

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CHAPTER 1

The Basics

How much money should be in my emergency fund?

An emergency fund – money saved and put aside specifically for unforeseen expenses – is a crucial part of ensuring your financial health. Here's what you need to know about starting an emergency fund, how much to save and more

BY ROSEMARY COUNTER

You've probably heard that setting up an emergency fund – or "rainy day fund" is a crucial part of ensuring your financial health. But how much do you need? Where should you keep it? Here are answers to some of the most common questions on creating your own financial life jacket.

What is an emergency fund and do you need one?

An emergency fund is exactly what it sounds like: money saved and put aside specifically for unforeseen expenses. Although this sounds a lot like a savings account, it distinctly is not. "An emergency fund is not actual savings, because you're not saving for anything in particular, you're stashing it away to be deployed later when something unexpected happens," says Shannon Lee Simmons, a financial planner and founder of The New School of Finance.

And yes, you and everyone else definitely need an emergency fund. Here's why: It's the cushion you need to keep an unexpected expense from wreaking havoc on the rest of your financial plan, so you don't need to cash in an RRSP or sell stock you'd rather keep or, worst of all, plunge deep into debt. "An emergency fund is your best line of defence between you and credit card debt in an emergency." A better question, therefore, becomes …

What is – and isn't – an emergency?

Ms. Simmons differentiates between two kinds of emergencies. "The first is income disruption, which we all felt during the pandemic, which basically asks what you'll do if you lose your job or can't work," she says. In this case, your living expenses (including rent and food) can indeed be considered "emergencies."

But when we talk about emergency funds, we are typically talking about Ms. Simmons' second kind of emergencies: situational. "This is something like your laptop breaks or your car breaks down or the roof starts leaking." A few more examples are unforeseen medical expenses, a new furnace, unplanned travel, etc.

And what are not emergencies? Impromptu travel for pleasure, furniture or new clothing (such as your favourite jeans on super sale), your rent or Netflix subscription or phone upgrade or car payment (those are monthly expenses you've prepared for, right?).

For anyone who has trouble differentiating what's an emergency and what's not, try Ms. Simmons' handy rule: "Any situation where you're taking out credit card debt because you have to pay for something and you have to pay it now is an emergency. Anything that can wait, can wait."

What are the different kinds of emergency funds?

The term "emergency fund" is sometimes used interchangeably with the nicer-sounding "rainy-day fund" or "sinking fund." But neither is quite the same.

"A rainy-day fund is a savings account that you use for fun stuff – shopping or travel or entertainment – that you've saved up to enjoy," Ms. Simmons says.

A "sinking fund," meanwhile, is money put aside in advance for an irregular, but predetermined expense such as a wedding, or home renovation, or maybe a new fridge because yours is on its last legs. The difference? You guessed it: An emergency is, by definition, unforeseen. You're planning for the stuff you can't plan for.

How much money should be in my emergency fund?

"That's the million-dollar question," says money coach Judith Cane. And just like a million dollars, the answer alludes most of us. The truth is countless factors determine what kind of emergency you might face and – crucially – how much it could cost. Just a few variables include your usual income, whether you're self-employed or not, where you live, your lifestyle, whether you have kids or elderly parents to consider, and your own health, of course.

Ms. Simmons agrees that while there's no perfect figure, each individual's perfect amount has something in common: "It's whatever amount feels to you like a cushion," she says. "It's the amount that when you log into your online banking and you see that money sitting there, just in case, it feels like a warm blanket of calm, and its existence reduces money stress in a way that no other account can."

Interestingly, for many of Ms. Simmons' clients, the happy place is $5,000. "This is a very popular nugget," she explains. "Five-thousand dollars is a great number for a lot of people because it tends to be a first and last month's rent; it tends to cover a car repair; and it's often the first part of a home emergency like a roof or a leaking basement."

But it's also the case, Ms. Simmons says, that "anything is better than nothing." The crucial thing is to get started, even with a small amount, topping up as you can: "More important than any amount is the habit of putting money aside for expenses outside your regular budget."

What is the three-to-six-months rule – and is it enough?

Ms. Cane prefers her clients have three months' worth of living expenses set aside, minimum, but she cites that mainly because people ask her the what-is-enough question so often and they always seem to want a hard number.

Many financial advisers subscribe to some variety of the three-to-six-months rule (which is actually a pretty wide window). Some, like U.S. personal finance guru Suze Orman, believe even six months' worth of living expenses set aside is not enough; Ms. Orman recommends eight months to a year.

Ms. Simmons believes that's impossible for most. "Who can have a year's worth of money in an emergency fund? To that, I'd say, sure, shoot for the moon, but it's just not realistic for most people," she says. No amount should feel so unreachable that it discourages you – even her ever-popular $5,000. "Start with $500 then," she says, as it's "still better than nothing at all."

What do personal finance experts say about emergency funds?

Experts agree we don't pay enough attention to emergency funds. "They're not fun or sexy," says Ms. Simmons, and people don't like to think about unforeseen disaster.

For this reason exactly, The Globe and Mail's Rob Carrick asked readers for "a new name for the boring old emergency fund." Four thousand creative readers responded with ideas from Face Punch Fund to Peace of Mind Fund. Though both were top contenders, Mr. Carrick chose Plan B Fund as the best new moniker. Whatever it's called, it's the "No. 1 financial lesson of the pandemic," he wrote.

"I'm inclined to believe most people don't have enough in their emergency funds," Mr. Carrick says. That said, though he's heard many numbers and rules over the years, he doesn't single out any of them as a favourite. "I'd say if you have a few thousand dollars ready, you're doing very well."

Report on Business reporter Erica Alini compiled a handy list of experts' tips on how to build – and keep – an emergency fund. If three- or six-months' savings feels daunting, start with a more accessible goal of matching your biggest expense, suggested financial adviser Zainab Williams. "For most people … that's rent or the mortgage payment," notes Ms. Williams. Once you get there, aim next to double it.

Does an emergency fund protect me from inflation? How about recession?

Just a few years ago, Mr. Carrick explains, a lot of people's thinking was: "What kind of dummy would put money in a savings account earning 0.5 or 1 per cent when stocks were shooting that high by the hour?" Sad but true, if you compare your emergency fund to most anything else, "it's an unfortunate reality that the after-inflation rate of return is probably negative." As such, you'll want to keep this in mind and adjust the size of your fund accordingly.

That said, while your emergency fund isn't helping much in the inflation department, it's doing double-duty on the recession front. "If you lose your job, if you get sick and you can't work, the fact that your emergency fund is there and ready to help you is invaluable," Mr. Carrick says.

Where does an emergency fund belong on my financial priority list?

Of savings, investments, RRSP contributions, car payments, loans payments, etc., just one obligation trumps the importance of an emergency fund: Credit card debt.

"It all depends on your interest rate, but you're likely paying 19.99 per cent on that debt, paying off that should be your first goal," Ms. Cane says. Why? "Because not many people can come up with any savings at all when they're deep in consumer debt."

And though it's not recommended – in fact Ms. Cane calls it "a worst-case scenario" – if you ever find yourself in a real pinch, your credit card could serve as your emergency fund. But that can't happen if your cards are already maxed out. The bottom line is, ideally, you would have no debt and an emergency fund – not one or the other. "I would suggest putting 80 cents of your dollar down on the debt and

20 toward your emergency fund," Mr. Carrick says.

Where should I park my emergency fund?

This one's too easy: "A high-interest savings account, boom," Ms. Simmons says. It's not flashy, she admits, and it's tempting to think that money is sitting there doing nothing. "But it is already doing something," she says, "it's protecting you from debt. That's its job, and it's not supposed to be earning you money – that's what investments are for. Your emergency fund needs to be liquid, safe and accessible."

Rob Carrick agrees wholeheartedly. "The priority is to protect the money," he says. A comparatively low interest rate might make a registered retirement savings plan, tax-free savings account or – the absolute worst choice you can make, says Mr. Carrick – the stock market, more tempting. But "preserving the money takes precedence over growing the money," he says.

That said, be warned not to make your emergency fund too accessible. "You want a separate account that's just a little bit more of a hassle to access than your regular savings account," Ms. Cane says. For this reason, some money experts recommend that your emergency fund live at a bank other than your usual one. "It's kind an out-of-sight, out-of-mind trick," she says.

How do I start an emergency fund?

Ms. Simmons suggests a little financial exercise to get you started. "Look over your life in the last year or so and look for moments that took you by surprise," she says. "Now ask yourself, 'What is the amount of money that I wish I had in that moment?'" If you have that amount elsewhere to move to your new fund, do that.

If not, understand that there's no wrong way to start an emergency fund, and no amount too small. "More and more financial institutions are doing this technique now where they'll round your purchases up to the nearest dollar and move your change over into an emergency fund," Ms. Cane says. The mode is new but the model is not. "This is really just like the old days when you'd come home and dump your change into a jar and once a month you add it up and take it to the bank," she adds. A few dollars a day add up much faster than you think.

For those starting entirely fresh, set up a new account at your usual bank (if you want that warm feeling of seeing your safety net in action) or a different bank (if you're the kind of person who sees a pile of available money just sitting there simply too tempting). It's ideal if you have a lump sum in mind, but remember the account can and will fluctuate. Be sure to keep topping up to replace whatever you use.

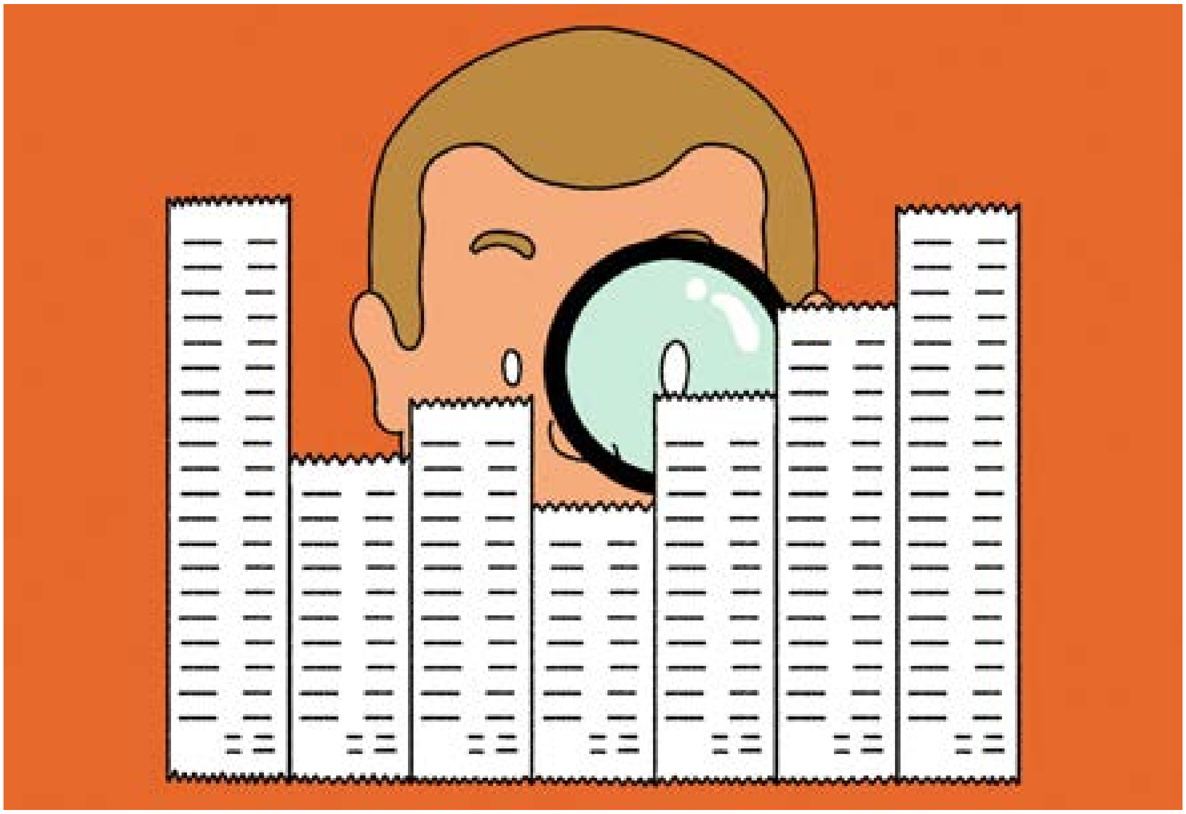
And the best way to save for an emergency without ever having to think about the emergency is to automate your account. "Set a monthly amount that moves itself over and you won't even notice," Ms. Cane says. Until the furnace breaks, that is, when you'll suddenly be pleasantly surprised.

The bottom line

4 key points to remember about emergency funds

1. An emergency fund is for emergencies – unforeseen expenses that you couldn't have planned for and that would otherwise plunge you into debt. It is not for non-emergencies, like shopping and travel and tech upgrades you don't absolutely need;
2. Your emergency fund should live in a high-interest savings account that's readily available and accessible (but not too accessible that it's tempting to spend);
3. Only high-interest consumer debt repayment should ever be given financial priority ahead of an emergency fund;
4. There is no perfect amount of money to have in an emergency fund. Financial experts often subscribe to the three-to-six-months rule, which means it should

cover your living expenses for three to six months. In any case, you should have enough to make you feel financially safe.



Why is budgeting an essential personal finance tool?

A budget is a monthly tally of your income and expenses that lets you track where your money is going to ensure you're on track with your financial goals. Here's how to get started

'You cannot get ahead financially until you make a habit of spending less than you earn." Columnist Rob Carrick calls this the most basic rule of personal finance, and yet it's one that many of us struggle to follow. One vital tool to help you get on top of things is the simple old-fashioned budget. But what are budgets, how do they work and how do you start making one? Here's the basics, and some simple rules to follow.

What is a budget?

For a company, a budget is a financial plan and a record of credits and debits. For an individual, it's much the same. It's a monthly tally of your income and expenses that lets you track where your money is going and be sure your spending and saving match your financial goals.

People also use the word "budget" to refer to an amount of money allocated to something specific. For instance, you might have a budget of $2,000 a year for vacations, or $100 a week for eating out. But in truth that's just part of a budget.

Since many of us receive paycheques twice monthly, and a lot of expenses occur on a monthly basis, many people set up their budgets month by month. Your monthly budget would include your income as well as your expenses organized by category: everything from rent and mortgage payments, to tax-free savings account contributions and other savings, to music subscriptions, food, clothing and donations to charity. The goal is for the expenses to be lower than or equal to the income.

Why is budgeting important?

Budgeting is an essential tool for meeting your financial obligations and goals. If you are trying to get out of debt, or pay off student loans or credit card balances, it's far easier if you have a budget that includes those things and you stick to it. And if you have a hard time coming up with the money for big purchases, a budget can help you get there by encouraging you to put away a bit at a time.

It forces you to pay attention, in other words, and avoid trouble. Jenna Young in Halifax, for example, used to avoid looking at her bank balance and just hope she had the money to cover automatic bill payments. But she was having difficulty paying off her student loans and was racking up credit card debt as well. She created a budget one year as a New Year's resolution, and stuck to it religiously, checking her budget spreadsheet every payday and keeping track, on her phone, of money available for spending.

"It was terrifying to see the total amount owed," Ms. Young says. But she could also see real progress: She started spending within her means, saving up for unusual expenses, and paying off debts. "Emotionally, it made me feel way less anxious about money because I knew I was in control."

What role does budgeting play in our personal finances?

We all have different financial goals, but for the most part, there are three places to put your money: paying for necessities, buying things (and experiences) that are optional, and saving for the future. The latter might mean putting aside cash for a down payment on a house, saving up for big-ticket items like vacations or cars, or investing for your kids' education or your retirement.

If you have a hard time saving, or if you often find yourself in debt, then a budget can help you get back on track. "If you regularly have nothing left over to save from paycheque to paycheque, then track where your money is going," Mr. Carrick suggests. "Use the information you get from this and look at your spending to find areas to cut back."

Smart budgeting can help you be ready for emergencies and changing expenses. If you keep an eye on what you're spending, for instance, you'll see how much more expensive groceries have become, and you won't accidentally slip into the red because you haven't adjusted your budget to accommodate.

A budget will also help you plan for the future and make informed decisions. Buying a car, for instance, has gotten more expensive, not to mention the price of gas. If this is something you're considering, experts recommend assessing all the associated costs to figure out how much the new vehicle will really cost you, and how that will affect your overall budget.

The same goes for buying a house. Mortgage payments are only one part of the puzzle. A thorough budget that also looks at insurance, property tax, utilities, repairs and maintenance will help you decide what purchase price you can really afford. How much should you budget for maintenance and repairs? Mortgage broker Sean Cooper suggests 1 per cent of the home's value per year.

And then there's children. "Never-ending costs for parents require never-ending saving and planning," Mr. Carrick writes. "Figure out what your priorities are as parents and prepare as required." Having a budget will help you understand how to cover costs such as daycare, contributions to a registered education savings plan, and activities.

Can a budget help with your credit score?

Achieving a high credit score is straightforward, Mr. Carrick says: Pay what you owe on time, and never borrow even close to the maximum amount lenders will give you. "Do only that and you will not have a problem borrowing at a competitive interest rate," he says.

Your credit score is your history as a borrower distilled into a number on a scale that generally ranges from 300 to 900. 760 and up is considered excellent, while 660 to 759 is good or very good. Below 660, you may have trouble getting the best rate on a loan or mortgage.

Late payments and running up a big balance on a bunch of credit cards or a credit line can hurt your credit score. Creating and sticking to a budget is one of the simplest ways you can avoid a decline in your score. (There are also little things that can reduce your score, like adding a new credit card or cancelling a credit card you've had for years and replacing it with a new one – though your score should rebound quickly from such activity.)

Outstanding credit card balances can hurt your score when they're more than 30 per cent of a card's borrowing limit, according to a big U.S. credit reporting company. Using a budget can help prevent that from happening as well. "Maintaining a zero balance by paying off all purchases in full each month is the best of all."

What else you need to know about budgeting

The best budget is the one you'll actually use. Be honest with yourself about what habits you'll really stick with when it comes to managing your budget and changing your spending and saving routines. Just like with fitness, consistency is key to success.

One trick is to set a date with yourself in your calendar for when you'll review your budget. Treat yourself and try to make it fun – maybe budgeting review night and pizza night coincide, or you simply blast your favourite motivational tunes while you work.

To stick to your budget, it also helps to flip things around. Instead of focusing on spending reduction and sacrifice (so tragic), start from zero with an "I get to" approach. You didn't cut your restaurant budget; you get to eat out X times a month. You didn't reduce your clothing budget; you get to spend X dollars a month on clothes. Think of yourself as the kid in the candy store with a whole dollar (maybe five dollars with inflation) to spend on sweets. You'll be much more selective, and enjoy your purchase that much more, than the child who has no limits.

And if you can't track every penny, there is a middle ground. Gregory Karp of personal finance website NerdWallet, for example, confesses that he thinks budgets are overrated. "But if you're not going to create a household budget, at least regularly examine your past spending and categorize it," he adds.

Personal finance for newcomers to Canada: Opening a bank account, saving for a mortgage, credit scores and more

New to Canada? Here's to know about setting up a bank account, building your credit to saving and investing for life's major milestones.

KELSEY ROLFE

Getting established in a new country and understanding an unfamiliar financial system can be overwhelming. If you're new to Canada, here's what you need to know about getting your financial footing – from setting up a bank account to building your credit to saving and investing for life's major milestones.

How can I open a bank account?

You'll need two pieces of government-issued identification to open a bank account, such as a social insurance number (SIN), permanent resident card, provincial health card or Canadian driver's licence. Three Immigration, Refugees and Citizenship Canada forms – IMM 1442, IMM 1000 or IMM 5292 – are also valid identification. If you only have one piece of government ID, you can use a debit or credit card with your name and signature or a current foreign passport, among other options.

You can technically open a Canadian bank account while you're still in your home country, but these tend to be preliminary account set-ups and you'll have to visit a branch to show your ID. Online banks and investment apps that offer banking services are an exception, as the entire account set-up process is online.

While you don't need your SIN to open a bank account, it makes sense to prioritize it: You'll need one to be able to earn interest on your chequing or savings balances, as financial institutions are obligated to report any interest income you earn to the Canada Revenue Agency for tax purposes.

What should I consider when choosing a financial institution?

In Canada you can open an account with a bank, credit union or digital bank. Enoch Omololu, founder of the personal finance website Savvy New Canadians, recommends newcomers compare account fees before committing to a financial institution. Banks and credit unions charge monthly account fees of between $5 and $30, and there may also be transaction fees for ATM withdrawals and e-transfers.

However, young newcomers and international students may be able to open no-fee accounts. Rob Carrick, The Globe and Mail's personal finance columnist, highlighted the accounts available with the big banks and online banks. With interest rates rising rapidly in Canada, it's also beneficial to compare savings account interest rates. In a May newsletter, Mr. Carrick shared a couple of savings account rate-comparison websites and noted that the big banks have been offering "unusually good" bonus rates on temporary savings account promotions.

If you choose to open an account with a credit union, you'll have to pay a small membership fee when you open your account. That fee means you have ownership stake in the credit union and it entitles you to certain benefits such as profit sharing and voting rights, depending on the institution's rules, said Michael Zienchuk, manager of the wealth strategies group at the Ukrainian Credit Union (UCU).

Mr. Omololu said that how you plan to use your account should help determine which financial institution you choose to bank with. Digital banks are a good fit if you're looking for a no-fee chequing account or the ability to earn interest on your chequing balance, and are comfortable banking online.

If you feel it's important to receive support in person, a financial institution with bricks-and-mortar branches may serve you better. Mr. Omololu also noted that online international money transfers tend to be difficult to use, so newcomers who plan to send money to loved ones abroad may have an easier time doing so with a traditional financial institution.

Most banks and credit unions allow you to search for branches based on the languages they can help you in, or receive multilingual customer support over the phone. There are also numerous credit unions that were formed to serve specific communities, such as British Columbia's Khalsa Credit Union for the province's Sikh community, and the UCU, Parama Credit Union for Lithuanian immigrants, Finnish Credit Union, Korean Credit Union and others in Ontario.

How do I send money home to family and friends?

You can send money abroad through banks and credit unions, money transfer businesses, currency exchanges and cheque-cashing businesses. Transactions can be issued online or over e-mail, by telephone or in person, depending on the institution you choose.

Each institution will have different fees for international transfers, and some make their money by charging a higher than normal exchange rate, so it's a good idea to shop around before making your choice. You may also want to compare what the recipient has to pay to access the funds, which comes off the amount that you've sent them. The Financial Consumer Agency of Canada, the country's top financial watchdog responsible for protecting consumer interests, also suggests looking up any money transfer businesses in Canada's Better Business Bureau to ensure you're choosing a legitimate entity.

You can use cash, a cheque, money order, or your debit, credit or prepaid card to make the transfer, but according to the FCAC there may be additional fees depending on which method you use. Sending funds with your credit card can be considered a cash advance, which makes the transaction more expensive because interest is charged immediately on cash advances and the rates are usually higher than the interest on a normal credit card purchase.

How do I build my credit score?

If you want to borrow money or buy a home in Canada, you'll need a credit score. But your credit history from a previous country doesn't transfer over, so you'll need to build one from scratch, Mr. Zienchuk said. Canada has a centralized credit scoring system with two main credit bureaus, which allows financial institutions and lenders to look up your history with your permission.

One of the first steps to building a credit history is getting a credit card. If you aren't approved for a regular credit card immediately, you can instead apply for a secured credit card, which requires a security deposit of roughly one to two times the credit limit that's held as collateral.

Mr. Omololu said many newcomers who've arrived from countries with much different credit systems are concerned that just accessing credit products can negatively affect their credit history. In Canada, he said, using these products and regularly making payments on them is what helps to build your score.

Beyond accessing a credit card and paying bills on time, he also recommended newcomers not use more than 30 to 35 per cent of their credit limit. He also suggested having a mix of credit types, such as personal or car loans, which helps to build your credit profile more quickly.

How can I purchase a home?

To buy a home in Canada you'll need to be approved for a mortgage. Lenders – including banks, credit unions, mortgage companies and insurers, among others – will consider your pretax income, expenses, credit score and other factors when deciding what to offer you.

A lack of credit history tends to be the biggest challenge newcomers face when trying to qualify for a mortgage. But Joe Bladek, a Barrie, Ont.-based mortgage broker who works regularly with newcomers and immigration consultants, said many lenders have other ways you can prove your creditworthiness. As examples, he cites rental history, a letter from a landlord, or a year's worth of bank statements (that could be six months of statements from a Canadian bank and the remainder from the country of origin) that show you don't miss bill payments. Occasionally lenders will accept an international credit bureau file.

Your status in the country plays a role in how much you'll need to contribute for a down payment. Permanent residents can put as little as 5 per cent down, as long as you meet your lender's employment and credit requirements. If you're an international student or have a work permit you'll need to make at least a 10 per cent down payment. Buyers who put down a down payment of between 5 per cent and 19 per cent must be insured by the Canada Mortgage and Housing Corp. (CMHC), which involves a premium on your mortgage.

Both the CMHC and Sagen, a private mortgage insurance provider, have programs to help new Canadians secure mortgages, recognizing that newcomers are a significant portion of the market (according to a 2019 CMHC survey, 18 per cent of mortgage consumers are new Canadians). CMHC's program has no minimum residency period requirements, requires non-permanent residents to be purchasing a one-unit property they plan to occupy, and is only available for purchase prices below $1-million, among other requirements. Sagen's program requirements include that borrowers have a minimum of three months' full-time employment in Canada, be purchasing a property with a maximum of two units of which one is owner-occupied, and is only available for properties below $1-million.

How do I save for my child's education?

Canada has a registered investment account called a registered education savings plan (RESP) that you can use to save for your child's postsecondary education costs, as long as they are a resident of Canada and have a valid SIN.

Contributing to an RESP allows you to take advantage of two government incentives. As part of the Canada Education Savings Grant, the government will annually match 20 per cent of your contributions up to $2,500, and this amount can be higher for children from low- and middle-income families. The Canada Learning Bond offers up to $2,000 to children of low-income families to help with their education.

RESPs are tax-deferred, meaning that the money you received from government benefits and interest payments, dividends and capital gains from the funds you invested won't be taxed until your child is enrolled in school and you request withdrawals from the account. Those funds will be treated as their taxable income (your contribution amounts aren't taxed).

How can I save and invest for retirement?

Canada offers two individual savings accounts through which you can save for retirement, called the registered retirement savings plan (RRSP) and the tax-free savings account (TFSA). An RRSP, an investment account that's available to residents of Canada who file taxes in the country and have an income and a SIN, allow you to build up funds for retirement while reducing your current tax bill. A TFSA, another type of investment account that isn't taxed at withdrawal but also doesn't reduce your current tax bill, is available to Canadian residents over the age of 18 with a valid SIN.

Mr. Omololu stressed the importance of heeding the annual contribution limits for both RRSPs and TFSAs to avoid being taxed on the overage – something he said many newcomers aren't immediately aware of. "Newcomers who've just heard about the TFSA, for example, have opened accounts and overcontributed, and it's just a mess trying to sort that out. It makes for a messy start to investing in Canada," he said, suggesting that a more prudent approach to these accounts is to set up a pre-authorized monthly contribution.

If you're not sure whether an RRSP or a TFSA makes the most sense for your financial situation, Tim Cestnick, co-founder and chief executive officer of Our Family Office Inc. and a regular Globe contributor, has a helpful breakdown of scenarios where one or the other may make the most sense.

You'll also likely be able to receive two government benefits at your retirement, the Canada Pension Plan and Old Age Security. CPP is available to anyone age 60 and older who made at least one valid contribution during their working years. It's a monthly, taxable and inflation-linked pension benefit. You make contributions based on your annual earnings up to a maximum amount, which in 2024 is $68,500. The contribution rate is currently 11.9 per cent, but those contributions are split evenly between you and your employer (self-employed workers pay the full contribution rate). The more you contribute throughout your career, and the longer you delay receiving your pension (the latest you can begin receiving it is age 70), the more you qualify for. There are no residency requirements for CPP. If you've worked in one of the more than 50 countries Canada has a social security agreement with, you may be able to combine the contribution periods from both countries to meet the minimum qualifications for one or both of those countries' pension benefits.

Old Age Security is a monthly payment to seniors aged 65 and older. You don't have to contribute to receive OAS payments, but the amount you receive is based on how long you've lived in Canada, as well as your income. You have to have lived in the country for at least 10 years as an adult to qualify at all, and for 40 years as an adult to receive the maximum amount. But, as with CPP, if you've worked in a country that has a social security agreement with Canada, this may help your eligibility for OAS.

Depending on your employer, you may also be able to save for retirement through a workplace defined-benefit or defined-contribution pension.

What do I need to know about paying taxes?

All residents of Canada must file an income tax return every year, regardless of their immigration status, if they've earned income, received government benefits or participated in programs such as the first-time Home Buyers' Plan, or have sold capital property.

Filing your taxes determines your eligibility for many government benefits, including the Canada Child Benefit, GST/HST credit and some provincial and territorial programs. However, you can also apply directly for the benefits once you have a SIN, and don't need to wait until after you've filed your taxes.

You must report not just your Canadian income each tax year but also your worldwide income, such as investments or a business in the country you left. If you've paid taxes in another country, you can claim foreign taxes on your return so you aren't being doubly taxed for the same assets.

The Canada Revenue Agency also requires you to disclose foreign assets worth more than $100,000 through the T1135 tax form, regardless of whether those assets have earned any income. These could include assets such as stock investments, a bank account or rental properties overseas, with their original cost valued in Canadian dollars. But they do not include personal property, like a home in another country that you plan to use for vacations. If you fail to report you face a $25 per day penalty up to a maximum of 100 days, but you do not have to file a T1135 in the tax year that you first became resident in Canada.

Insurance 101: What is insurance and how much do I really need?

Insurance – life, health, auto and home or renter's insurance – is a formal contract between an individual (that's you) and an insurance company

ROSEMARY COUNTER

Few people will go through life without buying insurance of one kind or another. But there are so many different varieties, and so many things to consider, you need a guide to the essentials:

What is insurance, really, and how does it work?

Insurance, be it home, health, life or any other kind, is a formal contract between an individual (that's you) and an insurance company – in Canada, the big familiar names are Manulife, Canada Life, iA, Sun Life and Desjardins. You'll make a set scheduled payment called a "premium" in return for their promise to compensate you if and when you're the unlucky person facing an unforeseen, expensive calamity, like a house fire, a car accident or the death of a family breadwinner. And it's a way to pool risk – your premiums will usually add up to less than the payout after a disaster. "Simply put," says Dave Payette, chief operating officer of insurance brokerage ThinkInsure, "the premiums collected from the many will pay for the losses of the few."

What are the various kinds of insurance?

The best-known kinds of insurance are life, health, auto and property (home or renter's) insurance. Within each of those are a number of options or subcategories. Here are just a few:

Life insurance

Life insurance can be term insurance or whole life (with an end date or no end date); variable life insurance has an investment component – it has a cash value account that varies depending on how the investments perform.

Health insurance

Health insurance can cover anything from personal health costs, dental care, long-term care (to help pay for in-home care or nursing homes); and even lesser-known things such as critical illness insurance – a lump-sum payment in case you are diagnosed with a serious disease. In Canada, of course, most health costs are covered by government-run provincial plans – our beloved universal health care. But additional plans, often offered by employers to certain minimum levels, provide extended coverage for things such as dental care and short- and long-term disability if you can't work because you are sick or disabled. (For that matter, many workplace insurance plans also include group life insurance People without a workplace plan can purchase extended health insurance on their own.

Auto insurance

Auto insurance includes liability insurance (damage or injury you cause to someone else), collision insurance (exactly as it sounds), comprehensive insurance (theft or damage to your car if, say, a tree falls on it);

Property insurance

Property insurance is divided into home, condo, tenant (renter's), landlord – even seasonal. There is also personal liability insurance (very useful should someone slip on your home's icy steps).

And there are many, many more. Matt Hands, director of insurance at ratehub.ca, estimates there are upward of a thousand kinds of insurance on offer. "If you have a Picasso, you'd get art insurance, and if you had a big diamond ring, you could get diamond insurance," Mr. Hands says. "Insurance providers are constantly developing new products to meet the needs and demands of consumers. If you ask a broker, even for very specific things that the rest of us might never even think of, there's probably a product for you."

And what about umbrella insurance?

Umbrella insurance is, if you can believe it, a kind of insurance on your insurance. "Say you're in a car accident and you're being sued for $3-million – but your policy only goes up to $2-million," Mr. Hands says. There, an umbrella policy could kick in to cover the rest. Umbrella insurance is a just-in-case little extra if your insurance isn't enough.

Are some kinds of insurance more important than others?

Is life insurance more important that pet insurance? Of course, though if you're independently wealthy with no dependants and a million-dollar champion racing pigeon, then maybe not. (Yes, pet insurance to cover the vet bills of your cat or dog or gerbil is a thing, and increasingly common.)

"Insurance is always based on a person's specific needs and circumstances," says Bob Manson, personal insurance president at Gallagher Canada Ltd. The kind and amount of insurance you choose depends on what's important to you and what fits with your life and lifestyle. For a person living with a chronic health condition, health insurance likely far outweighs anything else. For someone with small children, life insurance is probably the priority.

Must I have insurance?

Only car insurance is legally required by the government. "If you have a car, car insurance is mandatory," says Erica Alini, personal finance reporter at The Globe and Mail. (Caught driving without it? That's a minimum $5,000 fine in Ontario, and it can go up to $50,000.) The other insurance categories are a bit murkier. "Home insurance isn't mandatory," she says, "but a mortgage lender won't give you a mortgage without it."

Ditto for tenant (or renter's) insurance, which isn't required by law, but a landlord is perfectly within their rights to add a clause to the lease that requires you get some. Health insurance isn't usually mandatory in Canada, thanks to universal health care, but additional health insurance is mandatory in some situations, such as for international students.

So no, most of the time you don't have to have insurance. But you know that you probably should. Which raises the next question …

How much insurance do I really need?

As much as a hard-and-fast rule would be great here, the complicated truth is it all depends. Factors to consider include your age, location, health, marital status, dependants, living situation, standard of living, even personal preference and comfort level.

The good news is, the insurance companies wherever possible have made it easy for you. "Home and auto insurance are kind of obvious because they're measurable," says Ms. Alini. "For auto, for example, the insurance company will ask what you drive, how often you drive, how well you drive – if you've been in any accidents – and then use all that to tell you exactly the amount you need." Problem solved.

Not so much when it comes to life insurance, which Ms. Alini says people usually struggle with. To pick a sufficient amount for your family but not so much that your spouse murders you (kidding!), try some gloomy catastrophizing. "I suggest thinking about the financial consequences of your death as your starting point and then work backwards," says Ms. Alini. "How much does your family need for a funeral? To pay off the mortgage and stay in the house?" The right amount is whatever is enough to keep your family stable and comfortable, at a premium rate you can afford.

How does my need change for insurance depending on age/ circumstance?

As you progress through your life and your circumstances change, so will your insurance needs, Mr. Payette says. "For example, earlier in your life you have a mortgage and young children, so you'll need enough to pay off your debts and provide their future support. As you get older, maybe your debt is gone and your children are grown, so you just don't need that level of coverage any more."

Having children and buying property are the obvious ones, but there are other situations when it's time to revisit your insurance policy. Just a few are marriage, divorce, another kid, a new car, job loss, a big promotion, retirement, a home renovation, or just because the time has come. "It's recommended you review your policy once a year," Ms. Alini says.

What is the difference between whole and term insurance?

While whole (or universal) insurance is indefinite, term insurance has an end date. Ms. Alini explains: "Maybe the term is 10 or 20 years, but basically the idea is that you although you need lots of insurance now – maybe you have a spouse and young kids – by the time you're 65 or 70 and retiring, you'll be in a better financial situation with more savings and less liabilities, so you don't need so much insurance any more." In fact, if you're of a certain age with lots of savings, no debts and no dependants, you might not need insurance at all.

But as for the rest of us, why would a person choose a policy that ends before you do? "Because it's significantly cheaper," Mr. Hands says. And if term insurance is what you can afford, it's still far better than no insurance at all.

What is the difference between an insurance broker and an insurance agent?
An insurance broker represents the client (you) and can shop at any insurance

company. An insurance agent works for or is contracted to a particular company and wants to sell the client (you, again) their specific packages or services. So while a broker can help you compare multiple companies to each other, an agent will have much more knowledge within their company about what package(s) to choose.

Are there any red flags to look for when I'm buying insurance?

As always, when shopping for insurance, beware of fraudsters. The Insurance Bureau of Canada warns of a common scam where criminals pose as insurance agents or brokers and offer discount rates. They'll often use a slightly altered name of a well-known legitimate insurance company and hope you won't notice. A legitimate insurance broker or agent will never request a signing fee or a payment directly to them through electronic or wire transfer. "Always check that the insurance broker, agent or direct writer you are working with is properly licensed," the bureau warns, and remember the adage: If it's too good to be true, it probably is.

But insurance companies and professionals, like every other for-profit business in operation, are trying to make money and do so by selling – or upselling – policies that you may not actually need. Some kinds of insurance are controversial, with little consensus about whether they're necessary or merely prey on people's fears. Take, for example, children's life insurance. It's statistically very unlikely that you'll ever use it, let alone need it, and that money is probably much better stashed elsewhere, like a registered education savings plan. If you feel that you're being pressed to buy insurance you don't need, consider getting a second (or third) opinion and definitely reconsider whether you should change companies or brokers.

What if I stop getting whole life insurance, then want to start up again?

Not a problem, says Mr. Payette, except maybe to your pocketbook. "You would need to re-apply for coverage and your premiums would be subject to your current situation," he says. Since you're definitely older – and maybe rounder and with higher blood pressure – you'll have to be reassessed and will almost certainly pay more than your past self. Far better to get life insurance early and keep it, if you can. "Get it when you're young and healthy and it will cost you next to nothing," Ms. Alini says. "At maybe $20 a month, it's a total no-brainer."

If I've never had insurance, where do I start?

If you're comfortable on the web, shopping for insurance has never been easier thanks to an ever-expanding roster of digital tools. "There's been a lot of progress in the insurance industry in streamlining the buying process as well as making information about all aspects of insurance and products readily available," Mr. Manson says. Digital tools have made the process, particularly for life insurance, much easier and less invasive than it once was. "You used to do a physical and send it bloodwork and such, but now it's usually just a few clicks," says Ms. Alini, who suggests policyme.com and Ratesdotca as great places to start. Mr. Hands, naturally, recommends ratehub.ca.

When do I need to see an insurance broker or consultant?

There's no definitive situation where it's time to call up a professional. "It's all about how confident you are in understanding your needs and knowing that you're buying the right product for you," Mr. Manson says. Self-serve options work well for many people but experts are happy to help. Advisers or agents represent single insurance companies, while independent brokers such as ThinkInsure complete a needs assessment and provide options from multiple insurance companies, he says. Call them if you're overwhelmed, and remember that being overwhelmed is completely normal. "Nobody expects you to be an insurance expert," Mr. Hands says. "We're here to break it down, help you choose and set you up."

Are there times when I can't get insurance if I want it?

"Insurance, at its best, works when the event that you're trying to protect against is rare and expensive," says Ms. Alini. "If it's not rare, then you would plan for it, and if it's not expensive, you'd just pay for it yourself."

And therein lies an unfortunate Catch-22. Take, for example, a flooded basement – increasingly seen in both urban and rural settings. "As flooding becomes a more common occurrence, insurance providers struggle to cover it all. It's no longer 'rare,' and since the risk factors are very identifiable – proximity to rivers and lakes, overwhelmed sewer systems – flooding insurance gets harder to get. Those who need it the most are finding they're not eligible," Ms. Alini says.

Sadly, the same conundrum happens with health and life insurance: The more you need it, the more it costs and the harder it is to get. "If the risk outweighs the premium they can charge, an insurance company will deny to offer a policy," Mr. Manson says. The trick to insurance, therefore, is to buy when your risk is low, or before you think you need it (admittedly, easier said than done).

Key takeaways

Insurance works this way: Everyone pays a little bit into an emergency fund that promises to pay for the unlucky few who face an actual emergency

What to know about personal debt in Canada

1. Upwards of a thousand kinds of insurance policies are available to protect you or your dependants from pretty much any situation you can imagine. The big ones, however, are life, auto, home and health insurance
2. Only auto insurance is mandatory in Canada – though a mortgage lender, landlord or employer can insist you get insurance
3. The right amount of insurance is whatever the amount that makes you feel secure
4. The internet has revolutionized the way we shop for and buy insurance, but

agents and brokers will happily help you customize your plan

Used cars 101: From setting a budget to the test drive – a guide for buying a used vehicle

Buying a car — new or used — is one of life's major expenditures. Your top goal should be getting the best value for your money and needs while staying within budget

COOPER LANGFORD

So, you've decided to buy a car. Here's the first question: new or used? In general terms, the choice is straightforward. A new car comes with the latest features, warranties and the promise of a few years of driving free from all but routine maintenance. The benefit of buying used? If you choose well, you'll save a bundle.

It hasn't been so simple in pandemic times. The pandemic led to inventory shortages and soaring vehicle prices as people who would normally buy only new cars flooded onto the pre-owned lots. But pandemic challenges aside, the basic principle of buying used remains: Find the right vehicle at the right price and you'll get good value. Here's how.

What do you really need from a car?

When you set out to buy a vehicle – new or used – your top goal should be to get the greatest value from your purchase. To do that, evaluate your needs and how they're met by various makes and models. Think about how you'll use the vehicle, how often and how far you'll drive and how much space you need for passengers or cargo.

When shopping used, it's also a good idea to consider the age of the car and how long you plan to drive it. This is about more than future maintenance costs. A used car doesn't depreciate as quickly as a new car. So, you have an opportunity to retain more of the value.

According to Edmunds.com, an online car shopping and review site, you're in the sweet spot if you can buy a used vehicle that's one year old and sell it in its fourth year. Other experts, such as Winnipeg used car dealers Andrew and Doug MacIver

– hosts of the former BNN show Bargain Brothers – say owning a car between the ages of two years and five years also delivers good value.

What about your budget?

Your budget will be the most important factor in deciding which car you finally buy. You may be hoping for a mid-size SUV. “But if you have a smaller budget, say around $15,000 or $20,000, that’s going to get you a small compact car or a hatchback,” says Shari Prymak, a senior consultant with Car Help Canada, a non-profit organization that helps drivers find cars and negotiate purchase agreements. “Really, it’s about budget more than anything else,” he says.

But developing a budget is not only about your final purchase price or monthly payments. Mr. Prymak Prymak advises you also consider continuing costs. In addition to monthly payments, you’ll have expenses for insurance premiums, gasoline, and sooner or later, maintenance and repair bills. You’ll want to consider all of these in calculating the overall affordability of your purchase.

A common rule of thumb says you should keep your monthly costs of owning and operating a vehicle to between 10 per cent and 15 per cent of your income, though that will depend on your other debts and obligations, such as mortgage payments, rent or student loans.

How to start your search for a car

Information about used cars and tips for buying them are abundant online. Pricing details are widely available, from the websites of bricks-and-mortar dealerships to online marketplaces such as Autotrader.ca, Canadadrives.ca and Clutch.ca.

You can also find research reports on price trends across vehicle categories. But with so much information readily available, don’t expect a lot of negotiating room if you plan to buy from a dealer. They already know what the competition is charging.

In addition to price information, the online world offers rich veins of data on important issues such as reliability, fuel economy and other important factors in deciding what kind of car you want to buy and how much you can afford. Good starting points include Kelly's Blue Book Canada, Consumer Reports and J.D. Power. Natural Resources Canada also publishes a fuel economy database on its website.

Find out the history of the car that's caught your eye

When you've narrowed your search to an individual vehicle or a small selection, be sure to get a vehicle history report from an organization like Carfax Canada or VinAudit Canada. These reports cost roughly $20 to $50 apiece, though providers offer discounts if you want more than one. They'll use the car's vehicle identification number – or VIN – to excavate details about the car's ownership history, its maintenance records, involvement in reported accidents, open recalls and more.

Note that a reputable used car dealer will normally provide a vehicle history report with its sales package.

How to pay for your car purchase

Used car prices soared as the pandemic settled into its second year. According to Canadian Black Book, a data firm that tracks the used-car market, the average price of a used vehicle crested above $37,000 in September of 2022 – an increase of 54 per cent from $24,000 in March, 2021. A surge in overall inflation and rising interest rates made affordability that much more challenging.

Those circumstances may have tempered by the time you read this article, but there's a good chance you'll still need to finance your used-car purchase.

Generally, you'll find the best interest rates at a dealership. "Dealers have access to basically every bank that a consumer could be banking with," says Shawn Vording, vice-president of product and sales at Carfax Canada. "A lot of the time, they'll shop your deal to the banks and come up with the bank that offers the best rate."

Mr. Vording also notes that your regular bank may offer perks to get your car loan, such as a gift card for gasoline. Ask your dealer if they can get a good loan rate from your bank, and you may get the incentives, too.

If you're buying a used car privately, however, you may have to come up with your own financing arrangements. Mr. Prymak cautions that banks and credit unions can be reluctant to issue loans on aging cars. "They know it can be problematic … Over seven or eight years old, most cars can't be financed. You have to pay cash."

As a final alternative, you could lend money to yourself, say, with a line of credit. But if you go this route, you must have the financial discipline to pay yourself back on schedule. Any cheating will only add to your overall debt.

When will you need car insurance?

When you've narrowed your search for a used car to a small selection of makes, models and years, it's a good idea to call around to insurance companies and get an idea of how much your premiums will cost and what you'll get for them.

When you're ready to buy a specific vehicle, you'll need insurance before you can drive away. You cannot drive in Canada without car insurance, and dealers won't let you off the lot without it. You'll also need insurance to register your car.

The cost of coverage will vary depending on your driving record, the type of car you buy and how much additional coverage you want beyond mandatory minimuMr. Prymak Mandatory minimums vary by province and territory. You can find details for each jurisdiction at the Insurance Bureau of Canada website, as well as useful consumer tips about buying insurance.

Should you buy from a dealership or a private seller?

The choice between buying from a dealer versus a private sale comes down to certainty versus price. Used car dealers operate in a regulated industry, so you've got recourse if something goes wrong with your deal, Carfax's Mr. Vording says.

You'll also receive a vehicle history report during the sales process. And if you buy a certified pre-owned vehicle, you'll know that car has been inspected and reconditioned by either the dealer or the manufacturer. At minimum, the car will have been inspected by a mechanic, unless it is being sold as-is.

That's all great, but there's one big upside in a private sale: You'll have a better chance to negotiate, and you will probably get a better price – if you do your homework and pick the right car. More on that coming up.

Private sales: How to inspect a car

So, you've evaluated your needs and budget. You've also spotted a private used-car listing on Kijiji that looks like a pretty good deal. You call the seller and make an appointment to look at the car. Now what?

There's plenty of good advice online on how to inspect a used car so read up before you meet your seller. (Again, ConsumerReports.com and AutoTrader.ca are well-known starting points, but far from your only sources.)

When you dig in, you'll find there's a lot of ground to cover, from inspecting the exterior of the car for signs of damage or shoddy repairs to the body or glass to sniffing the interiors for hints of damp or rust and testing all the warning lights to make sure they work.

Most important, though, is to have the vehicle inspected by a reputable mechanic. Before you make an offer, you need to know about the car's overall condition, whether there have been repairs not disclosed by the seller, and whether there are any parts that will soon need maintenance or repair.

"Taking the car to a mechanic … is one of the most important steps in buying a used car," Mr. Prymak Prymak says. If the seller refuses, just walk away. Also, be sure to get a vehicle-history report. It's money well spent.

How to take a test drive

The key to a successful test drive is to drive as you normally would. If you'll be using the car on city streets, look for stop-and-start traffic. If you expect to drive in hilly areas, check it out on inclines. No matter where you're driving, pay attention to the overall handling and engine sounds.

Find some highway, too, and see how the car responds at faster speeds and the smoothness of acceleration when merging into traffic. Throughout the process, stay focused on the vehicle. Don't let the seller distract you with questions or conversation.

The bottom line: Final tips for buying a car

Buying a car – new or used – is one of life's major expenditures. For many, it will be second only to buying a home. So, it's important to keep a cool head.

It's crucial to keep an eye on the total cost of ownership, not just the monthly payment. During the COVID-19 pandemic, the most common term for a used car loan soared to 84 months, much longer than the traditional 48 months. Thus, buyers will be making monthly payments well into the timeframe when they should expect the budget for maintenance and repairs to be climbing.

Keep all of those costs in mind and stay focused on the goal, which is to get the most value from the deal you ultimately make. Above all, do your homework and stay rational.

"I'm a car lover … and I've definitely made emotional decisions," Carfax's Mr. Vording says. "Doing as much legwork online is a great starting point to not build that pure emotional attachment to sheet metal. The other piece is, take time to breathe. Learn something, digest it and don't rush to a decision."

New car 101: Expert tips and advice for buying a new vehicle in Canada

Buying a new car is expensive and stressful. From budgeting, leasing, getting the best financing and trading in your vehicle, here are expert tips and advice to get the best value from your new car purchase

COOPER LANGFORD

There's no easy way to buy a new car. They're expensive, and the process is stressful and time-consuming. The good news is there have never been more resources available to help buyers make informed decisions. A wealth of price guides, dealership inventories, reviews and consumer advocates are mere clicks away.

To get the best value from your purchase, you'll also want to keep a sharp eye on the financial considerations. Let's get started.

How to budget for a new car

For many people, buying a car – new or used – is one of the largest purchases they'll make in their lives, probably second only to buying a home. And while new car owners will avoid repair costs for several years, they pay a high price for their peace of mind.

So, one of the first steps in shopping for a new car is figuring out your budget. Financial planners and industry experts say vehicle ownership should typically account for between 10 per cent and 15 per cent of your monthly income. This is a good rule of thumb, though it will vary depending on factors such as your income, other monthly financial obligations, and whether you'll be sharing vehicle costs with a partner.

The important point to remember is that your budget should include more than the monthly payment. You'll want to account for costs such as insurance, fuel and maintenance.

Cody Green, an industry veteran and founder of online car dealer CanadaDrives.

ca, frames the how-to of budgeting as a simple hierarchy. Starting at the top are the mandatory monthly costs – your payment and insurance premiums. You can't drive without them.

Fuel efficiency comes second, which Mr. Green links to choosing the right car to meet your needs. "Do you need a big truck that's going to chug the fuel, or can you get away with something that's more efficient," he asks. (Natural Resources Canada's fuel consumption ratings database is chock full of detailed information on fuel economy for new and used cars.)

The final tier is repair and maintenance. Repairs are not an immediate concern, as new cars come with warranties, typically a three-year comprehensive warranty and a five-year warranty on the powertrain. You can also investigate extended warranties for longer-term coverage, if that's important to you.

You will, however, want to consider routine maintenance costs. The frequency of smaller costs such as oil changes, for example, depend on how much you drive. The Canadian Automobile Association recommends a change every 5,000 kilometres or every three months. Other expenses, such as replacing tires, depend on how you drive. "You could have tires that last multiple years," Mr. Green says. "If you're a road warrior, you could be turning them over pretty quickly."

Is leasing an alternative to the high cost of buying a new car?

Vehicle prices soared during the COVID-19 pandemic as manufacturers struggled with supply chain chaos and microchip shortages. According to AutoTrader.ca, the average price for a new car in Canada surged 17 per cent between the summers of 2021 and 2022, topping out at $55,000.

The rising prices only exacerbated the growing trend in Canada to push vehicle financing to increasingly longer terms. Traditionally, the sweet spot for a car loan term was four years, long enough to make payments manageable while paying off the vehicle before repair costs become an issue. But the high cost of buying has driven those terms to seven years or more, well into the zone when you should start to budget for replacing car parts.

Does leasing a new car make financial sense?

It depends. Car leases are basically long-term rental agreements. You get to drive the car for a fixed number of years, usually two to four. When the time is up, you return the vehicle – no strings attached, provided it's in good condition and hasn't been driven more than an agreed number of kilometres.

The advantage is that lease payments are generally less expensive than loan payments on a purchase. The downside is that, if you keep leasing cars, you'll never get out from under a payment schedule. Nor will you retain any value overtime. Unlike a car you own, you can't sell or trade-in a leased car.

Overall, ownership delivers greater value in the long term. But there are cases where leasing makes sense. For Shari Prymak, senior consultant with CarHelpCanada.com, a non-profit organization that helps people negotiate vehicle purchases, the decision comes down to whether you are "a short-term person or a long-term person."

"If you're a short-term person, you cycle through cars every few years. You don't want to deal with repairs," he says. Or maybe you're a business owner and can deduct lease expenses on your taxes. "If any of those apply to you, then leasing is good."

Should you trade in your old car or sell it privately?

If your vehicle is in good condition and has reasonable mileage for its age, your dealer will probably buy it from you and deduct the amount from the purchase price of your new car.

Better yet, you'll only pay sales tax for your new car on the balance after the trade-in – the part that's paid for with actual money. Say you've chosen a new car that costs $50,000. Your dealer offers you a $10,000 trade-in on your old car, which you accept. The cash cost of the new car is now $40,000, which is the only portion of the sale that will be subject to sales tax. Depending on your province, you'll save an additional $500 to $1,500.

Now for the caveat. A dealer won't give you the best price for your old car. They need to hold back something to cover their costs of selling the vehicle and making a profit.

The alternative to a trade-in is to sell your old car privately. The obvious advantage is that you'll probably get a better price. The downside? If you are replacing it with a new car, you'll have to pay the full sales tax on your purchase. Plus, you're stuck with the work of advertising the sale and providing transparent information about the vehicle's condition, such as maintenance reports and, perhaps, a vehicle history from an organization such as Carfax Canada.

You may also have to sift through low-ballers and tire-kickers to find a motivated buyer. Still, getting your best price can be worth the time and effort.

Whichever route you choose – a trade-in or a private sale – do your homework. The internet is thick with used car websites that will show you the going price range for cars of your make, model, year and condition. That helps ensure you get a fair price on a trade-in or the best deal on a private sale.

Sites including AutoTrader.ca, CanadaDrives.ca and GoAuto.ca are popular destinations, but far from your only options. Be sure to check local dealerships and online listings, as well. You want to be up to date on local market conditions.

Dealers vs. banks: Who offers the best new car financing?

In many cases, a dealership will give you the best terms on a new car loan. The reason: They're in the business of selling cars and often have access to finance companies owned by car manufacturers or arrangements with various banks.

That means they can often offer competitive rates and, sometimes, special rates aimed at increasing sales. "You could look at it as sort of artificially incentivizing their own rates in a way that a bank never would," says J.D. Ney, director of market research firm J.D. Power's automotive practice for Canada. Dealerships may also be willing to negotiate, especially if a competitor is offering better terms.

Still, you need to shop around. The best offers from dealerships may be limited to specific promotions or come with conditions, such as a larger down payment than you can afford. In that case, your bank or credit union may be the way to go.

Moreover, a bank or credit union can preapprove your car loan, which helps with budgeting. If you have a good relationship with the lender, you may qualify for a preferred rate or other goodies, such as a discount card for gas purchases or the opportunity to postpone a payment or two without penalty.

Here's one last benefit: While a bank or credit union may have more stringent lending requirements than a dealership, you're not dealing with someone who's trying to sell you a car. That can take a lot of stress out of the financing process.

How to buy a new car: The bottom line

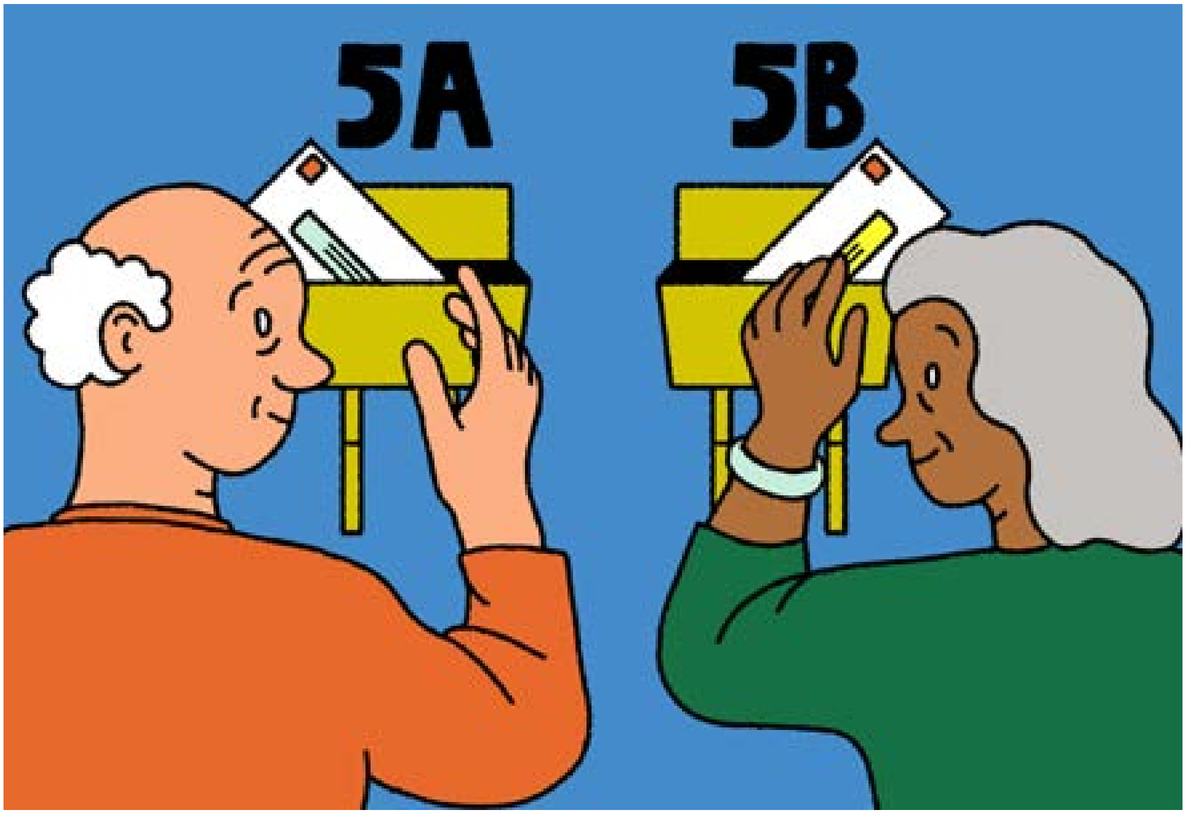
Buying a car – new or used – is an emotional experience. To make the most of the process, start with an honest assessment of what you need from your vehicle before you start researching makes and models. How will you drive the car? If you're commuting and running weekend errands, you'll probably want to focus on fuel efficiency. If you expect to be hauling cargo or lots of people, size may trump other considerations. And watch out for unnecessary extras, such as a sunroof or other nice-to-haves. The costs can add up quickly.

Most of all, focus on your longer-term needs and expectations. Three years down the road, you don't want to be struggling to fit the twins' car seats into that sporty coupe with a sweet financing deal you saw last week.

When you get to the dealership, also be sure to ask for all-in pricing on the vehicle you're considering. In addition to the cost of the car, you'll need to pay mandatory fees, such as freight and predelivery inspection, as well as licensing fees and relevant taxes.

Ask your dealer to e-mail you the full cost of your purchase before you sit down to finalize the sales agreement. A less-than-scrupulous operator may tack on extra fees during the final stage of the sale to increase their margin – things like an "administration fee" or a charge for filling up the car's tires with nitrogen (which maintains tire pressure longer). Having a quote in writing gives you a tool to push back.

Finally, remember that it's okay to walk away, even when you're close to making a deal. "Don't go into a dealership deciding that you have to buy a car today," CanadaDrives' Mr. Green advises. "Some people feel pressured. … The salesperson has spent three hours with them. [You may] feel like you need to buy a vehicle. You don't. That's their job."



CPP and OAS: How the financial supports affect your retirement plans

What are Old Age Security and the Canada Pension Plan, and how should these financial supports affect your retirement plans?

ROSEMARY COUNTER

Whether retirement is decades away or just around the corner, like most Canadians you're thinking ahead, and well prepared with all the funds you'll ever need. Just kidding! Most of us have far less tucked away than we should, something the government knows and plans for accordingly. But what kind of government help can you expect when you turn 65? And will it be enough to live long and prosper? Here, we break down the main financial supports from government.

What is OAS and how does it work?

OAS stands for Old Age Security and it is both exactly what it seems and also not quite. "OAS is supposed to be a universal benefit given to all seniors in Canada," explains Bonnie-Jeanne MacDonald, director of financial security research at Toronto Metropolitan University's National Institute on Ageing. It's a monthly payment to any Canadian over the age of 65. In most cases, you'll be automatically enrolled upon your 65th birthday and don't even have to apply.

Keen readers will notice Ms. MacDonald's key caveat, "supposed to be." To collect the maximum amount of OAS, you must be a Canadian citizen or permanent resident and have lived in Canada for at least 40 years after the age of 18. If you only resided in Canada for 20 years, for example, then you're only eligible for partial payouts. If you're a new immigrant who's lived in this country for less than 10 years, you're not eligible at all. "The only requirement is a simple residency requirement," explains Ms. MacDonald, "but if you don't have it – which a lot of people here don't – that's a big problem."

Still, most seniors in Canada will easily qualify for Old Age Security, whether they've worked and filed taxes for all these years or not. In 2024, the maximum monthly OAS amount was $727.67. When the recipient turns 75, that amount is raised by 10 per cent. Every quarter, the payouts are indexed to reflect inflation.

The other, rather massive caveat to OAS is that if you have ample income, say, from investments, a company pension, or withdrawals from your registered retirement savings plan (RRSP), you might earn too much money to qualify for full (or any) OAS benefits. After a certain threshold (in 2024 it's about $90,997), you're subject to clawbacks, and if your income is above the ceiling (for the 2024 income year it's $148,451 for those aged 65 to 74, and $154,196 for those 75 and older), then your OAS will be fully clawed back. "The top 15 per cent of seniors won't get the maximum OAS at all because they make too much money elsewhere," says Ms. MacDonald. And while you can certainly tinker with how you tap into your savings to minimize clawbacks, do remember this is a very good problem to have.

What is CPP and how does it work?

The Canadian Pension Plan, unlike the (supposedly) universal OAS, is for Canadians who have worked, collected income, and filed taxes in their lifetime in Canada. (If you work in Quebec you will contribute to something very similar: The Quebec Pension Plan, or QPP.) "The CPP is a social insurance program that's intended to replace employment earnings when someone stops working," says pension consultant Doug Runchey at B.C.-based DR Pensions.

To qualify you must have worked for an income, declared that income, and contributed to the pension plan in advance. The good news is you've already done all that without even realizing. "Everyone who's over 18 and has employment earnings already has the benefit simply by filing their taxes," says Mr. Runchey. (Want to opt out? Too bad: contributing to CPP is mandatory for workers in Canada.)

"The calculation isn't simple, and it changes year by year based on average salaries," says Ms. MacDonald, "but you can sign into CRA and see exactly how much you've contributed in any given year." You won't contribute anything at all if your net income is below $3,500 and you will stop paying into the program at the tax year's "maximum pensionable earnings." Like we said, the math's a bit complicated, but you can easily find the exact dollar amount of your contribution to the plan on your annual Notice of Assessment or on your T4 from your employer.

Speaking of employers, a few little details to clarify: "If you're a traditional employee, then it's typical that your employer pays half of your contribution," says Mr. Runchey. Self-employed people also contribute to CPP – a common question and concern, he notes, and nope, they cannot opt out either – and they technically pay more. "In a self-employed situation, you pay both sides." To accommodate self-employed people, not to mention people who took parental leave or those who didn't work for periods of time because of disabilities or other reasons, your lowest seven or eight contribution years (depending on how long you were in the work force) are dropped from your payout calculation so as to not sabotage your overall average income.

The more you contribute over your working years, the fatter you can expect your monthly CPP cheque to be. Originally, the CPP was meant to replace 25 per cent of someone's preretirement income, but in 2019, the Liberal government raised contribution rates to correspond with 33 per cent of replaced income post-retirement. But the enhanced contribution rates are being phased in and how much you receive will depend on how much and for how long you made the enhanced contributions. These days, a person who has paid the maximum amount for every year they made the maximum earnings can now retire at 65 with about $1,364.60 a month from the Canadian Pension Plan, though the average CPP payment in 2024 was just $815. (CPP is indexed to inflation, albeit annually, so you can expect both those numbers to rise.)

What is the difference between CPP and OAS?

The biggest and most important distinction is the basic requirement to qualify: "OAS is based on your residency, while CPP is based on your employment history," says Ms. MacDonald. It's therefore possible to qualify for one or the other, or neither, or both.

The next difference is the age of eligibility. You'll probably get an OAS payment the month after your 65th birthday but no earlier. CPP, however, has a larger window with wiggle-room for early retirement (as young as 60). Both OAS and CPP can be deferred, and the longer you wait to cash in, the bigger your monthly payouts will be. For this reason, many people defer their CPP benefits to age 70, the latest you can begin to collect.

Another difference is funding. "The CPP is already funded while the OAS is not," says Ms. MacDonald. This means OAS comes from the general tax revenue of the federal government every year, so it can change. Ottawa just introduced a permanent increase to OAS payouts – outside the normal inflation-related bumps – for the first time in decades. A new government, however, could certainly tweak numbers in the other direction were it so inclined.

The CPP, meanwhile, is a big pile of already-collected cash waiting to be tapped into when your time comes. (Well, your cash isn't quite sitting there, it's invested.) The more you paid into the pile over the years, the more money you will get back up to the maximum – unlike OAS, CPP isn't subject to clawbacks, no matter how much money you have put away elsewhere.

How do I know that money will still be there by the time I

retire?

If you're 40 years away from "freedom 65," it might be hard to imagine what 2062 will possibly look like. Ms. MacDonald commonly hears people worrying that the CPP fund will somehow be spent and long gone by the time it's their turn to access the fund.

The uncertainly stems largely from news we consume from our American neighbours. "We get a lot of media from the U.S., which tends to scare people into thinking our social security could run out too, but it won't," Ms. MacDonald says. "All the provinces involved would have to agree before any changes are made to CPP, which never happens." Government can raise contribution rates to keep the plan funded if there is any danger there won't be enough. And reducing CPP benefits would be political suicide. "If anything, they'll enhance the CPP, so know that that money will be there. I would argue the CPP is the safest possible place for money in Canada," she says.

How should CPP and OAS affect my retirement planning?

Let's assume you've been an absolutely perfect Canadian citizen all these years and will retire with top rates of both CPP (about $1,250) and OAS ($685.50). While $1,900-ish a month is not nothing, it's probably not enough to live on – and definitely not enough if you plan to travel the world, take up golf or buy a boat. In fact, it works out to just a smidge above the poverty line in Ontario.

"Neither the CPP or the OAS is enough to retire on their own and they were never intended to be," says Mr. Runchey. He explains a common retirement metaphor: "Both were designed as one of three legs on a stool: CPP is one leg, OAS is another, and your personal savings and/or private pension plan, if you have one, is the third leg." (Sometimes finance experts divide the latter into two, so your three-legged stool has four legs, but since only about one in five Canadians has a work place pension, let's stick with three legs for this money lesson.)

The chair metaphor is apt because each "leg" affects and balances the others. For example, when you take money out of an RRSP it becomes taxable income, says Ms. MacDonald, and you need consider how that works along with your other benefits. To maximize your benefits, you might consider getting professional advice to decide whether and when to tap into each leg to make a financial retirement plan that you can stick to (and sit comfortably on).

Are there any other government supports available?

"Within the OAS, there's the Guaranteed Income Supplement, which is for people with really low income to help them avoid poverty," says Ms. MacDonald. The exact numbers change slightly by tax year – but in 2022, a single, widowed or divorced senior with an annual income of less than $20,784 would be eligible to receive a maximum amount of $1,024 a month.

As always, the government will take into account all other assistance and revenue sources and adjust your amounts accordingly, whether that income is from personal funds, like an RRSP, or government assistance, like the CPP. "Basically every dollar you receive from another source means you lose 50 cents off the Guaranteed Income Supplement," says Ms. MacDonald. They'll also look at your marital situation; if your spouse is also or already collecting the GIS, for example, whatever amount they receive will be considered as well.

Should I defer my government retirement supports?

This question has no easy answers and entirely depends on a person's unique situation – and what particular kind of expert you ask. A stockbroker will almost certainly tell you that starting benefits as soon as you can is better – so you can invest the money. Similarly, financial advisers would lose fee revenue if you deplete your retirement account as a bridge to receiving the higher CPP benefit at the age of 70.

But money today is very tempting. "95 per cent of Canadians take their CPP at 65 or earlier," says Ms. MacDonald. She compares the situation to the classic marshmallow experiment – ask a toddler to choose one marshmallow right now or two in an hour and just guess what they'll do. Most grownups do no better, but the 5 per cent who choose (and can afford) to wait until age 70 to collect will reap big benefits. Waiting until 70 for CPP equates to 42 per cent more than if you started cashing in at 65. "If you delay collecting your CPP, you're basically buying more pension," she says.

Of course you could die in the meantime, and so much of the future is uncertain. "There are a lot of unknowns, like inflation and interest rates, that we can guess but we just don't know," admits Ms. MacDonald. The pandemic, an unforeseen event, wreaked havoc on inflation rates and altered the usual calculations, but without a crystal ball and second sight, the best anyone can do is focus on what is certain.

"We know that pension plans are being reduced by employers, we know that people are living longer than before, we know the baby boomers – a quarter of the population – are about to retire with a long life expectancy." If their children risk having to shoulder the burden because parents' RRSPs run dry at age 85, the way Canadians think about and plan for retirement could change in the very near future.

How do I know that I'll have enough?

Most experts recommend that your savings and supports – including CPP and OAS, which won't run out, plus personal savings like RRSPs that will – altogether add up to somewhere between 60 and 80 per cent of your usual preretirement income. "Of course it all depends," says Mr. Runchey, "but 70 per cent is a common number I hear a lot."

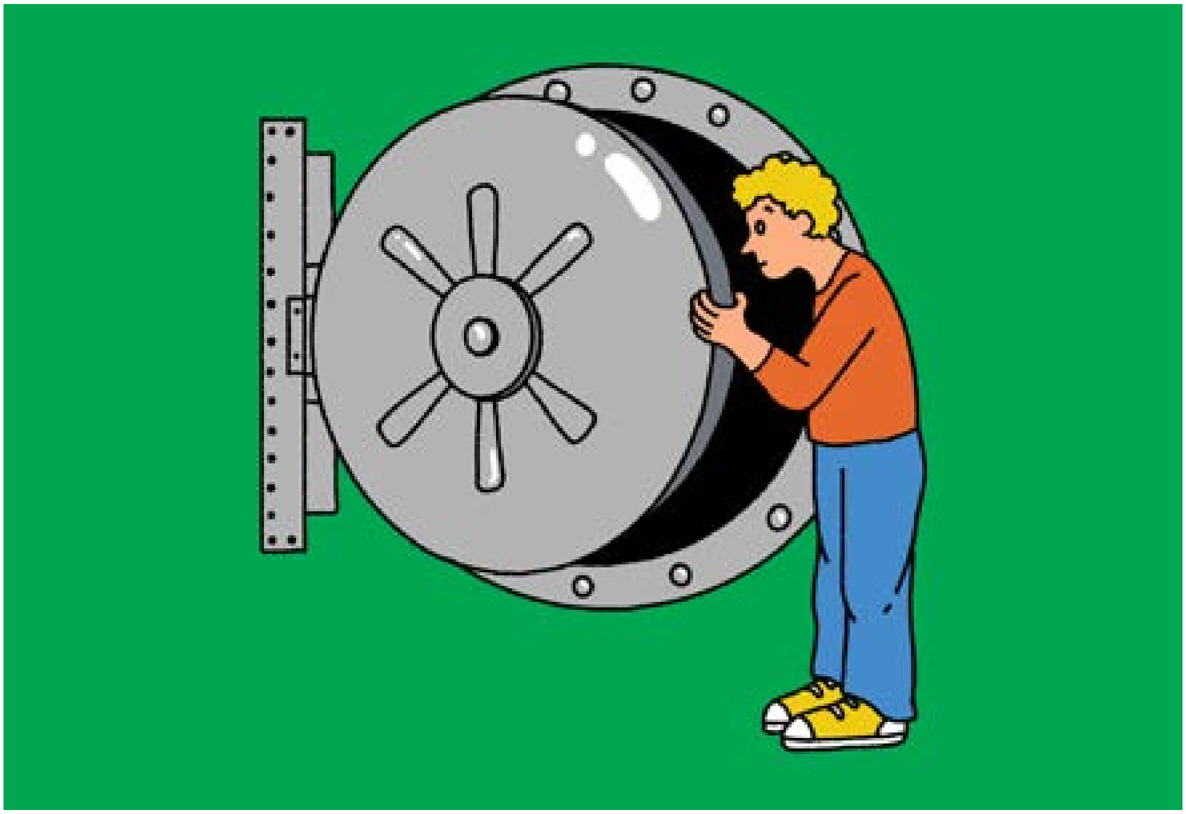
Whatever your financial means and plans, retirement is a moment of conflicting tensions. On one hand, you could live 30 more years and have to stretch that money out. On the other, you've got a big chunk of change, no job and no certainty on how long you will live.

For Ms. MacDonald, the perfect amount is therefore not a number or percentage but a spot where this Catch-22 doesn't fill you with fear and anxiety. "The best amount is whatever one removes the fear of uncertainty," she says.

OAS and CPP: The bottom line

What to know about Old Age Security and Canada Pension Plan

1. Old Age Security (OAS) is a universal benefit from the federal government to anyone over age 65 in Canada – who have lived here for a minimum of 10 years.
2. The Canadian Pension Plan, or CPP (QPP for Quebec workers) is a benefit for working Canadians who paid into the CPP over the years through regular contributions. Contributing to CPP is mandatory in Canada.
3. In 2024, the maximum monthly OAS benefit was $727.67 while the maximum monthly CPP amount was about $1,364.60.
4. Both benefits can be deferred a few years – the longer you wait, the larger your cheque.
5. OAS and CPP are two of three "legs" onto which you should build your retirement plans; the third leg is personal savings, which could include RRSPs, tax-free savings accounts (TFSAs), non-registered investments, and real estate.
6. Low-income seniors can receive additional support through the Guaranteed Income Supplement.
7. Most experts say you'll want 60 to 80 per cent of your working income to retire comfortably, but the best amount is whatever makes you not worry.



Bank accounts 101: Opening an account, banks vs. credit unions, fees and more

What to know about how banking works, opening an account and choosing between a credit union and the Big Six Canadian banks

Almost every Canadian has a bank account and there are branches everywhere – banks are so ubiquitous most of us don't give them much thought. But knowing how banking works can help you make, and save, a lot of money. In a bid to know more about banking, we asked the experts to walk us through the basics.

Why exactly do I need a bank?

There's a reason that more than 99 per cent of Canadian adults have a bank account: It's pretty much impossible to get through life without one. "In this day and age, you need a bank account to deposit your paycheque, pay your bills and make many purchases," says Halifax-based money coach April Stroink. "Most everything in life now requires a bank account."

Aside from the pragmatic reasons, a bank account is the simplest means to build wealth, through the miracle of compound interest. A hundred-dollar bill that's been sitting in a drawer since 1950 is still worth $100; had you put it in a basic savings account earning a humble 2 per cent, it would now have grown to more than four times that amount.

Banks also constantly introduce new technologies to make things easier. While shopping with cash will never change, electronic transactions get faster, simpler and more innovative every year.

How do I know my money's safe in the bank?

Whatever hacker or heist movie you might be imagining, your money is far safer in a bank than anywhere else. That's because it's insured. "Your deposits are protected through the Canada Deposit Insurance Corporation," explains Mathieu Labrèche, spokesperson for the Canadian Bankers Association. This usually protects up to $100,000 per holding, including those in savings and chequing accounts, GICs, money orders and bank drafts. (It does not include mutual funds, stocks and bonds, ETFs and cryptocurrencies.) It protects against physical hazards such as robbery and fire, as well as fraud and cybercrime, and against the risk – however slight these days – that the bank will go under.

The banks themselves, of course, work hard to keep your money safe. "Canada's banks have invested heavily in technology and security measures to protect the financial system and the personal information and money of their customers," Mr. Labrèche says. Should anything fishy happen in your account, you can simply call the bank, which has ample resources to deal with the matter.

When should someone open their first bank account?

Any Canadian citizen has the right to open a bank account, even if they don't have a job, don't have any money to deposit, or have declared bankruptcy in the past. In fact, a bank cannot refuse you unless it has grounds to believe you've got plans to use the account for illegal or fraudulent activity (for example, if you knowingly gave them false information).

A person can open an account from the age of 12 without being accompanied by a parent or guardian. Details and specifics vary, but all the big banks offer some kind of youth saving account with extra perks and no monthly fees: Scotiabank's Getting There Savings Program for Youth, for example, has no monthly fees, unlimited debit transactions and collectible Scene points that can be redeemed when shopping, for example, or dropping $30 on a Marvel film. The account is available to anyone between 12 and 19, though kids under 12 will need a parent or guardian to sign on the line.

How young is too young for a bank account? You could, and lots of parents do, open an account for your child – or even your new baby – any time. But if the goal is financial literacy rather than monetary gain, the best time for a kid to get an account is whenever you give them a piggy bank. "In my opinion, as soon as your kids can count and do basic math, they're ready for a bank account," says McGill University personal finance professor Benjamin Croitoru, whose online personal financial literacy course might be less popular if more people started learning about money earlier.

That's not the only reason to start young. "It's also important to establish long-term financial relationships with your bank," adds Ms. Stroink. "In the future, if you want to borrow money for a car or a line of credit for school, having an existing relationship with a bank is going to be so helpful."

What do I need to open a bank account?

"Generally, you will need two documents that confirm your identity to open a bank account," Mr. Labrèche says. You'll need original copies of one document with your name and current address and another with your name and date of birth. Examples of these include government-issued ID (such as passports and drivers licences), tax assessments, recent government-issued benefit statements, public utility bills or credit card statements. A list of acceptable documents can be found at Canada.ca and on the Canadian Bankers Association website.

If you've only got one of the above, notes Mr. Labrèche, you are not automatically disqualified from getting a Canadian bank account. "It's possible to present one piece of identification if your identity can be confirmed by a customer in good standing with the bank or by an individual of good standing in the community," he says. So if you've got one piece of ID and a friend who can vouch for you, bring them with you to the bank.

What kinds of fees will I need to pay?

Every bank account is going to have fees – even the so-called no-fee accounts, which really means "no monthly fees" and will no doubt ding you in other, sometimes surprising ways. That's why many of us prefer to pay an upfront monthly maintenance fee, typically somewhere between $4 and $15, though they can go as high as $30 and beyond. Why pay more than $300 annually? Because the higher your maintenance fee, the more perks you'll enjoy. If you're going to be dinged every time you exceed your monthly transaction limit, for example, it might make sense to pay a larger fee upfront for unlimited transactions. Other accounts are "no-fee" only if your balance stays above a certain threshold – dip below that, however, and it will cost you.

If you can adhere to the conditions of your particular account, then you will avoid additional fees. But life happens, and so do mistakes. If you overspend the amount in your account, for example, you'll get a non-sufficient funds (or NSF) charge. (You can avoid these with overdraft protection which, of course, also carries a fee.) Most banks will let you use their ATMs as often as you want, but if you get lazy and hit the convenience store's machine, that's a fee. If you use your card to make a purchase in a foreign currency, you might pay a foreign-transaction (FX) fee. Wire transfers, savings withdrawals and bouncing a cheque all can result in additional, sometimes surprise fees. Always read the fine print and try to bank accordingly.

Do I just need one bank account?

Oh, to be a kid – with a single savings account – forever! But soon you'll want a phone plan and a few years later maybe you'll need to make car payments … all things that require a chequing account. By the time you move out of the family home or on to higher education, you'll definitely need one to pay your rent or tuition. (Great news on that front: low- or no-fee student accounts are abundant.)

Those are pragmatic reasons to open a chequing account, but there are psychological reasons, too, why a single account isn't where you should dump all your cash. Ms. Stroink says that if you see it, you'll probably spend it, and this is why people put emergency funds and RRSPs in separate, less-accessible spots with a clear purpose so you don't succumb to the very human impulse to squander your savings.

What are the different kinds of bank accounts?

Big banks advertise countless kinds of accounts, with endless variations and rates and rewards on offer within them. But everything from business or joint chequing accounts to high-interest or tax-free savings accounts basically fall into one of two main categories: Chequing or savings.

What differentiates them is how you use that money. "A chequing account is for daily transactions," Ms. Stroink says. "This is where your income goes in and your mortgage, bills and groceries come out." Since that balance is climbing and falling, every single month, your chequing account is not for making money through earning interest. Some chequing accounts don't pay any interest while many pay just a small fraction of 1 per cent; rather than making money here, it's far more likely that you'll be paying the bank via a flat monthly fee or fee-per-transaction for the privilege of using the account.

Whatever money you have left over can (and should) be moved into a savings account, where the bank will pay you to park it via higher interest rates and lower service fees. (Since you won't be using it much you won't require much service.) "Your savings account, whether for vacations or a new car or whatever, is money set aside so your brain understands that that money has a specific job in the future," Ms. Stroink says. For this reason, many people don't ever use a debit card to access their savings account. For letting the bank hold your money these days, a savings account will earn you interest somewhere between 2.5 per cent and 4 per cent.

"As soon as you have a little bit of money saved there, it's time to start learning about accounts like RRSPs and TFSAs," Prof. Croitoru says. Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), Registered Disability Savings Plans (RDSPs) and Registered Education Savings Plans (RESPs) are all ways of saving money at a bank, though you can also open them at a credit union, trust or insurance company. Wherever your money sits, all these have one big thing in common: "The sooner you start, the better, because you'll be better off in the long term," he says.

From there, says Prof. Croitoru, people should move on to learn about investing: "It's really not that complicated." (It's not, but it is a whole other subject.)

What are the 'Big Five' banks in Canada – and what are the rest?

The "Big Five" is a colloquial term referring to the five largest financial institutions in Canada. In no particular order, they are the Royal Bank of Canada (RBC), Bank of Nova Scotia (Scotiabank), Canadian Imperial Bank of Commerce (CIBC), Bank of Montreal (BMO) and Toronto-Dominion Bank (TD Bank). More officially, the Big Five are Schedule 1 chartered banks, which means they're licensed by the federal government to operate under the Canadian Charter and the Bank Act. (Some people refer to the "Big Six," which includes National Bank of Canada.)

Canada has more than 30 domestically owned Schedule 1 banks, including the Big Five and many more, such as Laurentian and Manulife.

Schedule 2 banks are Canadian subsidiaries of foreign banks, such as J.P. Morgan Bank Canada or AMEX Bank of Canada (both headquartered in the United States), HSBC Bank Canada (Britain) or ICICI Bank Canada (India). Schedule 3 banks are branches, rather than subsidiaries, like Capital One Bank (America) or Barclays (Britain). Unless banking is your business, you don't need to know any of these detailed classifications – though you can probably see why the term "Big Five" has stuck around to simplify this for the rest of us.

What's the difference between a bank and a credit union?

Historically, credit unions were started by farmers and rural communities who organized their own financial institutions in which they were all members. Now, credit unions have expanded to many professions, groups and locations, though each is still either provincially or federally regulated (mostly provincial). "Basically, if you are a member of the [credit] union you're also a shareholder," Ms. Stroink says. Because credit unions are non-profit, they either reinvest profits or pay them out as dividends to members, who also often enjoy better interest rates and lower fees. But credit unions have fewer branches and often have particular requirements to qualify.

The Canadian Credit Union Association reports that about 5.8 million Canadians use credit unions for their day-to-day banking at more than 200 credit unions across the country. Among the largest are Vancity, Meridian, First West and Desjardins. Credit union membership is particularly popular in Quebec and Western Canada.

And what about digital banks (such as Tangerine or EQ)?

Online banks such as Tangerine, Simplii and EQ are entirely digital banks. "They're usually affiliates of the Big Five; for example, Simplii Financial is an online bank but it's supported by CIBC," Ms. Stroink says. Like everything else in the digital world, change comes fast and often. "There are also banks like Manulife that are coming into the market that are affiliated with credit unions," she adds. Besides the obvious, what also differentiates a digital bank is service fees. "Fees will be much lower, or they'll be none at all, just because they don't have brick-and-mortar locations with overhead to maintain," she says.

Why would anyone willingly pay more to bank in person? Because the times in life you have a real banking question or problem, you may well want a familiar face – or voice on the phone – to help. Or maybe not. "If you just talk to whoever's around when you call the bank, consider that the fees you pay at your bank pay for the personal service that you're not using," she says. In that case, a digital bank might be best for you.

And a quick caveat on that familiar face you are paying for: "Realize that whoever you deal with at the bank, however friendly, they aren't your friend, they're an employee of the bank tasked with making profits for the bank," cautions Prof. Croitoru.

Are fintechs (such as Wealthsimple or Koho) banks?

A new crop of financial companies has risen up over the last decade or so that are aimed at millennials and Gen Zs who do everything through apps. Think Wealthsimple, Neo Financial and Koho. Known as fintechs, they offer banking services such as RRSPs, TFSAs and other investment accounts, as well as credit cards and even chequing accounts. They are not banks in the traditional sense but are typically affiliated with banks or financial institutions in order to provide Canada Deposit Insurance Corporation coverage.

How do I choose the best bank for me?

You can and should shop around and compare various offerings at various banks. Mr. Labrèche at the Canadian Bankers Association suggests starting with the online interactive Account Comparison Tool available from the Financial Consumer Agency of Canada (FCAC).

Whatever you find there, or elsewhere on the internet, know that you can and should ask for something even better. "You can absolutely negotiate the interest rate you earn and pay," suggests Prof. Croitoru. No promises, of course, but in all likelihood you already have the upper hand. "Lots of this depends on how good a customer you are, but if you're a responsible person who pays their bills on time, they know you can go elsewhere and they want your business," he adds. If a bank doesn't make you feel this way or the service offered is subpar, it's time to change banks.

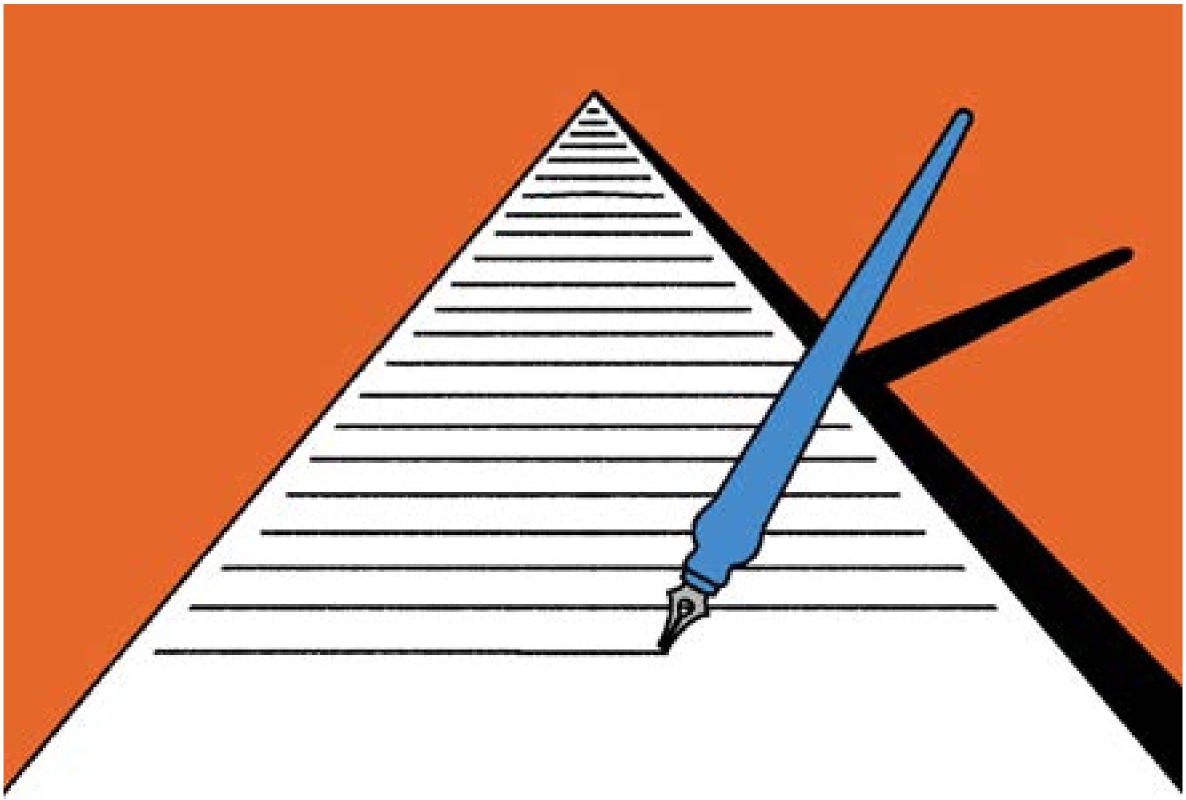
And before you sign on the line, as always, read the fine print. "Understand the fees you'll be paying and the product you're buying," Ms. Stroink says. "Too often we just sign up for an account without understanding the fee structure or what we're buying. Yes, the bank works for you, but it's up to you as the consumer to do your research and know where your money is going."

Key takeaways

What to know about getting a bank account in Canada

1. More than 99 per cent of Canadian adults have and use a bank account—and so should you
2. Any Canadian resident has a right to a bank account, even if you don't have a job or a dollar to deposit just yet
3. Kids who are at least 12 can not only get an account without their parents' permission, but youth accounts specifically offer low or no fees and encourage financial health and literacy
4. Many people start with a savings account, add a chequing account when they start earning and spending more, then add RRSPs and TFSAs to their portfolio
5. Digital banks are usually affiliates of the big chartered banks, though they can charge far less in service fees without physical spaces to maintain
6. Credit unions are banks owned by members who are also shareholders in the bank's profits
7. With so many banking options in Canada, you can and should shop around,

negotiate rates if you can, and change banks if you're not happy with the products you're buying or service you're getting.



How to create a legal will in Canada

A last will and testament is a legal document that names the beneficiaries who will inherit your assets when you die. Here's what to know about the pros and cons of making a will online, the cost and what to include

TAMAR SATOV

If you have anything of value – whether it's savings and investments, a vehicle, a home, heirlooms, other assets – or if you have a child or even a pet, you need a will. Why? If you die without one, the courts will decide who inherits your possessions and property based on the estate laws in your province, and you'll have no say as to who ends up looking after your dependants (including the furry ones).

There are a few ways you can go about drawing up a legal will. You can hire an estate lawyer, use an online or printed will kit, or even write one by hand (in most parts of the country). Each method has its pros and cons, and there are some important things to know and look out for.

What is a will?

A last will and testament is a legal document that names the people (called beneficiaries) who will inherit your assets when you die and specifies who gets what. If you have minor children, a will also names their guardian(s) in the event both parents die at the same time. Furthermore, it must name an executor who will settle your estate according to the terms of your will.

When should I draw up a will?

Adults of any age can create a will, but most of us put it off because we don't like to think about death. According to the 2019 Canadian Financial Capability Survey, only 22 per cent of Canadians under age 35 have a will. Though 95 per cent of Canadians aged 65 and older have a will, more than half (53 per cent) haven't updated it in five years, which means it may no longer reflect their wishes. It's important to update your will whenever you experience a major life milestone, such as getting married or divorced, having a child or grandchild, or buying a home or other real estate.

What is an executor?

An executor, also called an estate representative, estate trustee or liquidator, "executes" the instructions you've outlined in your will to wrap up your estate. It's mostly an administrative role, which includes dealing with banks, insurance companies, government and tax agencies, as well as corresponding with the deceased's beneficiaries and family members.

It can be a complicated and time-consuming task, so consider the "three T" rule when choosing an executor, advises Stephen Hsai, a Vancouver lawyer specializing in estate planning with Miller Thomson LLP. "The ideal executor should be someone you trust, who has the time to do the job, and who is in the territory," he says.

The main issue with having a non-resident executor is that the taxman could then also consider the estate to be a non-resident of Canada, which could trigger negative tax consequences, such as loss of preferential capital gains and dividend tax treatments.

If you don't have a family member or friend who would be a suitable (and willing) executor – or if you'd just rather save them the hassle of performing what personal finance columnist Rob Carrick suggests may be the "worst job ever" – hiring a corporate executor or trust company can be a good option. That goes double if you have a complicated or particularly large estate.

All executors, professional or not, are entitled to charge the estate for performing their duties. The will itself may not specify compensation, something beneficiaries may want to keep in mind, and the fees can vary – sometimes an executor doesn't even take a fee. Courts in each province set a cap on allowable fees (in B.C. and Ontario it's effectively 5 per cent of the estate), so it could end up costing an estate the same amount either way, says Darren Coleman, senior vice-president and portfolio manager at Raymond James in Toronto. "The reality is all the executors are entitled to the same level of compensation," he says. "It is one of the rare circumstances where the professional and the amateur are the same price."

What are the types of wills?

In addition to a last will and testament, you also need a living will. While a last will and testament spells out your wishes for when you die, a living will does the same for situations where you may be incapacitated from an accident or illness, and are therefore unable to make decisions about your personal care or finances.

A living will, sometimes called a personal directive, includes details on the type of life-prolonging health care treatments (e.g., defibrillator, respirator, surgery, etc.) and/or palliative care you'd want to receive; who you want to look after your kids while you're incapacitated; and powers of attorney that legally name representatives to make financial and health decisions on your behalf.

Living wills and powers of attorney are effective only during a person's lifetime and terminate at death, whereas a last will and testament comes into effect only after a person's death.

What should a will cover?

A will focuses on the "who" and "how" of your estate, not so much on the "what." In other words, it should include the names of your executor, guardian(s) for minor children, beneficiaries, and how you want your estate divided among your heirs. But unless there are specific items, such as family heirlooms, artwork, or jewellery that you want to gift to a particular beneficiary, there's no need to itemize or mention your assets in your will.

That's because most of your assets automatically become part of your estate when you die, and whatever remains after all debts and income taxes are paid by your estate will be distributed accordingly to your beneficiaries. You can certainly create a separate document with a list of assets and liabilities, account numbers, passwords, or anything else that you think will make it easier for the executor or your family to find the information they need after your death. However, this would be part of a larger estate plan (see below) and is not included in a legal will.

Note that some assets, like a home that spouses own with joint tenancy, do not become part of the estate and are instead passed on directly to the other owner. Similarly, registered accounts that have separately named beneficiaries do not flow through the estate, as Rob Carrick explains in this excellent guide to naming a beneficiary of your TFSA, RRSP or RRIF.

These distinctions are important, because only assets that are in your estate are subject to administrative taxes, called probate fees. Such fees differ by province, but a lawyer or financial planner may be able to help you create an estate plan that considers factors such as joint tenancy or beneficiaries named on registered accounts to minimize the probate fees or income taxes owing on your estate at death.

So what is the difference between a will and an estate plan?

A will is a key component of an estate plan, but it's just one part. An estate plan could also encompass powers of attorney, living wills, trusts, life insurance, information about how you'd like to be laid to rest, a net worth statement of liabilities and assets (including digital assets and crypto keys), and it often uses advanced tax planning strategies that can help minimize taxes at death.

Indeed, there are many situations in which estate planning can get tricky, such as when assets are held outside of Canada. "The fact is, tax systems in different jurisdictions can clash and create problems," explains accountant, financial planner and regular Globe and Mail contributor Tim Cestnick, adding that we don't have estate taxes in Canada; rather, we have income taxes. "Upon death you'll be deemed to have sold most of what you own, which can create income taxes owing on capital gains if certain assets have appreciated in value. The problem that commonly exists is that you might pay income taxes in Canada at the time of your death, and perhaps estate taxes to another country on the same assets, with no relief for double-taxation, or triple taxation in some cases."

In these cases, a tax lawyer, accountant or trust and estate practitioner can advise you on estate planning options to avoid paying more tax than necessary.

Can you write your own will in Canada?

Believe it or not, in all Canadian provinces and territories other than British Columbia and Prince Edward Island, you can put pen to paper and write a legal will by hand. A handwritten will, also known as a holographic will, must be on paper (no, the back of a napkin isn't sufficient), in your own handwriting in pen (you can't use a computer – or typewriter, if anyone still has one of those kicking around), and include your original signature. That's all it needs to pass legal muster.

Are online kits for a will legal in Canada?

While a handwritten will is legally binding in most provinces, even the most ardent do-it-yourselfers would likely prefer some guidance as to what to include in a will and how to word it. That's where pre-printed and online will kits come in. They handle the confusing legalese so all that's left to do is add your personal details. Will kits are legal throughout Canada, so long as all the following criteria are met:

- **The will is in paper format and has your original signature.** Digital documents/signatures are not acceptable, so when using an online will service you need to print out the final will and sign it by hand. (Again, B.C. is an outlier here; it recently amended its legislation to allow digital signatures, using a platform such as DocuSign, and the will itself can be in a digital rather than paper format.)

- **Two witnesses watched you sign the will,** and then signed the document themselves. These must be third-party witnesses, which means they can't be family or anyone else named in your will.
- **You were an adult** (age of majority in your province) of sound mind when you wrote the will.

Do you need a lawyer to make a will in Canada?

The short answer is no. You don't need a lawyer's assistance to create a will; you can do so on your own, as explained above. A better question, however, is should you hire a lawyer anyway?

If you have a complex estate (for example, maybe you're a business owner or have multiple real estate holdings) or if your family situation is complicated (such as a blended family from previous marriages/divorces, or if one of your beneficiaries has a mental disability), it's best to seek out the services of an estate lawyer. These situations are not easily addressed by will kits, which are really designed for simple, straightforward estates.

How much does a will cost?

That depends on which route you take.

- **If you hire a lawyer,** you'll get professional advice, but you'll pay a minimum of $800 and up to several thousand dollars if your estate is complicated.
- **Online will kits** are an increasingly popular option for those who want a no-frills will for a straightforward estate. Once you've decided who you want to name as your executor, beneficiaries, and guardians for minor children (if ap-

plicable), the online service will guide you through a user-friendly step-by-step process. The whole thing takes about 20 minutes; but to make the will legal (other than in B.C.), you must print out the document, sign it in front of two third-party witnesses, and have the witnesses sign as well.

There are now several providers in Canada (see below) with costs ranging from about $40 to $139 for a basic will; and package options that include powers of attorney. Some services also allow you to make changes to the will at any time with no further cost; however, you'll have to print and sign (and get witnesses to sign) it again.

- **Use a pre-printed will kit.** These are similar to online will kits, but in a pre-printed fill-in-the-blank format, so it's impossible to update – you'd have to start over from scratch with a new kit. You and two witnesses still need to sign the document for the will to be legal. The cost is under $40.
- **Write it out by hand.** This is the simplest option, and it's free, other than the cost of the pen and paper.

Note that with any of these options, it's incumbent upon you to safely store the original signed copy of your will – and let the executor know where they can find it after you die. You can also register the will and its location on CanadaWillRegistry.org, which can help an executor find the original will if they've forgotten where to look (or if you forgot to tell them). Some online services and lawyers will cover the $40 fee for the registry.

Four ways to create a will in Canada

Four ways to create a will: pros and cons

	Handwritten will	Paper will kit	Online will service
Cost	$0	Up to $40	$40 to $139

Pros	Can be done any time with just a pen and paper	Handy fill-in-the-blank pre-printed template	User-friendly step-by-step guidance provided
	Doesn't require any witness signatures	Fast and convenient	Fast and convenient
			Easy to update (sometimes at no extra cost)
Cons	Zero advice or guidance	No professional or tax planning advice	No professional or tax planning advice
	Difficult to know what to include or how to word it	No guidance on how to fill it out	Not suitable for complex estates or family situations
		Can't be easily updated	

What happens if someone in Canada passes away without a will?

Some people think if they die without a will – called dying intestate – their estate will automatically go to their spouse, children or next of kin. The truth is your estate might eventually go to those people, but that depends on the legislation in your provincial jurisdiction. In other words, the courts must determine who gets what, and in what proportions.

To make matters more complicated, the rules vary greatly between jurisdictions. For example, the statutes in some provinces dictate that if the deceased has no will, a common-law partner may inherit a significant portion or all of the estate, while in other provinces (including Ontario) a common-law partner is not entitled to receive anything at all.

All this decision-making by the courts takes time and money, which erodes the value of the estate – and keeps assets out of your loved ones' hands for longer than necessary. Furthermore, the court will appoint the guardian(s) for any minor children, which may not be the same choice you'd have made yourself.

What's the difference between a will and life insurance?

While a will and a life insurance policy may both be parts of an estate plan, they are different things with different purposes.

A life insurance policy provides beneficiaries with a tax-free lump-sum benefit upon your death. In general, life insurance is used to protect your dependants – such as a spouse or minor children – from financial hardship if you die during your working years while they are counting on your income to help pay for living expenses, a mortgage, and to save for the future (such as for retirement, or for your kids' postsecondary education). Life insurance can also provide money for your funeral, which can be costly.

Because the death benefit is paid out tax-free, some people also use life insurance as a method to pass along wealth to the next generation in a tax-efficient manner. Furthermore, because the life insurance death benefit goes directly to the beneficiaries named on the policy rather than becoming part of the deceased's estate, probate fees are avoided. Of course, the cost of life insurance goes up as you age, so those costs must be weighed against any potential tax savings.

If you don't have dependants but are worried about family or others having the financial burden of paying for your funeral, you can make and pay for those arrangements in advance, which is likely far more cost effective than life insurance.

Where can you get a will online?

Here are some of the popular online will services in Canada:

Willful

- Offers wills, powers of attorney and living wills;
- Clients can also compile a list of assets and record funeral or burial wishes;
- Serves those with non-complex estates in Alberta, British Columbia, Manitoba,

New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan.
- Cost: $99 for an individual will; $189 for will, power of attorney and living will (or $329 per couple). All updates are free.

Epilogue Wills
- Provides basic wills and powers of attorney;
- Serves clients in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Nova Scotia and Prince Edward Island.
- Cost: $139 for an individual will ($229 per couple); $179 for will and power of attorney ($289 per couple).

FormalWill.ca
- Offers wills, powers of attorney and living wills;
- Also has separate pet wills, to arrange care for your pets;
- Serves clients across Canada.
- Cost: $59 for individual will; $39 each for power of attorney and living will; $59 for pet will; for an added fee ($149 to $249) you can have a lawyer review your will, power of attorney or living will. You can also subscribe to a bonus option (at the time of purchase) that allows you to make future updates to your will.

LegalWills.ca
- Provides wills, powers of attorney and living wills;
- Can also purchase a "life locker" that stores personal information, such as a list of your belongings, digital assets and important contacts, to be passed on to your family and executor.

CHAPTER 2

Investing

How to start investing in stocks, index funds, crypto, NFTs – and more

Want to understand how to make – and keep – good investments? Learn the basics of investing – plus what to know about crypto, NFTs and mutual funds – in this Globe guide

If you're new to the world of investing, the vast array of options available – including stocks, mutual funds, exchange-traded funds, cryptocurrency and non-fungible tokens – may be intimidating. But investing doesn't have to be complicated. Here's what you need to know before investing your hard-earned cash.

THE BASICS

How does investing work

Even newbie investors have probably heard the first rule of investing: Buy low, sell high. That's the name of the game in a nutshell. Investment assets like those mentioned above continually fluctuate in value. You purchase assets at a given price with the hope that they will increase in value. The greater the increase, the higher your investment returns.

Of course, an element of risk is baked into the process. There's no guarantee that your investments will always increase in value; in fact, they will likely dip or even tank at times. The key to being a successful investor is to sell assets when they are up, not down.

This can be a difficult task for some investors, who can't stomach losses and jump to sell after a crash, thereby locking-in their losses rather than waiting for the markets to recover (as they eventually tend to do). Such investors are said to have a low risk tolerance, which they should take into consideration when deciding what assets to invest in, as explained below.

How to choose investments

Some investments (such as stocks and cryptocurrency) can be quite volatile, with big swings up and down in value. Other assets (such as bonds) are less risky but offer far more modest potential returns than their riskier counterparts. (Then there are no-risk savings-type investments, such as high-interest savings accounts and guaranteed investment certificates – GICs – where your principal investment cannot decrease in value and you earn a set, but often low, percentage in interest.)

Most experts advise investing in a mix of asset types to mitigate risk. That mix is called your asset allocation, and simply refers to what portion of your investment portfolio should be devoted to higher-risk assets as compared with lower-risk ones.

To determine your asset allocation, take an investment risk tolerance questionnaire – a standard tool offered by financial advisers and investment firms. These questionnaires measure your attitude to risk in general and your ability to tolerate the ups and the downs of your investments.

Questions will include your age, investment experience, general financial situation, whether you are investing for the short or long term, and other factors. Once your risk tolerance has been determined using the answers to the questionnaire, you can choose an appropriate asset allocation to match your risk level.

If, for example, you have a very high risk tolerance, you might opt to invest 80 per cent or more of your portfolio in stocks (also called equities) or other risky investments and use the balance of your investment portfolio for safer options such as bonds or other fixed-income assets.

If, on the other hand, you are quite risk averse, you may want to flip that around and limit stocks or other volatile investments to only 20 per cent or less of your portfolio. Many investors opt for a balanced asset allocation of stocks versus fixed-income assets. That could be 60 per cent stocks, 40 per cent fixed-income

(60/40), or perhaps 40 per cent stocks and 60 per cent fixed income (40/60), depending on their individual situation.

How do I invest with only a little money?

Many wealth advisers and financial planners will take on only those clients who meet a certain threshold in investable assets – say $100,000, $500,000, $1-million, or more.

But you don't actually need an adviser to start investing; you can do it on your own by opening an online brokerage account or using a robo-adviser. There are many to choose from, including online brokerage services operated by the big banks and fintechs such as Wealthsimple or Questrade.

So, how much money do you need to start investing online? Some robo-advisers or brokerage accounts have no account minimums, while others may require a balance of about $1,000 before you can start investing. In fact, you could potentially start by buying a partial unit of an ETF for $1 – although that wouldn't make much sense if you're paying more than that in trading costs or other fees.

Speaking of fees, that's something to be mindful of regardless of your method of investing. After all, every dollar you pay in fees is a dollar off your investment returns. Rob Carrick, The Globe and Mail's personal finance columnist, put together an excellent overview of the various investing fees charged by financial planners and online DIY brokerage services for advice, commissions, fund management, and other costs. As with all services, you want to be sure you're getting value for your money – and not paying more than you need to.

Mr. Carrick also produces an annual online brokerage ranking and robo-adviser guide, which can help you decide which service is best for your needs.

What is the best investment for beginners?

The KISS rule (keep it simple, stupid) is almost universally applicable when attempting novel pursuits, and beginner investors would be wise to follow it. As investment reporter John Heinzl wrote in a 2017 column, newbies should not jump into stock investing right out of the gate: "Managing a stock portfolio requires a fair bit of knowledge and emotional discipline, and while I think most people can do it if they put in some modest time and effort, it would probably overwhelm most beginners and could lead to costly mistakes."

Instead, he recommends opting for the easiest, lowest-stress DIY investing methods – namely, low-fee mutual funds or exchange-traded funds (ETFs) with a balanced asset allocation. "A balanced mutual fund will give you exposure to stocks and bonds in one convenient package," he says. Same goes for all-in-one asset allocation ETFs.

Alternatively, he suggests using a robo-adviser that will set you up with a portfolio of ETFs to match your risk tolerance and goals. "All of these options will give you a nice combination of diversification and low costs – two of the most important ingredients in a successful investing plan," he says.

INVESTMENT TYPES

How to invest in mutual funds

Mutual funds are a basket of investment assets that you can buy through a financial adviser, a bank's in-house adviser, directly from the investment management firm, or through a brokerage account. Mutual funds are popular investments because they group together a variety of stocks, bonds or other securities in one package, and this diversification can mitigate risk. The idea is that even if some of the assets in the fund aren't performing well, others will do better, so your overall returns are respectable. Mutual funds are also a simple, accessible way to make contributions to your investments on a regular basis with no trading commissions or fees.

There are thousands of mutual funds you can buy in Canada. If you are working with an adviser, they will help you choose a selection of funds to match your asset allocation. (Keep in mind that if you deal with a bank's or investment firm's in-house adviser, they have a vested interest in selling you their own branded products. If you're going the DIY route with a brokerage account, you can purchase whatever investments you want from a variety of firms.) If, for example, your risk tolerance leads you to a 60/40 stock/bond asset allocation, you might put 20 per cent of your money into a Canadian equity fund, 20 per cent in a U.S. equity fund, 20 per cent in a global equity fund and 40 per cent in a Canadian bond fund.

As markets go up and down, the total value of each of your individual mutual funds will stray from your original allocation. To make sure you maintain your preferred risk profile, you'll need to rebalance your portfolio every so often – at least once a year – which means you sell off some assets and/or buy others to get back to your preferred allocation. (If you're working with an adviser, they will do this for you.)

As explained above, there are also mutual funds that include a ready-made mix of stocks and bonds, with names like Income/Conservative (more bonds than stocks), Balanced (40/60 or 60/40), and Growth/Aggressive (more stocks than bonds). These funds are convenient because they are automatically rebalanced – a great benefit to beginner investors who might prefer this hands-off approach.

You can find mutual fund fact sheets online that identify the type of investments included in the fund, as well as the management expense ratio (MER) – which represents the percentage trailer fee that goes toward the ad

viser/firm as well as the fee paid to the fund manager. This is important because MERs on mutual funds in Canada can be quite high – typically more than 2 per cent. To be clear, that's a reduction of two percentage points (or more) in your investment returns, since the statements you receive outlining the value of your holdings at any given time have already deducted these fees.

If you feel you get good service from your adviser – perhaps they provide financial or tax planning advice, or keep you from buying or selling off assets at the wrong time – that fee may be worth it. But if your adviser acts mainly as a fund seller and is short on other advice or services, consider buying mutual funds on your own through an online brokerage account. Look for the series D version of funds, which have a much-reduced trailer built into the MER to reflect the fact that they're designed exclusively for the do-it-yourself crowd. For example, while the "A" series of a mutual fund you buy from your adviser might have a trailer fee of 1 per cent, the "D" series trailer fee could be 0.25 per cent.

Similarly, you could consider investing in passively managed index funds or exchange-traded funds (see below), which have even lower MERs than "D" series mutual funds.

How to invest in index funds or index ETFs in Canada

Index funds are mutual funds that take a passive approach to investing. Rather than paying an expert fund manager to pick and choose market "winners" in an attempt to outperform the market, index funds aim to match a market's overall performance by holding all (or nearly all) the assets listed on a particular index – say, the S&P 500 in the case of U.S. large cap equities. The MER fees for index funds are, therefore, typically much lower than for actively managed funds (usually less than 1 per cent) because there's less legwork involved in selecting the fund's assets.

Similarly, there are index-tracking ETFs, which are basically the same thing as index funds except they trade on the stock market, which means there are usually per-transaction trading commissions or fees involved. But the MERs are also typically even lower than index funds (often less than 0.5 per cent).

Investing in index funds is not much different than investing in other mutual funds. You select the funds you want based on your asset allocation and purchase them either directly from the fund issuer or through a brokerage service. You'll need to rebalance your holdings at least once a year to maintain your preferred asset allocation, or you can opt for all-in-one asset allocation ETFs if you don't want to worry about rebalancing.

You can also invest in index ETFs through a robo-adviser, who will come up with an appropriate portfolio of funds for you based on your risk tolerance.

How to start investing in cryptocurrency

Depending on who you ask, investors should either "just say no" to crypto or embrace it full on as an essential element of a diversified portfolio. Either way, there's no denying that cryptocurrency is an extremely volatile asset.

Between September, 2020, and May, 2022, for instance, the price of bitcoin fluctuated from a low of US$10,764 to a high of US$61,374 – and, as of July 4, 2002, sat at US$19,830. In terms of investment performance, that's an increase of 470 per cent from low to high; and a decrease of 49 per cent from the high to May 16, 2022. Investors had the potential to either make or lose a lot of money during the past two and a half years, depending on when they bought their coins.

So, with that caveat out of the way, if you want to invest in cryptocurrency start by selecting an online crypto exchange and opening a "digital wallet" (basically, your account). Some popular exchanges in Canada include Coinbase, Binance, Bitbuy and Crypto.com. (Not all cryptocurrencies are available at every exchange, so that may help you decide which one to choose. Alternatively, you can open digital wallets at multiple exchanges.) Each exchange has its own fee structure, which you'll also want to look into. Once you have your digital wallet set up, transfer money into it from your bank account and use those funds to purchase your crypto.

It's worth mentioning that cryptocurrency cannot be held within registered accounts, such as registered retirement savings plans (RRSPs), tax-free savings accounts (TFSAs), etc. That means that you must track and pay tax on all your crypto earnings – either as business income or as a capital gain, depending on your circumstances.

If you prefer to invest exclusively within an RRSP or TFSA to limit your tax hit, you could consider crypto ETFs, which are eligible assets for registered accounts. These ETFs – which don't hold digital assets directly, but rather track one or more cryptocurrencies – provide an easy way to dip a toe into the cybercurrencies market.

How to invest in NFTs

NFTs, or non-fungible tokens, are digital assets that operate on the same blockchain ledger technology as cryptocurrencies, but there are major differences between them. While one bitcoin is interchangeable with another (or fungible), each NFT represents a unique asset. That might be an original piece of digital art, collectible, or even a tweet from someone famous.

Like a physical piece of artwork, collectible, etc., the value of an NFT is determined by the amount of money someone else is willing to pay for it. In other words, everything outlined above about the volatility of crypto – that goes double for NFTs. Prices can drop dramatically after an initial surge, see-sawing between bull and bear cycles within as little as a week.

Having said that, if you want to invest in NFTs, here's how you do it. Open a digital wallet on a crypto exchange that trades ethereum, as this is the digital currency you require to purchase NFTs. Once you've transferred money into the wallet from your bank account and purchased some ethereum, you can start to browse NFTs on platforms such as OpenSea, Rarible, NBA Top Shot and Nifty Gateway. When you find an NFT you want to bid on, transfer your ethereum to that platform to pay for the purchase.

How to start investing in stocks

Once you've got the hang of mutual fund investing (or index investing, either through a mutual fund or an ETF), you might want to begin adding individual stocks to your portfolio. (Of course, individual stocks are by no means an essential ingredient for investment success, since you should already have exposure to the equities market through your fund purchases.)

You can buy stocks through an online brokerage, a full-service brokerage firm or sometimes directly from companies themselves. Note that stock prices rarely sit still, so the price you pay for the stock may not be exactly the same as the market price listed when you put through your purchase.

To avoid this possibility, you can set up limit orders, which will wait until the stock is at or below a specified price before executing the purchase. (Similarly, a sell limit order will wait until the price is at or above a specified price.)

There are usually commission fees on stock purchases and trades, so you'll want to find out how much your broker charges for each transaction.

How to make good investments in stock markets?

If there was an easy answer to this question, everyone would be killing it on the stock market. Alas, it's not so simple. John Heinzl recommends buying dividend-paying stocks that raise their dividend payments regularly, such as banks, utilities and telecoms. These dividend payments will provide you with continued income from your investment, even if the stock's value swings up and down.

To select stocks on a wider basis, you'll need to do some research. That doesn't necessarily mean looking at the stock's past price performance – since that tells you nothing about how the stock might perform in the future. Rather, you'll want to look at the company's financial statements and consider its historical earnings, cash flow, and/or dividend growth, position in the market, management, etc. In other words, is it a solid company with good prospects for the future? (You can also consult the Globe and Mail's Stock Picks, which provides information and analysis to help you make decisions.)

Some online brokerage services also offer research and analysis tools to aid stock investors. Clearly, however, this isn't for everyone – and you need to have the time and willingness to put in the work.

One indisputable fact: FOMO is a terrible reason to buy a stock. "I think it's inadvisable to jump on the latest fad," advised one expert. "People have a bad habit of buying at the top and selling at the bottom."

To that end – regardless of what stocks you invest in – never sell out of fear, Mr. Heinzl says. "Buying and holding through good times and bad is a much more effective – and less stressful – way to participate in the market's long-term growth."

How long should you plan to keep an investment?

When it comes to higher risk stocks, the longer you should plan to hold on to it. Why? Because if you expect to spend that money in the near term, you're taking a huge gamble that a risky investment will produce strong returns within a short period of time. It's just as likely that it will lose money, and you'll have to sell at a loss.

When you buy and hold for the long term, you can ignore a volatile investment's big swings in value and focus instead on your average annual returns. Sure, some years may be dismal, but others will do gangbusters. The important thing is that, on average, you are getting the returns that you want to meet your investment goals.

Similarly, low- and no-risk investments are meant to be held for the short term. Why would you want to forgo the possibility of better returns from higher-risk assets if you have decades to wait out any market turmoil? Indeed, some experts say the biggest mistake young investors make when saving for retirement is not being aggressive enough with their asset allocation.

How to calculate return on investment

Most investment statements, whether from an adviser or through an online brokerage service, will clearly outline your investment returns. If, however, you'd like to verify those figures or calculate them yourself, there is a very simple formula.

The current market value of your investment minus the price you paid for the investment is your return on investment. (For dividend-paying stocks, this assumes you have reinvested the dividends into the stock; otherwise, you must add the total amount you received in dividend payments to your total returns.) Generally speaking, that number is then divided by the initial cost of investment and multiplied by 100 to express the return in percentage terms.

How do taxes affect my investment returns?

While it's not traditionally considered part of return on investment, it's worth looking at how taxes affect your "take home" investment earnings in various scenarios. When investing outside of registered accounts, all your investment income is taxable – but not at equal rates. Interest income is taxable in full at your marginal tax rate, based on your income tax bracket.

Only half of capital gains (the return on investment when you sell or trade a stock or other equity) are taxable at your marginal rate. Dividends have a different tax formula, but the rate of tax is usually somewhere in between what you'd pay on interest and capital gains.

When you invest within a TFSA, your investment earnings are truly tax-free. You don't pay taxes on that income while it's in your account, or when you withdraw the funds. For investments in an RRSP account, you get a tax deduction when you make your contributions, and you don't pay tax on the investment earnings while they remain within the RRSP.

But – and this is a big but – when you draw your money in retirement, you pay income tax at your marginal rate on the full amount of the withdrawals, both your original contributions and your investment earnings.

A good financial planner or tax adviser should be able to help you approach your investments with an eye to tax savings over the long term.

The bottom line

Wondering how to start investing? Three things to remember

- You don't need a financial advisor to begin investing, or to be rich
- It's best to begin with low-risk options like ETFs or mutual funds
- Most experts advise investing in a mix of asset types to mitigate risk

Investing 101: A beginner's guide to growing your money

Investing means taking an existing asset – usually, but not always, money – and using it to earn financial returns. Here's what to know about making good investments to help meet your financial goals and having a diversified portfolio mix

The world of investing can be baffling for beginners of any age. An understanding of a few simple terms and concepts can make it possible for anyone to become an investor.

THE BASICS

What is investing?

The word "invest" can have broad connotations, as dictionary definitions make clear: You might be invested in your children's lives, perhaps you recently invested in a new car, new business, home renovation, or you consider your education an investment in your future.

But from the point of view of investing. This is different from saving, which is simply putting money aside. The difference is often that investing carries a calculated amount of risk – though, of course, there have historically been cases where cash is also high-risk, such as in hyperinflationary societies like Germany during the Weimar Republic.

What can be considered an investment?

A lot of things can be considered an investment. Whether they're a good investment is the question. Common investments include stocks, bonds and real estate, all of which can be purchased directly or through a tool such as a mutual fund or exchange-traded fund (ETF). Cryptocurrency is another kind of investment that has gained popularity of late. Some people who are self-employed have a lot of assets in their business, which is also a type of investment. And then there are the oddball so-called investments that are lucrative for some, until the whole structure crumbles: Think Beanie Babies in the 1990s.

Why should you invest?

It's a good idea to save money for the future. You will probably need that extra cash down the line to cover costs owing to low cash flow from losing your job, or toward a big purchase like a home, or for your kids' education and retirement. The fewer savings you have available, the more likely you're going to have to go into debt when sudden expenses arise.

And while having some easily accessible cash on hand is smart, you don't want all your savings to be hundred-dollar-bills under the mattress, figuratively or literally. Standard bank accounts pay paltry, if any, interest these days, and even the best high-interest savings accounts offer rates that are significantly below inflation. That's fine for an emergency fund that you might need to dip into sooner rather than later. But for longer-term savings, inflation means that any cash you have put aside is going to lose a lot of value. A dollar doesn't buy what it used to, and it's going to buy even less down the road.

That's where investing comes in. The goal with investments is that your money will grow faster than inflation, meaning it'll have more buying power when you take it out than when you put it in. It doesn't always work out that way, but that's the general idea.

There are some guidelines on when and how much to invest, but it also depends on your personal situation. For instance, women tend to live longer than men and are more likely to have gaps in their earning years, so their retirement plans should be tailored to that reality.

An important thing to keep in mind is that time is your friend when it comes to building wealth. As columnist Tim Cestnick points out, even starting just five years earlier can have a huge impact on the value of your investments over time.

CREATING A PORTFOLIO

What is considered a 'good' investment?

It doesn't need to be flashy, or a "hot stock tip," or a particular asset class, like real estate, which many who own it claim is failproof. Instead, a good investment is one that you can be confident will work out for your needs.

Investors should keep in mind that it's easy to get caught up in hype and trends, notes investment consultant Darryl Brown. "The industry thrives on pushing the emotional envelope and trying to convince investors that this is a game that can be played – and played to win," he says. "If we let the hype get to us, we're the ones getting played."

Brown suggests learning about behavioural finance, which looks at the impact of emotions on how we make decisions with money. This includes things like herd mentality, overconfidence bias – being sure that we're making above-average decisions – and confirmation bias, the habit humans have of seeking out information that confirms our beliefs and ignoring information that doesn't.

What is an 'investment portfolio'?

An investment portfolio is simply all of your investments collected together, whether that's an ETF or two, or a whole range of stocks, bonds and real estate investment trusts.

You might hear the phrase "balancing" one's portfolio. This simply means redistributing assets so that the distribution matches your investment plan, such as having a 60/40 split between stocks and bonds.

What's a good portfolio mix to have?

Investing experts often talk about a "diversified" portfolio. What does this mean? According to Globe and Mail columnist Rob Carrick, it's "a mix of stocks and bonds or guaranteed investment certificates that reflect your age, your investing needs and your comfort level with the potentially sharp ups and downs of the stock market." Carrick suggests that "asset allocation" ETFs – a fully diversified portfolio wrapped into a single package – is one easy way to achieve this, and an even easier way is to use a robo-adviser.

A longtime guideline for how to allocate your portfolio is the 100 minus age rule: Subtract your age from 100 and invest that percentage in stocks, and the remainder in fixed income. This would result in a 30-year-old allocating 70 per cent of their portfolio to stocks, while a 60-year-old would allocate 40 per cent. This is a good place to start, but some experts think it might be too conservative, so it's important to also take into account your risk tolerance and personal goals.

"Short-term, returns are often horrible," says personal finance author Andrew Hallam. But he adds: "Investing isn't a sprint. It's a marathon. Over long periods, a diversified portfolio is far less risky."

While Carrick is a big fan of the "slow and steady" approach to building wealth – making regular contributions to a diversified portfolio – he suggests that those who do want to experiment with riskier investments treat them as a "side hustle." This means taking a small proportion of your overall holdings (say, 5 per cent) that you can put into investments that you want to try but aren't a part of your regular portfolio.

Can you lose money investing?

There are many ways in this world to lose money, and investing is one of them. The goal is to have a strategy in place that sets you up for success – which means ensuring your portfolio matches your risk tolerance and time horizon.

In many cases, whether you lose money depends on when you sell. This is why higher-risk investments, which are more volatile, are best to hold for the longer term, as you don't want to be forced to sell when prices are low. "Don't be rattled by market setbacks," advises Globe columnist John Heinzl. "Investors who stay the course during bad times, or use the downturn to acquire additional shares at cheaper prices, make out well in the long run."

How do you measure and manage risk?

Risk is a big part of investing. Higher-risk investments often offer a higher potential for gains – but also more of a chance of losses. Lower-risk investments, on the other hand, are safer, but tend to have lower rewards.

The 100 minus age rule is based on the idea that your risk tolerance matches your age. Younger investors, the theory goes, will have their money in the market for longer, and therefore more time to ride out any market fluctuations and sell when they're up. Investors who are close to retirement, or already retired, are likely already taking money out of their portfolios to cover day-to-day living costs, and can't afford to take as much of a chance on higher-risk opportunities.

But there is also a personal factor at play here. Some people simply don't like risk, while others are comfortable with uncertainty. This is partly due to personality and partly based on what kind of safety net you might have, be it a high salary or net worth, family money or other kinds of retirement support.

Investment advisers, robo-advisers and other investment tools will often ask you what your risk tolerance is. Some things to think about include:

- How soon will you need this money?
- How would you feel if the value of your investments plummeted?
- What is your future earning potential?
- Do you have other assets you can depend on if these investments don't do well?

WAYS TO INVEST

What are ESG, socially responsible or green investments?

The primary goal of investing is to make money, but that isn't necessarily the only goal. Many investors want to be selective about the kinds of things they're investing in. This preference has become more popular in an age of climate change and fossil fuel divestment, where people want to be confident their investments aren't accelerating global warming. Social issues are a factor, too; for instance, you might prefer to invest in companies who treat their workers fairly and have diverse representation at the board and executive level.

ESG, which stands for environmental, social and governance, is one term that's important in this space. ESG has no formal definition, but the general framework includes: promoting environmental sustainability and reducing a company's carbon footprint; fostering social justice and responding to concerns of local communities; having an independent board of directors and a diverse management team; and consistently allocating capital effectively to the benefit of shareholders and stakeholders.

Socially responsible investing, or SRI, and green investing can be seen as related terms that also refer to someone's desire to choose investments based on moral as well as financial factors.

What is DIY investing?

Do-it-yourself investing is pretty much what it sounds like: a method of managing your investments by yourself. Carrick points out that DIY is an especially appealing method for younger investors, who tend to have smaller portfolios that are not worth paying an adviser to help manage.

One reason to go DIY is to keep fees low. Investment fees are charged either on a percentage basis or as a flat fee – for making a specific trade, for example, or paying an adviser to help you organize your portfolio – and they can add up. The downside: the higher the fees, the lower the returns on your investments. Which means, notes Carrick, that too-high fees could even delay your retirement.

Carrick offers some guidance to investors looking to make regular investment contributions without having to pay too much in fees. He notes that some apps, robo-advisers and online brokers offer a range of options with no-fee purchases, and that you should check whether there are maintenance or other fees associated with the account.

How can you get help managing your investments?

The world is full of people who want to help you invest. The question is, how can you find advice that's trustworthy, and how much are you able to pay?

One economical option is robo-advisers. Carrick notes that these tools are ideal for newer investors with less budget to pay for management advice, but also extremely cost-effective for those with a higher net worth. Investing with a robo-adviser means setting up an account and paying a small fee to have a portfolio that fits your requirements designed and then managed. Then, all you have to do is keep adding to your account and the new funds will be automatically invested.

Searching online is another good place to start. The internet is teeming with free investment advice, writes columnist Bridget Casey. A lot of it is geared toward people who are just starting out on their investing journey. And while being charismatic on TikTok isn't a reliable qualification for giving out stock tips, the fact is, says Casey, much of the investing information you can find online is actually really good.

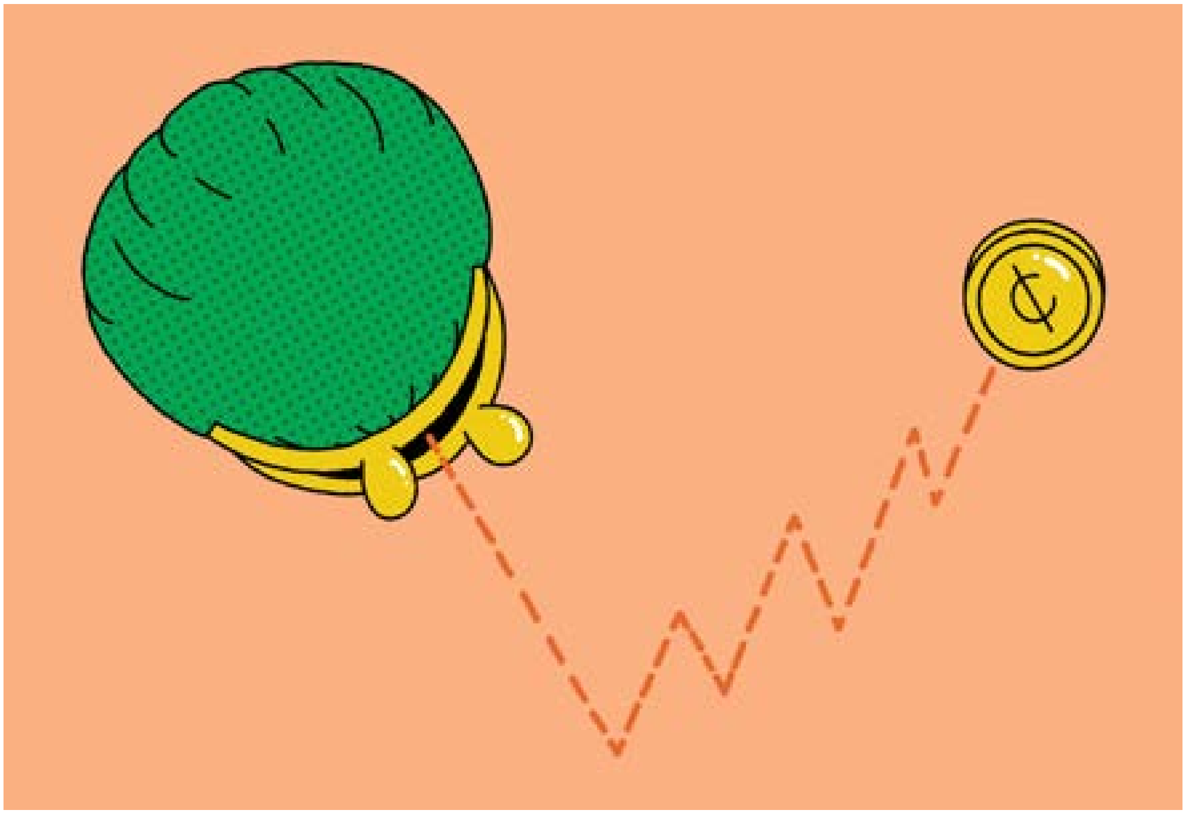
When looking for investment advice, one important thing to think about is the motivation of the person or organization giving the advice. This is what Carrick has in mind when he says, "I'd rather see someone use a robo-adviser than go to a bank branch to buy mutual funds from a salesperson." Salespeople are paid by – and primarily motivated by – the owner of the product they're selling, not the needs of the customer. A financial consultant who earns income solely from investors paying for their guidance is motivated only by the needs of their customers, at least in theory.

If you're looking for a fee-for-service financial planner to help you create an investment plan, Carrick suggests it might cost in the range of $1,500 to $4,000, or more. He suggests getting in touch with a planner to get an idea of what precisely they offer and what it will cost you.

The bottom line

What is investing? Three things to remember

- Common investments include stocks, bonds and real estate
- A good investment doesn't need to be flashy – it only needs to match your financial needs
- Investing earlier in life is a smart strategy



How to start investing with little money

Even if you are a beginner investor or on a tight budget, there are ways to get started investing: Set up auto-withdrawals for small amounts of money, make an investment plan and pick tools that work for you. Here's what to know to pick the best investing tools for you

One of the truisms of personal finance is that time is an asset when it comes to investing: The earlier you start, the more time your money has to grow. This is true even if you don't have a lot of money. For one thing, it's good to get into the habit of putting something aside for the future. For another, even small amounts of savings will reap rewards over the long term.

Of course, when you're starting small, you're not going to be signing up for an expensive financial planner or a wealth adviser who only takes on clients with a high net worth. So how do you begin? This guide will walk you through the basics.

Invest for long-term gains; save for short-term goals

One thing to keep in mind is that there is a difference between saving and investing. Saving simply means putting money aside, whereas investing means you're using your money (or another asset) to try and earn financial returns. Remember also that investing is about risk and reward. Investing gains are rarely guaranteed, and that's the tradeoff you make: recognizing you could lose money.

"As a rule, investing is for long-term goals, saving is for short-term goals," says independent investment consultant Darryl Brown, who defines short-term as within the next five years. The volatility of stock markets means that they're not the best place to put money you'll need in the near future. The ideal investing time frame for stocks, says The Globe and Mail's Rob Carrick, is 10 years or more.

Mr. Brown recommends that people ensure they have an emergency fund: at least six months' worth of living expenses put aside in a safe and easy-to-access location, such as a high-interest savings account. Once your emergency fund is set up, you can start directing funds into an investment account to start building a long-term investment portfolio.

Look for 'free money': Does your employer have a top-up program?

If you have investment top-ups available to you, they're a good place to focus your initial investment efforts.

For example, many employers offer matching contributions to workplace retirement savings plans. This means that if you sign up for the company pension plan, group registered retirement savings plan or other similar initiative, your employer will put money in alongside your own contributions. Mr. Carrick calls it "free money" and gives one example of a company that pitches in 50 cents for every dollar an employee invests and, remarkably, still struggles to get people to sign up.

Registered education savings plans (RESP) are another example. They are a government savings tool to help families save for their children's education. Opening and contributing to an RESP gives you access to government grants and top-ups, and the earlier you open these accounts, the longer your money has to grow. Low-income families are eligible for grants even if they aren't able to contribute their own cash – but they do have to create an account. If you have children, make sure you're maximizing your benefits from this program.

Make a budget and set up automatic withdrawals

Even if your income is low, it's a good idea to get into the habit of creating a budget that includes money for investing. The trick is to pay yourself first, what investor Jack Harding defines as treating saving and investing just like your rent or mortgage – an absolute necessity. "I view savings as a non-negotiable and set up automatic withdrawals to avoid temptation," he says.

Mr. Carrick also views automatic contributions as the key to a successful investing plan. If you save only when you have the money handy, you run the risk of never saving or not saving enough, he says.

Mr. Carrick recommends setting up an automatic transfer from your bank account to your savings or investment account that happens immediately after your paycheque is deposited. He suggests starting with a small amount that's comfortable – perhaps 10 per cent of your net pay – and increasing the contributions as you can, such as when you get a raise or a higher-paying job. "One of the great benefits of automatic saving is that you never have to think about saving," he notes. "Saving becomes so routine you may stop noticing that you're doing it at all."

If you're into apps and fun math tricks, you can also sign up for tools like Wealthsimple's Roundup, which links to your bank account, tracks the purchases you make with your debit or credit card, rounds them up to the nearest dollar and moves the difference into your investments.

As for actual dollar amounts, it depends on your situation and where you want to invest. Some robo-advisers, for example, have no minimum account balance, and will start investing your money with as little as $100 or $1,000. You can also find no-fee high-interest savings accounts to get your nest egg started.

How to make an investment plan

If the first step in investing is finding the money, the second is figuring out what to do with it.

It's important to be clear about your intentions for investing, Mr. Brown says: What are you trying to achieve, and why? This comes alongside understanding the risks that come with investing and how comfortable you are with them.

Mr. Brown suggests creating an investment policy statement, or IPS. You can do this on your own or with the help of a professional. The IPS is your investing road map. It will include things like your objectives, your risk tolerance, your liquidity requirements and any other personal factors. The idea is to create a plan that will help you reach your goals without getting sidetracked.

Look for low-fee investing options (including apps)

"All investors need to be fee-conscious," Mr. Carrick writes. "The less you pay, the more you keep from the returns generated by your investments."

When choosing an investment vehicle, it's important to be clear about what fees are involved, both in buying and selling and in maintaining the account. This is especially pertinent to investors with smaller account balances, for whom a flat fee of $10 for a trade or $25 for account maintenance can really make a dent in the total amount invested.

Mr. Carrick suggests a few options for low-fee investing:

1. **Use an app:** Free investing apps such as Wealthsimple Trade and TD Goal Assist, which offer no-cost options.
2. **Go robo:** Robo-advisers, which have low overall fees and are friendly to investors with small balances.
3. **Try online:** Online brokers such as Questrade and Scotia iTrade, which have no-fee options when buying exchange-traded funds.

Paying investment fees that are too high, Mr. Carrick notes, can eat into your returns to such an extent that you might have to work for years longer to make up the difference, which is why it's key to be on top of the issue from day one.

Robo-advisers vs. self-directed investing: Pick the investment tool that works for you

As online investing tools have become more common, do-it-yourself investing has turned into an extremely popular option, especially among younger people without a lot of money to invest. Because DIY investing is low-cost, it is ideal for people just starting out.

DIY is basically split into two categories: robo-advisers and self-directed investing.

Robo-advisers offer a "set it and forget it" approach, whereby you create a personal investing profile and start depositing cash and the system chooses what to buy and when.

Self-directed investing, on the other hand, involves a lot more hands-on effort : You set up an account, choose what to buy and when, and make the purchases yourself. While some people do all the research on their own, too, others might hire a for-fee financial adviser to set up a plan for them, or follow a recommended portfolio online.

Another consideration is whether to use something like a tax-free savings account or an RRSP, and if so, which one to choose. In general, investors with lower income are better off focusing on their TFSA, while those in higher income brackets will get more benefit from RRSP contributions.

This is because of differences in income tax treatment. With an RRSP, you get a tax break when you contribute, but have to pay income tax when you pull the money out later, usually during retirement. With a TFSA, you're contributing with after-tax income, which means no bonus tax refund now – but no tax to pay later.

The idea is you want to pay the tax at the time when your income (and tax rate) is lower, which generally means during retirement for those with big salaries, and now for those just starting out.

Remember that TFSAs and RRSPs are investment buckets, not investments per se – you use them as a container to hold the investments you buy.

So what should you buy? It's tempting to look for the next hot stock or up-and-coming industry. But for most investors, Mr. Carrick says, the best approach is to keep things simple. That means using diversified portfolios with a mix of stocks and bonds or guaranteed investment certificates that reflect your age, your investing needs and your comfort level with the potentially sharp ups and downs of the stock market.

That might still seem complicated, but Mr. Carrick breaks it down to two options that he defines as "easy and easier."

The first is self-directed investing, as mentioned above. In this case, he suggests using your investment account to purchase an asset allocation ETF, which is a fully diversified portfolio of stocks, bonds and, occasionally, a dash of cryptocurrency. This is a low-cost, all-in-one option – you only need to buy one thing and all the diversification is built in. "A lifetime's successful investing could easily be based on pouring money into a balanced ETF for several decades," Mr. Carrick says.

The even easier option, he adds, is to sign up with a robo-adviser. They cost slightly more than self-directed investing, but that's because they offer additional value to you in terms of support and guidance. Robo-advisers will also put your money into a diversified portfolio of ETFs (and occasionally other kinds of investments) that are chosen based on your personal investing profile.

THE BOTTOM LINE

Get started investing

1. Pick a low-fee investing platform such as a self-directed investing account or a robo-adviser.
2. Set up automated contributions from your bank account into your investing account.
3. Use the funds you deposit to purchase a diversified portfolio that meets your risk tolerance and other needs.

ETFs 101: What are exchange-traded funds?

An exchange-traded fund is a popular investing option – especially for beginners – looking for a low-fee ways to add diversification to their portfolio. Here's what to know about the pros and cons of ETFs, types of ETFs and how to get started

If you've read anything about investing, you've heard of ETFs. Short for exchange-traded funds, they've become a popular option for investors looking for easy diversification without a lot of fees attached. But what are they exactly, and how do they work? This guide explains.

What is an ETF?

An ETF is essentially a basket of investments such as stocks or bonds. In this sense they're similar to mutual funds, but unlike mutual funds, shares of ETFs can be traded throughout the day on an exchange, much like an individual stock.

The first ETFs were created in the 1990s to offer individual investors a simple, liquid way to invest in entire market indexes, such as the S&P 500. They've become hugely popular: In Canada, there were a record 201 ETF launches in 2021, and there are more than 1,200 ETF options overall.

An individual ETF is a specific grouping of investments. There are niche ETFs that hold various investments that fit a particular profile – clean energy, for instance – while asset allocation ETFs can be thought of as "an instant portfolio of Canadian, U.S. and international stocks, plus bonds designed for a particular investing need."

What are the benefits of ETFs?

There are three key benefits to ETFs: Diversification, lower fees and the convenience they offer.

1. Diversification

One thing many investors like about ETFs is their simplicity: They provide diversification at a low cost. This is especially true for DIY investors who don't want to devote all their time to managing a complex portfolio. "The idea is not to beat the market, but rather to be the market," writes Globe and Mail contributor Joel Schlesinger. History shows that for the most part, after fees, actively managed portfolios – those in which professionals are choosing what to invest in – don't perform any better than markets overall, he adds.

2. Low fees

That leads to the second advantage of ETFs over other investment tools: They tend to have low fees. Globe columnist Rob Carrick likes asset allocation ETFs in particular, which offer a fully diversified portfolio in a single package. "The cost of owning asset allocation ETFs is extremely low, and the cost of buying them ranges from zero to just under $10 per purchase," he writes.

3. Convenience

Portfolio manager Dan Bortolotti is also a fan of asset allocation ETFs, because of their simplicity. You just buy one thing and keep buying it while it rebalances itself automatically. "When you add new money to your portfolio," Mr. Bortolotti says, "you don't have to decide where to allocate it. You just buy more shares of the only ETF you own. That way every contribution doesn't turn into a market-timing decision."

What kinds of ETFs can I buy?

Since ETFs were introduced three decades ago, the bulk of capital invested has been in low-cost index funds that cover wide swaths of the market. Still, despite the general tendency to get fees as low as possible, ETF providers are also launching more niche active management and sophisticated strategies that come with higher costs.

Many experts recommend that investors pick the low-cost ETFs with broad diversification as a simple, cheap and effective strategy. "Your biggest determinant of success, if you are an index investor, is to reduce the cost because every basis point that you pay to get exposure to that index is going to work against you," says Mark Noble, executive vice-president of ETF strategy with Horizons ETFs Management (Canada) Inc. (A basis point is one-hundredth of a percentage point, or 0.01 per cent.)

That said, there are also a wide range of niche ETFs covering just about everything under the sun.

- **Crypto ETFs** hold shares in specific cryptocurrencies such as bitcoin or ether.
- **Real estate investment trust ETFs** contain shares in REITs covering various sectors such as housing and retail.
- **Sustainability-focused ETFs** offer investors the chance to align their holdings with their values by choosing funds that either use environmental, social and governance factors in their buying process, seek to make an impact around ESG-related issues or invest in a specific environmental sector such as water.
- And for those who need a convenient place to park some cash, **high-interest savings ETFs** invest mainly in high-interest savings accounts and deposits from big banks.

How do ETF fees work?

When you own ETFs you pay a percentage of your holdings in fees. This is largely expressed in one number, the management expense ratio. The MER is the main cost of owning an ETF on a continuing basis and will vary depending on the product. For asset allocation ETFs, says Mr. Carrick, you can expect to pay about 0.2 to 0.24 per cent, while MERS for niche ETFs tend to be a bit higher.

For comparison, he plugged some numbers into the Ontario Securities Commission's GetSmarterAboutMoney calculator to see the difference in investing $10,000 in an ETF with an MER of 0.25 per cent versus a similar mutual fund with an MER of 1.75 per cent. He found that the total fund value after 10 years, assuming 7 per cent annual growth (before fees), would be $19,216.70 for the ETF and $16,680.96 for the mutual fund – a significant difference.

You may also need to pay a fee to buy or sell. Whether this is the case depends on your broker and the specific fund. If you want to make frequent transactions, such as putting money in on a monthly or biweekly basis, it's worth looking for options with zero transaction fees.

"All investors need to be fee-conscious – the less you pay, the more you keep from the returns generated by your investments," Mr. Carrick writes. "But young investors, with their small account balances, have added reason to mind their fees. Paying $150 in commissions and fees per year on a $10,000 account drags down returns by 1.5 per cent a year."

Where can I hold ETFs?

ETFs are bought and sold on the stock market, and as such, you can hold them in an RRSP or TFSA as well as in a nonregistered account.

Mr. Carrick also recommends ETFs to those putting money into RESPs to save for children's education. "Consider setting up an RESP account at an online broker and using it to invest regularly in an asset allocation exchange-traded fund, also known as a balanced ETF," he writes.

He suggests that a more aggressive portfolio is a good choice when kids are young, and money can be shifted into more conservative options as they grow up. "My own RESP strategy was to dial back the aggressiveness somewhat when our boys began high school and then take the risk out completely in the Grade 12 year by moving into guaranteed investment certificates,” he writes. “At that point as a parent, your job is to preserve what you’ve built through years of RESP contributions.”

How to get started with investing in ETFs?

Because of their simplicity, ETFs are popular with DIY investors, and they’re easy for you to buy on your own with an online brokerage account. The broker you choose should offer an explanation of how to buy and sell on their platform.

If you’d rather be less hands-on, you might want to choose a robo-adviser to manage your investments. They’ll pick a selection of ETFs matched to your personal investment profile and balance your portfolio automatically.

GICs 101: When is a guaranteed investment certificate worth investing in?

A guaranteed investment certificate is considered a safe investment – unlike with stocks, you don't risk losing your money. GICs are an investment tool whereby you lend money to a bank or other financial institution for a specific term in order to earn interest started

GICs have been in the news as interest rates rise in response to inflation. In fact, there has been a surge in demand for GICs thanks to favourable rates that might just be the best in more than 20 years. But what is a GIC, how does it work, and is it the right choice for your investments?

What is a GIC?

GIC stands for guaranteed investment certificate. It's an investment tool whereby you lend money to a bank or other financial institution for a specific duration of time (the "term") in order to earn interest. GICs can have either fixed or variable interest rates, and in general, the longer the term, the higher the rate. Depending on the product, interest might be paid out monthly, annually, at maturity (the end of the term) or on another time frame.

GICs are considered a safe investment – unlike with stocks, you don't risk losing your money. And even if something were to happen with your bank, the federal government – through the Canada Deposit Insurance Corp. (CDIC) – guarantees the GIC's combined principal and interest payments up to $100,000.

Where can GICs be purchased?

You've probably seen ads for GICs from the big banks, but while they're a major seller of these products, they're not the only place to buy. Numerous other financial institutions such as trust companies, smaller banks and credit unions offer them as well. It's often worth shopping around for the best options before you buy – don't be surprised to find higher interest rates outside your regular bank.

A note about insurance: Through the CDIC, GICs from banks and trust companies are insured up to $100,000; GICs from credit unions and caisses populaires are insured provincially.

How do GICs work?

In some ways, GICs seem like a savings account – you leave some money in the bank and it pays you a percentage in interest. The major difference is in liquidity. Most GICs are non-redeemable, meaning you're committing that money to the issuer for a specific period of time. If you put $5,000 into a five-year GIC, for example, that $5,000 is locked in until the five years are up.

Non-redeemable GICs are hard, if not impossible, to cash out of before maturity. If there is a way to exit early at all, you should expect a penalty fee. However, there is an alternative for investors who need liquidity: the cashable GIC. You won't get the same rates as with a standard GIC, but you might still be able to beat the rates on high-interest savings accounts.

You can hold a GIC inside a registered account such as a tax-free savings account, registered retirement savings plan or registered retirement income fund, or in a non-registered account.

What is a market-linked GIC?

Market-linked guaranteed investment certificates are promoted by sellers as offering the best of both worlds: the guaranteed income and lack of risk standard in a GIC plus the promise of more earnings should the stock markets perform well. Interest rates are lower than regular GICs, though, and unlike with stocks, your principal is locked in for an entire term.

Rob Carrick, The Globe and Mail's personal finance columnist, is not a fan of these products. "They are financially engineered to produce profit for the bank while paying investors returns that could easily be worse than a regular GIC," he says.

"The latest spin on this product is GICs linked to the performance of socially responsible companies. Socially responsible banks would kill these products dead."

What are some pros and cons of GICs?

The biggest pro is in that G: guaranteed. GICs are considered a safe investment choice for people who can't – or don't want to – take risks with their money.

The downside that comes with that, though, is that the money is usually locked in, meaning it's not liquid – you can't take it out if you need it without paying a penalty. Not having access to the money is its own kind of risk, depending on your situation, and you might also be missing out on opportunities to earn higher interest (should rates go up) or better returns via a different investment vehicle.

'Laddering' investments and auto-renewals: Tips for investing in GICs
If you're thinking of putting some money into GICs, it's a good idea to look at both interest rates and terms. Typically, the more years you lock in your money for, the higher the interest rate. That makes it tempting to pick a longer term, but it might not be the best choice, notes John Heinzl, who writes The Globe's Investor Clinic column: "If interest rates continue to rise – as many economists expect – you'll be stuck collecting the same yield for the next five years."

One way to deal with this is "laddering," a way of distributing your GIC investments so you have access to some of your money every year and can take advantage of rising interest rates. (Laddering also exposes you to falling interest rates, but that doesn't seem to be in the cards right now.)

Mr. Heinzl suggests laddering your GICs across terms of, say, one, two and three years. When the one-year GIC matures, reinvest the cash in a new three-year GIC. A year later, do the same with the proceeds of the maturing two-year GIC. And so on.

Another thing to watch for is auto-renewals. While some GIC sellers will contact customers at the end of a term to find out what they want to do with their funds, others are automatically renewed upon maturity, meaning your money will be locked in for yet another term.

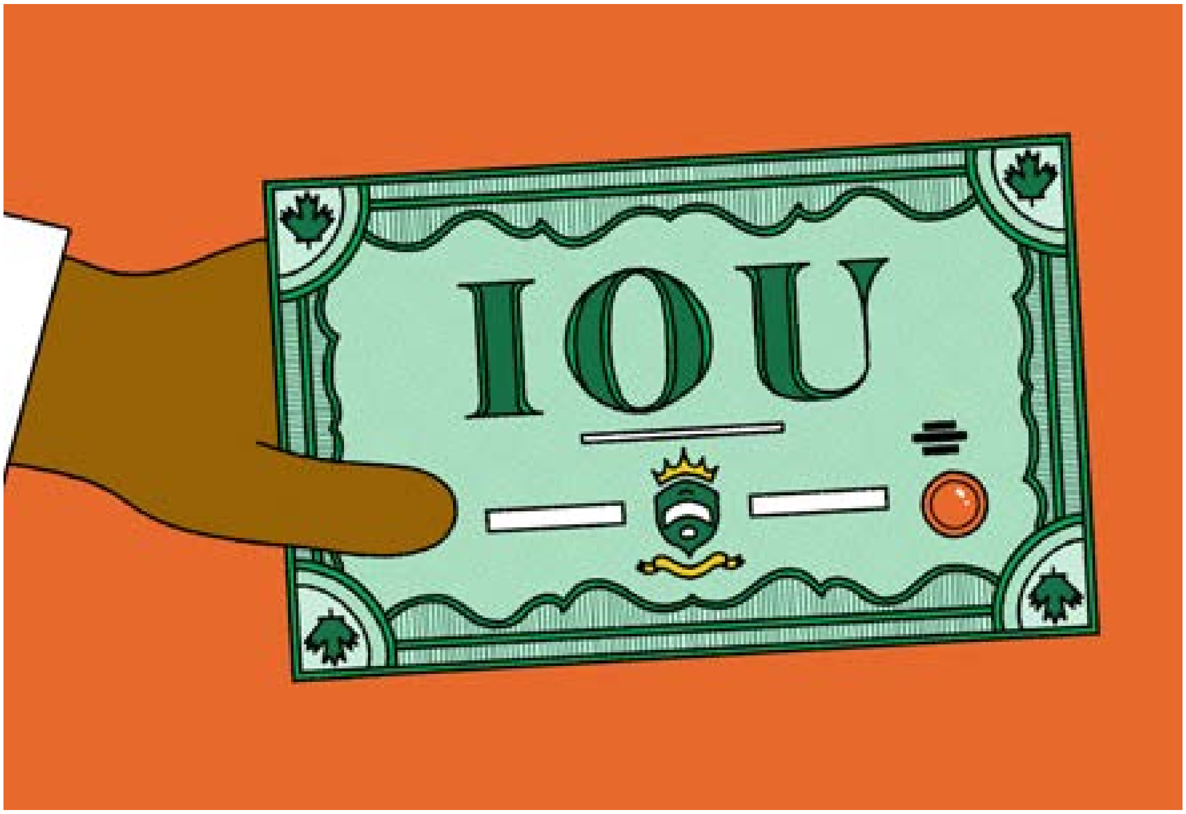
The danger of auto-renewals lies in forgetting about your maturing GIC. Imagine having a five-year GIC auto-renewed a year ago for five years, just as it started to become clear that rates were headed higher as a result of stubborn inflation. A one-year term would have been a good call.

Or, you might find better rates at another bank or credit union and want to transfer your maturing money there. Some GIC issuers are consistently competitive with returns, while others may rarely or intermittently offer strong rates.

Before buying, ask whether your GIC will be automatically renewed on maturity unless you say otherwise. And make a note somewhere to get in touch with your GIC issuer a month or so ahead of maturity to provide instructions.

Are GICs worth investing in?

If you'll be needing your money to make a major purchase in the next few years, says Mr. Heinzl, or if you can't tolerate any market volatility, then by all means consider GICs for the certainty they provide. But if you're investing for the long run, you may be better off looking at stocks or exchange-traded funds, which have a long track record of beating inflation, albeit with more volatility along the way.



What are bonds? How do they work?

Bonds are, essentially, loans from investors to governments or corporations. There are many types of bonds, including government, corporate, high-yield and foreign bonds. Here's how they work and the benefits – and risks – of the investment asset class

KELSEY ROLFE

Most retail investors traditionally have two main asset classes in their portfolios – stocks and bonds. (A balanced portfolio, by definition, contains both.) But while everyone loves to watch the stock market, and worry about its ups and downs, fewer investors pay as much attention to bonds. Many don't really understand how they work and the benefits, and risks, of investing in them.

Here's a primer on bonds and their value in a portfolio, along with some insights from personal finance and investing experts.

What are bonds?

Bonds are essentially loans from retail or institutional investors to governments or corporations. Companies and national, provincial (or state) and municipal governments issue bonds to raise money to pay for projects and operations, such as financing new public infrastructure (in the case of governments) or to fund capital expenditures, research and development, or even continuing operations.

These investment securities have a fixed term, usually starting at one year and ranging up to 30 years. At the maturity date (the end of the fixed term), the borrower repays the investor the principal amount. Along the way, bonds also make payouts at a set interest rate, called a coupon, usually on a semi-annual basis. A bond's yield is its rate of return, but there are multiple ways to calculate this. A bond's current yield factors in the bond's coupon and current price: For example, if you purchased a bond with a $1,000 face value and a 5-per-cent coupon for $900, its yield at that time would be 5.5 per cent. (The yield will vary as the bond's price changes.) Its yield to maturity, meanwhile, is a complicated calculation for the bond's total rate of return once all the interest payments and the face value have been paid.

A bond's face value is how much it will be worth at its maturity date, which is also the amount the issuer bases its interest calculation on. After its initial issuing, you can buy it on what's called the secondary market, where its price will fluctuate depending on demand, just like a stock's. But unlike the stock market, where you can see stock prices increase and decrease in real time, a bond's secondary market is a decentralized and opaque "over-the-counter" market between bond dealers, such as financial institutions and investment managers.

(At this point, if you are wondering about Canada Savings Bonds, they don't exist any more. They were offered by the federal government from 1946 to 2017 so it could raise funds for capital projects while giving Canadians a safe investment with a minimum guaranteed interest rate. The government also offered something called Canada Premium Bonds starting in 1998. As of December, 2021, all CSBs and CPBs have reached maturity and stopped earning interest.)

How can I buy bonds?

You can buy bonds during their initial offering and access the secondary market through a broker, or an online discount brokerage.

If you want exposure to bonds without purchasing them outright, you can do that through bond exchange-traded funds, which are traded on the stock market, and via bond mutual funds. These funds tend to invest in a mix of bond types for diversification purposes, and you can purchase funds that invest specifically in short-, medium- or long-term bonds, or a mix of all terms.

Some bond funds are actively managed, while others passively track the performance of a bond index like the FTSE Canada Universe Bond Index. It's important to understand that while bond funds of this sort rise or fall in value based on prices in the bond market, these funds never mature like a traditional bond.

What's the relationship between interest rates and bond prices and yields?

The connection between bonds and interest rates is relatively simple: when interest rates rise, bond prices fall, and vice versa. This is because a bond's price reflects the value it will deliver to the holder in interest payments.

In a rising-rate environment, existing bonds with lower coupons will sell at a bigger discount on the secondary market, because their interest payout is no longer competitive. During times where rates are falling, bonds with higher coupons become much more valuable.

Even as rising rates batter bond prices, they're a boon for yields, which move inversely with prices.

Many bond managers have started shortening the maturity of their holdings over the past few years in anticipation that record-low interest rates would start to rise, said Melissa Caschera, an investment adviser with BMO Nesbitt Burns in Windsor, Ont. "If we have shorter terms of maturity on bond yields, there's more opportunity to hold to maturity and get the full value of that bond," she said. "When you get the fully matured value you can put that cash to work to buy another bond at a higher coupon."

Investors are quickly returning to a world where it pays to play it conservative, Ms. Caschera said. For so long, bond investors were only getting yields of 1 per cent to 2 per cent, if that. "Now folks with money are finally going to get paid to loan their money out," she said.

Globe personal finance columnist Rob Carrick noted in June, 2022, that with yields rising sharply, investors with a long-term mindset may have some interesting opportunities in investment-grade corporate bonds.

What are the pros and cons of buying bonds?

There's a reason why bonds have always been the supporting player in the traditional 60-40 balanced portfolio. Owning them gives you a reliable stream of passive income in the form of regular interest payments. Investors should expect an annualized return of 2.8 per cent from bonds over the next 10 years, according to 2022 guidelines that Canadian financial planners use for projecting long-term investment returns, inflation and more.

What are the benefits of bonds?

They also act as a cushion in your portfolio during times of equity market volatility. "Bonds are going to be fairly stable when the overall stock market is performing poorly; that has been the relationship that's existed for decades," said Darryl Brown, investment planner and founder of You&Yours Financial.

Falling bond prices can be alarming, but Ms. Caschera noted investors' perceived losses are only on paper rather than in their pocketbook – particularly if they hold the bond to maturity and receive the full face value of their investment. Changes in a bond's price do not matter if you don't intend to sell it – the price reflects what investors are willing to pay for a certain income stream, and what the market thinks about the direction of interest rates and the overall economy.

Given their long time horizon to maturity, longer-term bonds carry greater duration risk, which is the sensitivity of the bond price to interest rate changes. For that reason, issuers of these bonds tend to offer higher yields to entice prospective buyers.

What are the biggest bond risks?

In addition to sensitivity to interest rates, bonds carry other risks. All bonds, with the exception of U.S. Treasury or Government of Canada bonds, are exposed to default risk, or the possibility that the issuer could fail to pay back the face value – including provincial and municipal bonds, though their risk of default is considered low. Most bonds also face inflation risk, or the possibility that the purchasing power of interest payments could decrease in an inflationary environment.

Diversification is just as important in a bond portfolio as it is in stocks, said An-Lap Vo-Dignard, senior wealth manager and portfolio manager with Vo-Dignard Provost Family Wealth Management at National Bank Financial in Montreal. Holding bonds of different credit quality and issuer type, region and currency can help mitigate exposure to any one risk.

Mr. Vo-Dignard also encourage diversifying along the yield curve. The yield curve is a term for a graph that plots the yields of bonds of the same credit quality but different maturity dates. In a normal yield curve, longer-term bonds will offer higher yields than shorter-term investments, which indicates economic stability. A steeper yield curve points to expectations for strong economic growth. An inverted yield curve, meanwhile, occurs when short-term interest rates and bond yields are higher than longer-term ones, and is usually indicative of a recession or an impending recession. The U.S. Treasury publishes the most regularly reported yield curve, which compares three-month, two-year, five-year, 10-year and 30-year Treasury Bills.

What are the different types of bonds?

Bonds are organized by the issuer type. It's important to keep in mind the issuer's financial health and creditworthiness: These factors help determine how the bond's yield, but also the issuer's risk of defaulting before the end of the bond term.

Government bonds

Government bonds are debt issued by national governments. Those issued by the Government of Canada or the United States Treasury are considered risk-free investments because of their high credit quality – the Canadian government, for example, has a AAA credit rating – which means the issuer is incredibly unlikely to default. Their value to investors is in the guarantee they provide, but because of that safety, government bonds are often the lowest yielding.

Provincial bonds

Provincial bonds are issued by the provincial governments, and are considered a high-quality, secure investment given the provinces' ability to collect taxes. They offer slightly higher yields than Government of Canada bonds, but can vary depending on the provinces' credit quality, political risk and other factors. In addition to guaranteeing their own bonds, many provinces guarantee the bonds of provincial agencies.

Municipal bonds

Municipal bonds are issued by municipal governments. While in the United States municipal bonds are tax-exempt, there's no such provision in Canada. Municipal bonds are generally considered a safe investment because of local governments' taxation powers, but their credit rating and yields vary. Municipal bond issues can be guaranteed by their home provincial government, but not all will be.

Investment-grade corporate bonds

Investment-grade corporate bonds are those issued by companies with strong financials and credit ratings of at least a BBB by Standard & Poor's (or equivalent by rating agencies such as Moody's and Fitch). They're unlikely to default, but are still considered more risky investments than government bonds.

High-yield bonds

High-yield bonds are also known as junk bonds, and are issued by companies with credit scores below a BBB. While they promise significantly higher yields, it's important to remember that these come with much higher risk, said Jennifer Tozser, senior wealth adviser and portfolio manager with Tozser Wealth Management at National Bank Financial in Calgary. "The guarantee is only as good as the person issuing it. There's no implied government guarantee [in a high-yield bond]. Just because it's a bond doesn't mean it's a safe slam-dunk."

Foreign bonds

Foreign bonds, which are issued by foreign governments or companies, provide a form of portfolio diversification by giving you exposure to other countries and currencies, Ms. Tozser said, though she noted these can be higher-risk investments, depending on the country.

So, should I be investing in bonds?

If you have a balanced fund, a bond mutual fund or bond ETF in your portfolio, you're already invested in bonds. As Mr. Carrick noted in a 2019 column, bond ETFs are able to acquire bonds at better prices than retail investors could manage on their own, and even after management fees the yields on these ETFs can be "quite competitive."

While this is the easiest approach to investing in bonds, Mr. Carrick noted it may not be the best. Bond ETFs in particular can fall in price when interest rates rise. Individual bonds bought through a broker or an online brokerage will at least mature and pay you back your principal.

Ms. Tozser noted that major brokers typically have a wider range of bonds than retail investors can access on their own.

The bond market can be challenging for online brokerage account users. However, online brokerages often list the types of bonds available through their platforms and have a more detailed list of all available issuances to allow you to compare and find the term, yield, and risk level that aligns with your investing philosophy. But, Mr. Carrick said, it's worth keeping in mind that online brokers "use bonds as a profit centre and don't price them competitively. The higher the price you pay for a bond, the lower the yield."

Investing apps 101: What apps are available in Canada and are they safe?

An investing app – like those from Wealthsimple, QuestMobile or many of Canada's big banks – is a simplified trading platform that can be used for a wide range of investments. Here's what you need to know

ROSEMARY COUNTER

When it comes to investing, just like everything else these days, there's an app for that. Rapid advances in technology had already spurred steady growth in the number of financial apps you can download to your smartphone. Then the pandemic hit, and according to a report by Environics Research, within a six-month period in 2020, the adoption of digital financial tools advanced by at least three to five years. That means a whole lot of people at home on lockdown took to investing apps, which let you trade securities and manage your portfolio through your phone.

Here's the answers to some common questions about active investing apps.

What is an investing app?

At its most basic, an investment app is a simplified trading platform that lets users buy and trade securities on their mobile phone or tablet rather than a desktop computer (though some will let you do that too) or through a traditional full-service broker.

Investment apps are used for online trades of a wide range of investments, from stocks and bonds, mutual funds, ETFs or, increasingly, cryptocurrencies. Some apps let users hold investments in RRSPs, TFSAs or RESPs. Users choose their own investments and buy and sell on their own. (Robo-advisers which pick investments – typically ETFs – and buy and sell automatically can be considered a subset of the investment app universe.

Some charge a monthly fee, others charge instead by individual trades, and some are free of charge – at least initially.

How are investing apps different from other ways to invest?

Convenience, speed and ease of use are a claim to fame for most investment apps, and the brands therefore compete against each other to be sleeker, faster and cheaper than their rivals. Most offer a streamlined platform and simplified design for an easy and "intuitive" user experience that lets users skip a broker (and their commission fees). The big lure of investment apps, therefore, is a promise of low or no monthly fees, and zero-commission trading. A drawback is that if and when you want the advice of an actual human, you're mostly out of luck. (You'll likely get tech support and answers to simple questions, but no real investment advice.)

There are also in-app extra features such as finance news, market research, company data, and investment tips from money experts of all kinds, though these sorts of perks are often available as in-app purchases atop a free download. To get your business the apps advertise with sales and perks to join or upgrade. For example: "Get $50 in free trades!" or "Get two free stocks when you deposit $150!"

What investment apps are available in Canada?

The splashiest investing app north of the border is probably Wealthsimple Trade. "It wasn't just a mobile version of something else, it was just and only an app," explains Jessica Moorhouse, money expert and CEO of MoorMoney Media Inc. Billed as Canada's first no-commission stock trading app, Wealthsimple Trade launched in March, 2019.

Mobile-first and mobile-only brokerages like Wealthsimple then pressed established brokerages to modernize their mobile platforms to keep up with client demand. "Almost every brokerage in Canada now has some kind of investing app," says Enoch Omololu, founder and CEO of Savvy New Canadians. In 2021, Questrade launched QuestMobile, for example, while Interactive Brokers launched IBKR GlobalTrader in 2022.

The old-fashioned banks, meanwhile, are catching up with recently launching mobile apps for investors: CIBC Investor's Edge, Scotia iTrade, TD Easy Trade, BMO InvestorLine and RBC InvestEase. Desjardins Online Brokerage uses the Disnat trading platform app. National Bank has an online brokerage platform but not an investing app just yet. None are quite as user-friendly, at this point, as more established rivals, Mr. Omololu says.

How much do I have to pay to play?

Just like you, investment apps want to make money. But their strategies vary.

Most Canadian investment apps make their money by charging per trade. A low trading commission is Questrade's $4.95 charge, while the big banks usually hover around $10 for each buy or sell. Also, some charge a (low) flat monthly fee (Moka's, for example, is $3) while others, like National Bank, charge $100 annually. Some charge a management fee on investment accounts, usually between 0.25 per cent (Questwealth Portfolios) and 0.5 per cent (Wealthsimple Invest).

Who is using investing apps?

Apps like Wealthsimple in Canada and Robinhood in the U.S. are a big hit with young investors. "Most of us were quite shocked how the introduction of these apps increased the participation in the stock market by people who had no interest or knowledge before," Mr. Omololu says. He describes the boom in investing app development of the last few years of as "kind of a frenzy."

These apps have made investing appealing and accessible to a new cohort of investors who don't have large sums of money and a fancy financial adviser. "You don't need a ton of money. You don't even need a computer, just a phone, and you have ready access to start," he says. "There is a very low barrier of entry here."

Naturally, app developers always have demographics in mind. "These apps are pushed hard to Gen Zs and young millennials who are always on their phones, and on the go, so these apps feel like a game you play," Ms. Moorhouse says.

The "gamification" of investing is a hotly debated topic in the finance industry. On one hand, it's brought new – and younger – traders into the market. Users often start with small amounts – even just $1 – and trade rapidly to grow their bottom line. All day, around-the-clock access to their portfolio lets these traders cash in quickly when the opportunity arises (though they can lose just as fast).

Who should avoid investing apps entirely?

Investment apps are specifically geared toward active traders who, at least theoretically, play close attention to market fluctuations. A user playing an investment app like a game, however, is likely not taking time for the careful research that you'd certainly do if that $100 on the line were $100,000.

Passive investors who would rather invest once and ignore bumps along the road are unlikely to enjoy the ups and downs that the app will reveal all day. Ample alerts and nudges from the app could be stressful and unwelcome to passive investors.

And other people will just never be comfortable buying stocks on their phone while distracted. "Personally, I like a bigger screen to make sure I don't make a mistake," Ms. Moorhouse says. "I use my phone for podcasts and YouTube, not investment decisions."

Are investing apps safe?

Misreading a teeny-tiny screen or accidentally clicking the wrong button with your thick thumb aside, investing apps are about as safe as banking on your mobile phone. Good privacy habits include all the usuals: Don't use public WiFi, always lock your phone (preferably with face-recognition), choose a secure password and change it often, and never share your account information with anyone.

Although sketchy apps are a far bigger problem in the United States, be sure to choose a secure app that you can trust with your money and information. As usual, anyone investing anyone else's money needs proper licences, which you can (and should) check with the Canadian Securities Administrators' National Registration Search and the Canadian Investor Protection Fund's Member Directory.

Once you're in and set up, one risk to consider – aside from the obvious risk of losing all your money via bad investment choices – is to your bank account via hidden fees or charges when you exceed limits. For example, some apps might lure you in with an enticing 50 free trades, then ding you hard when you hit 51.

The bottom line is even so-called free apps have to make money – and do. "If you want to buy a U.S.-listed stock or U.S.-listed ETF, they'll charge you to convert your money and then charge you again to convert it back to Canadian dollars," Ms. Moorhouse said. As always, be sure to read the fine print.

How do I get started? How much money do I need to start?

Assuming you already have a smartphone and a bank account, the first thing you'll need to start is official identification and proof of address, which apps ask for to confirm your location (laws vary in different countries, and some apps that are legal in the United States are banned in Canada.)

For beginners, Globe personal finance columnist Rob Carrick recommends Wealth-simple Trade. "For a young investor just starting out," he writes, "this option has a big advantage in that there are no commissions or fees for standard trades." That said, a caveat: "Wealthsimple Trade arguably makes trading too easy and tempting, especially for rookies."

And as far as money you need to start, good news: While some like Questrade have a $1,000 minimum deposit, others require a single dollar or nothing at all. The popular Moka app automatically rounds up your daily credit or debit card purchases, collecting your spare change and putting it into your investment account every week, no extra saving or financial savvy required.

How do I choose which app to use?

Do some research (this story counts!) and choose an app that best matches your needs, goals and experience. A hands-off investor who's more inclined to buy and hold, for example, would do well with Questrade; someone who plans to do their own buying and trading all day would do better with Wealthsimple Trade's no-commission model.

Here's a bit of a Catch-22: Most users of investment apps might well fare better with a robo-adviser instead, a set-it-and-forget-it system where an algorithm makes all the decisions. But the personalities who want to use these apps do not usually want to outsource the fun of buying and selling.

"Personally, I've seen a lot of people these last few years who have lost a lot of money," Mr. Omololu says. "And it's more unfortunate because an increase in use of these apps corresponds with a decrease in other investments that would have seen gains."

If you want the thrill of playing big without the actual financial risk, there are also many "investment simulator" apps that offer practice stock training without any risk at all. Virtual Stock Exchange offers a popular Canadian Practice Portfolio, while Questrade offers a free 90-day practice account with a million (pretend) dollars.

The bottom line about investing apps

1. A slew of rookie investors took to investing apps during the pandemic, where users can buy and sell stocks and ETFs on their phones.
2. Provided you choose a trustworthy app and have good privacy settings, investing apps are as safe as online banking
3. Investing apps make money in different ways: Monthly or annual fees, a set charge-per-trade, a management fee or other charges, like converting currencies
4. Since competition between apps is high, expect offers and promotions offering you free trades or free money to sign up. There are also hidden fees, so pay attention.
5. As always, it's best to know your risk tolerance and have a clear sense of your investment goals before you begin.

What is a robo-adviser? Who should use one to manage their investments?

Robo-advisers are lower-cost automated digital tools for investing – meaning you don't have to get involved in the nitty-gritty of buying and selling funds. Here's what you need to know about how they work

You might have heard about robo-advisers, the automated digital tools that help you manage your investments without actually managing them, and at a low cost. But what are robo-advisers really, how do they work and how do you know whether they're the right choice for your finances? Here, we answer some common questions.

What is a robo-adviser? How do they work?

A robo-adviser is basically a software program that will automatically invest your money and balance your portfolio based on your investment profile.

Here's how it typically works. You go online, sign up for an account with the robo-adviser of your choice, and answer a series of questions about yourself and what you're looking for: things like your age, your risk tolerance, how long it will be until you need the money again, and whether you're looking for additional factors such as socially responsible or halal investing. The robot (it's not really a robot) will recommend a portfolio to you. Then you add money to your account, either in a lump sum or by setting up automatic withdrawals from your bank account.

After that, the software creates a portfolio of investments based on your profile and buys them with your initial funds. As time goes on, it will keep putting your cash in investments, and balancing your portfolio so it continues to match your profile.

The way this actually plays out depends on the robo-adviser. The steps might be slightly different, and each will work with a different set of investments. But the key points to remember are that the system is designed to be simple, so that you don't have to worry about managing your investments, and automated, so a human doesn't have to get actively involved.

What do robo-advisers invest in?

Robo-advisers generally invest in low-fee index-tracking exchange-traded funds, or ETFs. They'll pick a selection of these ETFs for your portfolio based on your personal investment profile, and keep balancing the portfolio as you make deposits and the investments shift in value.

Which specific ETFs they buy depends on the robo-adviser, as does whether they include non-ETF investments. BMO SmartFolio, for instance, offers five different portfolio options, all of which include a mix of equity and fixed-income ETFs. CI Direct Investing's range of portfolios runs the gamut from conservative to aggressive; in addition to stock and bond ETFs, CI Direct also offers real estate, private mortgages or other assets via private pooled funds.

Can you manage an ETF with a robo-adviser?

Robo-advisers buy ETFs on your behalf and manage your portfolio. But they will buy from their own selection of ETF options – you can't pick and choose specific ETFs within your account.

If there's a specific ETF you want to buy, you can look for a robo-adviser that includes it in their offerings. Alternatively, you can skip the robo-advisers and choose a self-directed investing strategy instead.

What are the pros of using a robo-adviser?

"Robo-advisers are an ideal investment solution for people willing to pay a modest fee to have a portfolio of low-cost exchange-traded funds built to their requirements and then managed on a continuing basis," says Rob Carrick, The Globe and Mail's personal finance columnist.

The benefits come down to two main things: convenience and cost-effectiveness.

The convenience comes from the fact that a robo-adviser is a set-it-and-forget-it system. Put a little bit of effort into creating your profile, organize a regular auto-debit from your bank account, and you don't have to think about your investments at all. There's also no need to set up an appointment or meet with anyone to get things started. Registration happens electronically, no paper required. Plus, you needn't have a lot of money to start an account. Some robo-advisers have no minimum account value at all, though they might not actually invest the money until it hits a certain threshold, like $1,000.

The other main benefit is that robo-advisers tend to be low-cost – which makes sense, since you're working with software, not a person with a salary.

How much does a robo-adviser cost?

You usually pay twice with a robo-adviser. One fee – a portfolio management fee – goes directly to them. It's charged as a percentage of your account holdings. As with any ETF investor, you'll also pay fees associated with those funds, which are deducted off the top of returns by ETF companies (net returns are reported to investors). While fees for buying and selling are generally included in the portfolio management fee, that's not always the case, so check that when you're comparing options.

How much does all of this add up to? It depends on who you're buying from. In November 2021, Mr. Carrick reviewed different robo-advisers on a selection of factors, including costs. He found that all-in fees for most options ranged between 0.33 per cent and 1.05 per cent.

Can a robo-adviser give personal financial advice?

It depends on what you mean by personal. Robo-advisers don't buy the same set of investments for everyone – they match each investment profile to one of their existing portfolios. But an investment profile is just that – a profile. It's not going to be tailored to your specific individual situation.

If you want personal advice or simply to talk to a human, most robo-advisers have a support system you can tap into. But if your personal financial situation is complicated, they may not be equipped to offer advice. In that case, it might be a good idea to hire a financial planner.

Robo-adviser vs. a financial planner: What is better?

Neither is better necessarily – it's just a question of which is better for you, right now.

The benefit of paying less in fees can be huge. Lower fees mean more money in your portfolio, and the difference can really add up over time.

But that doesn't mean fees are inherently a bad thing. It's a question of whether you're getting value out of them.

"Our clients rely on us for so many things – not just the investment piece – that I can't imagine a robo-advisor giving them what they need," says Mary Ellen Byrne, vice-president, portfolio manager and investment adviser at TD Wealth Private Investment Advice in Halifax. "Everything is interconnected. They want to know about when to take CPP and OAS, and if it's going to get clawed back. It's not just stock picking."

Most robos build cookie-cutter portfolios from a selection of exchange-traded funds designed to provide broad exposure to stock and bond markets, writes Tamar Satov in Report on Business Magazine. Wealth advisers, on the other hand, can choose from an open array of investment products on their clients' behalf, which may provide better diversification.

Robo-advisers vs. self-directed investing: Which is better?

The difference here is in both convenience and confidence. Using a robo-adviser means you don't have to get involved in the nitty-gritty of buying and selling funds, which is a time-saver. It also makes the buying decisions for you, which is a good choice if you're not confident that you have the knowledge to make such choices, and aren't interested in learning.

Essentially, you pay fees to a robo-adviser for a set of services: Setting up a portfolio to match your needs, investing money proportionately in all your funds when you make contributions to your account, reinvesting dividends, and periodic rebalancing – buying and selling ETFs to bring you back to your target mix of investments. You can also talk to people at robo firms to discuss your portfolio.

If you're happy doing all of those things on your own, then self-directed investing might be a good choice for you.

Which are the best robo-advisers in Canada?

There are many options for Canadians looking to put their money in a robo-adviser, whether you prefer to work with a traditional financial institution or invest with an online brokerage or investment management service.

As for which to choose, the best robo-adviser in Canada is the best one for your needs. So how do you pick? Past performance might be a factor, but Mr. Carrick says it's only one thing to look at. "Never choose a robo based on past returns alone," he recommends. "Focus as well on fees and portfolio-building style."

Another thing to look at is account size. While some robo-advisers don't have an account size minimum (though, as noted above, they might not actually invest your money until it hits a certain point), others require an investment of at least $1,000. Keep in mind that fees vary based on account size, too – make sure to keep that in mind when assessing how much a robo will cost you.

Bull vs. bear markets: What investors need to know

A bull market is a period of months or years when stock prices increase 20% or more from a previous low. Conversely, a bear market is a period where stock prices fall by 20% or more from a recent peak

KELSEY ROLFE

Headlines trumpeting a "record bull-run" or investors' increasingly "bearish sentiment" can be seen as so much jargon and difficult to parse, but bull and bear markets are important for individual investors to understand. We break down what drives bull and bear markets, the effect they have on your portfolio and how to invest smartly during both market conditions.

What is a bull market?

A bull market is a period of months or years when stock prices, measured by a market index, increase 20 per cent or more from a previous low. Bull markets are characterized by broad investor optimism about the state of the market, and tend to coincide with periods of sustained economic growth. Bull markets got their name from the way bulls attack, by thrusting their horns upward.

As Matt Lundy, The Globe and Mail's economics reporter, noted in June, bull markets often stick around for long periods of time. According S&P Global Market Intelligence, the average bull market for the S&P 500 since the 1960s has run for 59 months – or almost five years – and posted average stock price gains of 165 per cent. On the S&P/TSX Composite, meanwhile, the average Canadian bull market lasted a little more than three years, according to data from Russell Investments, and saw stocks more than double in value on average.

The longest bull run in history began in March, 2009, on the S&P 500, following the 2008 recession, and carried for almost exactly 11 years, ending with the onset of the pandemic in March, 2020.

What is a bear market?

A bear market is a completely different animal. It occurs when stock prices fall by 20 per cent or more from a recent peak. During this time investors tend to feel pessimistic and fearful. Bear markets generally occur alongside periods of economic contraction. However, they are also usually short-lived: between 1929 and 2021 the average bear market on the S&P 500 was 289 days, or nine months, according to Ned Davis Research. The firm found that stock prices decline 36 per cent on average during a bear market.

Bear markets get their name from how stock market declines mimic the way bears attack, with their paws swiping down at their prey.

Both bull and bear markets are common, and a normal part of how stock markets function. The S&P 500 index has seen 27 bull markets and 26 bear markets since 1928.

While major U.S. and Canadian indexes tend to move roughly in concert, their highs and lows will often differ because of the different industry makeup and weighting of each index. The S&P/TSX Composite, for example, is heavier in financial, energy and materials companies and the S&P 500 and Nasdaq indexes are overweight in tech, and will respond a little differently to the same economic developments.

How long does it take to recover from a bear market?

While bear markets themselves don't tend to last long, the time it takes to reach a full recovery varies significantly. Recoveries are marked by when a market index reaches its previous peak after a low period. Mr. Lundy reported that while stocks rebounded quickly after the equity market rout during the early months of the pandemic, helped along by government support programs, other recoveries have taken years. The recovery from the global financial crisis in 2008 took 1,376 trading days. It took markets even longer to reach their previous peak after the dot-com crash in 2000, at 1,803 trading days, or more than seven years.

It can feel rough when you're in the midst of it. But Peter Lochead, founder and principal of One London Group and a senior wealth manager at CIBC Wood Gundy in London, Ont., said the short-term experience of watching your portfolio drop and then make what feels like a slow recovery can obscure equities' historical upward trend. When Mr. Lochead began his career 42 years ago, he recalled the Dow Jones Industrial Average was sitting at around 700 points; by early 2022, the value of the index had exceeded 36,000 points. "[People] tend to dwell on the negative news, but … historically stocks have gone up."

What causes a bull market?

In general, rising corporate profits and increasing gross domestic product contribute to a bull market because they tend to indicate a thriving economy and strong consumer desire to spend. However, there are exceptions: during the late 1990s/early 2000s dot-com bubble, investor sentiment and enthusiasm for the future internet economy sent the market charging well ahead of underlying fundamentals.

At times when the economy is suffering, decisions by governments or central banks to introduce fiscal or monetary stimulus are generally received favourably by the market and can trigger a bull run. These stimulus packages tend to translate to greater consumer spending, can help businesses hire or retain staff and help with economic growth. During the pandemic, government rescue programs like the Canada Emergency Response Benefit for individuals and the Canada Emergency Wage Subsidy for businesses buoyed the market. A much older example is U.S. president Franklin Roosevelt's New Deal program, which green-lit massive government spending to stabilize the country's economy during the Great Depression and helped to spur a four-year bull run.

And what about the causes of a bear market?

Bear markets can be caused by numerous factors. A weak or slowing economy marked by factors such as increasing unemployment, rising interest rates and increasing inflation, contributes to bear market conditions because these factors precipitate household and business belt-tightening.

Bears can also be triggered by hard-to-forecast events such as wars, pandemics or other crises, and when speculative stock market bubbles finally burst.

Mr. Lochead noted the 2022 bear market stands apart from prior ones because while bear markets typically involve higher unemployment, Canadian employers are still facing a tight labour market.

How should investors react to a bull market?

Bull markets engender confidence among investors and the feeling that taking risk will be rewarded, said Maili Wong, senior wealth adviser and senior portfolio manager with Wellington-Altus Private Wealth in Vancouver.

But Ms. Wong cautioned that while bull markets are good to investors, when they see asset prices consistently increasing "greed takes over. People are willing to take more risk than maybe they should be taking." In this environment, higher-risk and lower-quality assets tend to outperform because "people are trying to chase after things that have future upside, and they're not interested in the boring, stable stuff." Investors can overpay for stocks or other assets out of a fear of missing out on a hot investment.

That's how bull runs can lead to market bubbles that later burst. The dot-com crash in the early 2000s is one of the best-known examples of these bubbles, but investors may also remember the more recent cannabis bubble around Canada's legalization of recreational weed that saw publicly traded cannabis producers reach record valuations before experiencing precipitous drops. The highly speculative, hype-driven cryptocurrency craze is another example, with the price of bitcoin surging to more than US$67,000 by November, 2021, then declining to the US$22,000 range in mid-2022.

The trick to investing in a bull market is to stay disciplined, Ms. Wong said. It's a time for an offensive strategy but that still means searching for valuable companies that will hold up in downturns, and investing in good-quality growth companies as long as they aren't significantly overpriced.

She also encouraged investors to stick to their guns on the level of risk they're comfortable assuming. It's about evaluating the probability of further upside versus the actual probability of downside, Ms. Wong said. It's about not chasing after trends "even though others may tell you that if you don't, you'll miss out and get left behind."

How should you invest in a bear market?

In a bear market, meanwhile, fear rules the day. As stock prices decline skittish investors often feel the urge to sell owing to a fear of further price drops – something that puts additional downward pressure on stocks. The action of selling can create a short-term sense of control over something that's out of their control, Ms. Wong said. "What's driving this bear market is really underlying emotions that we as humans tend to feel."

Mr. Lochead said it's important to remember in these markets that your portfolio's declining value is only on paper, and you have the opportunity to recoup in the eventual recovery. If you sell, you'll lock in those losses.

Mr. Lochead said one way to put your fears to rest is to think about the businesses you own stock in, and consider the fact that they're likely still functioning well even if their stock price is down. He gave the example of Canada's Big Five banks, which have seen their stock prices drop in 2022 between 7 per cent and 18 per cent, but aren't experiencing any difficulties to their businesses. "Good companies outlast bad markets and recessions," he said. "Don't get caught up in the emotion of what's going to happen day-to-day."

However, if your portfolio holds a low-quality or speculative asset that may never rebound, you may want to do your research and, based on your risk tolerance, consider whether it's worth selling and swallowing the loss.

Overall, a portfolio diversified across industries, geographic regions and asset classes will serve investors well in good times and bad, Rob Carrick wrote in January, 2022. This approach is more sensible than chasing an asset and hoping you've timed your purchase right.

"When financial assets rise extraordinarily, they tend to fall in much the same way. This is the rationale for old-fashioned wealth building through regular contributions to a diversified portfolio," wrote Mr. Carrick, The Globe and Mail's personal finance columnist. "When you invest this way for decades, you build wealth sustainably through up and down markets."

What's 'buying the dip?'

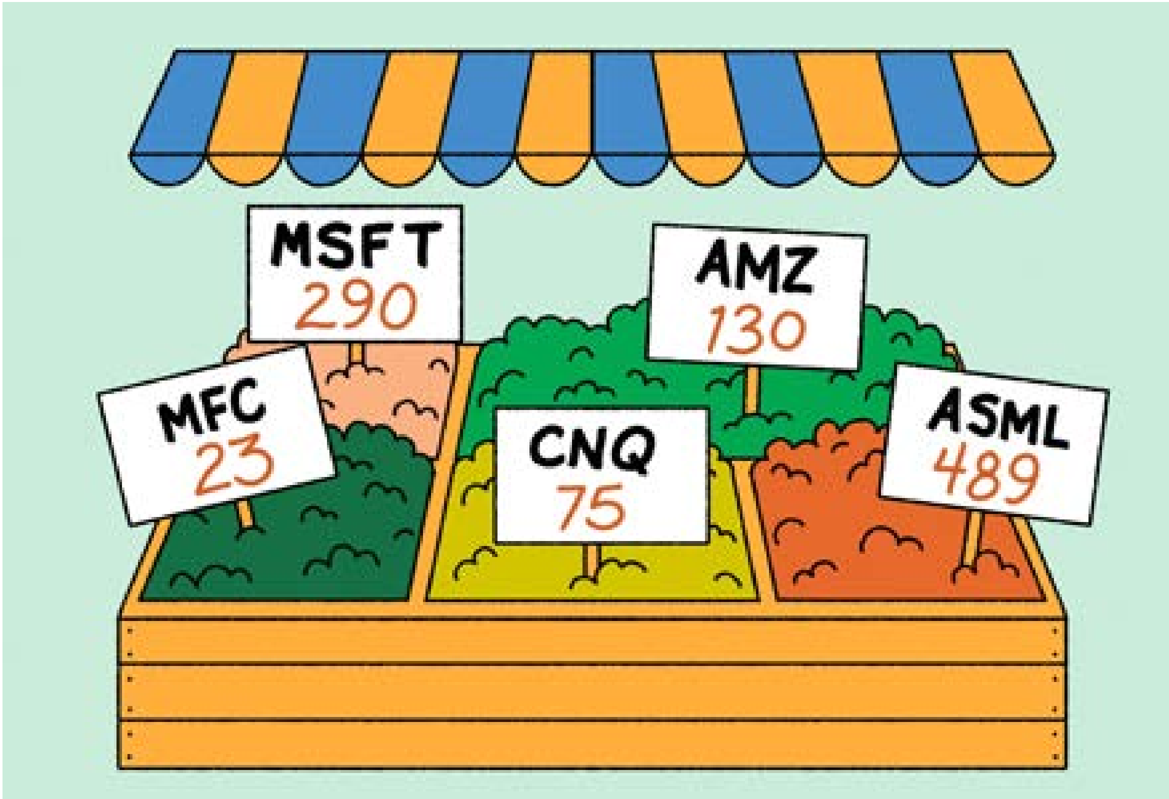
The phrase "buy the dip" was created for bear markets. High-quality companies that may have had overpriced stock during the most recent bull market will revert to more normal prices, or even be undervalued. Ms. Wong said this is a good time to watch for buying opportunities, particularly for dividend-paying companies that give your portfolio a "defensive tilt" and offer you an income stream while you wait for markets to recover.

Globe Investor columnist John Heinzl noted that dividend-paying companies have been "one of the few bright spots for investors" as markets fell in 2022. In his model Yield Hog Dividend Growth Portfolio, 12 of the 22 stocks increased dividends through the first six months of the year, a volatile time characterized by war in Ukraine, tanking markets, red-hot inflation and supply chain snags. "[Dividend stocks] don't give you the same high-octane gains as growth stocks, but when markets go south the declines are often not nearly as severe."

The current bear market presents an opportunity for millennial and Gen Z investors to start building wealth, personal finance columnist Bridget Casey wrote. While the past 10 years have boosted the fortunes of mostly Gen Xers and baby boomers who had real estate assets and the income to contribute to their investment accounts, younger investors typically weren't as well-positioned to ride the bull. Now's their opportunity.

"When you're looking at a 30- or 40-year investing time horizon, you couldn't ask for a better opportunity than to buy stocks at a discount for a year or so as you're plowing cash into your investment account," Ms. Casey wrote.

Regardless of whether you're in a bull or bear market, Ms. Wong said it's important to define your investment philosophy and stick to a strategy. "Don't be too pessimistic in a bear market, and in a bull market don't be too optimistic."



What is the stock market and how does it work?

The stock market as a giant marketplace for purchasing and selling stocks. Investing in the stock market – through a financial advisor, online brokerage or with a robo-adviser – can be a good way to build wealth over time

KELSEY ROLFE

Investing in the stock market is a good way to build wealth over time, but it can feel a little intimidating to get started. Understanding how the market works, the type of investments you can purchase through it and your risk tolerance can help alleviate that stress. Here's a primer on the stock market, along with some insights from personal finance and investing experts.

What are stocks?

Holding stocks, also known as shares or equities, means you have fractional ownership of a company traded on the stock market. It entitles you to benefit from the company's earnings, through dividends and/or appreciation in the stock price.

There are two types of stocks, which afford investors different rights:

Common shares give the holder the right to vote on company matters such as a major acquisition or new board of director appointments. However, not all common shares pay dividends, through which the company's earnings are distributed to shareholders. Even with those that do, dividend payouts can vary and are dependent on the company's profitability.

Holders of preferred shares, on the other hand, do not have voting rights but receive fixed dividend payouts each quarter and are paid ahead of common shareholders. If the company goes bankrupt, preferred shareholders would have a higher claim on its assets.

Companies will issue stock when they need to raise funds to finance business growth. They will also sometimes buy back shares if they want to create additional value for shareholders – with fewer shares available on the market the company effectively boosts demand, and therefore the stock's price.

What is the stock market and how does it work?

The stock market is a giant marketplace for purchasing and selling stocks. Though people often call individual exchanges "the stock market," it isn't so much a singular entity as it is a collection of exchanges around the world. Unlike decades ago when traders made sell and buy orders on the trading room floor, today trading is done mostly electronically and some exchanges have closed their trading halls altogether.

The first stock market-like institution was founded in Antwerp in 1531 – though, at the time, it only dealt with business, government and individual debt, rather than shares in companies. Buying company stock emerged in the 1600s, when England, the Netherlands and France began trading with the East Indies. The long ocean voyages were expensive, and so explorers and merchants formed limited liability companies to raise funds from investors, who would receive a chunk of the profits proportionate to their investment.

Today, the largest stock exchange is the New York Stock Exchange, with a market capitalization of US$27.6-trillion at year end 2021. Market capitalization is the total value of the outstanding shares of all the companies on the exchange.

TMX Group Ltd., a publicly traded company, operates the TSX, Venture and Montreal exchanges. TMX Group stock exchanges collectively rank 10th in the world by market cap, at $3.3-trillion.

Companies can be listed on multiple exchanges, and Canadian investors can purchase shares in companies listed on foreign exchanges. You can do this directly through your broker or online brokerage, but remember the transaction must be done in the relevant foreign currency so if the exchange rate moves against you your returns can suffer. You can also buy through Canadian depositary receipts. CDRs represent shares of global companies but are traded in Canadian dollars on Canadian stock exchanges. They also enable you to buy fractional shares, making companies with high stock prices far more accessible.

How can I invest in the stock market?

There are three main ways to put your money in the market: You can work with a licensed professional, go through an online brokerage or use a robo-adviser.

For guidance, hire an advisor or broker

If you want guidance, you can work with a licensed financial adviser or broker to purchase stocks. Only those licensed by the Investment Industry Regulatory Organization of Canada can trade on your behalf. Advisers licensed by the Mutual Fund Dealers Association of Canada can sell you a mutual fund, another way to gain exposure to the stock market, but can't buy or sell securities for you.

For a DIY approach, use a online brokerage

You can also set up an account with an online brokerage. They've seen a surge in popularity since 2020 – a survey from Royal Bank of Canada in February, 2022, found that 48 per cent of Canadian do-it-yourself investors between the ages of 18 and 34 started investing after the onset of the pandemic.

These accounts typically charge a per-trade fee, whether you're purchasing a stock, exchange-traded fund or mutual fund. Some online brokerages have also begun offering commission-free trading – but cheaper doesn't necessarily mean better.

For a cost-effective approach, use a robo-adviser

Robo-advisers take a different approach. They don't buy and sell individual stocks for you, but rather use an algorithm to put together a portfolio of diversified ETFs for you based on an assessment of your risk tolerance and investing goals.

As personal finance columnist Rob Carrick noted in The Globe's 2021-22 Robo-Adviser Guide, these robo-advisors are "building a résumé as a steady, cost-effective way to invest if you want help managing a portfolio." These automated investing services tend to have lower fees than working with financial advisers, but vary significantly.

What is a stock market index?

A market index tracks the performance of a specific group of stocks that are meant to represent either a sector or the broader market, and it allows investors to understand the overall health and direction of the market.

Each stock market index takes a different approach or formula to determining which companies to include. The S&P 500, for instance, is a market cap-weighted index of the 500 largest public companies in the United States. To be in the index, companies need to have a minimum market cap of US$14.6-billion, trade on the stock market for at least a year and be listed on a select group of exchanges, among other requirements. Its Canadian equivalent, the S&P/TSX Composite Index, requires possible entrants to be based in Canada and meet certain market capitalization and liquidity thresholds.

What are exchange-traded funds?

Exchange-traded funds (ETFs) are collections of securities that aim to replicate an index or sector's performance as closely as possible. They're similar to mutual funds in that they are a basket of assets, but they can be traded daily on a stock exchange. Unlike mutual funds, which are typically managed by an investment professional aiming to beat the market – and so come with higher fees – most ETFs are passively managed.

Lisa Kramer, a finance professor at the University of Toronto's Rotman School of Management, noted that investors should be aware that not all ETFs are balanced or diversified: While some track the overall Canadian or U.S. stock markets or a combination of different countries' stock exchanges by holding a wide array of stocks, others are focused on one sector or region, which can be riskier. Investors can also purchase ETFs tied to the price of gold, or to one or more cryptocurrency.

What can't I buy bonds on the stock market?

You can't purchase bonds on the stock market. Bonds – a loan from an investor to a government or corporation with a fixed term for the borrower to repay the investor with interest – can be purchased from a bond broker or directly from an issuing government. However, you can buy bond ETFs on an exchange.

It's also not possible to buy mutual funds on the stock market, though they do give you exposure to it through their underlying investments.

What are bull and bear markets?

A bull market refers to a period of months or years when stock prices, as measured by an index, rise by 20 per cent from the most recent low, and investors are broadly optimistic about the state of the market. The longest bull-run in history began in March, 2009, and ran for 11 years, until the onset of the pandemic in March, 2020. The name comes from the way a bull attacks, by thrusting its horns upward.

Like the bull market, bear markets are named for the way the animal attacks, in this case, with paws swiping down. Bear markets occur when stock prices, as measured by an index, fall by 20 per cent or more from their most recent peak, and is typically a period of pessimistic investor sentiment.

How are stocks priced?

Company fundamentals are the first and most important factor determining a stock's price. These include the product or service that the company provides, the consumer demand for its offering, the quality of its management team, and financial performance metrics such as revenue growth, earnings per share, and dividends.

The broader economic picture also plays a role in individual companies' stock prices. The pandemic-created supply chain woes are a prime example: If a company has a product in demand but can't access the raw inputs required to make it, that can affect its cash flow and its stock price. Inflation and interest rates also play a role: A higher interest rate that affects companies' ability to borrow money at a reasonable rate hits growth companies – like those in the tech sector – particularly hard.

The third piece of the puzzle is investor sentiment, which can help to drive market bubbles or crashes regardless of a company's fundamentals – like the hype-driven stratospheric rise in GameStop Corp.'s stock price in January, 2021.

"The really rapid market movements or big swings in market prices … can be amplified by people overreacting to the news and it becomes self-fulfilling," Rotman's Ms. Kramer said. "We like to think markets are pretty efficient and [sentiment] shouldn't be relevant, but stocks can deviate from fundamental value for extended periods of time."

What are the pros and cons of investing in equities?

While stocks are considered a riskier asset class, they do have the power to deliver significant returns. The S&P 500 has averaged a 10.46 per cent annualized return since 1926. That's what's called the equity risk premium, or the reward investors should expect for taking on greater risk and investing in equities rather than a risk-free investment like government bonds. It's a major reason why so many Canadians have invested in stocks, ETFs or mutual funds over the past few decades.

But stocks can fall or plateau for significant periods of time. Since 2000, for example, investors have faced two bear markets longer than a year: the dot-com crash from 2000 to 2002, and the 2007 to 2009 financial crisis.

Ensuring your investment portfolio is diversified – that it includes a mix of equities from different sectors, countries and company sizes, and also includes other investments like bonds – can help to insulate against gyrations in the market, particularly in today's more challenging market conditions, said Martin Pelletier, senior portfolio manager at Wellington-Altus Private Counsel in Calgary.

John Heinzl, The Globe's Investor Clinic columnist, has repeatedly stressed the value of the tried-and-true buy and hold strategy rather than attempting to time the market. "Too many investors think the way to make money is to buy low, sell high and repeat," he said. "But if you own a great company … the best approach is often to do nothing."

Ms. Kramer agreed. "People who try to outperform the market end up getting burned … and underperforming the portfolio returns of people who just did the boring thing."

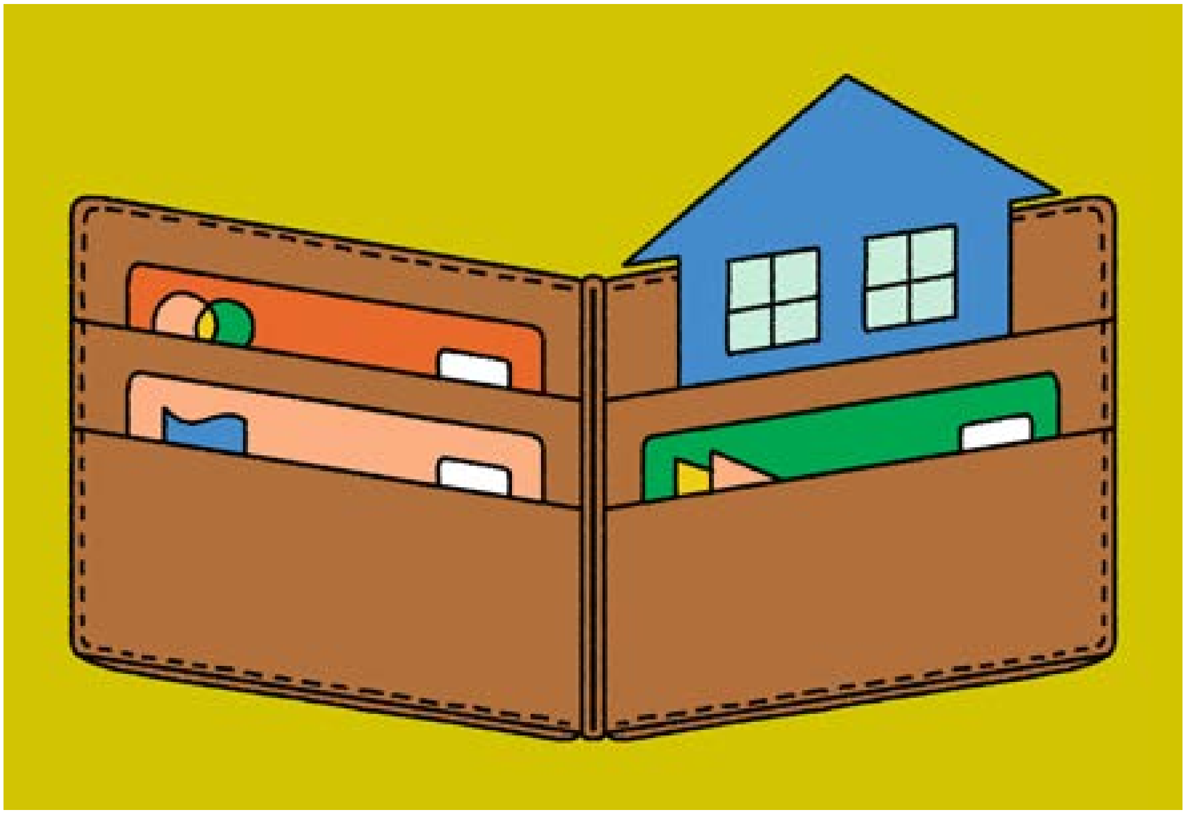
So how can I prepare for investing in stocks?

Before you dip your toe in the market it's important to assess your risk tolerance, Mr. Pelletier said.

Younger investors have a longer time horizon to recoup the losses of bear markets than older investors do, he said, and so have a higher risk tolerance. Similarly, if you're investing for a long-term goal like saving for a house, retirement or your child’s future education you can afford to take greater risk than someone who will need the money sooner. These factors can help you determine whether to increase or decrease your exposure to equities.

Personality also plays a part, he noted: Those who are much more risk-averse may panic and sell their stocks during a market correction out of a fear of greater price declines and permanently lock in losses that, up to that point, were only on paper.

Ms. Kramer said investors can prepare for market tumult by developing an investment plan and sticking to it, and by mapping out what a hit to their portfolio would look like in dollar terms. “Three per cent loss days aren’t all that uncommon,” she said, adding that if it feels like you’re going to be tempted to sell after such a hit, consider a portfolio that’s a bit safer and less volatile.



Buying an investment property in Canada: Risks, taxes, regulations and lower-cost alternatives

An investment property is any piece of real estate you might own other than your principal residence. Small investors usually buy real estate for the purpose of renting it for the short- or long-term

MICHAEL MCCULLOUGH

What is an investment property?

An investment property is any piece of real estate you might own other than your principal residence. It may take the form of a condominium in a tower, a townhouse, single-family home or vacation cottage on a lake. There are also opportunities in commercial real estate, such as condo-style offices, industrial property and retail space.

Small investors usually buy real estate for the purpose of renting it, either short-term (as with Airbnb) or long-term, to generate income. Wealthy investors with longer timelines sometimes engage in "land banking": buying vacant or agricultural land in the expectation that demand will grow in the area for housing or other more intensive uses, whereupon they can sell it to a developer for a big capital gain.

Why invest in real estate in Canada?

Real estate is its own asset class, offering different attributes from equities and fixed income. As such, it can help diversify wealth. Investing in real estate does not require specialized expertise; most Canadians understand the basics of holding property through home ownership. Many have done very well due to home price appreciation over the past two decades.

The inflation-adjusted returns for real estate over the past 50 years in Canada are very similar to that of equities. But those returns came with much less volatility than stock markets. In addition, income forms a bigger portion of its total return compared to stocks, which are more about capital gains. So real estate may be a more suitable investment for income-oriented investors such as retirees. But young investors, too, can take advantage of the leverage uniquely available to real-estate investors; banks will readily lend you up to four times your money at favourable rates to buy real estate, where they won't do that if you are buying stocks or bonds.

"As the property appreciates, the return on initial investment for your down payment can be much higher due to the leveraged amount," said Sabine Ghali, managing director of Buttonwood Property Management in Toronto. Of course, as many landlords are finding, leverage works the other way, too; when property values come down, the loan principal owed remains just as daunting.

What are the risks of investing in real estate?

Compared to other assets, real estate is illiquid. It takes time to find a suitable property to buy or a willing buyer for a property you're selling. When you do, the costs of the transaction are high, typically upward of 5 per cent of the price for the seller. That includes agent commissions, legal fees, inspections and other third-party expenses, but not your own time.

Because investment properties start at around $100,000 in Canada, and most cost multiple times that, it's a difficult market to wade into incrementally. Even with mortgage financing, you have to have at least a middling net worth to participate. (See a list of lower-cost alternative ways of getting real estate exposure below.)

Though less volatile than the stock market, property markets fluctuate. Should interest rates rise while you own the property, its value could decrease even as you face higher mortgage payments on renewal. Economic and employment prospects in the community matter, too, as does quality of life. There are particular risks to your property of fire, damage and natural disasters. You can get insurance for that.

What's harder to control is the relationship with your tenants. An exacting process to screen prospective tenants, including a credit check and interviewing employers and past landlords, can go a long way toward eliminating future problems, according to Ms. Ghali. Provincial legislation lays out a process for handling disputes between tenants and landlords, though rental tenancy laws and tribunals tend to err on the side of the former. Ally Ballam, a real-estate adviser with Engel & Volkers in Vancouver, recommends owners keep three to six months' rent in a separate account just in case there's a dispute and you go a few months without receiving income from the property.

Finally, there is a risk of vacancy, whether resulting from tenant churn or adverse market conditions. This risk can never be eliminated entirely but can be minimized by owning higher-quality properties in favourable locations.

"Buying a property for investment purposes that can be your primary residence if the market turns really bad is always a nice insurance policy," Ms. Ghali said.

What taxes and regulations apply to investment property?

Unlike a principal residence in Canada, investment property is subject to capital gains tax when you sell it. You must also pay income tax on the rental income while you own the property. Both will eat into your returns. However, these taxable amounts can be partially offset by expenses incurred from financing, maintaining, managing and improving the property. It's worth consulting a tax adviser to minimize your taxes payable, at the very least when it comes time to sell.

Also make yourself aware of provincial, municipal and condo corporation regulations applicable to any property you're considering buying. Some provinces and municipalities have controls on rent, which may constrain your ability to raise it to the market price. British Columbia and Ontario have both introduced taxes on homes purchased by foreign buyers (not Canadian citizens or permanent residents). Vancouver and Toronto both have levied property surtaxes on homes deemed to be vacant, and other cities are considering adopting similar measures as a way to increase the housing supply.

Many Canadian municipalities restrict or completely ban short-term rentals in certain housing types. Further, condo corporations may adopt restrictions, for example on short-term rentals or the proportion of units in a building that can be rented out.

Is now a good time to invest in real estate?

The good news for prospective buyers: After huge price appreciation in recent years, most Canadian markets are undergoing a turn and prices are coming down.

The bad news: The big factor pushing prices down is the increase in borrowing rates. So for most buyers, the drop in prices will be offset by higher mortgage payments.

The takeaway: This is a potentially perilous time for investors with only a 20-percent down payment (the minimum required by lenders on investment properties) to get into the market. If you are in that situation, you'd better be confident you are paying below market value. It may be an opportune time, however, for people who own their home outright, have some extra cash and don't need to borrow huge sums to get into the investment property market. If financing isn't a big worry, your dollar will go further today than it has in a while.

Keep in mind that real-estate markets are notoriously local. Different dynamics will be at play in Sudbury and suburban Montreal. Time and again, sales trends after the fact suggest there's virtually always a type of property somewhere in Canada that is a steal right now. The challenge is finding it (or them).

How do I buy real estate?

You search for an investment property to buy the same way you might do your own home: look at listings, engage a real estate agent and/or search on commission-free sales platforms. The most comprehensive public database of Canadian homes for sale can be found at realtor.ca.

But there are other avenues to find the best deal. Ms. Ballam and sales partner Amy Leong specialize in working with developers to offer their clients pre-sale condos at prices usually reserved for insiders before they are offered to the general public.

"Make sure when you are looking to buy an investment property that you are working with an agent who specializes in investment properties," Ms. Ballam advises. They will, for example, run pro forma cash flow projections for your rental income and expenses under different mortgage-rate scenarios so you have a better idea of what you're getting into.

In addition to an agent, you will likely need other service providers, such as a lawyer, property inspector and mortgage broker, to get the transaction finalized.

What do I need to do after I buy an investment property?

If you have the time and inclination, you can reduce your costs and potentially increase your returns by managing the property yourself. That involves finding and dealing with tenants, collecting rent, seeing to maintenance and repairs (including after-hours emergencies), and paying property taxes as well as applicable utility and other fees. You will need property insurance; it will be somewhat higher than for an owner-occupied space. Standard lease documents can be downloaded from most provincial websites that will help reduce the risk of legal disputes, which can potentially drag out for months, interrupt your rental income and incur major costs.

Alternatively, you can hire a property-management company, which will do most or all of the tasks listed above for 8 to 10 per cent of rental income on long-term rentals and 12 to 15 per cent on short-term ones. Your real-estate agent can refer you to such a firm in your area, but like anything else, it's worth shopping around. Some real-estate sales and finance companies have their own property-management services arms.

Like any major investment, you should have a strategy. Do you intend to flip the property in a fast-rising market? Hold it long-term? Renovate it in the hope of raising the rent? For investors committed to the asset class, Ms. Ghali recommends banking rental income with the aim of buying another property every three to five years: "This power of compounding added on top of the leverage aspect of real estate investing can create potentially huge gains over a longer period of time."

Are there lower-cost ways to get exposure to real estate?

The millennial lament about buying a home, epitomized by the hashtag #donthaveamillion, is also a big hurdle for would-be investors. Fortunately there are a number of ways for investors of modest means to gain exposure to real estate without buying a second home or the hassle of managing the property.

REITs

Real-estate investment trusts are securities that trade on stock markets. They are designed to hold and manage a basket of properties and pass on income through distributions (similar to corporate dividends) to investors. With REIT units or an exchange-traded fund (ETF) invested in them, you can benefit from both land value and rent increases in the real-estate market for as little as $100. Being traded on stock markets, they still tend to be highly correlated to equities.

Fintech

For the last decade or so, financial technology startups have been trying to come up with ways for small investors to buy crowdfunded properties fractionally for as little as a few thousand dollars per investor. Canadian examples include Addy Technology Corp., BuyProperly, NexusCrowd and Willow Real Estate Technologies. On the plus side, these platforms promise to be true diversifiers, where your investment's value is tied to real assets. Still, they have a short track record and are competing with well capitalized landholding companies owned by pension funds, REITs, private-pooled funds and wealthy families and individuals.

Real-estate pooled funds

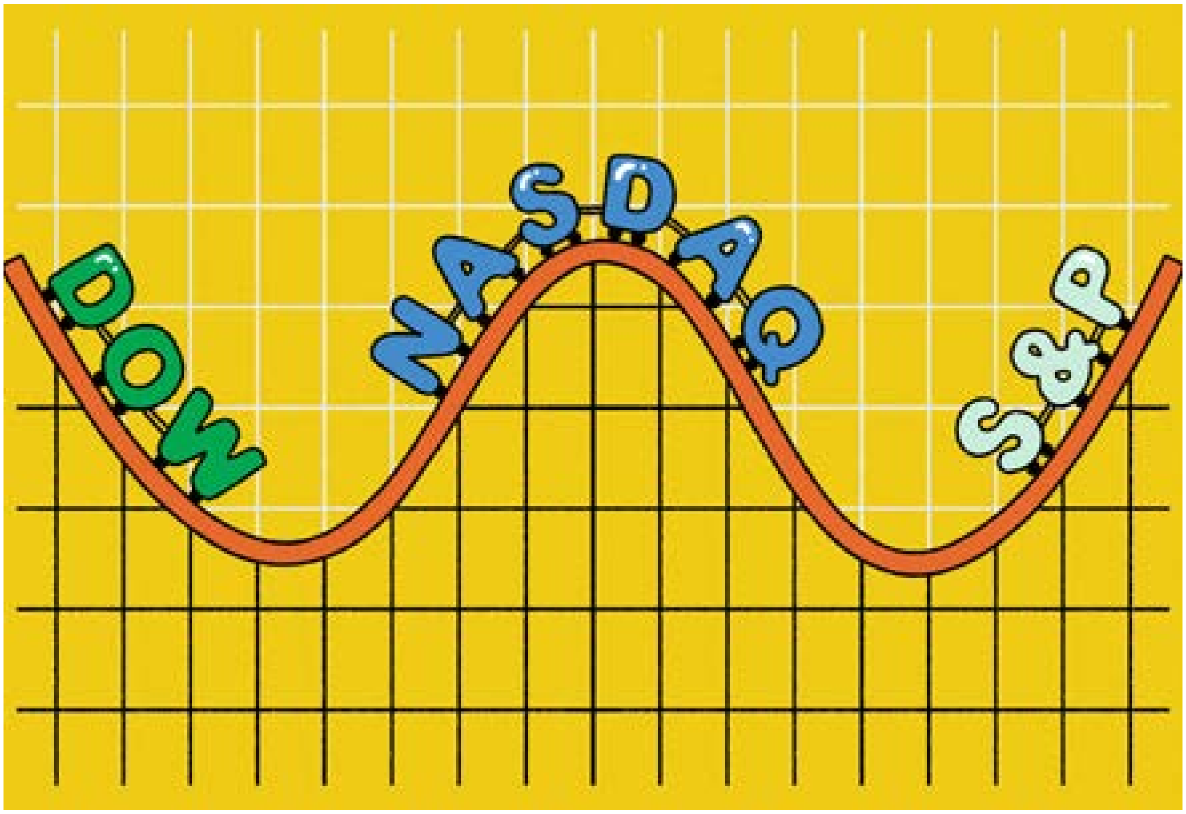
For a minimum investment as high as $100,000 and a lock-in period, private real-estate investment funds allow investors to participate in owning (and sometimes developing) rental properties around North America. Stick to general partners with a history and good reputation; there are some shady operators in this niche. Beware promotions promising suspiciously high or "guaranteed" returns and always demand to see financial statements before putting your money down.

Investing in your own home

Homeowners in Canada's pricey, big-city markets already know about "mortgage helpers" such as basement suites. Adding or improving a rental suite in your own home or building a laneway home represents a way to leverage your existing primary residence to provide additional income and increase the equity in your property. It's essentially an investment property tacked onto your home.

As such, be mindful of costs that can erode your rate of return. Though small, new laneway homes still require the most expensive components of any house, namely kitchens, bathrooms and HVAC systems. But it should still be cheaper than buying a separate property.

No room for a separate suite? Now that COVID-related travel restrictions have been lifted, foreign students are coming back to Canada. You can generate income by renting out a spare room. There are various agencies that match students to host households under a variety of terms.



The Dow, S&P 500 and S&P/TSX: Why are these stock indexes studied so closely?

A market index is a collection of stocks, bonds or other investments that helps investors understand the health and performance of the broader market. Here's what you need to know

KELSEY ROLFE

The Dow Jones Industrial Average, S&P 500 and the S&P/TSX Composite Index are familiar names to even the most casual readers of the business pages, but it can be difficult to understand how these indexes work and what's behind their spikes and drops. Here's what you need to know.

What is a market index and what do they do?

A market index is a collection of stocks, bonds or other investments that helps investors understand the health and performance of the broader market, or a specific subset of it. Indexes can comprise hundreds or even thousands of securities, or even just a handful: while the Dow follows 30 companies, for example, the Centre for Research in Security Prices' CRSP U.S. Total Market Index follows almost 4,000. The goal of each index to be representative of the market it is tracking.

Indexes also function as benchmarks for the creators of index funds or index exchange-traded funds.

Indexes are measured in points, which are calculated in a variety of ways, depending on the index's weighting system. Their value will change throughout the day as the prices of their underlying securities move up and down as they're traded.

Where did market indexes come from?

The Dow Jones Transportation Average is the oldest U.S. stock index. It was created in 1884 by American journalist Charles Dow, who, with Edward Jones, co-founded Dow Jones & Co., publisher of The Wall Street Journal. The index initially comprised 11 companies – nine railways and two nonrail – and is today made up of 20 companies.

Mr. Dow soon felt that transportation companies gave investors only a partial understanding of the economy and that industrial companies, while considered "highly speculative" at the time, were a key component of the United States' economic growth. That prompted him to launch the much better-known Dow Jones Industrial Average in May, 1896. The intent of the DJIA was to represent the broader United States economy – though, of course, that looked a lot different than it does today. The initial version was made up of just 12 stocks, including a leather-maker, a sugar producer and a steel company. Today the Dow is made up of 30 blue-chip stocks, including Apple Inc., Goldman Sachs Group Inc., Coca-Cola Co. and Microsoft Corp. The index is calculated by adding up the prices of all the constituent stocks and dividing the sum by a divisor.

As of 2019 there were a whopping 2.96 million indexes globally, according to the Index Industry Association (IIA) – a combination of global and national equity and fixed income indexes, and more specialized indexes tracking various industries or sectors.

In the past decade, indexes focused on technology companies and on firms seen as sustainable have become particularly popular, reflecting the interests of millennial and Gen Z investors, says Aye Soe, managing director and global head of the product management group at S&P Dow Jones Indices, which owns the Dow Jones indexes as well as the S&P 500, S&P/TSX Composite and others. Environmental, social and governance-focused indexes increased 43 per cent from 2020 to 2021, and 40 per cent from 2019 to 2020, the IIA found in its annual global benchmark survey.

How are indexes constructed?

Each index has its own approach to determining which companies should be included or removed, depending on its mandate. Requirements to be included could be based on company size, market capitalization or stock price; a company's free float, or the amount of its stock that can be publicly traded; minimum years as a public company; and other criteria.

For example, the S&P 500, an index of the 500 largest U.S. public companies that aims to represent the broader U.S. economy, requires companies to have a minimum market cap of US$14.6-billion, to trade on the stock market for at least a year and be listed on a select group of exchanges. The S&P/TSX Composite, its Canadian counterpart, requires possible entrants to be headquartered in Canada and meet certain liquidity and market cap thresholds. (And, of course, to be traded on the TSX.) The S&P/TSX 60, an index of large-cap Canadian companies, has certain rules about share turnover, or how often the stock is traded, and has a goal to maintain sector balance in the index.

Other well known indexes, such as the NYSE Composite and the Nasdaq 100, only follow companies listed on those specific stock markets.

The DJIA is a rare exception to many common index construction rules, with a less quantitative methodology. To be added, companies must be in nontransportation and nonutility sectors (there are separate Dow Jones indexes for those industries) and be listed in the S&P 500. The index requires companies have an "excellent reputation," prove sustained growth and be popular with investors. "It's quirky, in a sense, because of this century-old tradition," and narrower even though these days there are more than just 30 large-cap companies, Ms. Soe says.

Why should I pay attention to indexes?

Indexes are useful for understanding how the economy and specific sectors are faring. Looking at historical index data can also tell you how markets have responded to similar situations in the past, such as periods of rising inflation, rising or falling interest rates and more.

They're also meant to act as a benchmark that investors can use to compare their own holdings to, whether a mutual fund or an individual stock, to determine whether they're over- or underperforming against the market, Ms. Soe says.

It's important to understand the characteristics of the index you're following. While you might assume the S&P/TSX Composite would be similar to the S&P 500, they have notable differences because the composition of the two countries' economies is different, with the U.S. more tech heavy, and Canada's historically dominated by financial, natural resources and materials companies. (However, as Rob Carrick, The Globe and Mail's personal finance columnist, noted in December 2021, the S&P/TSX has become much more sector-diverse over the past few years.) This means that indexes in different countries may respond slightly differently to positive, or challenging, market conditions.

How are companies added to or removed from an index?

Stocks or other securities are added to an index once they hit the technical thresholds the index provider has laid out. This is usually after an increase in their market capitalization or stock price or a sustained earnings increase, among other factors. Companies can be dumped if they experience challenges on these metrics. In some cases where the index has a fixed number of companies, a company can be dropped to make room for a new entrant, even if it was still performing well.

This can happen in a variety of ways: some indexes have a committee to evaluate new entrants, while others – such as the Russell 1000, 2000 and 3000 indexes – add and delete companies once a year.

Ernest Biktimirov, a professor of finance at Brock University’s Goodman School of Business who has published studies on indexes, notes that being added to or removed from an index can have a significant impact on a company. Once added to an index, a company’s stock will see major buying pressure, driving prices higher, as index-based mutual fund and ETF managers scoop up its stock to keep up to date with the index. Similarly, being booted from an index can lead to a sell-off, causing the stock price to drop. Investors often try to anticipate these market moves, he says.

What is index weighting?

Once index managers have picked the companies or investments that will be included in the index, they decide on how to weight them. The three most common index weighting approaches are market capitalization-weighted, equal-weighted and price-weighted.

Market capitalization weighted means simply that the largest companies in the index have the largest weight on the index and smaller companies make less of a dent when their price moves.

Some index providers will offer different weighting options for the same index, Ms. Soe says. Equal weighting, where each company has an equal influence on the index’s performance, is a particularly popular approach, she said. “When you equal weight them it gives the index more of a smaller-cap tilt because you’re assigning equal weight to everyone,” she says.

Price weighting is much less common these days, Mr. Biktimirov says. In this construction, companies with higher stock prices have an outsized influence on the performance of the index. “There’s not any economic justification or rationale that high-priced stock should have a higher weight,” he says.

Can I invest in an index?

Indexes themselves are not investable products. However, you can invest in an index mutual fund or exchange-traded fund that tracks the performance of a given index.

Mr. Biktimirov recommends investors, particularly those who are newer to investing, put some money in an index fund. These funds instantly provide a diversification benefit by splitting your funds between all the index's constituent companies across many sectors, and they grant exposure to companies with stock that it may be too expensive to purchase on your own, such as some U.S. tech stocks.

He noted, however, that some indexes and their corresponding index funds are highly specialized on particular segments of the economy, such as biotechnology, semiconductors, health care or banking. Investing in these doesn't offer the same diversification benefits as a broader market index does.

"Now it becomes like a stock-picking game, but not at the level of individual companies – it becomes at the level of individual sectors of the economy," he said. "If investors buy these particular index funds they're effectively making a bet it will outperform other sectors of the economy." Outperforming the stock market is a very difficult thing to do on a consistent basis, he added.

While the rounding out of the S&P/TSX Composite has improved diversification benefits for Canadian index fund investors, Mr. Carrick says it's still "hugely" beneficial to get exposure to stock markets in the United States and other markets through other index funds. He points out, for example, that "the S&P 500 has a weighting of almost 30 per cent in tech, and 13 per cent in health care. The S&P/TSX weighting in health care is still a puny 0.8 per cent."

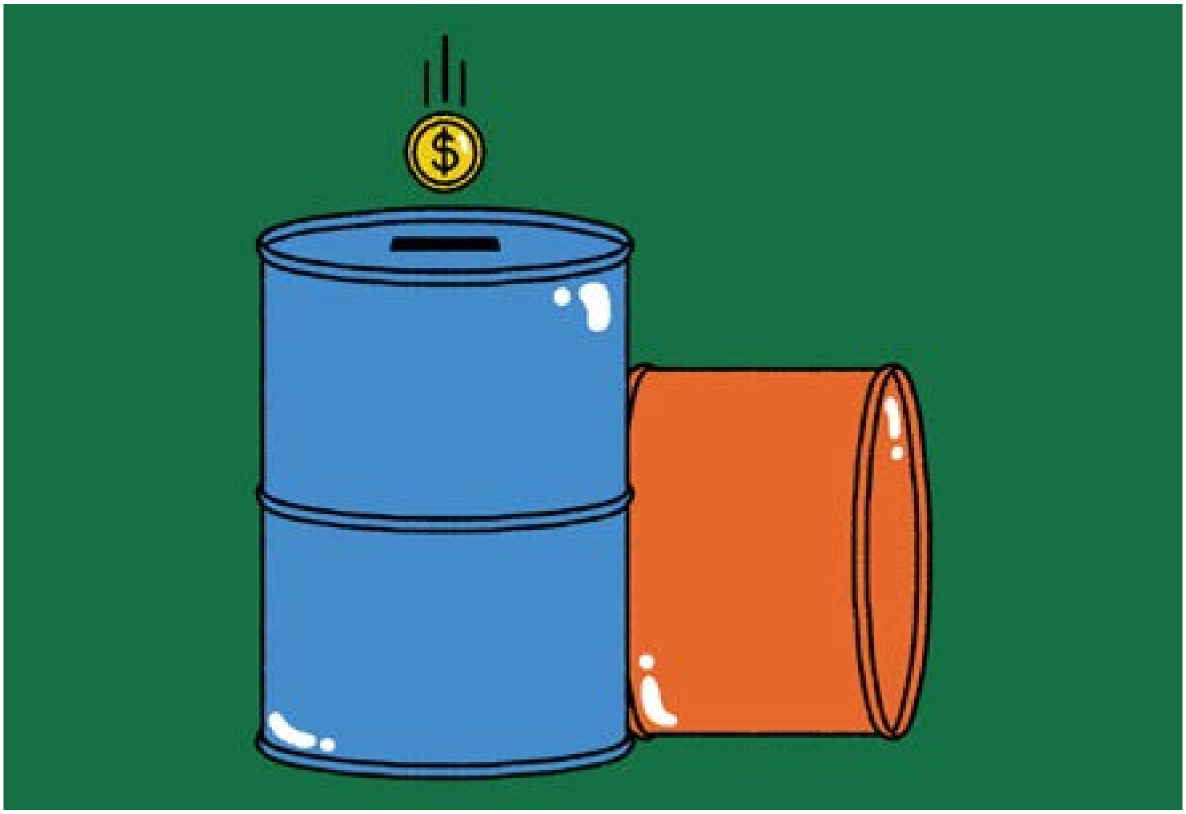
Do index funds differ from the indexes they're based on?

Jasmit Bhandal, chief operating officer of Horizons ETFs Management (Canada) Inc., an ETF creator, said it’s important for investors to understand that while index funds and ETFs are built to replicate the performance of an index, it will generally “never be perfectly aligned” because of fees such as the management expense ratios that come with mutual funds, or the fee and transaction costs associated with ETFs.

Index fund makers and the index they’re replicating may also diverge slightly for practical reasons, Ms. Bhandal says. She gives the example of broad market fixed income indexes, which include thousands of bonds. “It would be highly expensive and inefficient to buy every single one of those bonds,” she said, noting that this can also happen with equity indexes, mostly with very small or illiquid companies.

In that case, the index fund creator will omit some securities while optimizing the fund to ensure it still matches the major characteristics of the index.

She also noted fund managers can choose to weight an index fund differently than an index creator has in order to achieve risk and return goals for investors.



Commodities 101: Why invest in commodities?

The producers of commodities are price takers rather than price setters, but there are advantages to holding them as investments nonetheless

MICHAEL MCCULLOUGH

What are commodities?

Commodities are the raw materials that go into the manufactured or processed goods we use or consume every day. They include metals, fossil fuels, forest products and foodstuffs. They are typically standardized – with names like West Texas Intermediate crude oil and spring wheat – and undifferentiated, and so are priced roughly the same the world over. That makes the producers of commodities price takers rather than price setters, but there are advantages to holding them as investments nonetheless.

Why invest in commodities?

The main reason to invest in commodities is to diversify your investment portfolio away from the standard core holdings of stocks and bonds. Specific materials have their own supply and demand cycles, and therefore the potential to zig when the bulk of your portfolio zags.

The other appealing aspect of commodities is that they promise to combat or at least keep pace with inflation. Being real assets, they will tend to hold their value against depreciating currencies over the long term, though short-term moves may be unpredictable. Say you have a defined-benefit pension that is not indexed for inflation and you're concerned it may lose a lot of its purchasing power by the time you retire. Holding commodities is one way to hedge against this inflation risk.

The return of inflation in 2022 "makes commodities particularly relevant in today's macroeconomic environment," says Kristy Akullian, Americas senior strategist, iShares for BlackRock. "A commodity allocation can serve as a portfolio ballast in what is likely a bumpy path ahead."

How can I invest in commodities?

With the exception of precious metals, it’s impractical for retail investors to own commodities in their physical state. Even gold bullion or jewellery pose a risk of theft or loss if your house burns down, or incurs the cost of storing them in a vault. For that reason most investors seek exposure in either of two ways: by owning, directly or indirectly, commodity futures or stocks of commodity producers.

Commodity futures are securities you can buy on a commodity exchange. They represent a contract from a seller to deliver a set amount of soybeans, natural gas, aluminum and so on to a certain place (a trading hub, usually) at a certain time. “Trading commodities can be complex and operationally burdensome,” Ms. Akullian points out. An easier way for retail investors to invest in commodities is to buy units of mutual funds or exchange-traded funds that hold futures, the physical commodity in storage or a combination of the two.

Alternatively, you can invest in commodity producers, which are classified in the materials and energy sectors on stock exchanges. Investing in commodity stocks does not provide as much of a diversification benefit as investing in physical commodities does; as you might expect, they are still highly correlated to the stock market. As for-profit enterprises, however, they do offer the potential for value creation over and above changes in the commodity price. Some commodity stocks even pay a dividend. Commodities themselves, by contrast, offer no prospect of investment income.

You can also find ETFs that hold stocks of companies exploring for and producing specific commodities, such as lithium, or invested in the broader energy or materials categories or in commodity producers generally. These may either track an index or be actively managed.

"Stocks give you a little more leverage," Nick Piquard, portfolio manager with Horizons ETFs, points out. "When a commodity does well, stocks do even better." For example, oil increased in price approximately 50 per cent from 2021 to 2022, but many exploration and production stocks doubled or even tripled over the same period, reflecting the increase in their profitability.

Natural resource stocks divide between producers with commercial operations and junior companies whose value lies in the prospects of their exploration properties for future development. The latter have an especially high level of risk and potential return. Another subset of commodity stocks, royalty streaming companies, specializes in investing in other companies' raw material production (without the exploration or operational risk of owning the mines or wells) and passing the proceeds on to investors. They are a good option for investors who want to combine commodity exposure with income.

How much commodity exposure should you have?

In 1996, Ray Dalio, founder and co-chief investment officer of hedge fund Bridgewater Associates, sought to create a more sophisticated alternative to the traditional 60/40 portfolio (60-per-cent equities, 40-per-cent fixed income). He wanted something that would hold up in almost all market conditions. To further that goal, Dalio's All-Weather Portfolio included a 15-per-cent allocation to commodities. That's higher than most advisers recommend. (Five per cent to 10 per cent would be more common.) Still, 2022 proved to be the kind of year when all-weather assets prove their worth as equities and fixed income declined in tandem.

Whether you need to increase your commodity exposure will depend in large part on how your portfolio is allocated now. If your equity holdings are dominated by

U.S. stocks, you will have very little commodity exposure – the S&P 500 includes just one gold producer and one copper miner, and only a handful of oil and gas names. In that case you should consider increasing your commodity exposure.

If, however, you have more than a quarter of your portfolio in Canadian stocks, you will already have substantial exposure to commodities, given the heavy weighting of energy and materials producers in our domestic market. If this is you, there is less need to raise your commodity allocation, unless you're specifically looking for an inflation hedge in the form of physical commodities or futures.

What's the outlook for commodities?

Commodities have underperformed other assets for the past decade, during which time inflation and interest rates have been at modern-day lows.

Considering the multiyear time frame it takes to ramp up the supply of most commodities and stored supplies (such as the U.S. Strategic Petroleum Reserve) having been drawn down, "we do not see supply pressures alleviating meaningfully in the near term," BlackRock's Ms. Akullian adds. The risk to commodities lies mostly on the demand side; a global recession would cause their prices to decline.

Keep in mind that not all individual commodities will move in the same direction at any one time; each has its own supply and demand dynamics. Niche commodities including uranium or potash with only a handful of producers will be less predictable than high-volume commodities with a multitude of producers, such as oil or grain.

What are some examples of commodities worth investing in?

1. **Gold:** The yellow metal is primarily used as a store of value, not for any useful purpose. But it has been an incorruptible store of value for thousands of years and so serves as a handy inflation hedge. Gold bugs will note that about the

same weight in gold would have bought you a house 100 years ago as today.

2. **Oil:** Love it or hate it, black gold is still the world's No. 1 source of primary energy. That most of the world's supply comes from undemocratic countries with nationalized resources ensures geopolitics is a major factor in its oscillations. Underinvestment in Western supply since 2014 is helping keep prices high.
3. **Lumber:** Demand for lumber is closely tied to housing markets, which are in turn affected by interest rates. Within interest rate cycles there are smaller supply and demand dynamics, often influenced by the perennial softwood lumber trade action between the United States and Canada.
4. **Grain:** Global crop output is dependent on weather, which is impossible to predict. But this is one commodity barely affected by economic conditions – we all gotta eat. As we witnessed in 2022 with Russia's invasion of Ukraine, though, food supplies and prices can be affected by geopolitics as well.
5. **Critical minerals:** This list of minerals, which ranges from widely used copper to lithium, cobalt and rare earth minerals, has been the cause of a lot of excitement among investors in recent years. These are the commodities we'll need a whole lot more of as the world transitions its sources of energy from fossil fuels to renewables. Production of some critical minerals will have to increase 10 times or more to effect the energy transition, by various estimates. Day to day, however, the prices for many of these elements are volatile.

What are the risks and drawbacks of investing in commodities?

In general, commodity prices are more volatile than stock prices. Their prices are easily affected by geopolitical events or natural phenomena such as droughts and disease. So any commodity holdings are best used as a smaller offsetting position to one's core stock and bond holdings.

As mentioned earlier, commodities themselves and the majority of stocks of commodity producers also generate no income. This makes them unsuitable for investors such as seniors, for whom income takes a high priority. Compared to stocks and bonds, many commodities are thinly traded and less liquid. You may have to pay an intermediary a substantial commission or storage or management fees to own them. It's unlikely your financial adviser or broker knows a lot about commodity trading and strategy, either.

Further, global demand for commodities is not constant; it can change over time. As humanity enters an energy transition to limit climate change, there are differing projections around the demand for oil, coal and natural gas. These and other commodities, such as beef or tobacco, may not meet some investors' environmental, social and governance standards right now.

Are investment advisers worth it? What advisers offer, minimum investments and more

An investment adviser provides individual advice about a wide range of investments (including stocks, bonds, ETF, etc.), while taking a broad look at your finances and circumstances

ROSEMARY COUNTER

If you've ever gone looking for investment advice – and if you're reading this story, that counts – you may have wondered: Do I need actual professional advice from an investment adviser? The media is full of ads touting the advantages of the personal touch when it comes to investing, and just as many saying you can do it yourself with this app or that online service. So, do you really need an investment adviser? And what exactly do they do? Read on.

Do I really need an investment adviser?

There are tons of DIY investing options, including apps with robo-advisers, that can take your stats, ask a few questions and plug all that into an algorithm that spits out suggestions or even makes investments for you. For some, that's perfect, but for others who aren't so confident about putting their life's savings into the hands of a computer, it's not.

This isn't the only reason to engage with an actual person: If you don't know much about investing (or technology), if you find the process boring or stressful, if you don't have time to do your own research about investment products or if you don't trust yourself not to act hastily when the market is volatile, then an investment adviser is likely a good fit for you. "Working with an adviser is a personal choice, and really depends on your objectives, knowledge and needs," says Ilana Kelemen, spokesperson for the Canadian Securities Administrators (CSA).

What does an investment adviser do?

You are not alone if a list of similar-sounding fancy accreditations – investment manager, financial consultant, financial planner, stockbroker and money manager, to name just a few – have you a bit muddled as to who exactly does what with your money. Individuals can use one or many of these designations, assuming they have all the proper credentials.

At its most basic, while a stockbroker deals mainly in stock market investments, an investment adviser gives advice about a wide range of investments (including stocks, bonds, exchange-traded funds, mutual funds, etc.), while taking a broad look at your finances and your personal circumstances. "This includes working with you to set investment goals, to understand your risk tolerance, build an investment plan, and then design a portfolio, choose suitable investments, and track your progress – adjusting it all as your life and needs change," Ms. Kelemen says.

Alexandra Horwood, portfolio manager and investment adviser at Richardson Wealth Ltd., calls this holistic wealth management. It's not just about investments "but all of my client's finances," she says. Before she provides any investment advice, Ms. Horwood gathers all the financial information that relates to her client's financial health and well-being. This includes but isn't limited to income, insurance, tax returns and charitable donations.

What does an investment adviser not do?

If the above seems broad or vague, it can be helpful to define the profession by the services they don't provide. While they can (and should) ask about most anything and everything relating to money, they can't give their professional opinions on any fields but their own. "Investment advisers cannot give insurance recommendations, tax advice or legal advice," says Elie Nour, investment adviser and portfolio manager at Nour Private Wealth Inc., "unless they're also a licensed accountant or lawyer, of course." (But do you want a doctor who's also a dentist? Probably not, see below.)

How do you know an investment adviser is legit?

A quick caveat to keep in mind: "There's a bit of an ongoing problem in this industry where people use various titles without proper accreditation," cautions Mr.

Nour. You can and should check those accreditations at the Investment Industry Regulatory Organization of Canada (IIROC), which requires all Canadian investment firms and individual investment advisers to register. (You can look up any person or business on IIROC's site, and they also have a very handy glossary of financial terms and certifications.) There's a ton of possible overlap, and no doubt many professionals have knowledge of specific services without the official accreditation to perform them. Why does that matter much? Mr. Nour puts it this way: "I know how to change lightbulbs at home, but it doesn't make me a certified electrician."

Even if you do find your would-be investment adviser has a long list of accreditations to their name, dig deeper, Ms. Kelemen says. "You can check their licensing status, types of securities they can sell, and disciplinary history." For your convenience, the CSA owns and operates aretheyregistered.ca to help Canadians protect themselves and choose wisely.

Do I need a minimum amount to invest to work with an adviser?

The short answer is no, there are no minimum amounts required by law to work with an investment adviser, notes Ms. Keleman. "However, some investment advisers and firms require a certain amount to take someone on as a client." Mr. Nour's firm, for example, works on a case-by-case basis, usually with a minimum amount of $100,000, though the amount he usually works with is $1-million or more.

Someone without that kind of money handy, but still some cash to invest, is not entirely out of luck thanks to the banks' in-house advisers. "I'd recommend that person first go to the financial planners at their bank branch for investment advice," Ms. Horwood says. They're a good place to start, and they provide basic investing advice, typically offering more services as the wealth and assets you hold with them increase. Or you can look for an independent adviser willing to work with your budget. Like most of us, investment advisers like to work their way up to bigger clients and join bigger firms with more resources to manage (and corresponding higher fees), but certainly there are people out there willing to work with smaller accounts. "If I was young and green," says Mr. Nour, "I might happily take your $5,000 and work with it."

How do I find, and choose, an investment adviser?

A simple way to start is by getting a referral. "Always ask your family and friends first," Ms. Horwood says. "Look to your social circle or colleagues for people who you admire and whose opinion you respect." If they're comfortable sharing the person's name or – even better – making a quick introduction, then a friend-of-a-friend is far more likely to take you on as a client. Even investment advisers with unreachable so-called minimums can and do make exceptions all the time.

Recommended or not, do not forget to check their credentials as discussed above. "A referral is an excellent place to start," Mr. Nour says, "but it's by no means a guarantee." Make sure you look them up and read their reviews. When and if you do connect, be sure to ask for additional references and specifics about their performances.

Before you get there, however, begin with a quick introductory phone call. "Have an open chat with them about their experience and investment philosophies," Ms. Kelemen says. Here, look for an alignment of interests and values. "For example, if you're concerned with ESG issues, ask the adviser if they understand your philosophy and have the knowledge to assist you." Someone who thinks environmental, social and governance issues are a passing fad, for example, is not a fit and never will be.

If your values match and all basic requirements are met, you should promptly meet in person. "A first meeting with an investment adviser is interesting because you're both interviewing each other," Ms. Horwood says. "This will be a two-way street, ideally a long relationship that lasts for 10 or 20 or 30 years, so you have to know you match."

How do you know you're a good fit?

During this meeting, be sure to ask about their general approach, how often they'll be in communication and the method by which they stay in touch to make sure everyone's expectations are aligned. "I have clients who I call every time I buy or sell a stock on their behalf because they want to hear how and why I think it's a good investment," Mr. Nour says. "And I have other clients that don't want this, so we agree on the extra leeway and I'll invest on their behalf." Both strategies work because expectations were agreed upon in advance.

That said, people and situations change. "The client-investment adviser relationship is ongoing, and investment needs when you were looking for an adviser may not be the same five or 10 years later," Ms. Kelemen says. A good professional fit also includes revisiting expectations, keeping lines of communication open and tweaking strategies as necessary.

If all goes well over the years, you'll probably become something like friends with your adviser. This is not a bad thing, within reason. "I'm friends with most of my clients, but first and foremost it's a professional relationship where I have to deliver," Mr. Nour says. Like most every other person you've ever worked with, says Ms. Horwood, "it would be great if you actually like the person, but remember that trust is more important than friendship."

How do investment advisers get paid?

Investment advisers usually get paid in one of two ways: "fee-only" or "fee-based" (a fancy way of saying no-commission or commission-based, respectively).

Fee-only advisers

First and foremost, a "fee-only" adviser is being paid directly by one source and one source alone: You, the client. The most straightforward "fee-only" bill is an old-fashioned hourly rate, like you'd pay your lawyer or accountant, and depending on their experience, they'll likely charge something in the same range (a few hundred dollars per hour). Fee-only advisers are also known as advice-only advisers, and some work on flat fees you agree to up front.

Another common fee-only way to pay your adviser is with a percentage of assets under management (AUM). "We charge a 1 per cent annual cost that's deducted on a monthly basis," Ms. Horwood says. "That covers everything we do, and a portion or all of our cost is tax deductible." The largest benefit of a fee-only adviser is that you know exactly what you're paying (and how much they're making) and can be almost certain their advice is unbiased and transparent.

Fee-based advisers

"Fee-based" advisers (sometimes called commission-based advisers) are compensated from both the client and additional sources, namely commission from product sales. The client likely still pays basic fees, though they're often less than the fee-only fees because the difference can be made up with commissions. Provided you trust your adviser to ultimately act in your best interest instead of theirs, the largest benefit of a fee-based adviser is that they have additional personal incentives to make your portfolio perform its best.

Fiduciaries

One thing to note is that portfolio managers are "fiduciaries," meaning they have a legal obligation to put the client's interests first, while fee-based advisers typically follow a "suitability" rule, which means they agree to recommend only investments suitable to their client's risk profile.

And the adviser you see through your bank? Rest assured their fee is probably already baked into their annual salary. A bank has a minimum AUM amount of $250,000 before the adviser gets paid anything more, Mr. Nour says.

Investment adviser red flags: What to watch out for

There are a number of red flags in dealing with investment advisers, says Ms. Kelemen, and here are just a few: "If they don't make you feel listened to, if they ignore or refuse your requests, if they don't clearly and openly explain the risks associated with different investments and how they get paid, if they don't ask for permission before taking action (unless they have discretionary authority), or if they don't make regular account statements and written confirmation of any transactions they make for you," she says. "All of those should raise concern about their competence and trustworthiness."

Those are all demonstrative actions you can spot, but the way they make you feel is equally important. "Major red flags are if they act like they can predict the market with certainty, if they pressure you to invest, if they invest on your behalf outside of your risk tolerance or according to their mood of the moment," Ms. Kelemen says. All of these are good reasons to reconsider your working relationship. Even if you have no particular reason at all, know that if you don't trust your adviser, that's all the red flag you need.

Key takeaways:

What to know when looking for an investment advisor

1. An investment adviser is a financial professional who takes a broad look at your life and finances before offering specific advice on which investments are best for you.

2. An investment adviser does not give insurance, tax or legal advice.
3. Before you work with anyone, be sure to check their credentials at the Investment Industry Regulatory Organization of Canada (IIROC) or the Canadian Securities Administrators (CRA).
4. Investment advisers and firms often have an account minimum – often hundreds of thousand or even millions of dollars – but look around to find an adviser willing to work with whatever you've got.
5. The best way to find an adviser is via referral from friends or family.
6. A good fit is someone who makes you feel comfortable and confident, fosters an open dialogue, and whom you trust completely with your money.
7. Watch out for over-promisers, under-deliverers, and anyone who pressures you to invest outside your risk tolerance.

CHAPTER 3

Account types

TFSA 101: What to know about tax-free savings account limits, contribution limits and more

A tax-free savings is an investment account and tax shelter – the means, as soon as money enters the TFSA, gains become off-limits to the CRA. The money in a TFSA can grow tax-free for the lifetime of the account

Tax-free savings accounts are a relatively recent addition to Canadians' financial tool kit. They may be not as well known – or understood – as other investment tools, but TFSAs offer an easy way for Canadians to accumulate wealth and plan for their financial goals. Here's a primer on the basics of a tax-free savings account, along with insights from personal finance experts.

What is a TFSA in Canada?

A TFSA, or tax-free savings account, is an investment account and – as the name suggests – a tax shelter. A TFSA can hold cash, guaranteed investment certificates, mutual funds, index funds, exchange-traded funds or other investment products.

Unlike a registered retirement savings plan, which is also an investment account, the TFSA has no associated tax deduction, meaning contributing to it will not help you pay less in taxes right away. However, while RRSP withdrawals are taxable, money you take out of your TFSA is not subject to taxation.

The TFSA was introduced in 2009 as an additional savings vehicle for Canadians. In his budget speech, then finance minister Jim Flaherty called it "the first account of its kind in Canadian history." In 2009, there were 4.8 million TFSA holders in Canada; by 2017, that figure had risen to 14.1 million. According to a BMO study released in January, 63 per cent of Canadians have a TFSA account, with average holdings of $34,917.

How does a TFSA work?

The TFSA is an investment account with a yearly contribution limit. The contribution limit is the maximum figure you're allowed to add to the account.

Once money goes into a TFSA, gains become off limits to the Canada Revenue Agency. In other words, whether you're earning interest, dividends or other kinds of investment income within the account, you do not have to pay income tax on those earnings. This is true whether you leave the money in the account or withdraw it.

You can open a TFSA account in many different ways. Banks and other financial institutions, for instance, offer TFSA products that might include high-interest savings accounts, mutual funds, GICs, or self-directed investing accounts where you can select your choice of ETFs, stocks, bonds and more. Your place of employment might also offer a group TFSA plan.

TFSA accounts are available to any resident of Canada who is 18 or older and has a valid social insurance number. Non-residents can hold existing TFSA investments, though any contributions made while a non-resident are subject to a 1 per cent tax, and contribution room only accumulates for residents.

How much can I put in my TFSA per year?

The government sets an annual contribution limit, which is indexed to inflation in $500 increments. The contribution limit applies to all Canadians equally – unlike RRSP limits, it is not related to your earnings. In 2025, the annual limit is $7,000.

Contribution limits are cumulative, meaning that if you don't deposit the maximum in one year, you can make up for it in following years.

If you make withdrawals from your TFSA, you can recontribute the same amount, but not in the same year you took the money out. For instance, if you withdraw $10,000 in 2024, you can recontribute that $10,000 – in addition to the regular annual limit – in 2025 or later.

Keep in mind that your limit applies across all TFSA accounts you might have. While you can hold TFSA investments at multiple institutions, your contributions must be within the annual limit when added together.

What investments should I put in my TFSA?

The purpose of a TFSA is to avoid paying tax on investment income, says Investor Clinic columnist John Heinzl. Therefore, it makes sense to use your TFSA room for stocks, ETFs, mutual funds or fixed-income securities with higher yields so you can eliminate tax on the interest, dividends and capital gains. That said, Mr. Heinzl notes that if you have plenty of room in your TFSA, you can also keep low-yielding cash in the account.

Laurie Bonten, senior investment adviser with Wellington-Altus Private Wealth in Winnipeg, agrees. "For most cases, the highest-growth investments, an example might be stocks, should be tax-sheltered," she says.

However, while higher-yield investments are a good choice for a TFSA, that's not the same as high-risk. A TFSA shouldn't be used to hold the riskiest investments, says Jason Pereira, partner and senior financial consultant at Woodgate Financial Inc., a financial planning firm in Toronto. Investments that he terms "speculative gambles" should instead be kept in non-registered accounts.

For investors with a time horizon of at least five to 10 years, personal finance columnist Rob Carrick suggests using your TFSA to purchase a type of ETF called an asset allocation fund. "Think of these as a fully diversified portfolio in a box," he says, "with variations for investors of all ages and risk profiles."

What are the pros and cons of a TFSA?

The biggest benefit of a TFSA is that you don't pay tax on the investment earnings and withdrawals. This is in contrast to an RRSP, which is treated as taxable income when you remove money from your account, whether it's in the near future or after retirement. TFSA withdrawals are tax-free.

Another benefit of TFSAs over RRSPs is that you are not required to take money out after age 71. This gives you more flexibility to decide how to use your savings. On a related note, any funds you withdraw from a TFSA will not affect other government benefits such as Old Age Security.

A TFSA downside, however, is that there are no tax advantages at the time you make contributions. Which option is best for you depends on your annual income. Since the tax deductions linked to RRSP contributions are most beneficial for higher-income earners, Ted Rechtshaffen, chief executive officer of TriDelta Financial in Toronto, recommends that those who make less than $45,000 a year save in a TFSA first and those who make more than $85,000 prioritize the RRSP. (Of course, there's nothing preventing you from maximizing contributions into both accounts.)

Another thing to remember is that TFSAs are not designed to be used like a regular bank account. Any withdrawals you make cannot be replaced until the following calendar year, and penalties apply if you accidentally make an overcontribution. This means that if you want an account that you can move money in and out of frequently, you might be better off with a high-interest savings account.

In addition, the ease of making withdrawals from a TFSA might make it a less optimal savings vehicle for retirement, if you think you might be tempted to take the money out prematurely. RRSPs are more difficult to withdraw money from –

plus, you will probably have to pay tax on those withdrawals. From a psychological point of view, this can make the funds in an RRSP feel more out of reach.

How do I check my TFSA contribution room?

You can find how much contribution room you have by checking with the CRA, for instance through the “My Account” service or by phoning the Tax Information Phone Service.

However, it’s important to note that the CRA gets its data from financial institutions, and there is a time delay between when transactions happen and when the CRA receives them and takes them into account. For this reason, it’s a good idea to stay on top of your contributions and withdrawals. Check with your financial institution to see whether they have any tools that might help.

When does TFSA contribution room reset?

The contribution limit resets on Jan. 1 of each calendar year. In theory, you could contribute one year’s maximum on Dec. 31 and then the following year’s maximum the next day, on Jan. 1. If you withdraw funds from your account, that amount can be recontributed as of the beginning of the next year.

What is the lifetime limit for TFSA contributions?

There is no lifetime limit per se on a TFSA. Instead, there is the cumulative limit from 2009 (or the year you turned 18) until the current year. You can continue contributing the maximum every year for as long as you like.

Can I have more than one TFSA?

Yes, you can hold multiple TFSA accounts. However, like the RRSP, your annual limit does not change. You can split your contributions across multiple TFSAs, but you cannot contribute more than the annual limit in one year.

Having multiple TFSA accounts can make it hard to track your contribution limits. For this reason, Ms. Bonten advises her clients to have just one TFSA at one financial institution.

What happens if I overcontribute to my TFSA?

It's important to keep track of your limit as excess contributions will be taxed at 1 per cent per month (on the money that exceeds the limit). You can correct the excess by withdrawing the funds. You can also appeal to the CRA to cancel the penalty, in full or in part, if you explain to the agency what led to the overcontribution and it decides your reason is valid.

Can I contribute to a spouse's or common-law spouse's TFSA?

A partner cannot contribute to someone else's account. But they can give their partner money as a gift, which can then be added to the TFSA, provided contribution room is available. Once the funds are given and contributed to the account, the spouse – the account holder of the TFSA – owns the assets and is entitled to any income or investment gains from the account. Note that you cannot open a joint TFSA; it is only available to individuals.

What is the average return on a TFSA?

The return on your TFSA depends on the type of investments you hold and how successful those investments have been. Those whose TFSAs include well-performing equities, for instance, will have seen a higher rate of return than people who keep their TFSA money in a savings account.

What is the average interest rate on a TFSA?

If you choose to hold some or all of your TFSA funds in a savings account, then you will benefit from choosing the highest interest rate possible. Interest rates vary over time, and they are expected to rise in the near future. As of January, "high-interest" savings accounts from big banks were offering interest rates of 0.05 or 0.1 per cent, while those from alternative banks were paying as much as 1 to 1.5 per cent.

How do I – and when should I – withdraw money from my TFSA?

Withdrawing money with relative ease is one of the perks of the TFSA. For the most part, you can remove money from the account as you like, for any event such as a home purchase, an emergency or retirement. There's no penalty for withdrawing funds.

The specifics of how to withdraw funds will depend on the financial institution or bank where you hold your account. Check your account online or contact your institution if you are unclear on the details.

It's important to keep track of any money you take out of your account, so that you know how much contribution room you will have in the following year.

And remember that you cannot recontribute a withdrawal in the same year you took out the funds. Doing so will be considered an overcontribution and will be subject to a 1 per cent per month penalty.

As for when you should withdraw from your TFSA – that depends on your savings goals. Seniors with both a TFSA and an RRSP/registered retirement income fund will want to create a plan for withdrawals that minimizes income tax and clawbacks of benefits. And those who are taking money out that they intend to replace should consider the timing of their withdrawal based on the calendar year. Any money taken out in December, 2022, for instance, can be replaced as early as January, 2023. But money taken out in January, 2023, cannot be replaced until January, 2024.

How much money can I take out of my TFSA each year?

There are no limits on how much you can withdraw from your TFSA in a given year. Withdrawals don't count as income, meaning they won't have any impact on benefits such as employment insurance or OAS.

RESP 101: How to use a RESP to save for your child's education

RESPs are a tax-deferred way to save for a child's post-secondary education costs, including tuition, books and residence or other accommodations

Paying for a child's education is one of the biggest financial concerns faced by parents and other caregivers. But an RESP can help relieve that strain and set your child up for success. Here's a primer on the basics of a registered education savings plan, along with insights from personal finance experts.

What is an RESP and how do they work?

RESP stands for Registered Education Savings Plan. RESPs are a tax-deferred way to save for a child's postsecondary education costs, including tuition, books and residence or other accommodations.

An RESP is an investment account (not a type of investment) that can receive extra grants from the government based on the amount contributed. The investments in these accounts enjoy tax-free growth and earnings, meaning more money will be available for future educational costs.

The purpose of having an RESP account is to save toward a child's education. Typically, parents open RESPs for their own children, but you can open an RESP account for any child, and anyone can contribute. An RESP has three main participants:

1. The subscriber/plan holder (you)
2. The promoter/provider (the financial institution)
3. The beneficiary (the child who will use the money for their education).

Why should I open an RESP?

An RESP is a tool that allows you to save for a child's education – a potentially expensive proposition – while making use of government incentives. Some reasons to open one include:

1. You can get extra grants from the government based on your income and the amount contributed to the account.
2. Interest payments, dividends and capital gains from an RESP are not taxable until they are withdrawn.
3. Having a dedicated savings account for a specific goal (education) is a smart personal finance strategy.
4. Grandparents and other friends and family members can also contribute to an RESP.
5. RESPs help children avoid the need for costly student loans.
6. Contributing to an RESP helps you avoid financial demands once your child is in university.

How much money does the government contribute to an RESP?

Government contributions are managed through two programs, the CESG and the CLB. Here’s how they work:

THE CANADA EDUCATION SAVINGS GRANT (CESG)

One major benefit of contributing to an RESP is that the government will make contributions as well. The basic CESG amount is available to all children who are residents of Canada, have a social insurance number and are named as a beneficiary in an RESP account, and for whom a contribution has been made. Children from low- and middle-income families may also be eligible for an additional amount of CESG, depending on the income of their primary caregiver. These funds can be accessed until the end of the calendar year in which the child turns 17, though there are some restrictions for children who are 16 or 17.

How much money can a child receive from the CESG? The basic CESG amount is

20 per cent of contributions up to $2,500, or a maximum of $500 per year. The additional amount is 10 to 20 per cent of the first $500 contributed. Including the additional amount, the maximum amount of CESG a child can receive is $7,200. CESG amounts can be carried forward.

CANADA LEARNING BOND (CLB)

The CLB is a program that offers children from low-income families additional money for their education. Children can receive up to $2,000: $500 for the first year they are enrolled, and $100 for each subsequent year in which they are eligible. You do need an RESP account to receive the CLB, though unlike the CESG, you do not need to be making contributions to the account.

What are the different types of RESPs, and which should I choose?

There are three types of RESP:

1. Individual: pays for the education of one beneficiary.
2. Family: allows for multiple children in a family to be named as beneficiaries.
3. Group: offered and administered by companies that offer group scholarship plans.

If you have more than one child, a family RESP might be the best choice, according to James Kirk, a certified financial planner with Winnipeg-based Sweatman Insurance & Retirement Services. They are more flexible, he says, so that it's easy to move money around if not all of your children decide to pursue a postsecondary education.

As for group RESPs, these are structured programs that usually require participants to make certain contributions over a set period of time. Money contributed to group plans is pooled with that of other investors, and the specific investments are chosen by the fund. They do charge fees for enrolment, administration and processing and may also have penalties for missed payments or pulling your funds out early, so a DIY approach with an individual or family plan can be cheaper.

How do I open an RESP?

You can open an RESP at a bank, a credit union, a mutual fund company, an investment dealer or a group-plan dealer.

What type of fees will I have to pay on an RESP?

This depends on where you open the account and the types of investments you choose. It's possible to have an RESP account with no fees, but when choosing an institution, be sure to understand all the potential fees, such as for transferring the account elsewhere.

What is the best RESP in Canada?

This depends on your personal financial situation. The best RESP for you is the account and portfolio that meets your needs for growth, risk tolerance, convenience and any associated costs.

When should I open an RESP for my child?

Even if you can't contribute to your child's RESP in the early years, it's a good idea to open the account as soon as you can. If your income is low, this might make you eligible for the CLB. And having the account open also means that others, such as friends and family members, can make contributions – for instance, as a gift for birthdays or other events.

When opening an RESP, follow these tips from the Canadian Centre for Financial Literacy:

1. Come prepared with questions, and find out exactly what fees you might be liable for and if there are any other requirements for the account, such as minimum contributions.
2. Bring the appropriate documents. You need to bring your social insurance card, your child's social insurance card and your child's birth certificate or permanent resident card to open an RESP.
3. Set up a direct monthly saving plan. Even it is a small amount per month, start saving early and on a regular basis.
4. Know where you want to put your money. When you open an RESP, you will be asked how you want to invest your savings. The savings can typically be put into a no-risk savings account, a low-risk GIC or other funds with varying levels of risk.

How much should I invest in an RESP?

The government will chip in an extra 20 per cent on top of your first $2,500 per year per child of contributions, which makes that amount a good target if you can reach it. The lifetime maximum contribution is $50,000 per child, which works out to about $3,000 per year for 17 years, or a little under $250 per month.

Of course, there are a lot of costs associated with having children, especially if they're attending daycare. Many parents are only able to make minimal contributions in the early years. Luckily, CESB amounts can be carried forward, so if you aren't able to contribute the full $2,500 in some years, you can contribute more in subsequent years to make up the difference.

Depending on your financial situation, it might be a good idea to pay off debt or put money toward other priorities before making RESP contributions. On the other hand, if you can afford it, it might make sense to contribute as much as possible to a child's RESP early in their life, to maximize growth.

What is the yearly and lifetime contribution limit for an RESP?

RESPs have a lifetime contribution limit of $50,000 per child. As of 2007, there is no yearly contribution limit.

What happens if I overcontribute to an RESP?

If you exceed the contribution limit of $50,000 per child, you will be required to pay tax on the overcontribution amount until it is withdrawn. This may require a repayment of the CESG.

If multiple people are contributing to a child's RESP – for instance, two sets of grandparents – it's a good idea to co-ordinate amounts to avoid overcontributions.

What investments should I hold inside an RESP?

As with any portfolio, this depends on your risk tolerance and how long it will be until you need the money. Compared with an RRSP, which tends to have a longer time horizon, it's important to choose conservative investments for an RESP and dial back the risk level as the beneficiaries approach postsecondary school age.

Columnist Rob Carrick is a fan of investing RESP money in a balanced exchange-traded fund, or ETF. He suggests that growth-oriented funds might be a good choice for children under 13, balanced funds for children in their early teens and investors who are somewhat cautious, and conservative funds for children approaching high school graduation and investors who want to limit risk.

What can my child use RESP money for?

You can use RESP savings for many kinds of postsecondary education – not just universities, but also colleges, trade schools, apprenticeship programs and, in Quebec, CEGEPs. Many educational institutions outside Canada also qualify. Check the government's list of eligible institutions for details.

For a full-time program in Canada to be eligible, it must last for at least three weeks in a row with a minimum of 10 hours of instruction or work per week. Outside Canada, a full-time program must last at least 13 weeks. Part-time programs in Canada must last at least three consecutive weeks and require at least 12 hours per month of the student's time.

The government defines eligible expenses as those that are "reasonable" – i.e., that will serve to further the student's studies. That said, there is usually no need to specify what the money will be used for. While a financial institution can technically ask for receipts, author Mike Holman says this is unlikely. "Tuition, textbooks, housing, transportation, computers, televisions or vacations are all eligible. Anything goes," he writes in The RESP Book: The Simple Guide to Registered Education Savings Plans for Canadians.

How do RESP withdrawals work and how are they taxed?

First, an important note: the subscriber (usually a parent or grandparent) is in charge of the money. It is up to the subscriber to request the withdrawal. The student has no control over how much money is taken out. The subscriber is not obligated to give all the money to the student at once, and can release it in installments.

You can start requesting withdrawals once a child is enrolled in a postsecondary institution. When making a withdrawal, you must specify whether the payment consists of a refund of contributions (ROC), an educational assistance payment (EAP) or a combination of the two.

An ROC payment is deemed to come from the original contributions to the RESP and is, therefore, not taxable. These payments can be made to either the subscriber or to the beneficiary (i.e., the student) and there are no limits on the amount withdrawn.

An EAP payment is deemed to come from the income and capital growth inside the RESP, plus any Canada Education Savings Grants, provincial grants and Canada Learning Bonds received. EAPs are paid directly to the beneficiary and taxable in his or her hands, but because many students have very little income, the tax consequences are often minimal.

For full-time students, there is a $8,000 limit on EAP withdrawals for the first 13 consecutive weeks of enrollment. After that, there is no limit on withdrawals as long as the student remains enrolled. However, if you exceed a certain EAP threshold, you may be asked to justify that the withdrawal is for education expenses. The annual EAP threshold changes every year and is indexed to inflation; for 2025, it is $28,881. If your withdrawals exceed this amount, the financial institution may ask for documentation to prove the expenses.

What if my child doesn't go to university, or quits?

You can keep an RESP open for up to 36 years. So even if your child doesn't start a postsecondary education immediately after high school, there is still time for them to change their mind and use the money saved in the RESP.

If the child is definitely not going to use it, one option is to transfer the amount to a sibling. If you do this, keep in mind that the lifetime limits on contributions and CESG will apply.

If the child intends to quit a postsecondary program but has completed at least 13 weeks, you might be able to withdraw the full balance for them immediately. The amount will be fully taxable, but it's likely that they will have to pay less tax on it than you would.

If you do need to close the RESP, funds must be transferred as follows:

- Any grants, such as CESG and CLB, must be returned to the government.
- Original contribution amounts are yours to keep.
- Returns and interest are considered taxable income, and are also subject to an additional 20 per cent of taxation. However, if you have RRSP room available, the government allows you to transfer up to $50,000 of AIP (accumulated income payment) earnings tax-free, provided the RESP account has been open at least 10 years and all beneficiaries of the account are at least 21 and not enrolled in postsecondary studies.

The bottom line

3 key points to remember about RESPs

1. Opening and contributing to an RESP account makes you eligible for government grants and top-ups that can help fund your child's education.
2. The earlier you invest, the better, in order to maximize the growth potential of the RESP account, including any grants.
3. Children can use their RESP funds for many kinds of postsecondary education, not just university. And accounts can be open for up to 36 years, so they have benefit far beyond the high school years.

RRSP: What is a registered retirement savings plan in Canada?

A RRSP is a savings plan for retirement. The contribution limit for 2024 is 18% of your previous year's earned income or $31,560 (whichever is less), and the deadline to fund the account is March 3, 2025

Saving for a happy, comfortable retirement is one of the most common goals of personal financial planning for Canadians. A clear understanding of how a RRSP (Registered Retirement Savings Plan) works, tips for picking the savings plan that works for you, and some common terms will help relieve the strain and set you up for success in your golden years. Here's a primer on the basics of a registered retirement saving plan, along with insights from personal finance experts.

What is an RRSP and how do they work?

An RRSP – short for registered retirement savings plan – is, as the name suggests, a savings plan for retirement. RRSPs are tax-advantaged accounts, meaning they provide a tax break.

The program was introduced in 1965 to help Canadians save for their retirement. The key benefit of an RRSP is that tax is deferred until retirement.

All contributions are tax-advantaged, meaning they won't be taxed until you withdraw the funds. The same goes for investment income made from investment in the RRSP: It can grow tax-deferred until it's withdrawn.

The plan lasts until the end of the calendar year when you turn 71, at which time it must be converted into a registered retirement income fund (RRIF).

What are the benefits of opening an RRSP?

An RRSP is one of the few ways Canadians can earn an income-tax reduction during their earning years, as the amount contributed to an RRSP is tax deductible. You pay income tax on RRSP money when it is withdrawn, ideally in retirement when you will likely be in a lower tax bracket. This tax deferment is one of the key benefits of the savings plan.

Note that you don't have to claim the deduction in the year you contribute. It's possible to defer the deduction to a future year. This might be a good choice for you if you have money to invest now, but expect to have a higher taxable income in future years.

In addition, any earnings within your RRSP account, such as interest or dividends, remain inside the account and are not taxable until you make a withdrawal.

Another advantage is that many workplaces have automatic contribution plans set up for employees' RRSPs. This means that your payroll department will transfer your contributions directly into your RRSP, making it easier to save. Some companies also offer RRSP matching, through which they will contribute additional money beyond what employees themselves are saving.

For maximum benefit, open the account as early as you can and be sure to create an automatic contribution plan – something that deposits a set figure to the RRSP each month or each paycheque. Your employer or bank can do this.

How do you open an RRSP?

To open an RRSP, you need to be under 71 years old, but there is no minimum age requirement. (The earlier you start investing, the better.) You will need a social insurance number. Minors can open an RRSP with a letter of consent from a parent or legal guardian, who will retain signing authority until the child turns 18.

You must also be a Canadian resident for tax purposes, file income taxes in Canada and have an income. Opening an RRSP can be done at any financial institution (a bank, credit union, trust or insurance company), including online. While you can open as many accounts as you wish, the contribution limit doesn't change.

What kinds of investments can be held in an RRSP?

Stocks, bonds, mutual funds, exchange-traded funds (ETFs), segregated funds, cash deposits and guaranteed investment certificates are among the broad range of investments allowed in an RRSP. And there are no limits on foreign assets.

How to pick an RRSP

An important thing to keep in mind is that an RRSP isn't an investment per se – it's a sort of container that holds an investment or set of investments. With that in mind, when setting up an account, says columnist Gordon Pape, it's a good idea to opt for maximum flexibility. Find out exactly what the plan is allowed to hold, and what is excluded.

For example, your local bank may offer a plan that allows you to invest in their mutual funds but not those of other financial institutions. A brokerage account with an online company will usually provide the best combination of flexibility and minimal costs.

Once you've set up an account, the next step is to choose what to invest your money in and how much to deposit. As with any investment, the choices that are right for you will depend on your age, risk tolerance and personal preferences, such as how hands-on you want to be managing your portfolio and whether options such as sustainable investing are important to you.

If you're not going to need your investment for at least five to 10 years, columnist Rob Carrick says that one option is to put your money in an asset-allocation fund, a.k.a. a balanced ETF. These all-in-one funds are designed to give you a balanced portfolio in a single package of bond and stock market ETFs. Another way to get similar results, he says, is through a robo-adviser, which will offer more support and guidance (as well as slightly higher costs).

What is the annual contribution limit and the 2024 deadline?

The Canada Revenue Agency (CRA) imposes an annual limit on how much you can deposit into your RRSP account. The limit is calculated as a percentage of your previous year's income, up to a maximum amount that is set by the government each year. If you do not contribute the maximum allowable to you in a certain year, the remainder is carried forward to the following year.

Your personal RRSP contribution limit can be found on the notice of assessment you receive from the CRA after your annual income taxes have been processed. You can also find it by logging into your CRA account.

Keep in mind that while there is often talk of "RRSP season" every February leading up to the annual contribution deadline, investment adviser Rory Tufford recommends setting up regular automated contributions throughout the year rather than a lump sum right before the deadline. And if you do end up making a last-minute contribution, remember that you don't necessarily have to invest the money to make it count for your taxes, so long as the cash has been moved into your RRSP account on time.

Note that the RRSP contribution year does not correspond to a calendar year. Instead, it runs from March 1 to March 3 of the following year. For instance, any funds deposited into your RRSP between March 1, 2024, and March 3, 2025, correspond to the 2024 tax year. (Note that these dates are subject to change; it's a good idea to double-check on the CRA's website.)

The maximum RRSP contribution limit for 2024 is 18 per cent of your previous year's earned income or $31,560 – whichever is less. The next RRSP contribution deadline is March 3, 2025.

What happens if you contribute over the annual RRSP limit?

While it's important to stay organized when calculating your RRSP contributions, it's easy to make errors. With this spirit in mind, if you do contribute more than the annual limit, the CRA will forgive the first $2,000 of your overcontribution. In other words, if your annual limit is $10,000 and you contribute up to $12,000, you won't receive a penalty.

All contributions above that, however, will be subject to a 1 per cent tax for every month you're over the limit. (The CRA will likely send you a notice if and when you overcontribute, encouraging you to move that money.) Late payment of this tax can result in interest fees and other penalties.

The exception is if you withdrew the excess contribution or contributed to a qualifying group plan. You can also apply to have the tax waived or cancelled under certain conditions, such as a reasonable error. If you have made an overcontribution, it's best to deal with it quickly following the guidelines laid out by the CRA.

How does the money in an RRSP grow?

There are two ways the money in your RRSP will grow. One is by continuing to make deposits into the account. The other is by earning money on your investments. How the latter works depends on the content of your RRSP; e.g., whether it's stocks, bonds, GICs or other types of investment.

Can you lose money in an RRSP?

Yes, you can lose money in an RRSP. Whether this actually happens depends on the types of investments you hold and the timing of your withdrawals.

Some investments are riskier than others, and this is no different within an RRSP than outside one. (In fact, you might be better off holding riskier investments outside your RRSP, as at least the losses will be tax deductible.)

Jason Pereira, a financial planner at Woodgate Financial Inc. in Toronto, points out that the biggest danger isn't losing money on paper, but losing money and then cashing out. This is where age and timing come in. Younger investors have more time to ride out market lows.

It's a good idea to have a diversified mix of stocks and bonds whose historical risk level is in line with your risk tolerance, Mr. Pereira says.

Is a TFSA better than an RRSP?

Neither is better in itself – it's just a question of which is better for you, right now.

The main difference between a TFSA and an RRSP is when you pay the income tax.

RRSP contributions will reduce your tax bill when you put the money into the account, but you will be taxed when you make withdrawals. You can also contribute more per year to an RRSP than a TFSA (tax-free savings account), and because the money is taxed when it is withdrawn from the account, you might have more incentive to leave it alone.

TFSA contributions won't reduce your tax bill when you put the money in, but you won't be taxed on the contribution amount or on any gains when the money is withdrawn, and in general, you can withdraw from your TFSA account easily. (Though keep in mind that any withdrawals can only be replaced in the following calendar year – you can't treat your TFSA account like any savings account. Review the CRA guidelines before making withdrawals and contributions.)

With this in mind, choosing between a TFSA or RRSP depends on a number of factors including your age, debt levels, financial goals, current income, tax rate, expected retirement income and more.

For instance, higher-income earners tend to get a greater benefit from RRSP contributions, says Rob Carrick, whereas "younger people who aren't yet in their peak earning years will likely get the best after-tax result from a TFSA." Ted Rechtshaffen, president and chief executive officer of TriDelta Financial in Toronto, recommends that clients who make less than $45,000 a year save in a TFSA first and those who make more than $85,000 prioritize the RRSP.

Both are effective tools for saving – and contributing to both will provide flexibility when making withdrawals – but if you can only fund one account, let your real life-scenarios inform your decision.

How do you withdraw from an RRSP without paying tax?

You can withdraw funds from your RRSP at any time, not just once you're retired. But in most cases, those funds are taxable.

There are some situations when it makes sense to make an early withdrawal from your RRSP – like pulling cash out to take advantage of the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP) – or to minimize a tax hit.

- What is the HBP? The HBP allows you to withdraw up to $35,000 tax-free, to help make a down payment on a first home, or for those who haven't owned a property within the past four years. Legally married or common-law couples can withdraw up to $35,000 each for a total of $70,000 toward the same home purchase. You then have 15 years to repay the borrowed amount back into your RRSP, with the first payment due two years after the withdrawal.

- What is the LLP? If you're returning to full-time education or training, you can withdraw up to $10,000 tax-free from your RRSP. You have up to 10 years to repay your RRSP under the LLP.

If you fail to make the annual minimum repayment, it will be added to your income for the year and taxed, so there is a strong incentive to repay the funds.

As you begin your retirement, early withdrawals from an RRSP could minimize your overall lifetime tax hit. This is often the case where a person retires at age 65, or sooner.

For example, if you have a large RRSP, the amount you will be required to draw from your RRIF once you hit age 72 – a set percentage that increases each year – could put you in a bracket where you are paying a substantial amount of tax. However, if some of that RRSP is withdrawn between ages 65 and 71, the tax rate may be significantly lower.

How do refunds on RRSPs work?

When you make RRSP contributions, you can use the amount to reduce your tax payable. If you do this when you're filing your taxes and the CRA concludes you overpaid income tax for that year, you will receive a refund.

How this works specifically depends on your situation. For instance, if your RRSP contributions are being made through your payroll department, they may already be reducing the amount of income tax they deduct from your paycheques, in which case you may not receive a refund with your notice of assessment.

The total amount of the tax reduction you receive thanks to RRSP contributions depends on your taxable income and the amount you have contributed.

RRSP deductions don't have to be claimed in the year you made the contribution – they can be carried forward instead. This might be the right choice for you if your income is relatively low and you expect to have higher income in future years. For instance, students – many of whom don't pay tax at all – should either avoid RRSPs (and invest in a TFSA instead) or carry forward their deductions to avoid wasting them, says Camillo Lento, assistant professor of accounting at Lakehead University.

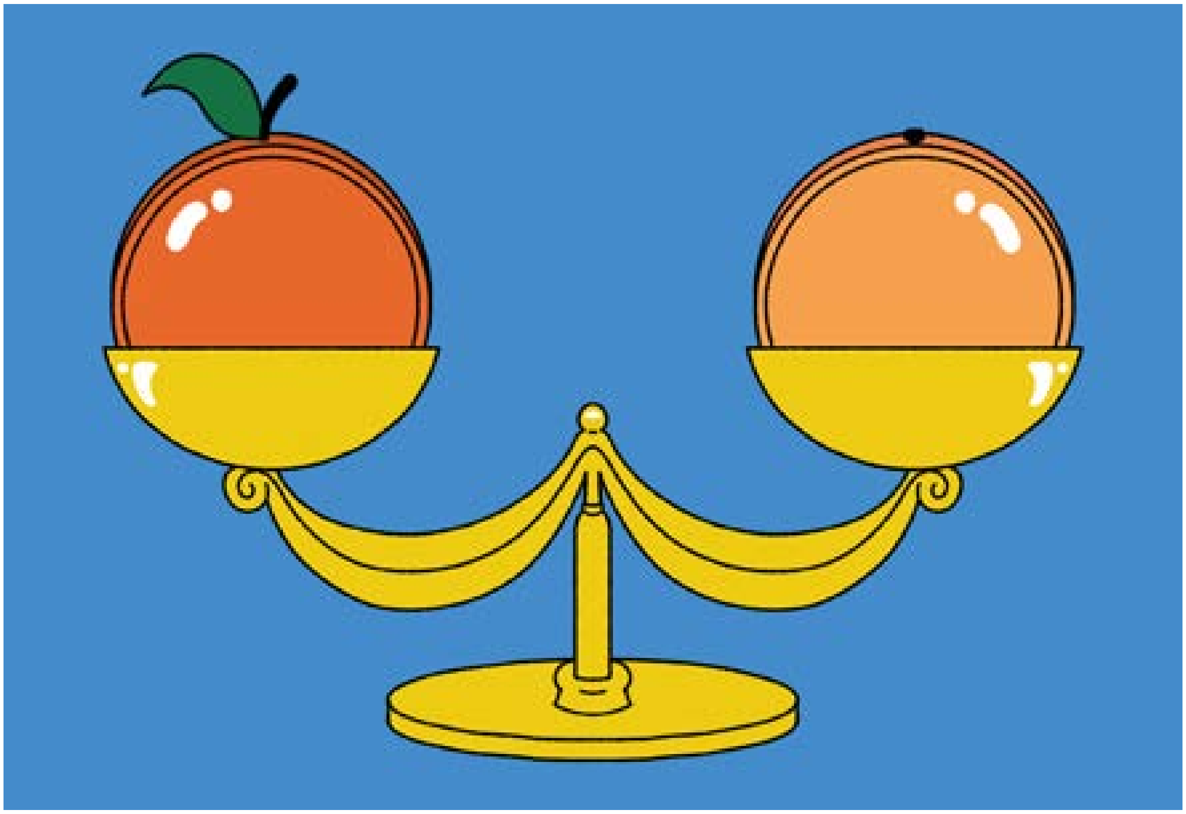
RRSP terms and definitions

What is an individual RRSP? As the name suggests, an individual RRSP is a plan that belongs to one person.

What is a self-directed RRSP? You are managing the money and assets in the plan yourself, likely through an online platform.

What is a group RRSP? A group RRSP and an individual RRSP are virtually the same – the only difference is that in a group plan, it's set up by your employer and contributions are made directly by payroll deductions. Often, but not always, a group RRSP will come with a matching contribution from the employer. Annual fees on the funds in the plan are relatively low and the investment options will vary from employer to employer. If you leave your employer, the contributions can be moved to an individual RRSP, used to purchase an annuity or taken in cash (and taxed that year).

What is a spousal RRSP? The spousal RRSP enables higher-income-earning spouses to put retirement money away for a lower-income spouse. The higher-earning partner contributes to the spouse's RRSP, and later, when that spouse withdraws income – as long as certain waiting-period rules are met – that cash is attributable to the lower-earning spouse, who is likely in a lower tax bracket. Keep in mind that contributions to spousal RRSPs are counted as part of the contributing spouse's annual limit.



TFSA, RRSP or RESP: How to choose where to invest your money

TFSAs, RRSPs and RESPs are all registered savings accounts, meaning contributions are tracked and there are incentives to help you invest more for retirement or your children's education. Here's how to pick between a TFSA, RRSP or RESP

So you've got some money to invest. Where do you put it? One catch about making money on investments is that the taxman will want its share. So to incentivize Canadians to save for retirement and education, the federal government introduced some special accounts over the years that let you defer income tax in the beginning or avoid it later on: the RRSP, TFSA and RESP

In an ideal scenario, you might choose all these things: max out your RRSP, TFSA and RESP contributions and have a little left over to save up for your next vacation. But this is real life, and real life can get expensive. Don't feel bad if your investing abilities don't meet up with your aspirations. Instead, get smarter about the money you do have, and put it to work for a better future.

What exactly are RRSPs, RESPs and TFSAs?

No one loves an acronym more than government, and you can thank ours for coming up with these three. What they all have in common: They're registered accounts, meaning the government tracks your contributions, and they come with perks to help you save and invest more. Here are the basics.

RRSP

What it stands for: Registered retirement savings plan

What it's for: Like the name says, it's for retirement. The idea is that you put money in this account and leave it alone until you're no longer working.

How much you can contribute: There's an annual limit of a certain percentage of your earnings up to a specific maximum. In 2025, that's 18 per cent of your previous year's earned income, or $32,490 – whichever is less. If you haven't hit your contribution limit in previous years, that amount is still available to you.

How it works: RRSP contributions essentially reduce your taxable income for that year. The simple explanation (your reality might be different): Say you have a salary of $80,000 and deposit $10,000 into your RRSP. Your income tax bill will then be calculated on $70,000, and if your employer deducted taxes payable for that extra $10,000, you'll get those taxes back in the form of a refund. The catch? When you eventually pull money back out of your RRSP, it's considered taxable income.

TFSA

What it stands for: Tax-free savings account

What it's for: This one's a bit more up for debate. The name implies that it's for saving, and many Canadians use it for just that: putting money aside for a down payment, tuition or other big expenses. But many experts think that its best use is as a retirement savings tool, for tax reasons (see below).

How much you can contribute: There's an annual limit that's the same for everyone. In 2025, it's $7,000. The limit carries over year by year so if you don't contribute the maximum you can make it up in later years. If you take money out, you can also hold on to that contribution room and make it up later (just not in the same year).

How it works: Your eligibility starts when you're 18. You don't get any immediate tax break from putting money in your TFSA – contributions are from after-tax dollars. The benefit is that you don't have to pay tax on withdrawals, including both your initial contribution and any investment returns.

RESP

What it stands for: Registered education savings plan

What it's for: Saving toward future education costs for the kids in your life.

How much you can contribute: There's a lifetime limit of $50,000 per child. There is no annual limit on how much you can put away.

How it works: Similar to RRSPs, this is a kind of tax-deferral system. The original funds you put in are after-tax dollars, so they won't be taxed when you take them out again, and the earnings on that money – the dividends, interest and capital gains – aren't taxed until they are withdrawn. They're taxable income for the student, though, which means the rate will probably be low.

RESPs come with an added perk besides being a tax shelter: The government will top up your deposits to a lifetime maximum of $7,200 per child, with an extra $2,000 per child available in grants to low-income families. Those top-ups can make a big difference. In addition to your own contributions, up to a maximum $2,500 a year, your account will get a 20 per cent boost (on the annual maximum $2,500, that's an extra $500), and who can beat returns like that?

RRSP vs. RESP vs. TFSA: Questions to ask yourself

Does an RESP apply to you?

When deciding between an RRSP, RESP and TFSA, the first question to ask is: Are there kids in your life whose education you want to contribute to? If the answer is yes, then it's worth setting up an RESP account if the kids are yours, or chatting with their parents or guardians if they're not. (RESP contributions make a fine, if a little boring, gift to the nieces, nephews and grandkids in your life.)

If the answer is no, then you've simplified the question: You're now down to comparing TFSAs and RRSPs.

Can you get free money?

There might be no such thing as a free lunch, but there is free money you can sometimes tap into to boost your savings, under a few conditions. If it's accessible to you, that might be a factor in your decision. Those aforementioned government RESP top-ups are one example.

And if you have a workplace RRSP or TFSA program, it's worth investigating. Some employers will match your contributions, meaning you're essentially giving yourself a raise by saving for the future.

What's your tax bracket, and what will it be later?

When it comes to retirement savings, the general guideline is to go TFSA first if your income is on the lower side, and RRSP first if your income is higher. David Field, founder of Papyrus Planning, recommends that clients who make less than $45,000 a year save in a TFSA first and those who make more than $85,000 prioritize the RRSP.

The idea is you want to pay the income tax when you're at a lower tax rate, and claim any tax savings when your income is higher.

Think about your annual income now and a few years from now, as well as what you anticipate it might be in retirement.

And remember that if you do put money into your RRSP, you don't necessarily have to claim the deduction in the same tax year. Deductions can be carried forward into future years. This might be useful if you have cash available to invest now but expect to have a higher salary in the next few years.

Do you have a pension?

Since RRSP withdrawals are taxable income, any other income you have during retirement will affect your tax rate. If you'll be getting a good-sized pension, for instance, you might want to invest additional money in a TFSA, as you can take money out from it whenever you want, and it won't count toward your taxable income.

Are you good at leaving savings alone?

Since it's complicated to take money out of RRSPs – and you have to pay tax on what you withdraw – they often feel more untouchable than TFSAs. If you're trying to save for retirement and you know you'll be tempted to pull the money out sooner, an RRSP might be the better psychological choice.

When will you need the money?

RRSPs have a lot of rules surrounding them, including when you must start taking money out, and how much. It all begins the year you turn 71. That year, your options are: withdraw the funds (and be taxed on the entire amount); use them to purchase an annuity; or transfer them to a registered retirement income fund, or RRIF. With the latter option, every year you will need to take out at least the minimum amount set by the government. But 71 can be early for some people, for whom RRIF payments might bump them up to a higher tax bracket. "But there are no mandatory withdrawals from a TFSA," tax expert Tim Cestnick points out. "So, if you don't need the investments to meet your costs of living, a TFSA can make sense."

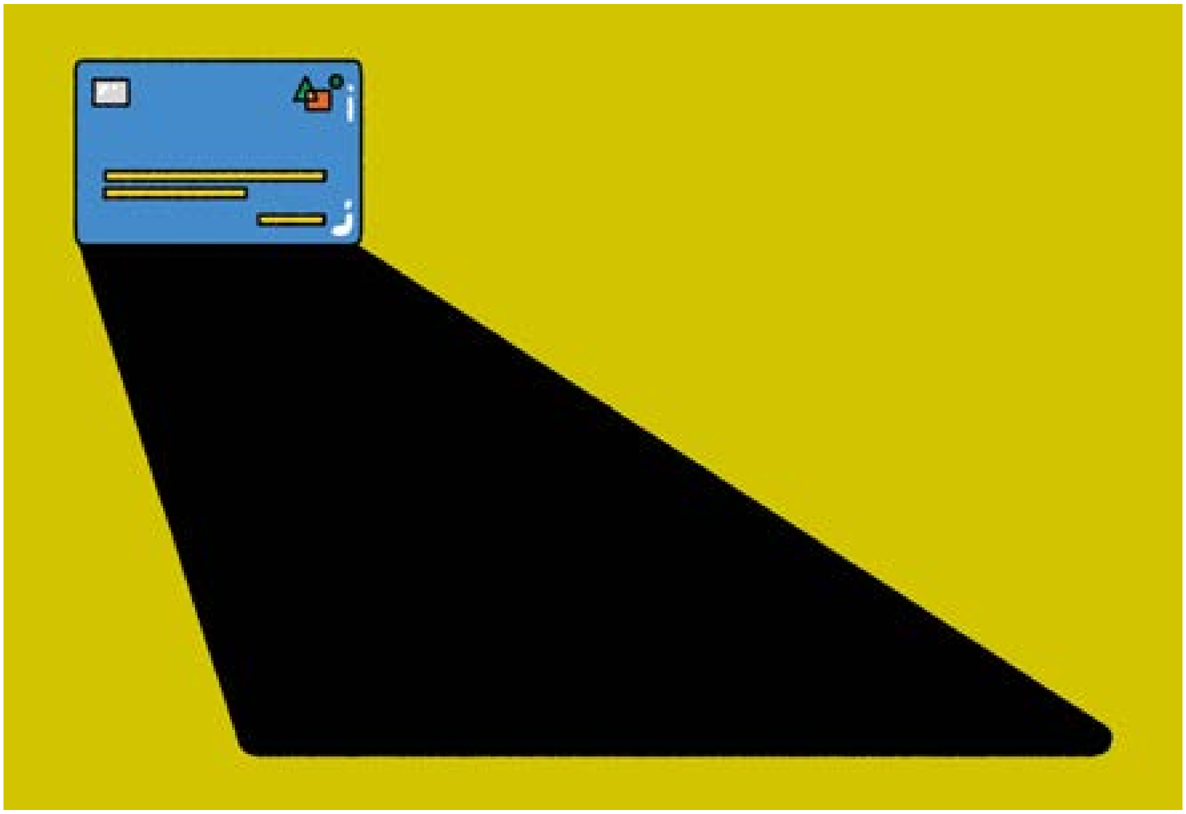
The bottom line: Where should you put your money?

It's never too late to start saving for retirement or for your kids' education. But it's also never too early. The most important thing is to get in the habit of putting money aside. A good budget can help, and automated deductions straight out of your bank account are your friend.

When it comes to choosing between a TFSA, RESP and RRSP, it really depends on your personal financial situation, and everyone is different. The key is that you're saving at all. Even if you don't have a lot of money to invest the contributions and returns do add up, and you'll be in a much better position for the future.

CHAPTER 4

Debt



What is good vs. bad debt? How much is 'normal' debt to carry in Canada?

Debt is any money you have borrowed – from the bank or credit company – that you've made a promise to repay. Traditionally in Canada, mortgage debt is considered 'good' – and everything else (credit card, student or car loans) is 'bad' debt

On the face of it, debt is easy to understand: It's any money you have borrowed – from the bank, a credit company, your rich uncle – that you've made a promise to repay. But it's often difficult to manage. Here's a rundown on the one financial challenge almost all of us have to face.

What is debt?

Personal debt falls broadly into two categories. It can be secured debt, where the loan is backed by some collateral (like your house or car), or unsecured debt, where no collateral is required but rather the loan is offered on the borrower's credit-worthiness.

Debt can also be divided into another two categories: Revolving credit, where borrowers can spend up to a set limit before paying it off or paying it down, then doing it all again next month – most credit card debt works this way; and instalment (or non-revolving) credit, which is a (usually much larger) one-time loan that the borrower pays back with set payments over a (usually much longer) period of time.

Different kinds of debt fall into various combinations of these distinctions. A mortgage, for example, is a secured instalment loan, while your Visa bill is non-secured and revolving.

Canadians are probably most familiar with mortgage debt, but there is almost no end to the varieties of debt you can take on – student loans, car loans, personal loans, lines of credit, payday loans, debt consolidation loans. Even overdraft protection on your bank account or credit card could be considered a kind of loan.

What is "good" versus "bad" debt?

An old school of financial thought divided all debt into good versus bad. "Traditionally, there's a collective idea in Canada that mortgage debt is 'good,'" explains Gursharon Singh, a client experience manager at non-profit debt counselling agency Credit Canada, "whereas everything else is 'bad.'" That's mainly because mortgage debt is seen as building a long-term asset, one especially valuable when home prices are rising. Of course, it's not so simple.

Take, for example, student loans. "If economic times are bad, if you won't be working anyhow, going into debt to go back to school could be a very good debt," Ms. Singh says. If you think of debt as an investment, which admittedly isn't easy, then investing in a Masters or MBA that pays for itself in a few years via additional income is a wise use of debt. That's provided you can make the payments, cautions Ms. Singh. "Whatever you call it, anything you can't pay is bad debt."

"From my perspective, debt should be primarily used to purchase a home, finance an education, or arguably purchase a vehicle," says Steve Welker, a licensed insolvency trustee. "It's not practical for anyone to pay cash for any of those, so those are good uses of debt – provided the interest is manageable and you're capable of paying the debt back." Mr. Welker differentiates good and bad debt not by the item you've bought, but whether that item has any potential to generate income rather than merely deplete it. "Bad debt are things like consumer goods, clothing, travel, entertainment. These borrow against your future earnings but won't ever give anything back," he says.

Is it 'normal' to have debt?

As of June, 2022, the average Canadian household had $1.83 in debt, including consumer and mortgage debt, for every dollar of disposable (after-tax) income they earned. "That, to me, shows that debt is very normal," Ms. Singh says. In a 2021 Manulife Bank of Canada Debt Survey, two-thirds of Canadians reported that they were carrying some kind of debt. So, statistically, yes, it's normal to have debt.

And it's hard to resist. "Canadians are actually encouraged to have debt," says Melanie Leigh, a licensed insolvency trustee. "People still think they have to qualify for a card or a loan, that of course a bank or company won't give you a loan that you can't afford, but it's just not true. They want you to sign here, buy something and pay the minimum."

Money experts say that, because it's normal, there shouldn't be a stigma around debt. "I'm constantly telling people that they're not alone," says Isaiah Chan, vice-president of programs and services at the Credit Counselling Society. "Many people constantly struggle with debt and often because of circumstances out of their control. Keeping it a secret makes it worse. You should know that every time you walk down the street, most every person you walk by has dealt with debt or has debt right now."

So what is a "normal" amount of debt to carry?

If you're after a specific number, Rob Carrick's article, "This is how much debt is normal for your age," is very helpful. Mr. Carrick, The Globe and Mail's personal finance columnist, reports the average amount of non-mortgage consumer debt – a very important distinction – with 2022 stats from Equifax Canada. A few examples: The average consumer debt of those age 18 to 25 was $8,129; average debt in the 26 to 35 cohort was $16,832; the 36-45 group had racked up $25,084; and the those between 46 and 55 had an average $31,442 in consumer debt. After that, thankfully for those 57 and up, non-mortgage consumer debt finally began to shrink.

	Average Debt (Q1 2022)	Average Debt Change Year-over-Year (Q1 2022 vs. Q1 2021)
18-25	$8,129	-4.09%
26-35	$16,832	2.83%
36-45	$25,084	3.57%
46-55	$31,442	2.82%
56-65	$26,165	1.12%
65+	$14,386	0.35%
Canada	$20,744	1.54%

Manulife Bank's debt survey, mentioned above, also asked Canadians who had debt to characterize it as "a lot" (11 per cent of respondents); or "some" (29 per cent) or "very little debt" (28 per cent). Here's the thing: "Whether or not your debt is big or small is all relative," Mr. Chan says. "A $5,000 debt to one person may not feel like much at all, depending on their financial circumstances, whereas to others the same amount feels insurmountable." Mr. Welker hails from a family of trustees who go by this saying: "The depth of your hole depends on the size of your shovel," he says. "That is to say, it all depends on what is manageable to you."

How much debt is too much?

If you absolutely need a rule, says Ms. Singh, she recommends that no more than 30 per cent of your monthly budget be allotted to debt repayment. This percentage is called your "debt-to-income ratio," and of course the lower the better. Ms. Singh notes that 30 per cent matches up exactly with the credit utilization percentage – the portion of your available credit that you are actually using – recommended by many money experts, including Eva Wong, co-founder and chief operating officer of Borrowell.

In general, you have too much debt when your budget stops working, the numbers quit adding up, and your finances start to feel out of your control. For some, says Mr. Welker, "this might be if you're being contacted by collection agencies, or if you're behind on your phone bill or hydro bill and have to pay one or the other." Ms. Leigh cautions that "while carrying some debt is probably a function of modern life, carrying a large debt is not. This can happen quickly, it sneaks up on you and suddenly you realized you're overwhelmed."

Another way to know whether you're carrying too much debt is to consider if and how it's holding you back from achieving other financial goals. "It's probably okay to carry an amount of debt that doesn't otherwise hinder you," Ms. Singh says. If your debt payments are routinely trumping your retirement savings or emergency fund contributions, it's safe to say you've acquired too much debt.

What should my debt payment priorities be?

Mr. Carrick describes this age-old question as one of the most-asked in the business: "If you have extra money, should you pay down debt or invest?" The general consensus is that whatever is carrying (or costing) the higher interest should be the priority for your extra cash – if your debt is costing you 5 per cent interest but you can reasonably expect bigger returns from an investment, then go ahead and invest that extra money. Since your credit card interest rate is probably around 20 per cent, you might think that high-interest consumer debt should be the first thing to tackle when you're cleaning up your finances. And that makes sense.

In our Emergency Funds explainer, money coach Judith Cain indeed recommended that credit card debt sits atop the financial priority list – even higher than the all-important emergency fund – if only because it can feel all but impossible to come up with any savings at all if you're deep in consumer debt.

That said, assuming you're not in a bad financial spot, Ms. Leigh suggests a more moderate approach that challenges an either/or strategy. "To my mind, paying off debt and adding to your savings go hand in hand," she says. "I'd say if you have $100, split it up and put some in savings and some towards debt. The percentage, however, depends on your situation." If you have no emergency fund, for example, allocate more of your money there, and if you feel like you've got enough money in your registered retirement savings plan right now, then put more toward debt repayment instead.

What are a few simple tips to best manage or pay off debt?

Besides not getting in too deep to begin with, of course, and assuming you're not in so much debt that it's time to see a professional, managing debt begins with looking closer at the boring old budget – which everyone should be doing anyhow, adds Mr. Welker. "At the end of the month, every month, gather all your information and plug it into an excel sheet, or your preferred budgeting app, or even use a pen and categorize everything into a few broad categories," he says.

The goal, Mr. Welker explains, "is to make sure your expenses line up with your priorities." When you realize you are spending on things you don't need to, put that money instead toward paying down debt.

There are two basic strategies here: Avalanche (top down, starting with your debt with the highest interest rate) or Snowball (top up, beginning with your smallest outstanding obligation first and "snowballing" your way to the largest). Ms. Leigh recommends the latter: "For most people, I'd suggest started with the smallest debt, pay that off first, and make minimum payments on all the rest," she says.

Mr. Chan recommends setting yourself a (realistic, attainable) monthly challenge. "Maybe you set a goal to pay an extra $50 towards your debt each week, and if you make that goal by the end of the month, you gift yourself a 'cheat day' for a set dollar amount. Go watch a movie or have a dinner out," he suggests. Celebrating is basically hacking your brain to associate good habits with rewards. And if you don't make your goal that month, you don't have to beat yourself up – you just don't get to go to the movies. "It's a fine balance between holding yourself accountable and cutting yourself some slack."

Why can't I just make minimum payments until I die?

If you're an out-of-sight, out-of-mind kind of person who doesn't experience a big balance as particularly stressful, it might feel like carrying around debt doesn't affect your daily life that much. "You can tell yourself it doesn't matter and pay the minimum per month to keep your creditors satisfied," Ms. Singh says, "but you're sabotaging your abilities to build any real wealth for yourself, ever."

If your plan is to just pay the minimum, not only will you never pay off your actual debt, but you're also effectively losing the minimum payments themselves. "You might as well just throw that money out, because it goes right to the bank and has no utility at all to the individual," Ms. Singh says. Or you could think of it this way: "Everything you pay in interest is money that could have gone to your retirement or a down payment on a house," Mr. Welker says. "Carrying around debt can really delay – or completely sabotage – achieving your other goals," he adds.

Moreover, despite your tough-as-nails exterior, a large debt is probably having an impact greater than you know. "I promise you that carrying debt affects you emotionally and causes stress," Ms. Leigh says. Want proof? "Debt is a substantial cause of marital breakdown and divorce, it keeps you up at night, and it just weighs on your shoulders all the time," Mr. Welker says.

What happens to your debt when you die in Canada?

"That's the ultimate discharge!" jokes Mr. Welker. More officially, the fate of that debt you were dragging around will go something like this: The executor of your estate will first repay your debts, file your final tax returns, and then distribute remaining assets to your beneficiaries. Hence Mr. Welker's joke: "If you have no assets, no life insurance, no investments and no property, those debts will be forgiven."

Unless someone has specifically co-signed on your accounts, neither your spouse nor children are legally responsible for your debt. But be warned that it's not uncommon for a co-signer to have put their name on the line many years or even decades ago – long forgotten – and be unknowingly liable for someone else's debt. "It's so important to check in with your lender to see if it's expected anyone else will be responsible for your debt," Ms. Singh says. This inquiry is free, confidential and highly, highly recommended.

Key takeaways:

What to know about personal debt in Canada

1. Debt is defined as any money you've borrowed from a bank, company or individual that you've agreed to repay
2. Debt can be secured (with collateral) or unsecured (without), revolving (up to a limit and paid off monthly depending on what you spent) or instalment (fixed payments)
3. Common debts are mortgages, credit cards, student loans, car loans, medical or dental debt, personal loans, payday loans, debt consolidation payments and overdrafts
4. Debt is sometimes divided into "good" and "bad": good debt is an investment that should pay off in the future, bad debt is money that's gone for good
5. Two-thirds of Canadians carry at least some debt, and Canadians collectively owe $1.83 in debt for every $1 of disposable income they earn
6. Some money experts recommend no more than 30 per cent of your income go to debt repayment, though there's no exact number that is officially too much
7. Any amount of debt owed that feels unmanageable is too much debt to carry

Mortgage renewals: Which is better, a fixed- or variable-rate?

Mortgage contracts are good only for a specified term, commonly three to five years. So, unless you're nearly done paying off your loan, a new mortgage is in the cards for you soon. Here's what to know

If you have a mortgage, chances are you'll be renewing it in the foreseeable future. That's because mortgage contracts are good only for a specified term, commonly three to five years. So, unless you're nearly done paying off your loan, a new mortgage is in the cards for you.

Each time your mortgage comes up for renewal, you have lots of decisions to make: Will you stay with your current lender or switch to a different one? Should you go with a fixed or variable rate? Is it better to choose a shorter or longer term? You might also want to borrow additional funds or extend your amortization period (the time it takes to pay off the mortgage balance in full), which is called mortgage refinancing. Of course, you can also break and renegotiate your mortgage contract before the term is up, but you'll pay for that privilege in additional fees.

Here's what you need to know about the mortgage renewal/refinancing process so you can make the decisions that work best for you.

When do I renew my mortgage?

By law, banks have to send you a renewal notice at least 21 days before the end of your existing term. But lenders will typically let you renew a mortgage without penalty 120 to 180 days before your current term is up, and will often send you an early renewal offer during that period in an attempt to retain your business.

Should I accept my lender's early mortgage renewal offer?

While you might feel compelled to take that early offer from your existing mortgage provider, especially if you're worried interest rates could go up, it's best to shop around.

According to Toronto mortgage broker David Larock, early offer renewal rates are usually uncompetitive, which means you'll likely get a much better rate with a competing financial institution or by negotiating with your current provider. Either way, you may qualify for a discounted interest rate that is lower than the rate quoted in your renewal letter.

And don't fall prey to common pressure tactics used by lenders, says mortgage strategist and Globe and Mail contributor Robert McLister. "Their retention personnel are trained to convince you that their early renewal promotion is a 'limited-time offer.' In truth, lenders commonly honour early renewal rates after the supposed 'expiry date,' as long as rates in general have not increased," he says.

(To find out if there might be an imminent change to market interest rates, which affect mortgage rates, consult the Bank of Canada's schedule of interest rate announcements, as these changes take place eight times a year on predetermined dates.)

How do I negotiate a better mortgage rate?

A few months before the end of your term, start shopping around even if you haven't yet received a renewal letter. In the case of fixed-rate mortgages, many lenders will hold an interest rate for you for up to four months, which you can then use to negotiate with your existing mortgage provider. Just be sure to get the offer in writing, as your current lender may want proof of competing rates.

But keep in mind that the interest rate is just one aspect of your mortgage renewal. Borrowers should also look at any applicable fees and flexible features that help you port (transfer your mortgage to another property if you decide to move), refinance, break, convert or prepay your mortgage early at the lowest possible cost. "Those things usually save you more than a small difference in interest rates, sometimes dramatically more," says Mr. McLister.

And, as Rob Carrick, The Globe's personal finance columnist, noted in a June 2020 column, you never know when an unexpected event – like a pandemic – might force you to sell your home and bail on a mortgage. "This can happen even in good times – you get a job in another city or become ill and need to move to change your living arrangements," he adds. Indeed, seven out of 10 Canadians end up breaking their mortgage early.

"By all means ask your bank for its best offer," advises Mr. Carrick. "Then consult a mortgage broker to compare both the rate and the breakage penalty."

Ron Butler, a mortgage broker at Butler Mortgage Inc., agrees that's the right approach. "Shop the market first, so you have a concept of what the best possible deal is," he says. "Then go back to your own bank and try to press them to give you that same best possible deal – with a reduced penalty."

Which is better, a fixed- or variable-rate mortgage renewal?

This is a personal decision that's based, in part, on borrowers' comfort level with the unknown and their financial ability to withstand potential increases in interest rates.

As this Mortgages 101 guide explains, fixed rates are usually higher than variable rates, but you get the peace of mind of knowing exactly what your payments will be for the entire mortgage term. A variable-rate mortgage, on the other hand, fluctuates based on movements in the Bank of Canada's overnight rate. Depending on the details of your mortgage contract, those fluctuations will lead to changes either in your mortgage payment amounts, or your amortization period. Either way, rate changes on a variable mortgage affect how much interest you pay in the long run.

"The big decision facing people today is, 'Should I lock in?' " says Ross Taylor, a mortgage broker and owner of Ross Taylor Mortgages in Toronto. "But I think the more important question people should be asking is, 'What's the best mortgage for my particular situation and risk tolerance?' "

That's sound advice, since there's no crystal ball to tell you which way interest rates will go. For what it's worth, historical data point to variable rate mortgages as the "lower cost way to go, almost every time," according to James Laird, co-CEO of loan comparison website Ratehub.

One thing is certain however: If you think you might need to break your contract mid-term for any reason, variable is almost always the better way to go since there are different formulas for calculating prepayment penalties on variable- versus fixed-rate mortgages. (Prepayment penalties are how the banks recoup some of the interest they'll lose when you break your mortgage, or take it elsewhere.)

"On a variable-rate mortgage, generally, your penalty is three months of interest, which isn't too bad," Mr. McLister said in a recent episode of Stress Test, The Globe and Mail's personal finance podcast. But with fixed-rate mortgages, your penalty is the greater of three months' interest or what's called the interest rate differential, which can vary dramatically from lender to lender. "In many cases, depending on the lender, your IRD penalty can be significant," he says. "The Big Six banks, for example, have horrendous interest rate differential penalties."

Is it better to renew with a shorter or longer term?

Again, there's no right answer here. If you're choosing a variable-rate mortgage, the term isn't as important since you can convert to a fixed rate with your lender at any time without penalty, and you can even break your contract with limited prepayment penalties, as noted above. With a fixed mortgage, however, you need to think carefully about how you'd react if interest rates were to decrease significantly during your mortgage term.

For those who want to safeguard against further rate increases, but don't want to commit long term to a fixed-rate mortgage, a shorter two- or three-year term might make sense, suggests Allison Van Rooijen, vice-president of consumer credit at Meridian Credit Union. But you also have to consider what your financial circumstances (and the economy) might look like when the term expires, and your mortgage comes up for renewal.

Will I have to pass the mortgage stress test when I renew?

The short answer is no, but only if you renew with your current provider. If you want to switch to a different bank or other federally regulated lender, you'll be treated as a new borrower and will have to qualify at the higher stress-tested rate. That means the lender will review your income and debts to make sure you could afford your mortgage payments at a rate of either 5.25 per cent, or your contract mortgage rate plus two percentage points, whichever is higher. (As of August, 2022, even the best variable rates are north of 3.5 per cent, which means everyone subject to the stress test must now effectively qualify at the latter benchmark.)

In other words, if a federally regulated lender (other than your current one) is prepared to offer you a five-year fixed rate of 5 per cent, you'll have to qualify at 7 per cent. There is one exception, according to Mr. McLister: if you have a mortgage insured by Canada Mortgage and Housing Corp. that you got before the stress test was introduced on Oct. 17, 2016, some lenders can "grandfather" you and let you qualify at their actual five-year fixed rate.

What if I can't pass the mortgage stress test?

If you want to switch mortgage providers at renewal, but you don't qualify because of the stress test, there are a few options open to you.

In situations where you've had no luck qualifying for a fixed-rate mortgage, you could instead apply for the lender's variable-rate mortgage, which should be significantly lower. "It's a little workaround," says Mr. Taylor. "You can [later] convert from variable to a fixed rate with the same lender without having to requalify." Of course, you might not get the same fixed rate in future as what's currently on offer, so there's some risk involved.

You could also pay down some of your mortgage principal (or repay other debts, if you have a high debt-to-income ratio) to help you pass the stress test. Finally, credit unions are provincially regulated and therefore not bound by federal stress test rules, so you might be able to qualify with them even if you can't with other lenders. "Many credit unions have flexible options that can be offered to borrowers outside of the traditional stress test," says Ms. Van Rooijen. "A debt service ratio shouldn't make or break a mortgage decision in isolation of other factors."

Unfortunately, some borrowers will simply find they can't borrow enough to qualify with another mortgage provider under the federal stress test rules and "will be trapped to stay with their lender," says Mr. Butler.

Is there any way to lower my mortgage payments at renewal?

If the recent interest rate hikes are giving you sticker shock now that it's come time to renew your mortgage, you may be looking for ways to reduce your payments.

For those who have typically been fixed-rate borrowers, a simple way to get lower payments – at least temporarily – is to renew at a variable rate. But if you can't live with that level of uncertainty, look beyond the traditional fixed or variable rate options to keep payments as low as possible, suggests Wendy Brookhouse, founder and chief executive officer of Black Star Wealth in Halifax. Some lenders offer tiered mortgages that break the principal loan into five pieces with fixed terms ranging from one to five years. "That way, every year, one-fifth of your mortgage is going to come up for renewal with the lowest possible rates," she says.

Extending your amortization is another way to lower your payments, notes Mr. McLister. "Going from a 15-year to a 30-year amortization can cut your monthly payments by more than 30 per cent," he says. "Some lenders can even refinance you into interest-only payments if your cash flow is tight, but you won't like the interest rate."

These changes, however, are not part of a straight mortgage renewal because they require you to modify your loan agreement. Instead, you would need to refinance your mortgage, as explained below.

What is mortgage refinancing?

Mortgage refinancing allows you to negotiate more terms and conditions than a mortgage renewal, including borrowing more money, adding a secured line of credit, changing the borrowers on title or increasing your amortization. In effect, you are doing away with your previous loan agreement and applying for a new mortgage – either with your current lender or a different one.

Assuming you're dealing with a federally regulated lender, that means you'll be subject to the mortgage stress test – even if you're refinancing with your existing mortgage provider. There may also be additional costs, such as appraisal, registration and legal fees. If you're switching lenders, there could also be a mortgage discharge fee.

You can refinance your mortgage at any time, not just when it's up for renewal. But if you refinance mid-term, you'd also be subject to prepayment penalties – even if you're staying with the same lender.

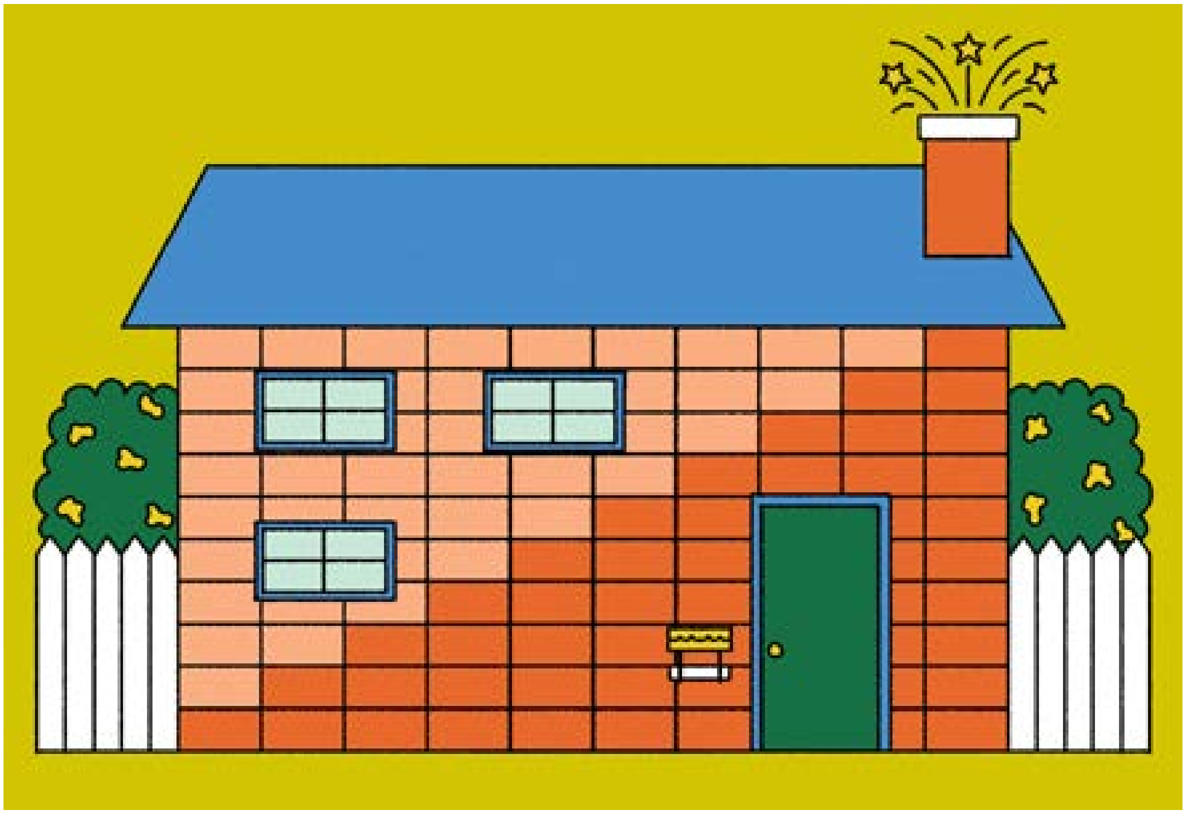
When does it make sense to refinance a mortgage?

According to Mr. Butler, refinancing your home makes sense when there is a clear financial benefit. For example, some homeowners may want to refinance their mortgage to access a portion of the equity they've accumulated in their properties to finance renovations, pay off higher interest debt or invest.

"If you're going to finish the basement and get a tenant – and that's going to be a new revenue stream for you – there's a sensible economic advantage," he says. But he cautions against taking out money to make a down payment on a rental property or another type of investment, which he calls "using your home as an ATM."

If you're refinancing mid-term to take advantage of a lower interest rate, make sure you'll come out ahead even after paying all prepayment penalties and other fees.

As far as refinancing to extend your amortization to keep payments down, Mr. Butler's not a fan. That will not only have you paying more in interest over the long term, but can also lead to an "infinite economic debt cycle," changing people's financial lives and futures, he says.



Mortgages 101: What to know about fixed vs. variable rates in Canada

Buying a house is one of the biggest financial decisions made by Canadians – and getting the right mortgage can be just as stressful as finding a home. Here's what to know about getting a loan, variable and fixed rates

Selecting a mortgage is one of the biggest – and most stressful – financial decision made by many Canadians. But a clear understanding of a few basic terms and concepts can help allay some the anxiety. Here's a primer on the basics of mortgages, along with insights into the current market.

THE BASICS

What is a mortgage?

In plain terms, a mortgage is a loan most often used to buy a house, condo or some other type of property. It's a set amount of money provided by a lender (often a bank, credit union or mortgage company), and is repaid over a set period of time (referred to as the amortization, often 25 years). The mortgage usually includes the purchase price minus the down payment, plus mortgage insurance if your down payment is less than 20 per cent or if required by a lender.

Payments include interest plus a portion of the principal and might also include property taxes, insurance or related charges. What's left over after paying the interest and other fees then goes toward increasing your equity, or the portion of the property that you actually own. That also serves as collateral for the loan – meaning if you fail to make payments, the bank or other lender can take possession of the property.

What is a mortgage rate?

A mortgage rate is the rate of interest charged on a mortgage. While banks and other mortgage providers may advertise a particular percentage, the actual rate depends on the borrower's credit history, among other factors. Mortgage rates are currently at historical lows, but are not likely to get any lower for the foreseeable future. There are two main types of mortgages rates – fixed and variable.

What are the types of mortgages: fixed vs. variable?

A variable mortgage rate fluctuates based on the so-called prime rate, a benchmark lenders usually adjust based on movements in the Bank of Canada's trendsetting overnight rate. When rates rise, homeowners pay more in interest. However, not everyone will see their monthly payments increase when rates climb. Some variable-rate mortgages keep payments steady – up to a certain threshold – even as the interest rate moves up. Instead, these borrowers will see their amortization period extended in response to higher rates, meaning it will take longer to pay off the mortgage. You can also lock into a fixed interest rate at any time, without breaking the mortgage contract – and if you break the contract with a variable rate, the penalty is often much lower.

A fixed interest rate mortgage typically locks in payments for a set term of two to five years. Fixed rates are often higher than variable, but offers peace of mind to homeowners their mortgage payments will be consistent for the years to come. It is not possible to switch from a fixed to variable rate without breaking the mortgage contract (which results in a penalty).

What is a mortgage 'trigger rate'?

There is a little-known feature of many variable-rate mortgages known as the "trigger rate." It's the interest rate level at which lenders can adjust up a mortgage holder's payment amount even if it would normally be the same every time.

If you have a variable mortgage rate with stable payments, the likelihood that you'll hit your trigger rate depends on your mortgage balance and interest rate, Jamie David, director of mortgages and head of marketing at online rates comparison site Ratehub.ca, said via e-mail.

Mortgage holders can also usually find their trigger rate in their mortgage contract.

How do I shop for a mortgage (and should I go with a bank vs. provider)?

The first step when considering a mortgage is evaluating your current financial situation and understanding your long-term financial goals. Determine not just what you're able to pay but also if other features – like a flexible payment schedule – would be beneficial. Being a loyal customer at a bank doesn't necessarily guarantee a good rate. Your best option is to comparison shop. Mortgage brokers can offer insights into rates from a variety of lenders. You'd also be wise to speak with a mortgage specialist at your bank, who can likely offer better rates than the other staff.

Is it better to use a bank or a broker?

The main difference is the bank mortgage only represents the products their institution offers, while a broker works with multiple lenders and is paid a referral fee. Brokers, who are regulated in Ontario by the Financial Services Regulatory Authority of Ontario, are often preferred by first-time buyers looking for the best rate.

It's worth considering brokers who are recommended by a friend or a colleague who recently made a purchase – but also consider secondary references. You can screen brokers by e-ail: provide them an overview of your financial situation and evaluate their response.

What documents are necessary to get a mortgage?

In Canada, would-be homeowners will need access to many financial documents to get pre-approved for a mortgage and secure the loan. If you're in the process of getting a loan, make sure you have:

- Two pieces of identification (passport, driver's license, permanent resident card, etc);
- Proof of employment (including your salary or hourly pay rate; your position title and length of employment; if you're self-employed, you will need your notice of assessment from the CRA for two years);
- Proof you can pay for the down payment and closing costs;
- Information about other assets and debts.

Have these documents ready ahead of time. To be especially thorough, include a cover letter, financial objectives and a short biography that runs one page at most.

What is Canada's stress test?

Canada's new stress test rules, which came into effect on June 1, 2021, means it's now trickier to get approved for a mortgage. The new stress test applies to people with down payments on both sides of the 20 per cent threshold where mortgage default insurance is no longer required. You must now be able to handle the higher of a mortgage rate of 5.25 per cent or your contract mortgage rate plus two percentage points. The previous reference rate was 4.79 per cent.

What mortgage can you afford?

Getting a mortgage is one thing – being able to carry monthly payments without being "house rich but cash poor" is another. Big monthly expenses like daycare, car loans, emergency funds and saving for retirement or your children's education don't disappear when you're a homeowner, so plan for those expenses while looking for a loan. Use Rob Carrick's Real Life Ratio calculator to see how much in monthly payments you can comfortably afford.

What should you do before looking for a mortgage?

Before you go house-hunting, it's important to understand your financial situation. Here are five things to understand before you look:

1. Find out your credit score: Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Royal Bank of Canada, and the credit card issuer Capital One will let you check your score for free, as will online lender Borrowell and Credit Karma. Your credit score is not affected if you check it, and it will give you a good sense of where you stand financially.
2. Calculate your debt load: Use the debt service calculator offered by CMHC to see if your gross debt-service ratio is under 35 per cent (the rate required for people applying for mortgages insured by CMHC).
3. Understand the mortgage market: RateSpy.com's mortgage rate news page will keep you on top of what's happening with mortgages and the housing sector. If you want to understand how mortgage rates are set, read the Bank of Canada's briefing note.
4. Compare rates: Use the mortgage dashboard on the Canadian Mortgage Trends website to see prime rates, the five-year Government of Canada bond yield, the benchmark qualifying rate and a typical rate for fixed five-year and variable-rate mortgages.
5. Consider mortgage penalties: A low rate is important, but watch out for penalties that lenders may charge for breaking your mortgage contract. Moving, refinancing at a lower rate, making additional payments toward your loan or paying off your mortgage early can all result in steep fees depending on your lender and the features of your mortgage. With a variable rate, terminating your contract early will usually result in a penalty equal to three months' worth of interest on your remaining balance. With a fixed rate, penalties can be much higher and could reach tens of thousands of dollars. There are different formulas to calculate the penalty on fixed-rate mortgages, so make sure to ask your lender how they do it. Consider also how much you're allowed to pre-pay toward the mortgage every year and whether you could transfer your mortgage to

a new property without penalty.

Use the mortgage payment calculator on Ratehub.ca, where you can compare four different mortgage offerings.

PAYING OFF YOUR MORTGAGE

What are the pros and cons of paying off the mortgage ahead of schedule? Paying off a mortgage earlier than expected will save money on interest and enables you to divert significant amounts of money to pay down debt or increase savings. But there can be downsides. People can become so fixated on paying off their mortgages that they end up paying for other expenses using lines of credit or credit cards. In addition, some banks will charge a "prepayment penalty" to those who end their mortgages ahead of schedule.

Is it better to pay off the mortgage or invest?

The first step should be to establish an emergency fund of three to six months of expenses. Having cash kept safely in a high interest savings account protects your financial and emotional health if you lose a job, have your income cut or run into unexpected big expenses.

Once an emergency fund is established, consider your risk tolerance toward investing. Generally, it's better to pay down the mortgage faster if the interest rate is greater than the expected return from investing. Paying down debt is a form of savings and means that, in the future, you will have extra cash flow that can be redirected to retirement savings or higher spending.

Should you pay off the mortgage or save for retirement?

If you pay down the mortgage, you get a guaranteed return and the emotional and financial benefits of being mortgage-free. But if you focus on RRSPs first, you may well be further ahead in the long run. For young adults who can't afford to do both, it may be more tax-efficient to delay RRSP payments and pay off the mortgage early instead. Watch as Rob Carrick and Barbara Garbens offer further insights on this topic.

With reports from Erica Alini, Rob Carrick, Jessie Willms and Robert McLister.

What is a ‘good’ credit score?

Your credit score is just that: a literal score that uses your credit history, payment information and other factors to measure whether you will be able to handle and repay debt on time

ROSEMARY COUNTER

Once upon a time, not too long ago but also a lifetime ago, borrowing money mostly went like this: "You'd put on a suit, go into the bank and fill in a loan application," recalls Margaret Johnson, credit counsellor and president of Solutions Credit Counselling Service Inc. There, a banker would check your accounts, look you up and down, and decide whether you were qualified for a loan – and for how much.

As you might imagine, the human insight system was rife with human error – the official reason the financial world adopted the now-ubiquitous credit score, though no doubt ease and efficiency factored heavily. "Once everything was going digital and the internet started to be a trove of information, for better or worse, the bureaus decided a much easier way to do this was just go online," Ms. Johnson says. "The credit bureaus just pull information from your bank, crunch you through the algorithm, and give your three-digit number."

Your credit score is just that: an actual score between 300 ("poor") and 900 ("excellent") that uses your credit history, payment information and other factors to measure your supposed "creditworthiness" – the likelihood that you'll handle a loan responsibly and repay the debt on time.

Why does a credit score matter?

It matters if you are trying to take out a loan, of course, but even if you're not, it matters in ways you might not realize. "Your credit score is really a measure of your financial reputation," explains Eva Wong, co-founder and chief operating officer of Borrowell, a credit score monitoring app and credit education company.

"There are so many situations where people want to know your credit score before they offer you a service or product, and at what interest rate," Ms. Wong says. A few examples include a landlord who is considering you as tenant, a car salesman about to offer you a lease, even a would-be employer wondering whether you'll be a reliable addition to the team.

All of the above must ask for your permission. (You can refuse, but then you probably won't work or live there. Sorry.) Be sure to read the fine print. "When you apply for a job, a lot of applications have little tiny writing at the bottom that says you authorize them to do a credit check," Ms. Johnson says. (Provincial laws determine who can access your credit score without permission – in B.C., for example, all three levels of government can – and judges and police often can too, along with the Canada Revenue Agency in some circumstances.)

So what's a good credit score, and what's bad?

"If you've got a credit score of 350, your financial life doesn't exist. You're bankrupt and nobody will talk to you," Ms. Johnson says. "If you've got a score of 900, you're walking on water. A bank will give you whatever you want." Lenders keep mum on an official threshold, but a credit score of 660 – the number that moves you from "fair" to "good" – is often considered the bar to reach in order to access most financial services.

Credit scores are divided like this:

- Anything above 800 is "excellent" and you will have no issues being approved for loans at the lowest available rates.
- 740-799 is "very good," meaning you likely have a few late payments on file but will still qualify for most premium credit cards.
- 670-739 is "good," so while you'll still qualify for most loans, you'll probably pay a slightly higher interest rate.
- 580-669 is "fair," but below the national average, and you're likely ineligible for

the best credit rates and cashback credit cards.

- Finally, 300-579 is "poor," where multiple defaulted loans mean you'll have a hard time getting credit without paying a high interest rate – often 20 per cent and more.

That said, don't get too preoccupied over a few points. "Lots of people get a bit obsessed with the difference between great and excellent, but that doesn't make a major difference," Ms. Wong says. "Going from an 800 to 850 won't be drastic, but going from 550 to 700 is huge. Then you'll feel a material difference in your life."

What's the difference between a credit score and a credit report?

If a credit report is your elementary-school report card, then your credit score is the circled B+ written in red ink at the top. "Your credit score is a literal number, between 300 and 900, an actual grade based on the information, which is the credit report," Ms. Wong says. You should be monitoring both, but for ease and convenience, the three-digit number is what most lenders are going to want to see.

How is my credit score calculated?

There are two main credit bureaus in Canada: TransUnion and Equifax. Each uses its own algorithm, and the algorithm used changes often, but the basics remain the same. The bureaus use information provided from different financial institutions, everything from your payment history, your credit card balance, how close you are to your limit, who's been checking your credit score and whether you've applied for more credit, Ms. Wong says.

If you request your credit score from both TransUnion and Equifax you might get two different numbers owing to differences in their algorithms (though the numbers are likely to be similar.)

Roughly speaking, the breakdown of your score goes something like: payment history (35 per cent), credit utilization (30 per cent), credit history (15 per cent), credit inquiries (10 per cent), and public records, i.e. bankruptcy or collection issues (10 per cent).

Payment and credit history are pretty self-explanatory; the bureau is looking to see whether you have a history of good credit and if you pay your bills on time. Credit utilization is the percentage of your allowed credit that you're actively using and the credit inquiries portion includes your requests for more credit and any time a third party checks your credit. More on both of these to follow.

What makes for good credit utilization?

The ideal number for credit utilization is surprisingly low. "We suggest using less than 30 per cent of the credit you have available," Ms. Wong says. "That's quite small, I realize." That means if you have a credit card limit of $10,000, you shouldn't carry a balance of more than $3,000.

Yet according to a 2021 survey from Borrowell, the average credit utilization rate in Canada is 43.5 per cent. Ms. Johnson says you're probably fine until you approach 60 per cent. "When you hit about 60 per cent of your credit limit, the algorithm flags you. It's thinking: This person's using more and more credit, is there a problem here?" Though you haven't even hit your spending limit, your credit score will take an unnecessary hit.

Does checking my score affect it?

This is a very wrong, very pervasive rumour about credit scores, Ms. Wong says. "Checking your score yourself does not affect the score, and in fact you should be checking your score," she says. Note: the key word there was "yourself."

"Every time someone else looks at your credit bureau file, you lose points," cautions Ms. Johnson. This includes the would-be employers and landlords mentioned above, and also the creditors, any and every time you apply for more credit or a new card. You already consented to their checking, by the way – it was right there in the fine print again.

One-off credit checks are of course inevitable, but there are certain situations where your credit may be checked often, all at once, and perhaps excessively. Ms. Johnson cites the kind of situation that caught up The Globe and Mail's money expert, Rob Carrick, whose credit score took a hit – albeit temporarily – after he added a new credit card and bought a new car with dealer financing. "If you go car shopping, for example, and you go to 10 dealerships in the process, and each and every one looks at your credit, you could lose a lot of points in a very short amount of time," Ms. Johnson says. (We'll get to how to hack this, read on.)

Where do I find my credit score?

It's easy. There are many ways to find out your credit card score, Ms. Wong says. "There are apps like Borrowell to use, or your bank might give it to you, or you could go directly to one of the two credit bureaus in Canada to get it."

Both TransUnion and Equifax will give you a free copy of your credit report and/or your credit score if you request it by phone or mail any time. But it will arrive in the mail, so if you need your information instantly you'll have to pay for it. Why should you have to pay for your own information? Because, technically, it's not yours. "The credit score is actually the intellectual property of the credit bureau, so you have to pay to get your score if you want it fast," Ms. Johnson says.

There are also many credit score monitoring apps available. In 2014, Borrowell became the first app in Canada to offer users free access to their credit scores. Vancouver-based Mogo offers free scores when you sign up for their prepaid MogoCard Visa. Credit Karma is a U.S. company that's partnered with TransUnion; they'll give you free access to your credit score in exchange for tracking your shopping habits and sending targeted ads.

How often should I check my credit score?

At Borrowell, two million users of the app can access their weekly-updated credit score, for free. (As well as partnering with Equifax, Borrowell makes money by advertisements and recommendations on their site.) Likely because they've embraced such apps, younger people tend to check their credit report more than their older counterparts, according to a 2021 survey by Equifax.

Many of us won't ever monitor our score that closely, however. Ms. Johnson suggests ordering your report and score annually, in January, just because it's a good time to touch base with all your financial accounts and fine-tune your budget for the year. You should be looking at your partner's report too. "If you're in a relationship with someone or you live with someone, you need to exchange credit reports so that you each know what the other is doing in case you could be on the hook for their debt," says Ms. Johnson. In British Columbia, for example, the new Family Law Act says that one spouse can be responsible for the other's debt – whether they knew about it or not. So be smart and know about it.

What if I think my score is wrong?

Even if you don't think it's wrong, take Ms. Johnson's advice and get into the habit of requesting your credit report annually to make sure the information and numbers are correct. This includes your personal information (name, current address, birthdate) as well as things like late payment penalties. Any accounts listed or credit card inquiries you didn't make could be a sign of identity theft, and negative information – like bankruptcy – should be removed after the set date (for bankruptcy, that's seven to 10 years).

If anything on your credit report looks fishy – like a late fee for a payment you made on time (it happens!) – call the credit bureau and inquire further.

How can I improve my credit score?

First and foremost, pay your bills on time. Automate those payment if you're forgetful, because even a day or two late, even just a few times, can add up fast. This is something young people, or anyone with a more cavalier attitude to money, need to remember. "Young people often don't realize that if you don't pay your phone bill on time, all the time, you're chipping away at your credit score," Ms. Johnson says.

To reduce your credit utilization, look to those pre-approved credit cards that arrive in the mail and don't just toss them in the bin. "Twice a year, usually in April before summer and October before the Christmas season, the credit companies target customers and encourage them to raise their limit," Ms. Johnson says. They want you to keep shopping, of course, but if you have the willpower to take the raise and not spend it, then you absolutely should. Why? Because it will immediately shrink your credit utilization percentage and your credit score will rise accordingly.

Be cautious of who and how many people you permit to access your credit. To return to Ms. Johnson's car shopping example, as promised, you don't need to let 10 different dealerships peek at your information before they offer you an interest rate. Instead, order your own report, and take it with you.

Lastly, and with minimal effort, you can improve your credit score just by being patient. Nothing is on your report forever, Ms. Wong says. "Everything will drop off eventually, even something serious like bankruptcy, but it will be a while." Start cultivating better habits and watch your credit score creep upward on its own accord.

The bottom line

What to know about a credit score

- If your credit card were your report card, your credit score is the grade you earned. The three-digit number ranges from 300 ("poor") to 900 ("excellent")
- Your credit score is calculated by the credit bureau based on your payment history, credit utilization, credit history and credit inquiries
- You can and should check your own credit score at least once annually – which won't affect your score. When a third party checks, however, you could indeed lose points
- If you think your credit score is wrong, request your credit report and check all the information. Call the credit bureau with any errors or if anything looks suspicious (a sign of identity fraud)
- The best and easiest way to raise your credit score is to pay your bills on time, all the time, and use no more than 30 per cent of your available credit

How to choose the right Canadian credit card for your financial needs

We spoke to credit-card experts to help simplify the process of choosing a card that best complements your spending habits

SALMAAN FAROOQUI

Getting a credit card may be easy, but picking the one that's right for you is a lot more complicated. Maybe your bank teller sold you on one with a rewards program and you went with it. Maybe you got a basic card years ago and never bothered with rewards at all.

But when you choose a card with a rewards plan that best complements your spending habits, a credit card becomes an extremely effective tool to fast-track big purchases if you're a disciplined spender. The benefits and rewards that come with certain cards can not only get you free flights and hotel stays with added perks, but can help you save on everyday expenses such as groceries and gas bills.

There are a dizzying number of options out there, and it's easy to be overwhelmed. So we spoke to credit-card experts to help you simplify the process of choosing a card with a few easy questions: Should you use a credit card with a fee? How do you choose between one offering cash back and another that earns you rewards points? And are those luxury cards with enormous $600 fees ever worth it?

Let's dispel one common misconception – you don't always need to bank with a credit-card provider to get one of their cards. Another important point is that you need to ensure you pay off your balance in full each month: If you start paying the hefty interest fees on credit cards, the charges will quickly outweigh the benefits of rewards.

Here's a look at some of the most important factors to consider.

Fee or no-fee?

Some cards charge an annual fee, and whether that type of card is right for you depends on how much you plan to use it. If your answer resembles "a lot" or "often," then a credit card with a fee is generally a better deal, says Barry Choi, a credit-card expert at moneywehave.com.

"A lot of people can't psychologically get over paying a fee for a credit card," Mr. Choi says. "But when you look at the benefits, quite often it's worth it."

Credit cards with a fee come with more bells and whistles, such as travel and rental car insurance or airport lounge passes. And importantly, you'll earn more points for the rewards program you're in.

Take CIBC's Aeroplan credit cards, for example. If you spend $1,250 a month on regular expenses and $200 on groceries and gas, you'd earn 6,000 more points a year – and 20,000 more points in the first year – with the Aeroplan Visa Infinite card ($139 annual fee) compared with the no-fee version of the card. The difference in the first year is enough to redeem an extra return flight to the United States. And that's not taking into account other perks, such as the free checked bag you get on all Air Canada flights with Aeroplan Visa Infinite cards.

Jon Macleod, a product specialist with moneyGenius, says consumers who spend at least $1,000 a month will generally receive enough points to offset their fee.

On the flip side, if you don't trust yourself to use your credit card responsibly, or if you only want a credit card for emergencies, a no-fee card makes more sense.

"For someone who just wants to keep their credit history active or use a card casually, why pay a fee when you don't have to," says Mr. Choi, who said those users can still benefit from rewards cards that don't have a fee.

There are some great free cards out there that give you rewards and some features including insurance, such as the TD Cash Back Visa Card and Scotiabank American Express Card.

Cash back or points?

Generally speaking, reward points will usually have a better dollar value than cash back, says Erin Kerr, director of client relations with milesopedia.ca.

Your choice here depends on your financial goals and where you spend your money. Is travel a big priority in your life? Then choose a reward programs geared toward travel and hotels, because they offer some of the best value right now.

Or do you often shop at retailers owned by Loblaw (No Frills, Shoppers Drug Mart, Wholesale Club etc.) or Empire (Sobeys, Safeway, IGA etc.)? Programs that revolve around brand loyalty can get you great points earnings and equally great redemption values within those stores.

Mr. Choi says cash back tends to benefit people who want a simple rewards program that they don't have to think too much about, and Ms. Kerr says it can be ideal for people who don't travel or families looking for ways to save.

Mr. Choi adds that Royal Bank of Canada is one of the few banks that allow you to directly use your cash-back rewards toward financial goals such as paying off your mortgage or investing in stocks, making it a great option.

Are high-fee premium credit cards right for me?

Many premium cards, such as the American Express Platinum card, come with annual fees of around $600 to $800, and the biggest benefits revolve around travel rewards such as free lounge access. Card providers generally recommend an income of around $150,000 for these cards, but experts say this isn't usually a strict rule.

These cards do offer better earn rates for reward points, but the real value is often in the travel benefits. Features such as priority boarding and free access to airport lounges can quickly make the hefty fee worth it if you travel often.

Some of these cards also offer large welcome bonuses and yearly gift cards, such as a $200 dining voucher that American Express Platinum members receive each year, Mr. Choi says.

Mr. Macleod says his own American Express Aeroplan Reserve card came with companion passes for flights that saved him $1,600 on airline tickets.

However, these enhanced travel rewards are generally a luxury that only high-earning families will be able to take advantage of.

As a result, these expensive cards will generally only be worth it for families that travel often, or people who often travel in economy for business and could benefit from all the extra perks.

If you're curious whether these cards are right for you, Mr. Macleod says they're worth a try because the welcome points bonus in the first year is so generous that it generally offsets the annual fee for that year. That means you can still get your money's worth if you eventually cancel.

Which loyalty program is best for you?

There are two key things to think about here. First, not all rewards programs are created equal. Second, having flexibility with your points is important.

On the first point, the dollar value you'll get for your hard-earned points depends on the health of the loyalty program you're with. For example, Air Miles in the past has seen the value of its points drop as retailers left the program. That program is getting better after being taken over by the Bank of Montreal, but experts are still concerned about whether it can hold up its pace.

Mr. Choi says Aeroplan and Scene+ remain some of the strongest points programs in the country and offer some of the best value for their points. He also says Canadian Tire's rewards credit cards are a great niche option.

The other consideration is how flexible your points are. For travel rewards, Ms. Kerr recommends Aeroplan because your points can be used with all of Air Canada's partner airlines around the world, whereas rewards programs with smaller airlines such as WestJet are more limited for destinations.

Mr. Choi says American Express and RBC's Avion rewards also offer great flexibility because their points can be transferred at equal value for other rewards programs.

Ms. Kerr adds that people who are unsure of what points program is best for them can always start with the no-fee version of a rewards card before committing to paying annually for a card with optimal points earnings.

"You always hear about people redeeming, but you see the end result and not the time getting to it," Ms. Kerr says. "It's not a race."

Managing debt: Snowball vs. avalanche, consolidation, bankruptcy and more

'Whatever you do, do not wait until [debt] becomes an emergency,' says a licensed insolvency trustee. The longer you wait, the larger your financial hole will be. Here's a guide to manage and pay off debt

KELSEY ROLFE

Debt, says Toronto insolvency trustee Steve Welker, is like quicksand. "You dip your toe in just a bit, you're fine for a while, then your car breaks down or you lose your job, then suddenly you're spiralling downwards." If this nightmare feels in any way familiar, here's how to stay calm, stop the spiral and pull yourself back out.

How do I know if I'm headed for a debt crisis?

Debt management experts agree there is no precise threshold for having too much debt, but it's a safe bet that if you are constantly making only minimum payments on, say, your credit card bill, or if you are behind on your phone bill or hydro bill because you can only pay one or the other, you are likely headed for trouble. If you start dodging calls from collection agencies, you are certainly in trouble. That's when an unexpected emergency can tip you into a full-blown crisis.

"Usually someone will come in to see me because, although they have very likely been financially struggling for a while, some kind of event has happened that causes them to seek professional help," says Gusharon Singh, a client experience manager with Credit Canada, a non-profit credit counselling agency. "Maybe it's job loss or a health issue, but something's happened that suddenly made the problem significantly worse."

One thing you definitely shouldn't do is double-down on your debt problems by seeking out high-interest payday loans to cover debt payments. "Whatever you do, do not wait until [debt] becomes an emergency," says Melanie Leigh an Edmonton-based licensed insolvency trustee. The longer you wait, the larger your financial hole will be, and the more limited your available options will be.

How do I get help with a debt problem?

There are some things you can do on your own. "A good first step would be to talk directly to your lenders," Ms. Singh says. This could be the credit card company or that pesky collector that keeps calling, or a consumer credit bureau, Ms. Leigh says.

There are two in Canada – Equifax and TransUnion – which have websites full of information and resources, and support workers who can help you negotiate with your creditors. "In many cases, securing a lower rate is as simple as contacting the [credit] card issuer and asking for it," Equifax's website states. If you can commit to a long-term repayment plan, lenders will likely lower your interest rate to seal the deal. If unforeseen events make payments impossible for a time, ask about a forbearance agreement – a set period of time during which you don't need to make payments at all.

The next professional to call is a credit counsellor. There are a number of free, not-for-profit organizations that can help you manage your debt. They'll look at all your financial numbers and "go through a process of elimination" to see what you can cut to free up money to go toward your debt, says IsaiahChan, vice-president of programs and services at the Credit Counselling Society. Ideally, you just need some guidance to make a budget and commit to a payment plan you can manage. Credit counsellors can help set that up at no charge to you, as they're paid by creditors who realize that pulling people back from the brink can be better in the long run. (If the non-profit negotiates with creditors directly to create a repayment plan, there can be fees attached.)

If and when you ever near insolvency or bankruptcy, you'll be referred to another debt professional, an insolvency trustee. Officially licensed by the Superintendent of Bankruptcy, they are "the most highly trained and educated Debt Experts in Canada," writes BankruptcyCanada.ca. Their fee comes from recovered funds from whatever restructuring plan you commit to, making them free of charge to the client – as required by Canadian law. But let's not assume the worst; let's start with the possibility of paying down debt the old-fashioned way.

What is the snowball vs. the avalanche method of debt repayment?

These are two conventional approaches to debt repayment.

First, the snowball: "This method is about low-hanging fruit, where you pay the little debts first to knock them off. Anything less than $500 can be paid off so you don't have to think about it," explains Mr. Welker. Popularized by American personal finance writer Dave Ramsey, the snowball method is said to work because of the human psychology of motivation. Watching your debts disappear, one at a time, and getting and bigger every time, is the "snowball" effect that keeps your momentum going.

The avalanche method, meanwhile, is the opposite approach: "You start with the highest interest debt and pay that off first, then work your way down," Mr. Welker says. More specifically, you'd make minimum payments on all outstanding accounts and then put everything else toward whatever debt is accruing the highest interest rate. That's very likely to be outstanding credit card debt with interest rates of 20 per cent or more.

Should I consolidate my debt?

Multiple debts can feel overwhelming and unwieldy. Consolidating debt rolls them all into one monthly payment with one interest rate. It means you'll take on a single "consolidation loan" through a financial institution (a bank or credit union), and your payments are made to them instead of multiple individual creditors.

Besides convenience, says Mr. Chan, another benefit of a consolidation is that a counsellor can often negotiate a lower interest rate than you are paying on the individual loans and debt obligations. You should be careful to do the math, says Chan: "People often rush into consolidation, so before you commit, you need to look at the numbers and know exactly how much you're saving and if it's actually benefiting you."

The catch is that, like every other loan, you'll have to qualify. You may need security (or collateral) for the loan, and it's tough to qualify if you have a terrible credit rating. And if you do qualify, there are risks to consolidating. "Sometimes we consolidate a person's debt, make a plan and figure it all out, but the client doesn't cancel their card," says Ms. Leigh. "A year or two down the road, they feel like things aren't so bad any more and they start shopping again. Soon enough, they'll have credit card debt and a consolidation loan."

What is a consumer proposal?

Introduced in the 1990s, consumer proposals are formal, legally-binding agreements between individuals and their creditors to meet somewhere in the middle. "It's basically a deal we make with someone's creditors to pay less than they owed," Mr. Welker says.

To facilitate a consumer proposal, you'll need a licensed insolvency trustee, though it's important to remember they don't work for you, per se. "We're officers of the court, so we don't represent either the creditors or the person who owes money," Mr. Welker says. "We're more like a referee and we work to arrive at a manageable arrangement for both people."

As usual, much depends on the size of the debt and its term, but a successful consumer proposal can often reduce someone's debt by 30 per cent and sometimes much more: If someone is retired, or if they're sick or injured and can't work, their debt could be reduced by 80 per cent. Why would your lender suddenly be so uncharacteristically generous? Because they'd rather get something rather than nothing should the individual declare bankruptcy, which is often the individual's only other option. This is why the consumer proposal has been described as "a gentler alternative" to "its more painful cousin, the personal bankruptcy filing."

Can I get my debt forgiven in Canada?

Debt forgiveness is a bit of a catch-all term. Any debt that is eliminated, whether a percentage or in its entirety, is said to be "forgiven." In the consumer proposal above, for example, that lucky retiree had 80 per cent of their debt "forgiven." Voluntary forgiveness can be through a consumer proposal proper, or occur when a creditor decides the amount owed just isn't worth the effort to keep trying to collect. Debt Relief Canada, a for-profit group of financial consultants, puts it this way: "If your financial situation is so precarious that you are unable to make even the minimum payments on a credit card debt, the credit card company may decide they would be better off writing off your remaining balance as a loss rather than chasing you for debts you can't afford," they write.

What is bankruptcy?

Bankruptcy is basically the opposite of voluntary debt forgiveness. Bankruptcy usually means forgiveness of all debts – including credit card, overdraft and tax debt, plus payday and old student loans – for a fresh financial start.

There are two widely-held (and completely opposite) misconceptions that linger about declaring bankruptcy. "The first is that's it's easy to quality for and an easy way out of paying your debts," Mr. Chan says. That's not true and neither is the second, he adds, "that it's the worst thing that can possibly happen to you financially. Bankruptcy is a last resort, but it's a very realistic option for people dealing with insurmountable debt."

To declare bankruptcy, you will need to contact a licensed insolvency trustee, who will first walk you through all other possibilities of repaying your debt. "But if that's just not feasible, if an individual simply cannot afford to make payments," says Mr. Welker, "then they'll likely have to file for bankruptcy."

Filing for bankruptcy doesn't magically erase all your debts in an instant – it just prevents you from legal action from your creditors while you clean up your finances. If you do so successfully, then and only then will your debts disappear.

What's the difference between bankruptcy and insolvency?

Though the terms are often used interchangeably, bankruptcy and insolvency are not the same thing. "Insolvency is when you can't repay your debts; bankruptcy is the formal process or legal proceeding for individuals and businesses to get rid of the debt," explains Mr. Welker. So if you file for bankruptcy, you are definitely insolvent, but just because you're insolvent, you're not automatically filing for bankruptcy.

How does bankruptcy work?

If you decide bankruptcy is the best option, the trustee collects all your personal information and a complete list of your assets and debts to file an application to the Office of the Superintendent of Bankruptcy Canada (OSB). Some of your assets are protected by law and cannot be sold, including pensions and RRSPs as well as necessities like clothes and furniture, but if you've got a fancy boat or art collection, they'll likely be sold by the trustee to help pay the debts owed. If you own a home, the trustee will have it appraised to determine its equity.

Next, your creditors will be notified of your bankruptcy and all legal actions will pause. Your creditors can demand a meeting with your insolvency trustee that you will have to attend, but know that people filing for bankruptcy are sometimes called "judgement-proof" by creditors because creditors have no real recourse to take. Even if your lenders were to take you to court, since they cannot legally cannot garnish your pension, disability payments or most other government supports, they'd be left in the same spot they're in now. "If there's no money, there's no money," Mr. Welker says.

You'll also be required to attend two credit-counselling sessions to learn about money and credit management, spending habits, and warning signs of financial difficulties. You may be examined under oath by the OSB, where they'll ask you about your financial conduct and causes of the bankruptcy.

For the duration of the proceedings, usually nine months for a first bankruptcy and 24 months for a second or more, you'll have to surrender all your credit cards and submit all paystubs and proof of income. If you fulfill all criteria, you'll be discharged from the bankruptcy and released from most all financial obligations – alimony or child support payments, court-ordered fines, and new student loans will be excluded.

And will you automatically lose your house? Not necessarily. The trustee will crunch the numbers for you, but if you can make payments on your mortgage you may be able to keep your house. The bank can't foreclose or repossess your house if the payments are current. However, much depends on how much equity you have in your home (what it is worth minus what you owe on it, including property taxes.) Laws vary by province, but in Ontario, for example, if the equity in your home doesn't exceed $10,000, you can keep it if you maintain payments. If it's more than $10,000 and you want to keep it, you will have to pay the equivalent of that equity to your creditors, which might well be impossible. Fortunately, however, this debt too can be consolidated and lowered via consumer proposal.

When you declare bankruptcy, you are assigned the lowest possible credit rating

(300) and will have to build it up again, slowly, by making consistent on-time payments. You may not qualify for more credit with this score – which, at least for now, might be a good thing. If you control your spending, manage your finances and pay your bills, the bankruptcy should disappear from your credit history entirely in about seven years.

The bottom line

How to effectively manage and reduce your debt

- You should not wait for financial emergency before you call a professional.
- Calls to make when you can't manage bill or debt payments include those directly to your creditors, support workers from Equifax or TransUnion, government sites or free credit-counselling services, or a licensed insolvency trustee
- Debt consolidation is simply rolling all your outstanding debts into one convenient monthly payment – ideally with a lower interest rate
- A consumer proposal is a legally-binding agreement with your creditors to pay a discounted amount of your debt (they'd rather get something than nothing)
- The last resort is declaring bankruptcy, a nine-month process completed with a licensed insolvency trustee, where most debts will be forgiven and you'll get a fresh financial start

HELOCs 101: What is a home equity line of credit?

A home equity line of credit is a secured line of credit that allows you to use the equity in your home to borrow money

KELSEY ROLFE

If you're about to take out a mortgage, your financial institution might also offer you the opportunity to open up a home equity line of credit alongside it. These lines of credit, which can be set up when you buy your house or any time you own a home, function a little differently than other lines of credit and credit products. Here's a primer on how HELOCs work, with insights from personal finance experts on their benefits and risks.

What is a home equity line of credit?

A home equity line of credit, or HELOC, is a line of credit that allows you to use the equity in your home to borrow money. It's a secured line of credit, which means the lender uses your home as a guarantee that you'll eventually pay the funds back.

With a HELOC you can borrow up to 65 per cent of your home's purchase price or appraised value on a revolving basis, meaning you can borrow and repay and borrow again without having to reapply. Lenders tend to offer a HELOC at the time you take out a mortgage. Your HELOC can remain open until you sell your home, at which point you'll have to requalify for another one based on your new home's value.

Unlike with a mortgage where you must make payments covering principal and interest, you're only required to make monthly interest payments on your HELOC balance. HELOCs are offered at a variable interest rate only, and many are set at the Bank of Canada's prime rate, meaning your payments can fluctuate as rates rise or fall, though your lender must provide you with notice of any changes.

According to Canada Mortgage and Housing Corp. data, 7.55 per cent of Canadians had a HELOC as of mid-2022. Canadians owed $168.5-billion in HELOC debt as of

February, 2022, up 1.4 per cent (or $2.3-billion) from the year prior, according to filings with the Office of the Superintendent of Financial Institutions, or OSFI, the federal regulator that oversees banks, some credit unions, insurance and trust companies.

What are the different types of HELOCs?

There are two main types of HELOCs available to Canadians: one that is a standalone product, and one that can be combined with a mortgage.

A HELOC combined with a mortgage is also sometimes called a readvanceable mortgage or a combined loan plan, and is offered by most major financial institutions. This product combines a traditional fixed-term mortgage with a line of credit that increases in size as the borrower pays down their mortgage principal. The credit limit on the HELOC could reach a maximum 65 per cent of the value of your home – which is also known as a loan-to-value, or LTV, ratio. The entire combined loan could reach an 80-per-cent LTV ratio.

In an example offered by the Financial Consumer Agency of Canada, or FCAC, a buyer who purchases a $400,000 home and makes a down payment of $80,000 will have a mortgage balance of $320,000. Their HELOC credit limit would be fixed at $260,000 – but, at a hypothetical 4-per-cent interest rate and 25-year amortization period, the buyer would only have access to a roughly $7,600 HELOC in their first year, and wouldn't reach the full amount until Year 24.

In June, 2022, OSFI announced plans to reduce how much homeowners can borrow against their homes through these combined loan plans, because of concerns about overleveraged borrowers. While someone with a combined loan plan can make a payment to their principal and then immediately reborrow that same amount through their HELOC, the regulator will soon only allow that option for borrowers whose LTV ratios for the entirety of their combined loan are less than 65 per cent.

Globe and Mail real estate reporter Rachelle Younglai wrote in June that while OSFI said highly leveraged combined loan plan borrowers were creating risks to Canada's financial system, the mortgage industry expects the change would have little impact as most lenders are already limiting borrowers who reach that 65-per-cent threshold.

Separate from a readvanceable mortgage, buyers who are making at least a 20-per-cent down payment – or have at least 20-per-cent equity in their current home – have the option to split the financing of a home purchase between a fixed-term mortgage and a HELOC, giving them the ability to pay back part of their mortgage on their own schedule. The maximum portion of your home that can be financed through a HELOC is 65 per cent of its purchase price or market value.

Stand-alone HELOCs, meanwhile, are revolving credit facilities that are unconnected to your mortgage. While these products have the same credit limit of 65 per cent of your home's purchase price or market value, they won't increase as you pay down your mortgage principal.

It's also possible to use a stand-alone HELOC as a substitute for a mortgage. It requires a much higher down payment, of 35 per cent or more, to qualify. The FCAC notes that buyers who use this option can pay off the principal and interest on a flexible timeline, and allows them to pay the entire balance of the mortgage at any time without incurring the prepayment penalty that's common in many mortgages.

How can I qualify for a HELOC? Who is eligible?

In order to approve you, your lender will want to see that you have a good credit score, proof of stable and adequate income and a debt load that's reasonable for your income. You'll also need at least 20-per-cent equity in your home to access the credit.

HELOCs are available both to uninsured borrowers – those who make a down payment of 20 per cent or more – as well as borrowers who make a down payment of between 5 and 19 per cent and require mortgage insurance.

Uninsured borrowers can access their HELOC immediately, as they meet the equity requirements. But while insured borrowers could set up a mortgage and HELOC at the same time, they won't have access to the line of credit right away as they don't have the requisite level of equity in their home, says Joe Bladek, a Barrie, Ont., mortgage broker. "The home equity line of credit would only start to become available once the mortgage itself has been paid down quite considerably," he says. "For someone going in with 5-per-cent down, this may not happen for years."

However, he notes, there is a unique scenario where insured borrowers could access their HELOC immediately. Some lenders have insured mortgage products available for self-employed borrowers, even if they plan to make a down payment of 20 per cent or more. In this case, the HELOC would be available immediately, Mr. Bladek says.

What are the benefits of opening a HELOC?

The revolving nature of a HELOC gives you flexible access to credit without having to regularly reborrow, says Sandra Fry, a Winnipeg-based credit counsellor with the Credit Counselling Society, a nonprofit that helps Canadians manage debt. "If the water tank goes, there's a crack in the basement, or whatever, it's a really nice way to have that ability to access your equity without having to qualify."

Given their lower interest rate, HELOCs are "actually a smart way to borrow in an emergency – light years better than credit cards," Globe personal finance columnist Rob Carrick wrote in an April, 2020, column. Currently, the average credit card interest rate in Canada is 19.99 per cent, according to comparison website rates.ca. (Though low-interest cards can be as low as 4.99 per cent.)

That's why Jason Heath, managing director at Objective Financial Partners, Inc., in Markham, Ont., recommends setting one up when you meet your bank's credit, income and debt requirements, even if you have no immediate need for it. Banks, he says, "are more inclined to approve people who don't need a [HELOC] and less inclined to approve people who do."

"It can come in handy three years down the road when you have an emergency or a health issue or a job loss, and it's harder to go to the bank and get a home equity line of credit set up at that point," he says. "I usually encourage people to set it up when they buy a home so they have it in place."

Mr. Heath added that getting a HELOC in place a few years ahead of your planned retirement date, if you don't already have one, can be advantageous because it will be more difficult to qualify once you have no income. This strategy can also allow you to avoid taking out a reverse mortgage, a type of home loan for Canadians who are over 55 that allows you to access up to 55 per cent of your home equity but comes at a higher interest rate, to cover unexpected retirement expenses.

Ms. Fry notes the lower interest rate available to HELOC holders makes it an ideal vehicle for debt-consolidation; moving higher-interest debt onto the line of credit can allow you to save on interest payments and reduce your number of monthly bill payments.

According to a 2019 FCAC study that surveyed 4,800 Canadians, renovations were the most common use of the lines of credit, followed by debt consolidation, vehicle purchases, day-to-day expenses, emergency funds and vacations.

What about the risks?

While the ability to only make interest payments on a HELOC balance gives borrowers plenty of flexibility, Mr. Heath notes that can be a double-edged sword. "If you're paying down your mortgage and adding to your line of credit, you're going sideways on debt. It's a bad long-term trajectory to be on in terms of someday being financially independent," he says.

Globe personal finance columnist Bridget Casey wrote in May, 2022, that HELOCs have made Canadians "complacent with debt" and noted HELOC balances have tracked the country's debt-to-income ratios near perfectly for the past 20 years and become "the main driver of household debt burden." She pointed to the 2019 FCAC study that found the average HELOC balance was $65,000, and as many as 25 per cent of borrowers had a balance higher than $150,000.

According to the FCAC, if you have a balance on your line of credit, you may have to pay it off in full if you plan to switch your mortgage to another lender.

It's also important to know that banks and other lenders have "almost unlimited power" to change the terms of your HELOC, Mr. Carrick wrote in April, 2020. He pointed to information from the FCAC that says HELOC lenders can increase your interest rate with 30 days' notice or change the payment terms to require you to switch to a mortgage-type loan that blends interest and principal payments. They can reduce your credit limit to at or just above your current balance owing on the HELOC – or even below the current balance, forcing you to quickly repay the difference.

Lenders also have the ability to recall your HELOC and ask you to repay in full immediately if you're behind on payments, if you experience an event that would risk your ability to pay down your balance or if your property value drops to what your lender considers an "unacceptable" level.

If you miss payments even after developing a repayment plan with your lender, you could also face the possibility that your lender repossesses your home.

How do rising interest rates affect HELOC holders?

The Bank of Canada's series of rate hikes in 2022 have highlighted the risks of the HELOC's variable rate. According to CMHC data, Canadians' average monthly HELOC payment was on the rise, reaching $558 in the second quarter, up from $505 in the previous quarter. Globe reporter Ben Mussett wrote in July, 2022, that financial experts expect to see a rise in delinquency on HELOC debt in the coming months, particularly if inflation stays hot.

Mr. Heath said Canadians who've been using their home equity line of credit for consumer spending and "living beyond one's means" are likely to be hardest hit by these rate hikes. "If somebody finds they are frequently tapping their HELOC for monthly spending, that can be a bit of a red flag. … With interest rates rising and home prices falling, a lot of people are going to hopefully step back and say, 'My home equity is not income, it is not something I can use to pay for my day-to-day living expenses.'"

However, he noted, some lenders may allow a borrower to add some of their HELOC balance to their mortgage, which locks the debt in at a set interest rate and forces the borrower to make a fixed monthly principal and interest payment, rather than just interest only.

THE GLOBE AND MAIL