

IMPROVE YOUR RETIREMENT OUTLOOK WITH TAX-ADVANTAGED INVESTING

Over the past two years, stock prices have swung widely. The Canadian economy suffered its first recession since the early 1990s. As a result, uncertainty remains high, and you may be neglecting your plans for retirement. If you have a long time before you expect to retire, contributing to tax-advantaged accounts can accelerate your progress in closing your retirement gap if you start today.

The investing environment always appears risky, and life is always busy, but don't put off your planning for retirement. Evaluate your current situation and work with your Edward Jones advisor to develop a strategy to close any gap in your retirement plans. You can still make 2009 contributions to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) if you haven't already, and you also can make your 2010 contribution. Both tax-advantaged accounts allow your money to grow faster than in a taxable account. In addition, your RRSP allows you to defer paying taxes until the money is withdrawn, which may be an advantage.

What Are Your Retirement Goals?

If you aren't already retired, you probably have a mental picture of how you'll spend your retirement years. To realize your dreams, you may need to take some concrete steps today. First, many studies have shown that we're more likely to achieve goals if they are measurable, specific and in writing.

After writing down your goals, you'll need to review your current finances and situation so that you know where you are today. Then work with your Edward Jones advisor to determine a strategy designed to help you achieve your retirement goals at the time you expect.

Closing Your Retirement Gap

Some investors will discover they have a retirement gap, especially since the average Canadian has only \$42,000 in retirement savings. The gap is the difference between where you are today and where you need to be. To close the gap, you have several choices:

- Increase your annual investments to catch up, especially in tax-deferred accounts (such as RRSPs) and tax-free accounts (such as TFSA)
- Increase the proportion of your investments in equities
- Delay your retirement plans
- Adjust your retirement plans

You'll probably need to use a combination of these strategies to close any gap you may have, and they'll also depend on how long you have before you plan to retire. Increasing your equity investments is a long-term strategy, not a quick fix.

Is Now a Good Time?

Some investors are wondering whether now is a good time to invest, especially after the S&P/TSX Composite's 35% return in 2009, including a gain of more than 55% from its low in March. After such large increases, some investors are concerned that stocks could decline rather than rise over the next few months. While a decline is possible, no one consistently predicts the timing of short-term market moves consistently, and our advice is to not waste time trying, since you're more likely to miss gains than losses.

Historically, the TSX and other markets always have had frequent pullbacks of 5% or 10%, which are included (along with more severe declines) in the long-term returns of about 9% that investors have received. Our advice is to stay invested during short-term pullbacks so that you receive the long-term investment returns available.

There are several reasons that make equities (stocks and equity mutual funds) a good choice today for your long-term retirement savings:

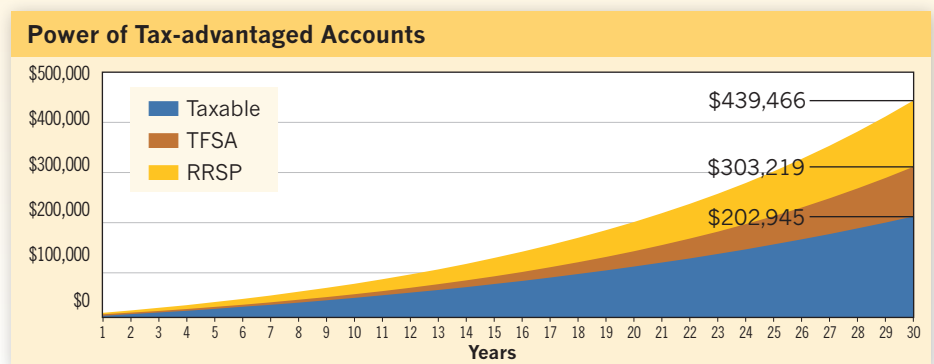
1. **Low interest rates** – Historically, low rates have helped boost economic growth, and the yield on the TSX is 2.8%. It's unusual for stocks with the potential for capital appreciation to pay only slightly less than the 3.5% rate on 10-year Treasuries. It's also above the rate on short-term GICs.
2. **Economy emerging from recession** – Government deficit spending (in Canada and around the world) will continue to be a positive for overall growth, even as its impact lessens. Companies are generally starting to benefit from stronger demand, which helps them report higher earnings. In the year following the end of past recessions, the TSX has had an average gain of 14%.
3. **Attractive valuations** – The TSX is trading at about 15 times 2010 earnings estimates, which is slightly below its historical average of about 17 times. Foreign markets are also trading below their historical averages.

If you're especially concerned about the volatility of equities, consider adding guaranteed investment fund contracts (segregated funds), which provide potential growth with protection against losses.

The Power of Tax-advantaged Accounts

For most investors, tax-advantaged accounts, such as RRSPs and TFSAs, are helpful because more money accumulates over time. TFSAs allow you to withdraw the money tax free. Current RRSP contributions reduce your 2009 taxes and defer them until you withdraw the money. The impact of paying less tax today may be larger than you imagine.

Here's an example: If you are 35 and put \$3,000 into a taxable account each year for 30 years, your returns could average 7% per year. If your marginal tax rate remains 31%, these investments would have grown to a little more than \$200,000 when you reached 65. In a TFSA, the same \$3,000 per year for 30 years would have increased to a little over \$300,000. And if you invested \$4,348 into your RRSP each year by using the potential tax refund of \$1,348, you'd have almost \$440,000. The power of paying less in taxes is shown in the following chart.



Source: Edward Jones calculations. The above calculations are for illustration only and do not represent any currently available investments. Past performance does not guarantee future results.

Your mix of equities and fixed income should reflect your comfort with risk and the amount of time you expect to own the investments. However, you may have more invested in long-term fixed income than appropriate, especially if you are concerned about stock market volatility. Over the next few years, interest rates may rise as the Bank of Canada (BoC) and other central banks increase their short-term policy rates from record low levels. As interest rates rise, the prices of long-term bonds and preferred shares generally decline. Make sure you've discussed your portfolio's sensitivity to interest rate increases with your Edward Jones advisor and that you have reduced your exposure if needed so you are prepared for potentially lower prices. Since bond prices have generally risen for the past 20 years, many investors could be surprised if they see declining prices on their long-term fixed-income investments. Remember, however, that by holding your bonds until maturity, you should expect to receive payment of the full principal amount.

Although no one knows how various investments will perform in the future, our example used 7% per year. Is that a reasonable return to expect from your retirement investments? Over the past 10 years, the Canadian stock market returned 5.6% per year, foreign stock returns were somewhat less, and the average annual return on fixed-income investments was 6.7%.* Your mix of investments determines your actual return, but most portfolios grew less than 7% annually over the past 10 years. Historically, however, decades of higher stock returns have tended to follow decades of low returns, and if that pattern continues, adding to your long-term equity investments today could present an excellent opportunity.

*Source: DEX Universe Bond Index, Ibbotson, 12/31/1999 – 12/31/2009. Diversification does not guarantee a profit or protect against loss. The TSX Composite is an unmanaged index that cannot be invested into directly.

Building Your Retirement Nest Egg

Many investors need to close the gap between their current retirement savings and their retirement goals. The process of constructing a nest egg that will be large enough to provide the retirement income you'll need has two important parts — contributing and investing.

Contributing: If you haven't contributed as much as needed, make your 2009 RRSP and TFSA contributions, and consider setting up a plan to start making regular contributions each month or quarter. One advantage of regular contributions is that they reduce any tendency to hesitate and try to time the market. Psychologists have shown many of us need to limit our choices if we want to achieve our long-term goals, since otherwise we tend to respond to short-term impulses that distract us. If you recognize your past behaviour, think about setting up a systematic strategy so that you make your contributions regularly. In addition, the benefits of tax deferral grow as your money is invested longer.

Investing: Nest eggs need to be built of quality materials and designed to last through the storms of market volatility. In our view, that means quality investments owned in a diversified mix so that your portfolio is less volatile than the market. To ensure your retirement portfolio is constructed appropriately, with the right asset allocation and the appropriate investments, schedule a review with your Edward Jones advisor if you haven't had one recently. You can use your current contribution to adjust your mix of investments if needed.

Talk with your Edward Jones advisor today for a portfolio review to help ensure you're on track to meet your retirement goals.

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