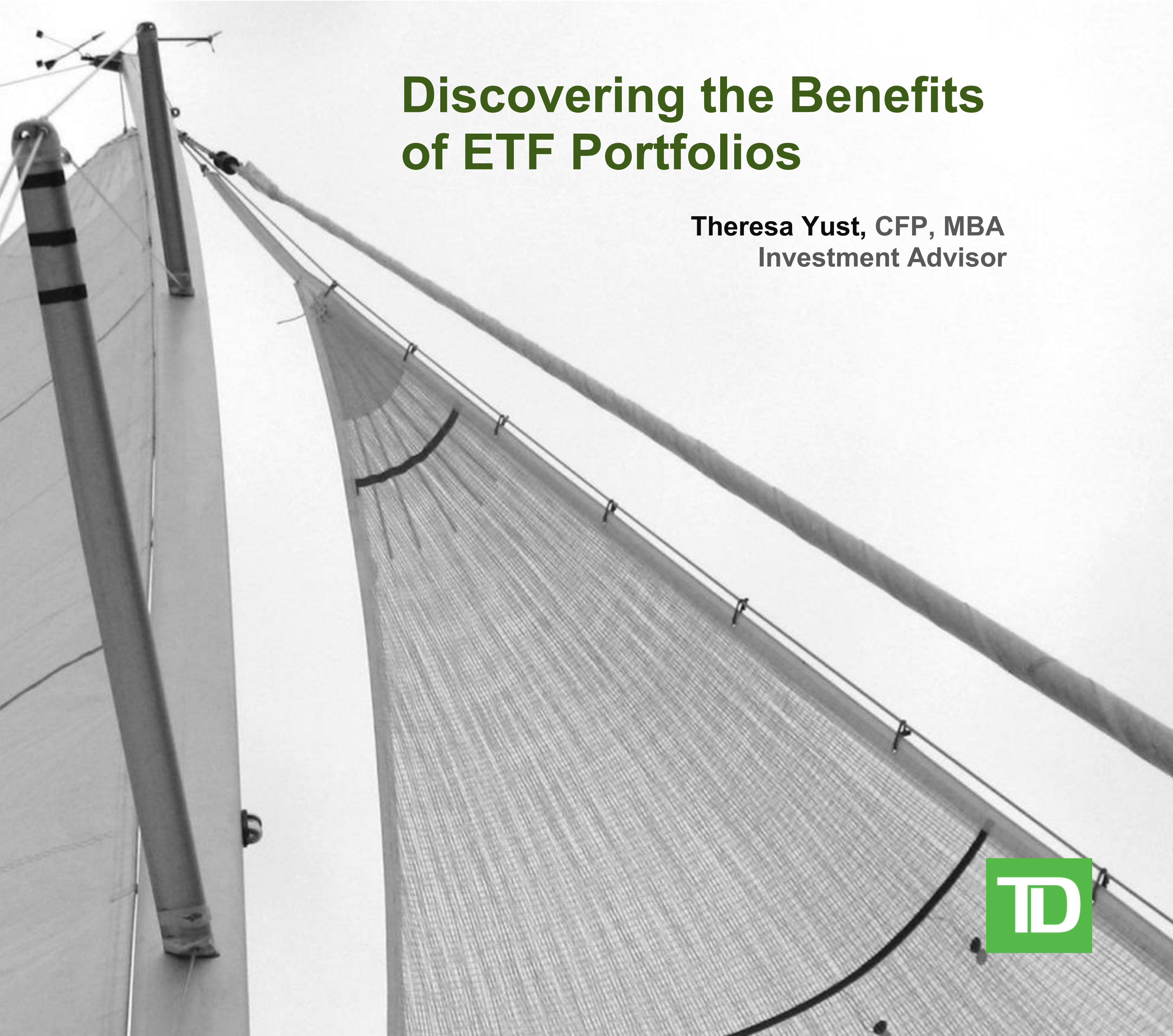
TD Wealth



Discovering the Benefits of ETF Portfolios

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Investment concerns you might have today:

- There are several investments available today and the markets have changed. What options do I have?
- Will I have the income that I need available to me when I need it? Do I have enough saved?
- Is my wealth well diversified to reduce my risk of loss?
- Do I understand what I'm actually invested in?
- Am I paying a fair fee for the service that I am receiving from all parties?

Theresa believes that exchange-traded funds (ETFs) can provide the optimal investment vehicle in addressing these concerns. This booklet will discuss and explain the top four reasons why using ETFs might be the best choice for you.

1. Potential Cost Savings

ETFs generally charge lower management expense ratio fees (MERs). Compared to many actively-managed mutual funds, there is a potential cost savings to ETFs as they are generally passively managed, track a rule-based index, and do not have the cost involved of stock analysis or forecasting predictions.

ETF portfolios generally save costs by having fewer trades. Compared to many stock and bond based portfolios where each buy or sell trade can have a cost attached to it, with ETFs you can purchase multiple stocks in a given sector, and over time, the cost savings can add up.

The cost of your investments matters. For example, if you have two equally-sized million dollar portfolios that both generate a return of 5% per year on average before fees:

- **Portfolio MF**: invested in mutual funds that cost about 2.25% in management fees per year and has a trailer fee built in and paid to an advisor.

- **Portfolio ETF**: invested in ETFs has about a 0.35% cost plus an investment-counseling fee of about 1.25% to a portfolio manager for a total investment cost of 1.60%.

After 10 years, though both portfolios would have generated the same return in the markets, the ETF portfolio would be 6% larger than the MF portfolio due to the impact of the fees compounded over time. In the above example, this cost savings would be estimated to be about $75,000 in cost savings to the investor (depending on market volatility and other factors).

This chart shows annual returns of assets classes year over year, with the most profitable asset classes in the year listed first. It also demonstrates how a balanced ETF portfolio can blend these assets for a more stable and potentially consistent investment experience.

2008	2009	2010	2011	2012	2013	2014
6.4% Canadian Bonds	52% Emerging Markets	17.6% Canadian Equities	9.7% Canadian Bonds	16% Emerging Markets	41.6% US Equities	23.9% US Equities
-13.8% Diversified Portfolio	35.1% Canadian Equities	13% Emerging Markets	4.5% US Equities	15.3% International Equities	31.6% International Equities	11.9% Diversified Portfolio
-23.3% US Equities	12.5% International Equities	9.2% US Equities	1.4% Diversified Portfolio	12.8% US Equities	17.6% Diversified Portfolio	10.6% Canadian Equities
-28.8% International Equities	12.4% Diversified Portfolio	8.3% Diversified Portfolio	-8.7% Canadian Equities	8.8% Diversified Portfolio	13% Canadian Equities	8.8% Canadian Bonds
-33% Canadian Equities	9.3% US Equities	6.7% Canadian Bonds	-9.6% International Equities	7.2% Canadian Equities	-4.3% Emerging Markets	7% Emerging Markets
-41.4% Emerging Markets	5.4% Canadian Bonds	2.6% International Equities	-16.2% Emerging Markets	3.6% Canadian Bonds	-1.2% Canadian Bonds	4.1% International Equities

Date Source: TD Asset Management Inc, Morningstar. Canadian Bonds are represented by the FTSE TMX Canada Universe Bond Index, Canadian Equities are represented by the S&P/TSX Composite Total Return Index, US Equities are represented by the S&P 500 Total Return Index C$, International Equities are represented by the MSCI EAFE Total Return Index Gross Dividend C$, and the Diversified Portfolio is made up of 40% Canadian Bonds, 15% Canadian Equities, 45% MSCI World Total Return Index Gross Dividend C$ (rebalanced annually).

2. Diversification to reduce risk

The art of picking any one stock or sector that will outperform over time is an extremely difficult task. A single company stock or bond can have its value significantly impacted by scandals in the news, management changes and other unknowns. Also, owning a single investment sector can have a negative impact if there are big regulatory changes or currency movements. ETFs provide diversification by:

- **Giving exposure to a basket of stocks within an index.** In buying an ETF, you are buying a basket of underlying securities, such as stocks. As an example, when buying a TSX60 Index ETF, you are buying the 60 largest stocks in the Toronto Stock Exchange Index at once. This greatly diminishes the negative impact to the setbacks a single company can have.

- **Providing possible asset class diversification.** In any one year, knowing which asset class is going to outperform is unknown. Therefore, Theresa designs her ETF portfolios with a mix of bond and equity ETF strategies to create an optimal environment for stable long-term growth. The chart on page five shows annual return of assets classes, and how a balanced portfolio blends these assets for a more stable and generally consistent investment experience.

- **Tailoring investment to a multitude of sectors, industries, investment types, countries, and regions.** The ETF market has greatly expanded over the last decade, with product exposure to not only index-linked ETFs, but also specific sectors, regions, commodities and alternative investments such as futures.

- **Controlling currency risk.** As a Canadian investor, there is a world of investment possibilities available to you. Many ETF providers now offer currency hedging, a tool designed to reduce the impact of fluctuations in the Canadian dollar or the dollar of the country you are investing in.

3. Tax-Efficient Investing

Theresa believes that the best way to avoid paying more than you have to in taxes is to have a detailed Wealth Plan in place, tailored to your specific situation (based on your investment objectives and risk tolerance) and with a strategy involving wealth transition to other family members. Part of that Wealth Plan is choosing the appropriate investments that will have the appropriate income and tax structure to meet your needs.

- **ETFs can have strong tax efficiency compared to other investments.** When buying an ETF, you are liable only for the capital gains you incur while owning the investment, unlike some mutual funds where, depending on your purchase date, you could be liable for capital gains realized by former mutual fund shareholders.

- **Using ETFs to maintain market exposure during tax-loss selling.** Tax-loss selling involves triggering a capital gain by selling a security in a particular tax year, but requires that you don't re-buy the same security for at least 30 days. If you would like to keep your market exposure during those 30 days, you can use a strategy of buying an ETF with the same market exposure as the security, and not affect the tax-loss.

- **Additional tax efficiencies through Exchange Traded Notes (ETNs).** Some investors use Corporate Class Mutual Funds in order to defer the tax implications of income generated by their investments until they sell those investments. A similar strategy can be used with an ETF portfolio instead of using ETNs. The main difference between an ETF and an ETN is that an ETF physically holds all the underlying shares of an index, and an ETN is a promise to pay the return of the underlying index. The promise to pay is generally backed by a major bank that builds the ETN

4. Investment Transparency

Theresa believes that knowing what you own helps you understand the true risks of the investments you have and gives you a peace of mind. ETFs provide transparency in the way that they:

- **Continually disclose all specific stocks, bonds or other holdings in the investment.** Mutual funds usually only publish their holdings on a quarterly basis, at which time the information could be out-of-date. Hedge funds may or may not offer any insight into their current holdings.

- **Have live stock market valuations.** Having an inter-day value for ETFs means that you and your advisor know their exact value during trading hours, whereas mutual funds, and Hedge Funds are valued only at the end of the day, after the fact that you may have bought or sold the holding.

- **Efficiently place buy and sell trades.** Unlike mutual funds, ETFs have a live value on the stock market, which means that you can place an exact value that you would like to buy into, or sell out of your market position, or execute an offsetting buy or sell transaction in the same day.

"Regular reviews with your advisor help to create Investment Transparency for you and for your family."
– Theresa Yust, Investment Advisor

"Earning your trust, understanding your goals and providing knowledgeable answers."
– Theresa Yust, Investment Advisor

Next Steps

After considering your various investment options and going through this booklet, you might be wondering where you can go from here. ETFs offer flexibility, various benefits and possible cost savings however, like any other investments, ETFs have some drawbacks:

- **ETFs are not perfect.** Some ETFs can have problems with liquidity, or selling in certain situations. Some ETFs track their benchmarks poorly, and you might not be getting what you think. Some ETFs are built as sophisticated financial tools and require both skill and expertise to realize their full potential.

- **ETFs are highly speculative.** Certain ETFs, can be double or triple leveraged, which means that the investor can lose more than double or triple the tracked index.

- **ETF costs could actually be higher.** If you compare ETFs to investing in a specific stock then the costs are higher. The actual commission paid to the broker might be the same but there is no management fee for a stock.

- **Bid-Ask Spread can be large for ETFs.** An investor may find themselves invested in a low volume index as more niche ETFs are created.

- **Intraday Pricing Changes may not be beneficial to some investors.** Intraday pricing changes will not benefit longer-term investors who have a time horizon of 10 or 15 years. A high swing over a couple of hours could induce a trade where pricing at the end of day could keep an investor's fear at bay.

- **ETFs may be limited to larger companies.** In some countries, investors might be limited to large-cap stocks due to a narrow group of stocks in the market index. This could limit the investors' potential growth opportunities to small-cap and mid-cap companies.

Why Professional Management?

With all the resources available to you over the internet, you might be considering self-directing your investment portfolio, perhaps with ETFs. ETFs can be purchased on the stock market on your own, but if you are new to this area of investing, or even if you are an experienced investor, getting professional investment and wealth advice often makes sense because of these several compelling reasons:

- **Do you have the time, interest and skills needed to self-manage your investment portfolio?** Most of Theresa's clients live busy lives, and they want to spend their free time on what really matters to them, rather than learning to take on a new job. Like any new job, investment has a learning curve, and many investors don't want to open up their family's savings to losses from investing mistakes or oversights.

- **Establishing a detailed Investment Policy Statement (IPS).** Theresa believes that before you can design an appropriate investment portfolio, you need to have a plan as to what you want to accomplish. An IPS details your investment goals, establishes how much risk you are willing and able to take on, establishes a tax strategy, sets realistic growth goals, and can map out with an educated and experienced prediction of when you will reach your goals, and when you can spend your savings. A good IPS is regularly tracked both against a performance benchmark and your goals, and updated and amended with changes to you and your family's lives.

- **Manage risk of losses both in the portfolio's construction, and ongoing investment environment changes.** A high quality investment portfolio, made with ETFs or other investments requires: (1) extensive research into the risk of the markets and the investments being selected; (2) detailed testing to see how the portfolio is likely to do in both up and down markets to identify exposure to losses; and (3) analysis of what pitfalls and opportunities are likely to be coming so as to identify and exploit potential opportunities, or avoid pitfalls. These three steps of research, testing and analysis in Theresa's opinion have to be ongoing and frequent.

- **Professional Management usually makes for a more comfortable, less emotional approach to investing.** Theresa understands that your investment portfolio often represents the financial security of both you and your family. This means that the self-directed investor has to be willing and able to accept full responsibility, not only for any potential losses, but remaining logical and clearheaded in often-stressful situations to make or maintain trade positions in difficult times.

    - Studies have shown that relative to the thrill of generating a good return, losing money is twice as painful. In Theresa's experience, this means that investors are twice as likely to want to invest more in risk after markets have gone up and are at a high, than invest when markets are at a low. Theresa helps to temper these emotions with her clients, and keep them on track with the proven investment technique for equities of "Buy low and sell high."

What we deliver and you can expect

Throughout this booklet, we discussed why investors should consider having a portfolio in ETFs, and why professional management often makes sense for an investor with ETFs. Theresa believes in and delivers to all her Professional Management ETF clients:

- **A detailed and up-to-date Investment Policy Statement.** This investment plan is tailored to each client, and the client's situation, risk tolerance, expectations, and goals. Family and tax considerations often play a large role in our client's lives, and we believe should play just as large a part in the financial planning process. Theresa holds a Certified Financial Planner (CFP) license as well as an Master of Business Administration (MBA), which can mean more in-depth and sophisticated IPS plans.

- **Transparency of your portfolio and our ongoing process.** At TD Wealth Private Investment Advice, you will have both paper statements and our online WebBroker® applications available to you. The online portfolio is available through your computer or mobile device, and is updated daily. Theresa's process and knowledgeable answers are comprehensive and ongoing, and seeks to achieve a combination of strong risk management and investment returns to be in line with your investing goals.

- **An ongoing trusted relationship.** Theresa believes that having an in-depth, trusted relationship with her clients is fundamental in financial and investment planning. Sharing your goals and life changes makes not only for a more friendly experience, but also provides Theresa with the information needed for an in-depth IPS and to make corresponding changes to your portfolio as your needs evolve.

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