

Getting Started With Investing

When you start to invest, it is helpful to have an understanding of what types of investments your advisor may allocate your money to and the associated risks and benefits that accompany each. Some investment vehicles that are used in building client portfolios can be categorized as the following:

Cash (Or Equivalents)

Money in cash form is safe, completely liquid, is often guaranteed, and earns little or no interest income. It's typically a "parking spot" for funds when you plan to use those funds within the next year or so. Cash is used to pay bills, fund near-term goals, or to simply be an "emergency reserve" for security.

Bonds – Income Producing Asset

A bond is a type of investment issued to the public, by governments or companies, to raise money in the form of loan that will be repaid in the future. Bonds are generally considered to be a conservative investment, where the issuer (the government or company) is obligated to repay your principal at a specified future time. Additionally, the issuer normally makes a specified interest-payment to the purchaser throughout the term of the loan. In some ways it is like a GIC (Guaranteed Investment Certificate), except that bonds can be readily bought and sold prior to maturity on the open bond market.

Preferred Shares – Income Producing Asset

Like a bond, a company will issue preferred shares to raise money, but there are some key differences. Firstly, preferred shares (or simply "preferreds") are only issued by companies. Secondly, preferred share ownership carries with it a higher risk because the issuing company is required to pay their bond obligations before their preferred share payments in the case of liquidation. Also, the company may only be required to make dividend payments on their preferred shares if they have a profit, and there is generally no guarantee on your initial capital. Therefore, purchasers of preferred shares generally receive a higher yield due to these inherent risks. However, an added degree of safety is that preferred dividends must be paid first (i.e. first preference) before any dividends can be declared on common stock. Another distinct difference is that the returns on preferred shares is paid in the form of dividends, which receive beneficial tax treatment compared to the interest income earned on bonds.

Equities— Canadian, U.S. And International

By purchasing a stock, (equity) in a company you are able to both participate in the growth of the company's stock value and dividend payouts, if the company elects to pay out profits as dividends to stockholders. The upside of owning stocks is the unlimited growth potential if the business does well. The dividends paid receive tax-

favoured treatment and if you sell shares at a profit, the tax on the gains is also tax-favoured. However, there is unlimited downside as well, should the company's not do well, or if there is a broad stock market decline. Therefore, careful consideration needs be done before buying a company's stock.

From a Canadian perspective, there are typically three categories of equity investments:

- Canadian Equity – Canadian companies, a well-regulated market and some excellent large companies (such as our banks) which pay regular dividends, and as Canadians, there is no currency risk exposure.
- U.S. Equity- provides some exposure to the U.S. dollar, but more importantly exposure to the world's largest capital market.

- International Equity- broadens the investment portfolio's diversification, while offering exposure to emerging markets which comes with higher growth and risk prospects.

This is a brief illustration of the main investment products. Therefore, you should continue the conversation with your portfolio manager to gain further understanding what is right for your unique needs. It is important to seek professional advice in order to ensure the money you have saved is in good hands. There are many money managers for a young investor to choose from, so it is important to have trust and understanding with the advisor you ultimately select.

Questions?

Contact a Tonin Wealth Management representative at 519-822-5307 or email general@tonin.ca.