FINANCIAL PIPELINE

INVESTING 101

financial pipeline

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Exchange-Traded Funds

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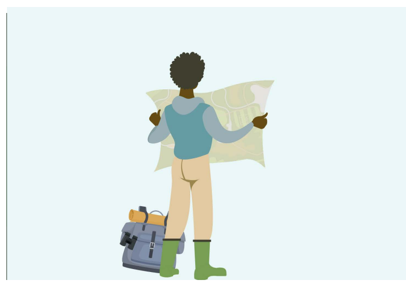
Exchange-Traded Funds

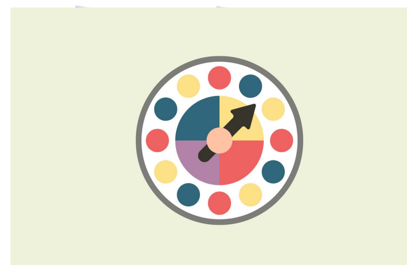
The beginning of your investment journey can be intimidating. If you're someone who is just at the start and wondering how to diversify your portfolio, one of the simplest ways to do so is through ETFs. In this section of the workbook, we'll walk you through what ETFs are along with coverage of associated topics such as the Canadian ETF industry, preferred share ETFs, crypto ETFs, and more. Since their introduction in 1990, ETFs have grown immensely in popularity and assets under management. Find out why as you dive into the world of exchange traded funds and expand your investing knowledge.

READING MATERIALS

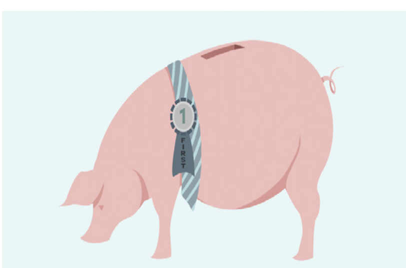
Why are ETFs so Popular?



What is an ETF?

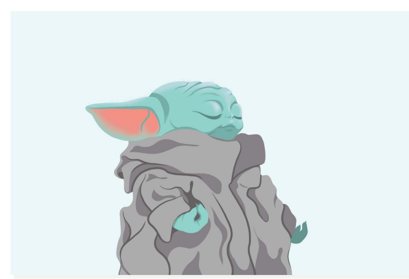


What is a Preferred Share ETF?

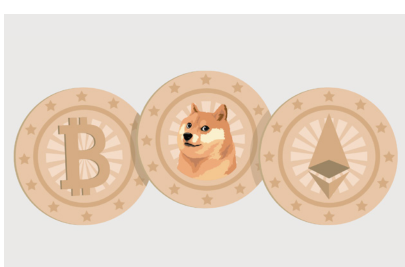


Q&A: Preferred Share ETFs

Space ETFs - The Next Frontier?



ETF Portfolio: A Safer Option for Investors Overwhelmed by Choice



A "Safe" Crypto ETF?

Floating Rate Note can Provide Protection from Rising Rates

Q&A

1. What are ETFs?

2. Why are ETFs growing in popularity?

3. Why are broad-based ETFs generally considered a safer option when compared to individual stock ownership?

4. What is a preferred share ETF?

5. Who are preferred shares best suited for?

6. What are some of the drawbacks of preferred share ETFs?

7. What are space ETFs?

8. What is the difference between futures-based ETFs and spot crypto ETFs?

9. What is a Floating Rate Note ETF?

Mutual Funds

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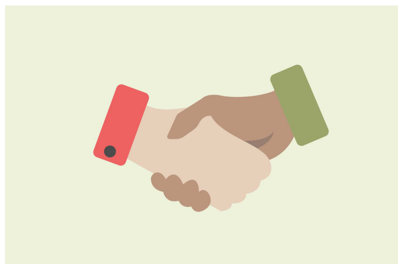
Mutual Funds

In this section of the workbook you will learn about mutual funds as we walk you through the various types along with their characteristics, advantages, and disadvantages. We'll go over various investment styles used by the professionals who manage mutual funds. Once you've mastered the topic of mutual funds, we'll put it head-to-head with the concept of ETFs and explore why the rise in popularity of ETFs is causing a downfall in mutual funds.

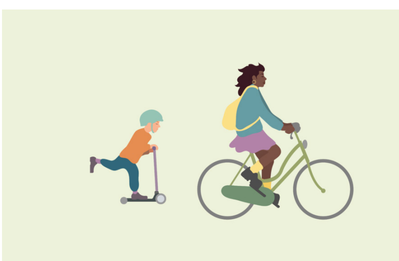
READING MATERIALS

What is a Mutual Fund?

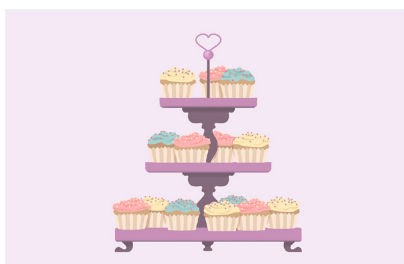


Mutual Fund Valuation

Types of Mutual Funds: Open-Ended and Closed-End Funds



The ABCs of Mutual Fund Series



Tax Implications of Mutual Fund Distributions

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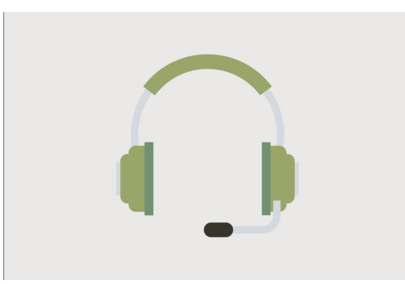

Mutual Fund Investment Strategies

What are Distributions and Why do Funds Make Distributions?

Q&A

1. What is a mutual fund?

2. Identify and define the two main types of mutual funds.

3. What is the significance of liquid assets in mutual fund valuation?

4. What are the three most common mutual fund series?

5. What are the main categories of mutual funds?

6. What are distributions and the two ways mutual fund distributions can be received?

7. What are three factors that can affect investor returns?

8. How are mutual fund distributions taxed?

Interest Rates & Bonds

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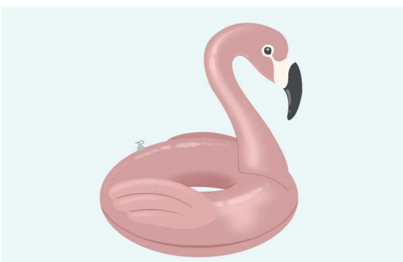
Interest Rates & Bonds

As interest rates are continuously changing, it's important to understand how this can affect your investments. Whether you are just beginning to invest or have been investing for some time, this section of the workbook covers some fundamental financial concepts that will help you understand the effects interest rates have on bonds. We'll teach you how to make investment decisions as we explain the different components of interest rates, why interest rates change, how to manage your bond portfolio, and more.

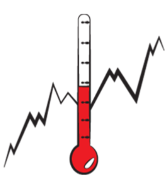
READING MATERIALS



What Makes Interest Rates Change?

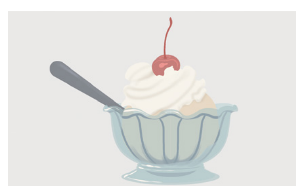
What Goes Into an Interst Rate?

Four Ways Interest Rate Changes Affect You



Why Bother Forecasting Interest Rates?

How are Bond Portfolios Managed?



Bond Payments

What Are The Main Types of Bonds?

What are Maple Bonds?

Why is Inflation so Bad for Bonds?

What Happens to Bonds When Interest Rates Rise?

How Can Bond Investors Protect Themselves from the Effects of Rising Interest Rates?

Q&A

1. What factors influence interest rates?

2. What are four ways that interest rate changes can affect you?

3. What are the components of interest rates?

4. Why do we attempt to forecast interest rates?

5. What are the main types of bonds?

6. What are the two payment types received by bondholders?

7. What is a sector rotation strategy when it comes to bond management?

8. How do rising interest rates affect bond prices?

9. What were investors' big worries about rising inflation in 2021?

10. How might bond investors protect themselves from the effects of rising interest rates?

11. What are maple bonds and who issues this type of bond?

Investing Fees

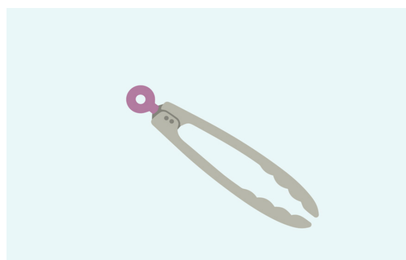
Investment Fees

Learning about investing can be overwhelming. You probably have a lot of questions about how to manage your investments. The good news is there are professionals who can help you with that. Learn how to select investment managers that match your objectives and risk tolerance. We'll take you through various types of management, including value, growth, quantitative, active, and passive in addition to the associated fees investors pay to investment managers.

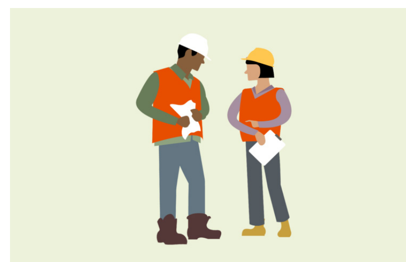
If you think humans are the only ones who can help manage your investments, think again. In this final section of the workbook, we'll guide you through the concept of robo advisors and how they can help investors manage their investment portfolios.

READING MATERIALS

Who can help me invest my money?



What is an Investment Manager?



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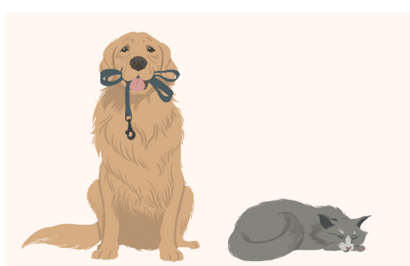
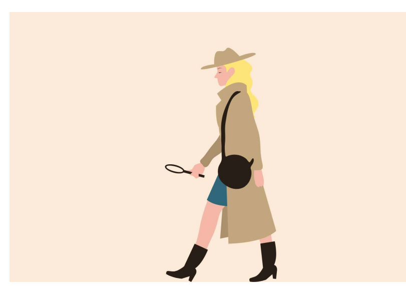
Equity Management Styles

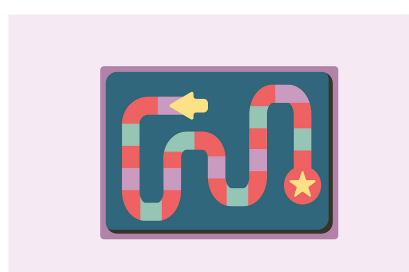


Active vs Passive Management



Why am I Paying Management Fees?

What's a Robo Advisor?



Robo Advisors: What's Behind the Curtain

Q&A

1. What are the most common investment professional roles?

2. What is an investment manager?

3. Where can you find relevant information to help select an investment manager?

4. What are the types of equity managers and their styles of management?

5. What is the difference between active and passive management?

6. What are the three underlying fees that make up a management expense ratio (MER)?

7. What is a robo advisor?

8. How do you know if a robo advisor is right for you?

Answer Sheet

01 EXCHANGE-TRADED FUNDS

02 MUTUAL FUNDS

03 INTEREST RATES & BONDS

04 INVESTING FEES

Answer Sheet

1. ETF stands for an Exchange Traded Fund. ETFs can track indexes based on various baskets of commodities, stocks, or bonds or broad stock indexes like the S&P/TSX. Exchange traded funds offer investors exposure to a wide variety of assets, sectors and securities in countries around the world.

2. ETFs have grown immensely in popularity as they offer an easy way to participate in the markets at a lower fee compared to mutual funds. Broad-based ETFs can provide investors with the benefits of immediate diversification and general safety.

3. ETFs are generally considered to be a safer option than individual stock ownership as they are a collection of securities rather than just one company's stock and often charge lower fees.

4. Preferred share ETFs are specialized ETFs that invest in preferred shares. They often provide a steady stream of tax-efficient income.

5. This form of ETF is best suited to conservative investors who have more experience in investing. These investors would be looking for capital preservation, have a low-to-moderate risk tolerance, and want their taxable money to generate an income.

6. Some drawbacks include not having voting rights as a shareholder and unexpected volatility as these ETFs are driven by interest rates more than corporate performance.

7. Space ETFs offer an opportunity to invest in the seemingly limitless possibilities of the final frontier and grow the space industry.

8. Futures-based ETFs are not actually based on Bitcoin but rather based on futures contracts, whereas spot crypto ETFs hold actual cryptocurrencies, such as Bitcoin and Ethereum.

9. Floating rate notes (FRNs) are debt instruments with a variable interest rate. FRNs can be issued by financial institutions, governments, or corporations and typically have maturities between two and five years.

Answer Sheet

1. Mutual Funds are vehicles that enable a number of investors to pool their money and have it managed by a professional. The mutual fund assets are divided into units where each holder is entitled to a proportionate share of the fund and any income that the mutual fund earns.

2. The two types of mutual fund structures are open-ended and closed-end funds.

3. When mutual funds hold liquid securities, this enables them to be more easily valued and transacted in at prices that are closer to their actual value.

4. The three most popular mutual fund series are Series A, Series D, and Series F mutual funds. The 'A' in Series A stands for Advisory fee. The 'D' in Series D stands for Discounted fee. The 'F' in Series F stands for Free.

5. The categories include equity funds, bond or fixed income funds, balanced funds, income funds, dividend funds, and money market or short-term funds.

6. Distributions are made to mutual fund unitholders and are how funds transfer their tax liabilities to investors. They can be done in the form of cash or via reinvested units of the fund.

7. Three factors that can affect investor returns include the timing of your mutual fund purchase, the type of income it generates, and when mutual fund distributions occur.

8. Mutual fund distributions are taxed when received outside of tax-sheltered accounts such as RRSPs and TFSAs. The tax effect is the same for non-tax-sheltered holdings, whether the distributions are received in cash or reinvested. Most mutual funds are set up as mutual fund trusts, which are tax flow-through vehicles used to distribute earnings to investors.

Answer Sheet

1. Economic strength, fiscal policy, monetary policy, and inflation yield the greatest influence on market interest rates.

2. Changing interest rates can affect variable mortgage rates, credit card interest rates, savers' habits, and investing decisions.

3. The components of an interest rate include the real interest rate, the inflation rate, a liquidity risk premium, and a credit risk premium.

4. Forecasting interest rates might enable economists to predict the movement of rates and inform regulatory bodies and investment managers accordingly. Markets could then act in advance and adapt to changing conditions.

5. The two main types of bonds are Corporate Bonds and Government Bonds.

6. Bond payments can be fixed or floating, which will be spelt out in the bond indenture.

7. This bond management strategy entails an investment manager assessing valuation(s) for a segment of the bond market based on credit and technical factors, as well as relative valuations. The analysis of these factors and their comparison to historical norms inform the bond manager's decisions on the weights to assign the different segments.

8. There is an inverse relationship between bond yields and interest rates, meaning when interest rates rise, bond yields will fall, and vice versa when interest rates decline.

9. In 2021, inflation in Canada and the U.S. climbed to higher levels that surpassed the targeted annual range of 1-3%. The big worry for investors was whether their returns would exceed inflation and generate a positive real rate of return to offset the decline in purchasing power from higher inflation.

Answer Sheet

10. Investors could invest in floating-rate bonds to counteract the negative price impact of rising interest rates. Additionally, holding shorter-term instruments curtails duration risk, and "rolling over" maturing bonds into new issues at prevailing higher interest rates will help mitigate losses in a rising rate environment.

11. Maple bonds are bonds issued by a foreign entity in Canadian dollars in the Canadian fixed income market. This allows foreign issuers to access the Canadian debt market and bond investors to diversify their holdings beyond domestic issues.

Answer Sheet

1. The most common investment professionals are portfolio managers, investment advisors, and financial advisors.

2. An investment manager is a highly trained individual in the financial services industry who oversees and manages investment portfolios, mutual funds, or ETFs and is considered an expert on the various securities that could be held therein.

3. Investors can research investment managers and investment counselling firms using industry directories, such as the one provided by Benefits Canada. Investors can also hire financial planners, whose firms will often have a dedicated manager research team that keeps tabs on numerous investment managers and can advise which one(s) are best suited to the client's needs, portfolio size and risk tolerance.

4. The types of active equity managers include sector rotators, quantitative, technical, value, growth, and closet indexers.

5. Active management is when a portfolio manager manages the assets with a goal to outperform a benchmark and investors pay for this professional expertise. Passive management is when managers make no decisions as to which securities to hold because the underlying assets and their respective weights replicate those in a benchmark index. Passive management is often touted as a better option given its lower cost and how difficult it is for active managers to beat the market longer term.

6. The three underlying fees include trailer fees, management fees, and operating expenses, which are the main components of management expense ratios (MERs).

7. Robo advisors are online wealth management tools that give you generic advice based on an algorithm's interpretation of your personal information. They are a lower-cost alternative for investors who are not willing to pay for the services of a financial advisor

8. Investors who want to keep their fees low and don't require as much guidance with regards to their investments might find that a robo advisor works best for them.