

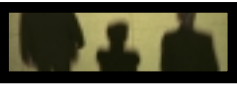


THE TRANSITION RSP

An affordable plan which
allows you to diversify your
retirement savings



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When thinking about their prospective retirement, a growing number of Canadians come to the same conclusion: it is wiser to manage their own retirement savings than to blindly rely on the government. In this context, the Retirement Savings Plan (RSP) is the most powerful financial tool available to those who wish to build a comfortable financial nest egg for their retirement.

However, in view of the low interest rates prevailing in North America for the last several years, the infamous January-February “RSP Season” has turned into a real brainteaser for many people.

How do you choose between safe investments which offer unattractive returns – like guaranteed investment certificates (GICs) – and more potentially higher-yielding investments – like mutual funds – which do not offer any guarantee in terms of preservation of capital and future performance? Fortunately, there are more flexible and comprehensive retirement savings plans available. For instance, our self-directed **Portfolio RSP** allows you to put together almost any combination of investments, all while enjoying the convenience of having only one account to manage. However, such self-directed plans only deliver their full potential when a certain level of savings is reached, and so people who are still in the early stages of saving for retirement usually have to wait a few years before they can enjoy the advantages of this type of RSP. At least that was the case until recently. Fortunately, a solution to this problem now exists.

The *Transition* RSP: the power of diversification within a flexible and accessible plan

We are pleased to present our *Transition RSP*, an option that allows you to reap some of the benefits of a self-directed RSP even if you are just beginning to save for your retirement. It is an innovative product which introduces a very important dimension to your retirement savings: diversification.

Please join us as we discuss its features.

Offered exclusively by our firm, the *Transition RSP* is based on the fundamental principle that governs all good investment strategies: diversification. In fact, every study shows that for long-term goals (and your retirement savings plan definitely falls under the category of long-term investing), the best combination of performance and consistency is obtained by dividing your savings among the three main asset classes (cash and cash equivalents, fixed-income securities and stocks). This is the investment approach used by all professional portfolio managers. Now, it can be put to work for you.

While the prospect of extending your investment horizon beyond guaranteed products can seem daunting, we also offer you the ongoing advice and expertise of an investment professional. Whether helping you make the initial decisions today, keeping you informed over time or merely answering questions as they arise, your Investment Advisor is a precious resource in planning your retirement.

What is a *Transition RSP*?

The *Transition RSP* is an account option which allows you to gradually progress from a plan limited to a single type of investment, – GICs for instance – to a more open and flexible RSP, without having to “take the plunge” right away and incur all the administrative costs associated with a self-directed plan.

As in the case of a fully self-directed RSP, our **Transition RSP** allows you to include fixed-income securities as well as equities in your portfolio, thus opening the door to diversification. With the **Transition RSP**, you choose your investments from the following two groups of securities:

Fixed-income securities

Our **Transition RSP** gives you access to three basic types of fixed-income securities: GICs, federal or provincial savings bonds, and stripped bonds (including coupons and residuals). These three types of fixed-income securities give you all the essential blocks you need to build the conservative portion of your retirement savings portfolio. Savings bonds and shorter-term stripped bonds are used as proxies for the cash portion, while providing a higher yield than actual cash deposits. With a choice of maturity that can go as high as thirty years, stripped bonds are ideal vehicles for the longer-term fixed-income portion of your portfolio. Finally, GICs covered by the deposit insurance can also be purchased in your **Transition RSP** to complement these other investments.

Mutual funds

The vast universe of mutual funds brings an essential growth component into your portfolio, as well as opening the door to the possibility of international diversification.

The **Transition RSP** is an excellent way for you to start adding the advantages of diversification and enhanced growth to your RSP. You will find the range of investments in this RSP particularly useful in the early stages of saving for your retirement. When you are ready to take your RSP to the next stage, ask your Advisor about our **Portfolio RSP**, which offers an even more complete range of investment products.

Advantage no. 1: diversification

Each investment you make involves choosing from among three basic asset categories. When you purchase a GIC or a government-issued bond, you invest in one category – fixed-income securities. Similarly, by acquiring shares or common stock-based mutual funds, you invest in another category – equity securities. Finally, when you are between investments or unsure of what to do, part or all of your savings can be left in cash or other short-term vehicles – the third asset class. The investment decision process centres around choosing the vehicle – and thus the asset class – which best suits your goals.

Each asset class has its pros and cons. While cash and cash equivalents are safe and instantly accessible, this form of investment produces very low returns. Longer-term fixed-income securities also offer preservation of capital and a guaranteed rate of return when held to maturity. They also generally provide a somewhat higher return than short-term investments, but the opportunities for capital growth are still limited. Equity securities offer the greatest potential for long-term growth, but at the expense of a guarantee.

Many Canadians profited from GICs in the past when interest rates were high, but during the last few years, stocks have earned impressive returns while GICs have barely preserved your purchasing power. Historically, investors who have focused on their long-term goals rather than on capital preservation alone, and have “dared” to invest in the stock market, have usually earned far greater returns than investors who have chosen to limit themselves to GICs.

While we have a good idea of the relative long-term performance of each asset class, over shorter time frames nobody can predict with absolute certainty which one will offer the greatest rate of return. This is why professional portfolio managers prefer to diversify their investments among the three main asset classes. In doing so, they are sure to be partially right all of the time

instead of running the risk of being completely wrong. In applying the concept of diversification, the professional manager chooses an appropriate weighting for each asset category, based on investment objectives, risk tolerance and an analysis of prevailing market conditions. This weighting is revisited on a regular basis, or whenever changing conditions warrant it.

Our **Transition RSP** delivers the flexibility and choice of investments that allow you to put these same principles to work for your retirement savings, all while enjoying the convenience of having only one RSP to manage.

Advantage no. 2: professional advice

The ability to diversify your investments within the same RSP account is an important feature of our **Transition RSP**. But there is another advantage which allows you to benefit fully from the features of this RSP: well-researched information and wise counsel from a professional Investment Advisor.

When it comes time to make your RSP contribution, the last thing you want is to wait in line somewhere, only to end up speaking to a clerk (never the same one from one year to the next) who can tell you how to fill out the forms – and not much else. With the **Transition RSP**, you have the comfort of knowing that a qualified personal Investment Advisor – someone who has received the most stringent training available – is at your service to answer your questions and provide guidance at any time.

From the outset, your Investment Advisor will sit down with you to help you establish goals and select the right mix of investment vehicles. Based on your investment perspective, a small portion of your savings may be kept as a cash reserve, specific maturities will be chosen for the fixed-income component, and suggestions will be made as to the best mutual funds for growth and international diversification. Moreover, your Advisor will be available as often as you want to review your portfolio and make new recommendations, where appropriate.

Your Investment Advisor will also provide you with a wealth of literature in the form of brochures, research reports and newsletters that explain RSP legislation, the overall process of investing, various investment vehicles and the current state of financial markets. In addition, we invite you to visit our **web site** on a regular basis at the address on the back of this brochure, should you require additional information on any of the above.

Investment choices

GICs, savings bonds and stripped bonds: yield and guarantee

The fixed-income component of your *Transition RSP* can be put together using GICs, savings bonds and stripped bonds. Everyone is familiar with GICs and government-issued savings bonds. And while stripped bonds may not be as well known as GICs and savings bonds, they also make ideal RSP investments. You could also make fixed-income-based mutual fund investments in your *Transition RSP*, but we generally don't recommend this option. Fixed-income funds produce very good returns in certain markets, but they don't have a set maturity date, so they cannot offer the comfort of a guarantee of principal. Furthermore, during periods of low interest rates like the present, bond fund managers will not always be able to earn enough additional return to compensate for the funds' expenses.

What are stripped bonds?

These securities are in fact a by-product of regular bonds, with which you may be more familiar. Bonds are issued by governments, government-guaranteed agencies and public corporations to finance their activities. While a traditional bond consists of a series of coupons representing interest payments (usually semi-annual) and a final reimbursement of principal at maturity, these coupons can be stripped from the principal portion (or residual) of the bond, and the coupons and residual can be purchased separately. Each coupon and the remaining residual become a promise by the issuer to pay a certain amount at a specified date in the future. Coupons and residuals are available with terms ranging from 30 days to 30 years (whereas the term for GICs does not exceed 5 years), and offer yields that are a function of their duration and of prevailing interest rates. You purchase coupons and residuals at a discount to their face value, and your return is simply the difference between the purchase price and the amount paid out at maturity. These securities usually offer a slightly higher return than GICs of equal term.

Liquidity

Unlike GICs, stripped coupons and residual bonds can be resold at any time on the bond market at their current market price. This liquidity is a major advantage since it allows you to sell your investment at a profit, should interest rates fall after you have acquired it. Conversely, if interest rates were to rise following your investment, the market value of the coupon or residual could fall temporarily. In this case, however, you can simply hold your investment until maturity to fully realize its value.

Principal guarantee at maturity

When fixed-income securities are held to maturity, your interest and the return of your principal are guaranteed by the issuer. Government-issued coupons and residuals are among the most secure form of investment currently available in Canada. Unlike GICs, which are guaranteed up to a maximum of \$60,000 per issuer by deposit insurance, these securities are 100% guaranteed by the issuing government, without limit.

Mutual funds: long-term growth and international diversification

Your **Transition RSP** gives you access to Canada's fastest growing investment vehicle: mutual funds.

Equity-based mutual funds represent an ideal way to add growth to your portfolio. Equity funds have been available to the Canadian investor since the 1930s, and they have enjoyed a tremendous growth in popularity over the last few years because of the low interest rates offered by guaranteed deposits. An equity fund's portfolio manager invests in the shares of a large number of different companies, typically fifty or more. The fund's overall rate of return is dependent on the average performance of the stocks in its portfolio.

Mutual funds give you the benefits of convenience, professional management and instant diversification. This diversification comes in three ways. First, you have added another asset class (equity) to your portfolio. Second, your equity investment is diversified among the shares of many different companies, which greatly reduces the risk associated with this asset class. Finally, up to 20% of your RSP assets can be invested internationally, to take advantage of the fact that 97% of the world's investment opportunities are found outside Canada. While the Canadian stock market has done well, many other markets have generated higher returns over time. Also, studies have conclusively shown that investing in several economies rather than just one actually reduces your overall risk over the long term. Mutual funds are simply the easiest, and in many ways the best way to diversify your RSP investments geographically.

As mentioned above, equity funds aren't the only type of funds available – there are bond funds, mortgage funds, balanced funds, etc. – and the **Transition RSP** gives you access to all of them. However, since the fixed-income portion of your RSP can be favorably accounted for by investing directly in these securities, we think you will reap the most benefits by favoring equity funds. With more than 500 Canadian equity funds available, you might find the selection process a little intimidating. However, remember that your Investment Advisor has the expertise and information at his/her disposal to guide you in your choice and help you choose the fund or funds that best suit your investor profile.

What are the administration fees?

The Transition RSP falls halfway between our Fully Guaranteed Investment RSP, which has no fees but is limited to fixed-income securities, and our self-directed Portfolio RSP, which offers maximum flexibility and versatility for an annual administration fee of \$120.

It will cost you only \$50 per year to take advantage of the **Transition RSP** – an affordable expense which can be easily recovered through the enhanced performance offered by this most attractive long-term plan.

If you believe that either one of our two other RSP options can better meet your needs, do not hesitate to request the appropriate documentation from one of our Investment Advisors and discuss it with him or her.

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