CHOOSE THE INVESTMENTS THAT SUIT YOU

AUTORITÉ DES MARCHÉS FINANCIERS

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Note: In this brochure, the masculine form may refer to both women and men.

Dépôt légal – Bibliothèque et Archives nationales du Québec, 2006
Dépôt légal – Bibliothèque et Archives Canada, 2006

ISBN-10: 2-550-47869-X (Print version)
ISBN-10: 2-550-47870-3 (Electronic version)

Introduction

Autorité des marchés financiers

The *Autorité des marchés financiers* (AMF) is the body mandated by the government of Québec to regulate Québec's financial sector and to offer assistance to consumers of financial products and services.

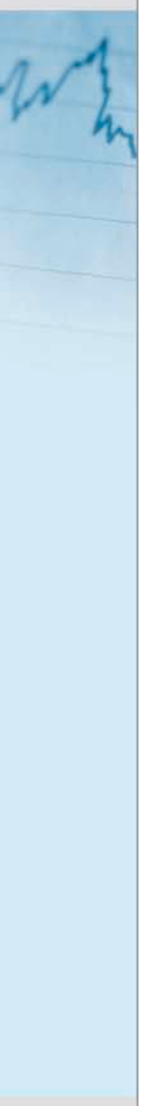
Its mission is to protect the public by applying the laws and regulations governing the following areas of activity: insurance, securities, deposit institutions (other than banks) and distribution of financial products and services.

Purpose of the brochure

The purpose of this brochure is to help you update your investment knowledge and better understand your risk tolerance by comparing the various types of investments available on the market.

It will thus be easier for you to match your life goals with a consistent investment strategy that includes realistic investment objectives.

This AMF brochure is provided for your information. It does not offer any advice on the purchase or use of specific financial products and services.



YOUR INVESTMENT STRATEGY

If you've managed to save money, then naturally you want to make it grow.

The world of investments is complex: It includes stocks, bonds, mutual funds and even derivatives.

Where do you begin? How can you learn the rules of investing?

BEFORE INVESTING, YOU SHOULD BE ON TOP OF YOUR FINANCIAL POSITION. WE SUGGEST YOU CONSULT OUR BROCHURE UPDATE YOUR FINANCIAL POSITION.

Many people don't know how to develop an investment strategy that will let them achieve their financial goals.

Before starting to invest, determine why you want to invest. You think that's obvious? In fact, many people don't know why they invest. Do you want to retire at 55? Do you want to invest to pay for your children's education? Or do you want to put money aside to buy your first home?

Take time to set your life goals. You will then find it easier to determine your investment objectives and develop an investment strategy tailored to your needs.

Here are the steps to take before investing:

1. Learn the jargon and features of the various types of investments available on the market.
2. Determine your risk tolerance.
3. Identify your investment goals.
4. Select your investments.

Once you have completed these steps, you can invest in the types of investments that suit you.

To guide you in this exercise, each of these steps is discussed in a section of this brochure.

CONTEXT

Edith
is self-employed

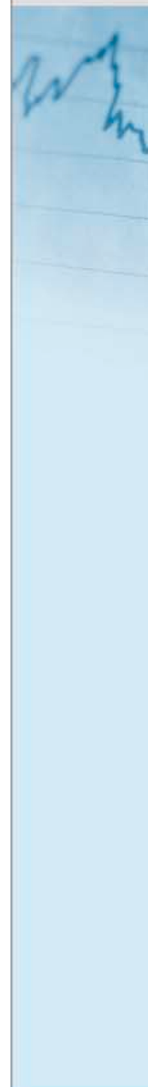
Edith is self-employed. After studying hotel management, she set up a catering service and now prepares buffets for groups of 20 to 50 people.

After initial success catering to individuals, she targeted meetings and office parties. She is now thinking of finding a partner who would look after entertainment at these get-togethers.

After fairly modest beginnings, the income from her work is increasingly stable. At age 34, she has never been interested in investment and finance. For now, she places the money she has saved in a savings account and deposit certificates. She has been told that other types of investments are available with a better potential return.

As a single mother of a 6-year-old boy, she believes it is time to pay more attention to her finances for her son's future and her own. She also wants to plan her retirement.

She is now starting to pay attention to advertising by financial institutions on the merits of their investment products. For the time being, she admits she does not quite understand the jargon.



1
LEARN THE JARGON AND FEATURES OF VARIOUS TYPES OF INVESTMENTS

Before investing your savings, it's a good idea for you to measure your knowledge of investments.

If you know little about investments, take time to become familiar with the jargon used in this field and the features of various types of investments.

Features of each investment

The three main features of each investment are:

- expected return;
- liquidity;
- risk.

Expected return

The expected return is the gain you anticipate from your investment. The return you actually earn may differ significantly from the expected return.

Liquidity

The liquidity of an investment corresponds to its easy convertibility into cash at a low cost. Cash is the most liquid of assets.

Risk

Risk is the degree of uncertainty related to an investment's expected return. It represents the possibility of earning a lower return than anticipated or losing all or a portion of the amounts invested, and maybe more. Each investment thus involves a certain degree of risk.

To define the level of risk, this brochure uses the following terms:

Very low risk

Investments for which it is practically impossible to lose the initial outlay (capital) carry a very low degree of risk. They are issued and guaranteed by the government or guaranteed by a deposit insurance fund such as the AMF's *Fonds d'assurance-dépôts*.

Low risk

Investments guaranteed in whole or in part by the issuer (the party that will use the capital) have a low degree of risk. These could also be securities that are issued by a company with a solid reputation and have generated little fluctuation in returns over the past few years.

Medium risk

The degree of risk is medium for investments with a value that can fluctuate over time and for which it is possible to lose a portion or even all of the initial outlay.

High risk

Investments whose value can fluctuate considerably carry a high risk. In the worst case scenario, the investor can lose all of his capital and even more.

Types of investment income

Investments can generate three types of income:

Interest

The amount that a borrower must pay for use of a lender's money.

Dividends

Portion of the earnings that a company distributes to its shareholders in proportion to the shares they hold.

Capital gain (or loss)

Gain (or loss) resulting from disposal of an investment at a higher (or lower) value than its acquisition cost.

Main types of investments

CONTEXT

Edith
tells her neighbours...

Edith tells her neighbours, George and Suzanne, that she is thinking of investing to make her money grow and ensure a better future for her son.

George, who is beginning his career as an engineer, swears by company growth stocks, which he claims are the only way to "make money."

Suzanne is nearing retirement age. She has chosen to invest in government bonds and other investments that she considers secure, because she can't risk a decline in the value of her investments on the eve of her retirement.

Edith has seen a lot of advertising on mutual funds in the past few weeks. She promises to sort it all out.

Many investment instruments are available on the market. An investor like George, who is looking for investments with high growth potential, has to assume more risk than an investor who is seeking security.

The following table can help you assess your knowledge of investment.

My knowledge of the following financial products is as follows

FINANCIAL PRODUCTS	LITTLE OR NO KNOWLEDGE	FAIRLY FAMILIAR	VERY FAMILIAR
T-bills			
Guaranteed investment certificates			
Savings bonds			
Bonds			
Common stocks (or shares)			
Preferred stocks (or shares)			
Mutual funds			
Segregated funds			
Labour-sponsored investment funds and other similar funds			
Limited partnership units			
Income trust units			
Options			
Futures			

Here are tables of the main types of investments available on the market, including their principal features in terms of return, liquidity and risk. *Note that the risk qualification is provided by way of guidance only.*

Fixed-income securities

T-BILLS	RETURN	LIQUIDITY	RISK
Issued by the federal and provincial governments. Loan granted by the investor to the issuing government. Sold in large denominations, starting from $1,000. Issued for a term of one year or less.	Difference between the purchase price and the value of the T-bill at maturity, e.g., $990 for a value at maturity of $1,000.	Holders generally can easily resell the bills before maturity through investment dealers.	Very low. They are guaranteed by the governments that issue the bills.

GUARANTEED INVESTMENT CERTIFICATES (GIC)	RETURN	LIQUIDITY	RISK
Issued by financial institutions. Loan granted by the investor to the issuer. For terms ranging from 30 days to 10 years	Earn a fixed interest rate at maturity, although the return on some GICs may fluctuate based on the performance of an index, such as a stock market index (index-linked GIC).	Most GICs must be held until maturity, but some carry restricted early redemption privileges.	Very low. As a general rule, they are guaranteed by the issuer. The capital can also be insured by deposit insurance, in the event of bankruptcy of the issuer (some restrictions apply[1]). Index-linked GICs may or may not carry a guarantee.

1. For example, non-redeemable GICs with a term of more than five years are not covered by deposit insurance. See the AMF website for the brochure entitled *Your deposits are protected. That's a guarantee!*

Fixed-income securities (continued)

SAVINGS BONDS	RETURN	LIQUIDITY	RISK
Issued by the federal government and the governments of certain provinces. Loan granted by the investor to the issuing government. Term of one year or more.	Interest payment. Most of these bonds guarantee: • a fixed annual rate of return until maturity, or • a minimum rate of return that can be increased by the issuer if market conditions change.	Generally not transferable from one buyer to another. As the case may be, they can be redeemed at any time, at specific intervals or only at maturity.	Very low. They are guaranteed by the issuing government.
BONDS			
Issued by governments and corporations. Loan granted by the investor to the issuer. In general, the issuer promises to pay a fixed interest rate to the buyer at certain intervals and repay a predetermined amount at maturity, usually at par value of $1,000. The term is generally from one to 30 years.	In the form of interest or capital gain (loss) realized at maturity or at the time of sale. The value varies according to the fluctuation of interest rates and the issuer's credit rating.[2] If the bond is held until maturity, the buyer will receive the return stipulated at the time of purchase.	Sold through dealers. No secondary market may be available if the issuer experiences financial difficulties. Normally traded in over-the-counter markets.[3]	Low to high. A rise in interest rates or financial difficulties for the issuer will lower the value of the bonds. Holder has right to a portion of the company's remaining assets if it is dissolved (prior claim over stockholders).

2. Independent agencies rate the quality of certain debt securities.

3. Over-the-counter market: a market where securities not listed on an exchange are traded. This is an interdealer market.

Stocks

COMMON STOCK	RETURN	LIQUIDITY	RISK
Issued by corporations. Holder has an ownership interest in a corporation. Generally with voting rights. No maturity.	In the form of dividends and capital gain (loss).	Normally traded on a stock exchange or in over-the-counter markets.	Medium to high. Value may rise or fall considerably. Holder has right to a portion of the company's remaining assets if it is dissolved.
PREFERRED STOCK			
Issued by corporations. Holder has an ownership interest in a corporation. Prior claim over common stockholders for dividends. Generally without voting rights. Most of these securities have no maturity, but some are redeemable at the issuer's option.	Mainly through fixed dividends. Possible capital gain (loss). Value linked to the fluctuation of interest rates and the issuer's net earnings.	Normally traded on a stock exchange or in over-the-counter markets.	Medium to high. The suspension of dividends in case of financial difficulties or rising interest rates may lower the value of preferred stock. Right to a portion of the issuer's remaining assets if it is dissolved, with prior claim over common stockholders.

Investment fund securities

MUTUAL FUNDS	RETURN	LIQUIDITY	RISK
Funds made up of amounts pooled by investors and managed on their behalf by a manager. The manager invests the money in various types of securities depending on the fund's goal. Investors usually buy units in mutual funds set up as trusts. In somes cases, they buy shares in mutual funds set up as companies. No maturity.	In the form of: • dividends; • interest; • capital gain (loss) realized by the fund or when the holder sells units.	Not traded on an exchange. As a general rule, redeemable at any time.	Low to high. Depends on the mutual fund's investments, such as in bonds, stocks, etc. Most funds are not guaranteed.[4]

SEGREGATED FUNDS			
Issued by insurers. Product that combines typical mutual fund investments with insurance coverage. Assets held by an insurer separately from its other assets, hence the term "segregated funds."	Similar to mutual funds.	Similar to mutual funds. As a general rule, the term is 10 years. The funds are renewable at maturity; however, the annuitant's age is taken into consideration.	Low to medium. Depends on the fund's investments. Individual segregated fund contracts offer a guarantee that protects, at maturity, at least 75% of the amount invested. Moreover, insurers generally offer a death benefit guarantee.

4. However, "protected" funds guarantee that the investor may recover at least the invested capital at a later date, such as in five years.

Investment fund securities (continued)

LABOUR-SPONSORED INVESTMENT FUNDS AND OTHER SIMILAR FUNDS	RETURN	LIQUIDITY	RISK
Issued by a labour organization or a financial institution. Investors buy common shares of the fund. Provides investors with tax benefits. One of the goals is to create or maintain jobs.	Mainly in the form of a capital gain (loss). Depends on the performance of the assets in the fund and the tax benefits.	Some funds are redeemable only at retirement, subject to certain exceptions. The main exceptions are: purchasing of a property, pursuing education, loss of employment or launch of a business, disability or terminal illness. Another type of fund is available that is redeemable after a certain number of years, unless the investor meets certain criteria, such as death, disability or terminal illness.	Medium to high. Invest a certain proportion of assets in start-ups or small and medium-sized businesses.

Limited partnerships

LIMITED PARTNERSHIP UNITS	RETURN	LIQUIDITY	RISK
Issued by a partnership. A general partner manages the partnership and limited partners supply the capital. Liability of limited partners limited to their investment outlay. Often provide tax benefits transferable from the partnership to the limited partners.	In the form of dividends or capital gain (loss). Depends on the partnership's profitability and the tax benefits available to investors.	No organized market for resale of these securities. May involve resale restrictions.	Medium to high. Depends on the nature of the partnership's activities. Type of investment that may only be suitable for sophisticated investors. Tax benefits may be cancelled. If the partnership is dissolved, the remaining assets, after repayment of all debts, are distributed to the limited partners.

Income trusts

INCOME TRUST UNITS	RETURN	LIQUIDITY	RISK
Issued by a trust that holds an interest in one or more companies. The main categories of income trusts are: • business trusts; • real estate investment trusts (REITs); • resource trusts; • utility trusts. Many trusts are designed to provide investors with tax benefits.	In the form of income, royalties or capital gain (loss). Depends on the operating profits of the companies held by the trust and the tax benefits.	Some trust units are listed on an exchange. There might not be an organized market for certain trusts.	Medium to high. Some trusts are linked to non-renewable resources. The life cycle of the resources may be difficult to estimate accurately. Type of investment that may only be suitable for sophisticated investors. Tax benefits may be cancelled.

Derivatives

OPTIONS	RETURN	LIQUIDITY	RISK
Financial instruments that confer on the holder the right to buy[5] (call option) or sell (put option) an asset at a fixed price for a specified period. The underlying asset may be a stock, a commodity, a currency or an index (such as a stock market index).	If the option is exercised, the return will depend on the price of the asset, the strike price and the option price. If the option is sold before expiration, its value will depend on the time remaining before expiration, its strike price and the present or projected value of the asset. If it is not exercised at expiration, its value becomes zero.	Usually traded on an exchange. The holder may then exercise the option by buying (or selling) the underlying asset, or not exercise it at all. Options that are not traded on an exchange may be transferable or non-transferable.	Medium to high. Depends on how they are used, i.e. for hedging or speculation. (hedging: seeking to offset an increase or decrease in the price of an underlying asset) Type of investment that may only be suitable for sophisticated investors.
FUTURES AND FORWARD CONTRACTS			
Contractual agreements whereby the seller accepts to deliver a specific amount of an asset (such as a commodity) to the buyer at a particular price on a stipulated future date. Futures and forward contracts are traded in a variety of commodities (grain, meat, etc.) and financial products (stock market indexes, bonds, common stocks). The contract must be honoured at settlement date.	Similar to options.	Futures contracts are traded on an exchange. Forward contracts are traded in over-the-counter markets (little liquidity). Liquidity varies according to the underlying asset.	Similar to options.

5. The Canadian Derivatives Clearing Corporation acts as the buyer with respect to the seller and as the seller with respect to the buyer for derivatives on stocks, bonds and exchange-traded indexes. Non exchange-traded products, such as employee stock options granted by corporations as compensation, are issued by the corporations themselves.

Summary

TYPES OF INVESTMENTS	RISK LEVEL
T-bills	Very low
Guaranteed investment certificates (GIC)	Very low
Savings bonds	Very low
Bonds	Low to high
Common stocks (or shares)	Medium to high
Preferred stocks (or shares)	Medium to high
Mutual funds	Low to high
Segregated funds	Low to medium
Labour-sponsored investment funds and other similar funds	Medium to high
Limited partnership units	Medium to high
Income trust units	Medium to high
Options	Medium to high
Futures and forward contracts	Medium to high

After reading the previous tables, I consider that my knowledge of the following financial products:

My knowledge of financial products...

FINANCIAL PRODUCTS	HAS HARDLY IMPROVED	HAS IMPROVED	HAS MUCH IMPROVED
T-bills			
Guaranteed investment certificates			
Savings bonds			
Bonds			
Common stocks (or shares)			
Preferred stocks (or shares)			
Mutual funds			
Segregated funds			
Labour-sponsored investment funds and other similar funds			
Limited partnership units			
Income trust units			
Options			
Futures and forward contracts			

2

DETERMINE YOUR RISK TOLERANCE

CONTEXT

Edith
needs more information...

Edith continues to discuss her investment possibilities with acquaintances. Mike, her sister Isabelle's husband, says he invested $50,000 in units of a limited partnership that develops alternative energy sources. According to Mike, "It's a sure thing that will pay off big, at least 25% a year – guaranteed."

Mike is even thinking of borrowing to invest more. But Isabelle seems worried and skeptical. She frankly admits that she would sleep better if the $50,000 were deposited in a savings account or invested in savings bonds.

Edith feels she needs more information.

Fear is never a good counsellor. Your investment strategy should be designed according to your tolerance for the risk represented by the various types of financial products. This is known as your risk tolerance.

One of the basic principles in investment is that a direct ratio exists between the expected return and risk: "As a general rule, the higher the expected return, the higher the risk."

Before formulating your investment strategy, you should ask yourself how much risk you are prepared to assume.

Three factors play a determining role in evaluating your risk tolerance:

- your investment horizon;
- your liquidity needs;
- the emotional factor.

Your investment horizon

This is the period you have set to achieve your financial goals. For example, if you are 25 and your goal is to retire at 65, your investment horizon is 40 years.

The time you target to achieve your investment goals is important. You must also give yourself enough time to cover any loss you may incur on certain investments.

People who choose a long-term horizon will have more time to offset any declines caused by periodic fluctuations in the value of their investments.

Your liquidity needs

This is your level of dependence on investments to cover your current financial needs, such as groceries, home repairs, car maintenance or medical expenses.

Investors who rely on investments to cover living expenses clearly will have more trouble assuming eventual losses.

The emotional factor

Your reaction to risk and to fluctuations in the value of your investments is an important factor to consider.

Some people barely worry about the market's ups and downs, while others literally lose sleep over it.

RISK TOLERANCE VARIES FROM ONE PERSON TO ANOTHER. YOU SHOULD NEVER FEEL OBLIGED TO TAKE MORE OF A RISK THAN YOU ARE ABLE TO ASSUME.

But remember that the saying "nothing ventured, nothing gained" can be just as true. As a general rule, you can't expect to earn a high return without taking risks.

To avoid disappointment, the first rule to put into practice in selecting investments is simple. From the outset, it's best to exclude investment products or strategies for which you don't know the possible consequences. If you have questions about an investment that is recommended to you, ask a knowledgeable person for advice before making a decision.

Evaluate your risk tolerance

Answer the 10 following questions. They will help you determine your risk tolerance.

My risk tolerance is as follows

Note: This test has no scientific value, but it can help you evaluate your investment risk tolerance.

STATEMENT	YOUR CHOICE	
1. The probability of having to withdraw a substantial portion of my investments before the projected maturities to cover day-to-day financial needs is:	Low (under 10%)	A ☐
	Medium (from 10% to 25%)	B ☐
	High (over 25%)	C ☐
2. If my family's income sources were uncertain, I would be:	Very much at ease	A ☐
	More or less at ease	B ☐
	Very worried	C ☐
3. I have $1,000 to invest over a one-year period. I prefer the following scenario:	Scenario A • There is a 10% chance that the amount will decline to $500. • There is an 80% chance that the amount will increase to $1,050. • There is a 10% chance that the amount will increase to $1,600.	A ☐
	Scenario B • $1,000 (50% chance) • $1,050 (25% chance) • $1,150 (25% chance)	B ☐
	Scenario C • $1,050 (100% chance)	C ☐

My risk tolerance is as follows (continued)

STATEMENT	YOUR CHOICE	
4. I would be reassured if I could easily access in an emergency an amount equivalent to:	1 month's salary or less 1 to 3 months' salary Over 3 months' salary	A ☐ B ☐ C ☐
5. I would feel very uncomfortable if, during a given year, the total value of my investment portfolio decreased by:	Over 20% 5% to 20% 1% to 5%	A ☐ B ☐ C ☐
6. The largest decline in value (even temporary) that I would be ready to accept at any time for my total investment portfolio is as follows:	Over 20% 5% to 20% 1% to 5%	A ☐ B ☐ C ☐
7. Preserving my capital:	Isn't a priority Is relatively important Is very important	A ☐ B ☐ C ☐
8. Earning a regular return on my investments:	Isn't a priority Is relatively important Is very important	A ☐ B ☐ C ☐
9. I like to invest in investments that are considered risky:	Often From time to time Never	A ☐ B ☐ C ☐
10. As far as I'm concerned, a lottery ticket is:	An investment that will pay off eventually A chance to win big A waste of money	A ☐ B ☐ C ☐

Interpreting the results

For each A answer, assign 1 point.

For each B answer, 2 points.

For each C answer, 3 points.

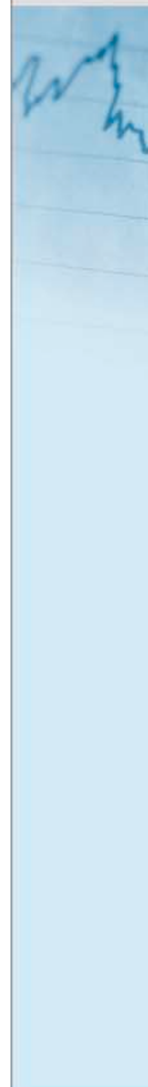
A score of 10 points
You really like to take risks. Make sure that your financial health isn't too poorly affected by a sudden decline in the value of your investments.

A score between 11 and 29 points
The closer you are to 11 points, the better you tolerate financial risk. Your investments are probably concentrated in securities that combine risk and the potential for a high return.

The closer you are to 29 points, the more careful you are with your finances. You probably prefer lower risk investments, and this often involves a lower return. Make sure that your investments properly reflect your concerns.

A score of 30 points
Taking risks isn't for you! Your investments should be concentrated in securities that provide a high degree of capital security and ensure investment income.

BORROWING MONEY TO INVEST INCREASES BOTH POTENTIAL GAINS AND POTENTIAL LOSSES FROM ANY INVESTMENT. BORROWING TO INVEST SHOULD BE CONSIDERED ONLY WITH GREAT CARE. IF YOU ARE THINKING OF BORROWING MONEY TO INVEST, MAKE SURE THAT YOU PROPERLY MEASURE THE RISK INVOLVED.



3
SET YOUR INVESTMENT GOALS

As the proverb says, "Money is a good servant but a poor master."

As an investor, you should first determine the amount at your disposal before establishing an investment strategy.

You will have to decide what you want to do with your money and when you expect to need it. You should also ensure that your investments are managed carefully.

Your financial goals may be varied. You may wish to:

- save for the purchase of a home in two years;
- pay for your children's education when they attend university in 10 years;
- prepare for your retirement 15 years down the road;
- earn a reasonable return so that you have a reliable source of income throughout your retirement.

CONTEXT

Édith
is thinking about retirement...

Edith has decided that she would like to retire at age 60. She hopes that she will be able to live in the country and take one trip a year.

She anticipates that her son will start university within twelve years. She hopes that the sale of her catering service and the income generated by her investments will provide her with a comfortable retirement.

Edith wants to meet a financial planner who can help her assess her financial needs and explore available strategies.

No two investors are alike and no specific investment product or strategy suits everyone.

If you are a relatively young investor with a stable income, you can aim for long-term growth. Thus, you can invest your savings in stocks or mutual fund units over many years.

Investors who are nearing retirement should be more interested in investments that guarantee the security of their capital. Retired investors might instead consider their investments as a regular and reliable source of income. If you have family obligations, this should influence the types of investments you choose.

How much money do you now have for investment? By subtracting your expenses from the amounts you earn, you will have a clearer idea of your financial leeway and the amounts you are able to save.

If you need help establishing your income and expenses, see the brochure *Update your financial position*, which contains useful calculation grids.

After completing this exercise you will be ready for the next stage: selecting investments with which you are comfortable and that correspond to your risk profile.

4

SELECT YOUR INVESTMENTS

CONTEXT

Mike
is investing in a limited partnership...

Mike is confident in his abilities as an investor. By investing $50,000 in units of a limited partnership, he has put all his eggs in one basket. But he claims he will “beat the market.”

Even though she hopes Mike’s investment will grow, Edith doubts the soundness of his strategy. For her catering service, she tries to diversify her clientele and services. She considers that the same strategy should apply to investments.

Diversify your investments

Diversification consists of breaking down investments based on different features.

These features include:

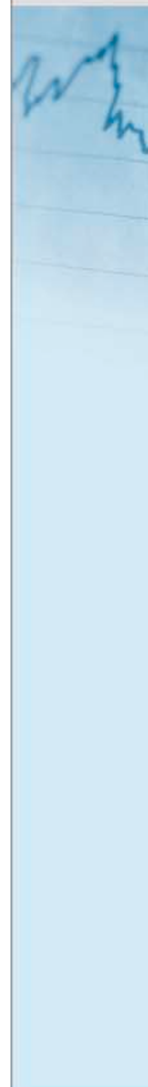
- the type of investment – e.g. bonds or stocks;
- the maturity – e.g. a GIC with a one-year or five-year term;
- the issuer of the investment – e.g. government or private corporation;
- the liquidity of the investment – e.g. savings bonds or limited partnership units.

Different investments are unlikely to fluctuate in the same manner in a given period. Some securities will gain in value. Others will generate less attractive returns or will even lose value.

▸ CAREFUL DIVERSIFICATION COULD REDUCE YOUR RISK EXPOSURE.

It might be advisable to combine several types of investments in your portfolio, such as fixed-income securities, stocks and mutual fund units.

This strategy usually helps reduce the fluctuation of an investment portfolio’s total return over time.



Choose the right asset allocation

When you establish your investment strategy, you must decide on an asset allocation.

Asset allocation is the mix of financial products in a portfolio, such as the proportion held in stocks and in fixed-income securities.

THE ASSET ALLOCATION THAT SUITS YOU DEPENDS ON YOUR INVESTMENT GOALS.

The risk level you want to assume and the return you expect to realize will help you determine the asset allocation of your portfolio.

Even though many investors focus on the return generated by specific investments, it is generally agreed that a portfolio's asset allocation has the greatest bearing on long-term results.

Take into account fees, taxes and inflation

Fees

Fees are another factor you must consider in selecting your investments.

The costs of buying and selling certain securities may be high, and so may the fees of the dealers who execute your trade orders. Everything depends on the type of product you want to acquire or the type of service you will use.

Taxes

Taxes also affect your portfolio's return, depending on how your income is earned.

You should know that:

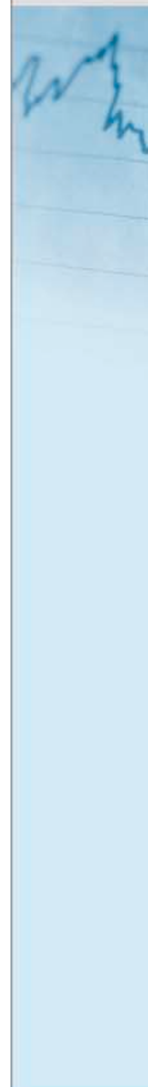
- **interest** earned on an investment is generally treated as ordinary income for income tax purposes and is taxable at the same rate as employment income;
- **dividends** paid to you by a corporation are generally taxable at a more favourable rate than interest or other income, and may benefit from a tax credit;
- a portion of **capital gains** will be excluded from your income for tax purposes. In general, capital losses may be used for tax purposes only to offset capital gains.

Inflation

When establishing your investment goals, don't forget the effects of inflation.

Inflation corresponds to the increase in the average price of goods and services. Any increase will have an impact on your purchasing power.

Here's a simple method for calculating an investment's real rate of return: Subtract the inflation rate from the percentage return. For example, if an investment generated an annual return of 7% and the inflation rate during this period was 2%, your real return would have only been about 5%.



5 RECOMMENDATIONS

If you are able to apply the following recommendations, you're on the right track.

1. Recognize the limits of what you know.
2. Call on an investment adviser or representative if you need help. Ensure that this person has the required qualifications and experience and is duly registered with the AMF. Don't be afraid to say "no" to his recommendations if you aren't sure they suit you.
3. Set clear and reasonable investment goals before you invest.
4. Remember that every investment involves risks. As a general rule, the higher the potential profits, the greater the risks.
5. Clearly identifying your risk tolerance will help you choose the investments that suit you.
6. Make sure that you understand the features of the investments you are making in terms of portfolio risk, potential return and liquidity.
7. Be suspicious of investment tips or rumours. Moreover, don't forget that it is illegal to engage in insider trading based on privileged information.
8. Don't be deceived by fraud. See our brochure *Watch out for securities fraud*.
9. Diversify your portfolio to reduce the overall risk of your investments.
10. Select an asset allocation based on your risk profile.
11. Do your homework. Gather your own information on the various financial products of interest to you.
12. Remember that the past doesn't always guarantee the future as far as a return on an investment is concerned.

In conclusion

Some people take more precautions before buying a TV set than when investing their savings. Yet, successful investing usually takes time and effort.

Investors have access to many sources of information, such as newspapers and specialized financial magazines.

At your request, corporations issuing securities or mutual fund units can send you documents that explain the purpose and historical performance of their investments.[6]

You can also obtain information on the securities that interest you from the exchange where they are listed.

If you decide to invest by following the recommendations of an investment dealer or adviser, you should take the time needed to find a suitable representative.

For this purpose, we suggest you consult our brochure *Choosing a securities firm and representative*.

6. Most mutual funds and publicly-traded corporations are required to file electronic versions of their disclosure documents with SEDAR.

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You can also visit the website of the *Autorité des marchés financiers* at www.lautorite.qc.ca

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