

Investing basics

Getting started



Canadian Securities Administrators

Securities regulators from each province and territory have teamed up to form the Canadian Securities Administrators, or CSA for short. The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country.

www.securities-administrators.ca



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières



Why do people spend more time buying a new car or planning a vacation than investing their life savings?

Most people know they should play a more active role in their investments but they often don't know where to start.

The **Canadian Securities Administrators (CSA)** have put together this guide to help get you on your way. Our members include the 13 securities regulators of Canada's provinces and territories. If you have questions or want more information, contact your local securities regulator listed on page 7.

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Why invest?

Investing simply means putting your money to work so it can make more money. For many Canadians, investing is not only prudent—it's a necessity.

Increasingly, the responsibility for retirement planning is shifting to the individual. According to Statistics Canada, the fraction of paid workers covered by a registered pension plan dropped from 44.2% in 1985 to 38.5% in 2005¹. Saving for retirement will likely be the biggest financial goal for most Canadians and investing is one of the few ways that can help them achieve it.

There are many different ways you can go about investing. This includes putting money into stocks, bonds, mutual funds and real estate, to name just a few. Each of these has pros and cons, which we discuss later in this guide.

What investing is not

Investing is not a get-rich-quick scheme and it is not gambling. Gambling is putting your money at risk by betting on a random outcome with the hope that you might win more money.

Wise investors don't leave it to chance. They have a plan and commit money only when they have a reasonable expectation of profit. Yes, there is still risk and there are often no guarantees, but investing should be more than hoping luck is on your side.

Why you need to be involved

The bottom line is that it's your money and who will care more about your money than you? No matter who's actually handling your investments, only you will know if you are comfortable with the investment choices. And it's up to you to stay on top of your investments to make sure they keep working for you.

On the following pages, you'll find these tips to help you get started:

- know where you're going with your investments
- know who you're dealing with
- know what you're investing in
- know where to go for help

¹ Statistics Canada. October 15, 2007. Pension Plan in Canada and Labour Force Survey.



Know where you're going with your investments

Everyone has a different idea of what money means to them—personal freedom, a sense of security or the ability to afford the things they want in life. Having a plan can help you get where you want to be.

Know what you want to do

Look at the bigger picture. How do you see yourself down the road? Set financial goals by writing down what you want to accomplish and by when.

Some examples

- Make a down payment of \$25,000 on a house in two years.
- Contribute \$10,000 toward your child's education in 10 years.
- Retire in 15 years with an income of \$50,000 a year for at least 20 years.

Know who you are

Each investment has its own characteristics and some investments will be better suited to you than others. When you understand who you are as an investor, it will be easier to make the choices that are right for you.

How much risk are you willing to take?

Your ability to take on risk is key to finding out what works for you. In investing, the higher the potential return, the higher the risk. There's no such thing as a high return, risk-free investment. If you want higher returns, you have to be prepared to accept the risks that go along with them.

Your tolerance for risk may depend on:

- what is more important to you—keeping your money safe or seeking higher growth
- when you need your money

- how you react to the ups and down of the markets
- if you have any debts
- if you have any other sources of income to fall back on

For many people, the tried and true test is whether they can sleep at night.

How comfortable are you investing on your own?

Your desire to do your own research and select investments is another important consideration. How much time are you willing to spend sorting through investment choices and keeping up with the markets? How confident are you in your investment knowledge and ability to carry out your decisions?

If you need some guidance, you may want to seek the services of a financial adviser.



Finding the money to invest

Your age, personal circumstances and financial situation will affect your ability to reach your goals. The CSA's *Your investment planning worksheet* can help you figure out where you are now financially and how to find the money to put toward your goals.

Know who you're dealing with

If you decide that investing on your own is not for you, your most important investment decision may be choosing the right adviser.

How to find an adviser

Ask friends, family, work associates and other professionals you trust, like your accountant or lawyer, for referrals. Keep in mind that what's good for one person may not be good for another.

You can also contact your local securities regulator to find out who is registered in your area. The Mutual Fund Dealers Association of Canada (MFDA) and the Investment Industry Regulatory Organization of Canada (IIROC) can give you a list of registered member firms. You can also contact the Investment Counsel Association of Canada (ICAC), the Financial Planners Standards Council (FPSC) or the Institut québécois de planification financière (IQPF) for additional information.

What to look for

You may want to interview a few advisers before you make your decision. Choose an adviser who has the necessary qualifications and experience, who is registered with your local securities regulator and who you believe is trustworthy. Just as important is choosing someone you are comfortable with.

A good adviser will want a clear understanding of your financial situation and your goals, explain how they plan to help you reach them and review the plan with you at least once a year.

Ask and be sure

Before you sign on with an adviser, ask:

- What is your education and professional experience?
- How long has your firm been in business?
- How long have you been with the firm?
- Are you and your firm registered with a securities regulator?
- What products and services do you offer?
- How will you help me reach my goals?
- How often will you contact me or meet with me?
- How are you paid for your services (salary, commission or flat fee)?
- Can you give me references from clients who are like me?

Follow up with your local securities regulator to find out if the adviser is registered. They can also tell you if an individual or firm has a record of any disciplinary action.



The CSA's *Working with a financial adviser* guide has more information about how to find an adviser who is right for you and what you should expect from the relationship.

Know what you're investing in

As we mentioned earlier, there are many ways you can invest your money. While there are thousands of investments to choose from, in general, each will fall into one of the four main categories below. These categories are also called “asset classes”.

Cash and cash equivalents

This includes money in your bank account and “cash-like” investments, such as Canada savings bonds, treasury bills and money market funds. These are generally very safe and give you quick access to your money. However, they have relatively low rates of return compared to other kinds of investments.

Fixed income securities

Bonds and other “fixed income securities” are investments that are based on debt. When you buy a bond, you are lending your money to a government or company for a certain period of time. In return, they promise to pay you interest on your money and to repay the “face value” at the end of the bond’s term. The face value is the value of the bond when it was issued.

Many fixed income securities come with a guarantee and are relatively safe. They tend to offer better rates of return than cash-equivalent investments because you’re taking on more risk by lending out your money for a longer period. Other bonds, like “junk” bonds, offer much higher rates of return, but they can be very risky and have no guarantees.

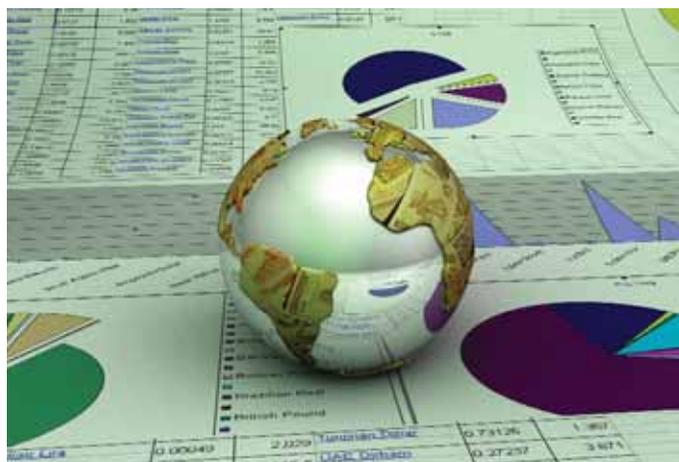
Equities

When you buy stocks or “equities”, you become a part owner in a business. You may be entitled to vote at the shareholders’

The CSA’s *Investments at a glance* brochure describes in more detail various investments under each category.

meeting and will receive any profits the company allocates to its shareholders. These profits are called dividends.

You can make money on a stock two ways: if the stock increases in value and if the company pays a dividend. However, there are no guarantees that a stock will make money or that the company will pay a dividend. The value of a stock can go up or down—sometimes frequently and sometimes by a lot.



What about mutual funds?

Mutual funds are simply a collection of investments from one or more asset classes. Each mutual fund focuses on specific investments, like government bonds, stocks from large companies, stocks from certain countries, or a mix of stocks and bonds. The level of risk and return of a mutual fund depends on what it invests in.

When you buy a mutual fund, you’re pooling your money with many other investors. The main advantages are that you can invest in a variety of investments for a relatively low cost and leave the investment decisions to a professional manager.

Know what you're investing in

Compared to fixed income securities, stocks can provide relatively high returns, but you may also have a higher risk of losing some or all of your investment.

Alternative investments

These include things like options, futures, foreign currencies, hedge funds, gold and real estate. They represent some of the most complicated types of investments. For this reason, they usually have higher-than-average risk in return for higher-than-average return potential. Alternative investments are typically meant for sophisticated investors who can afford to take high risks.

Getting the right balance

Not all investments perform well at the same time. Different investments react differently to world events, factors in the economy like interest rates, and business prospects. So when one investment is down, another might be up.

Having a variety of investments can help offset the impact poor performers may have on your portfolio, while taking advantage of the earning potential of the rest. This is called “diversification” but it’s really just putting into practice the old adage of “not putting all your eggs in one basket”.

First, you need to decide on the asset mix. The right balance will depend on your goals, when you need your money and how much risk you are willing to take. The next step is picking the specific investments in each asset class. If you’re not comfortable doing these things on your own, you may want to consult an adviser.

The CSA's *Take notes!* notepad can help you record details of phone calls or meetings with your adviser and any recommendations they make.

Be an informed investor

One way to help protect your money is to be an informed investor. Whether you have an adviser or invest on your own, ask the following questions before you buy:

- How will the investment make money? Does it pay dividends or interest? Does it have the potential to go up in value? If so, what needs to happen for it to go up in value?
- What are the total fees to buy, hold and sell the investment? Do you have to pay a penalty or fee if you have to sell the investment quickly or before its maturity date?
- What are the specific risks? Could you lose some or all of your investment? In general, the higher the expected rate of return, the greater the risk.
- How easy would it be to sell the investment if you needed your money right away?
- Does the investment fit with your goals and risk tolerance?

Never invest in anything that you don't fully understand. Take your time making investment decisions and never sign documents you have not read carefully.

Know where to go for help

Securities regulators oversee Canada's capital markets and the advisers who sell and manage securities traded in those markets. We strive to protect investors from unfair, improper and fraudulent practices while fostering a fair and efficient marketplace.

Our free, objective guides can help you learn more about investing, how specific investments work and choosing an adviser. They're available on the Canadian Securities Administrators website at www.securities-administrators.ca or by contacting your local securities regulator listed below.

Your investment planning worksheet

Investments at a glance

Working with a financial adviser

Take notes! notepad

Understanding mutual funds

Protect your money:

Avoiding frauds and scams

Members of the Canadian Securities Administrators www.securities-administrators.ca

Alberta Securities Commission

www.albertasecurities.com
(403) 297-6454
1-877-355-4488

British Columbia Securities Commission

www.investright.org
(604) 899-6854 or
1-800-373-6393 (BC & AB only)

Manitoba Securities Commission

www.msc.gov.mb.ca
(204) 945-2548
1-800-655-5244 (MB only)

New Brunswick Securities Commission

www.nbsc-cvmnb.ca
(506) 658-3060
1-866-933-2222 (NB only)

Financial Services Regulation Division Newfoundland and Labrador

www.gs.gov.nl.ca
(709) 729-4189

Northwest Territories Registrar of Securities

www.justice.gov.nt.ca/SecuritiesRegistry
(867) 920-3318

Nova Scotia Securities Commission

www.gov.ns.ca/nssc
(902) 424-7768

Nunavut Registrar of Securities

(867) 975-6587

Ontario Securities Commission

www.osc.gov.on.ca
(416) 593-8314
1-877-785-1555

Prince Edward Island Office of the Attorney General

www.gov.pe.ca/securities
(902) 368-4550

Autorité des marchés financiers (Québec)

www.lautorite.qc.ca
(418) 525-0337
(514) 395-0337
1-877-525-0337

Saskatchewan Financial Services Commission

www.sfsc.gov.sk.ca
(306) 787-5645

Yukon Registrar of Securities

www.community.gov.yk.ca/corp/secureinvest.html
(867) 667-5225