Activity 5: Your Investing Journey

Ready-made investing

When you become the age of majority (19 in Ontario), you can start investing part of your savings – it's an important financial goal. Start by looking at ready-made investing strategies – make sure you've read both the 'portfolio index mutual fund' and 'robo-advisor ETF portfolio' landing pages. Then answer the questions below.

Q1a. Which strategy requires more money to start investing?

Q2. Which strategy is more expensive?

Q3. What is 'incremental investment size'?

Q4a. List each strategy's account fees by name.

Q4b. Which strategy's account has a larger <u>number</u> of fees?

Q4c. Should you think twice about that strategy? Justify your answer.

Q5. Based on our star ratings, which strategy requires least effort?

Q6a. Choose one of the strategies. Justify your choice.

Q6b. Read through the following sections for your chosen strategy: choosing a provider, opening/buying fund units / ETF shares, and keeping up with your account. Summarize the process in 10 sentences.

Asset mix / risk questionnaire

Ready-made strategies come with investment accounts. You fill them with investment assets following a pre-selected asset mix that suits your risk appetite. What if you were to build your own asset mix? How would you go about doing it?

Your asset mix reflects whether you're an aggressive or a conservative investor. Start by completing a risk questionnaire. You can find one by googling "investment risk questionnaire" / "investment risk tolerance", or by starting a robo-advisor application online, then stopping after you're prompted to complete the questionnaire. You shouldn't have to enter any personal information to take the questionnaire.

Q7. Which question stood out the most? Explain why.

Q8a. What was your suggested equity / fixed income asset mix?

Q8b. Do you agree with it? Why / why not?

Q8c. If not, what changes would you make?

Q9a. Overall, was the questionnaire useful? Explain.

Q9b. Go on excel and create a graph of your choice (pie, histogram, donut, etc.) visually illustrating your asset mix. If you don't have access to a computer, you can draw a graph by hand.

Activity Answer Key

Ready-made investing

A1. Robo-advisor ($1,000 vs. as low as $100 for portfolio index mutual funds).

A2. A portfolio index mutual fund has higher fees than a robo-advisor ETF portfolio.

A3. The smallest amount of money you can add to your investment at any time.

A4a. Portfolio index mutual fund: annual MER
Robo-advisor ETF portfolio: annual account fee, annual MER, currency exchange fees

A4b. Robo-advisor.

A4c. A larger number of fees doesn't mean a higher total fee. There could be many fees, but managed well they could still add up to less than a Portfolio index mutual fund's single fee.

A5. Portfolio index mutual fund.

A6a. Investment strategies can be evaluated based on cost, effort required (to get started / ongoing), and minimum investment size (how much money you need to get started).

A6b. Portfolio index mutual fund:

- Do some research and choose a provider (usually a bank) based on fees and minimum investment size
- The fee is annual and called MER – the lower the better
- Open an investment account with your provider – you can open it as a registered account
- Need photo ID, proof of address, SIN number
- Complete a risk appetite questionnaire – this will help your provider recommend a portfolio index mutual fund with a suitable asset mix
- Sign up for a DRIP to automatically reinvest investment income
- Connect / link your chequing account to your investment account and transfer some money over
- Purchase securities from your investment account – place a buy order to purchase units of your selected portfolio index mutual fund
- Follow your budget, purchase more fund units regularly
- Monitor your investment account once a year – how is it performing? is your asset mix still appropriate? do you owe tax?

Robo advisor ETF portfolio:

- Do some research and choose a provider based on fees and minimum investment size
- Fees include annual MER, annual account fee, and currency exchange fees
- Open an investment account with your provider – you can open it as a registered account
- Need photo ID, proof of address, SIN number
- Complete a risk appetite questionnaire – this will help your provider recommend a robo-advisor ETF portfolio with a suitable asset mix
- Sign up for a DRIP to automatically reinvest investment income
- Connect / link your chequing account to your investment account and transfer some money over
- Any money you deposit in your robo-advisor investment account will be invested in a potfolio of ETFs that matches your selected asset mix
- Purchase securities from your investment account – place a buy order to purchase shares of your selected ETFs
- Follow your budget, add more funds to your investment account regularly
- Monitor your investment account once a year – how is it performing? is your asset mix still appropriate? do you owe tax?

Asset mix / risk questionnaire

A7. Multiple answers. Case studies tend to be the most revealing. (Eg. "In 2008 the stock market, on average, lost over 31% in value. What would you do if you owned stocks **in** 2008?" Possible answers: sell everything, sell some, hold, buy more).

A8a. Answers should be in percentage form (eg. 60% equity, 40% fixed income).

A8b. Investment portfolios with a higher % of equity tend to have a higher risk of losing value in the short term, but earn much more. Fixed income is consistent but lower earning.

A8c. Risk questionnaires are more accurate if your answers are more honest. It's best to take a few risk questionnaires and do some research on your own about asset mixes before you decide on a final ratio.

A9a / b. Most types of graph will illustrate the concept of asset mix well. A pie chart / histogram should be sufficient.

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