

Achieving Your Financial Goals

Achievement of your financial goals is an important objective for both you and your Dundee financial advisor. At Dundee, we believe that maximizing the likelihood of achieving your financial goals requires a well thought out strategy.

A few key steps are required to make that happen:

1. Clearly identify your financial goals.
2. Determine savings and investment strategies that will improve the likelihood of achieving your goals.
3. Execute your plan with discipline.
4. Review the plan periodically and adjust according to life changes.

Your Dundee financial advisor can help you with these steps. With the tools available to your advisor, including Dundee PILOT, the process of planning for and working to achieve your financial goals is made easier.

As partners, you and your advisor will work through a process that will provide you with the following:

1. Identification of your financial goals together with strategies that will improve the likelihood of achieving these goals.
2. Establishment of a customized Investment Policy which will include the following:
 - a. Asset Mix suggestion based on your personal circumstances
 - b. Customized product suggestion
 - c. Personalized Investment Policy Statement (IPS)



Understanding Financial Goals

The first step in making any investment decision should be the establishment of financial goals.

Together, you and your advisor will take the time to better understand one or more of your financial goals. Ensuring financial goals have been appropriately identified is important as your investment strategy should be designed to work towards these goals.

It is important that you spend time thinking about your financial goals in concrete terms. When you invest, the purpose of the investment and the goals you would like to achieve through the investment influence the appropriate investment strategy.

You may have multiple financial goals that speak to different aspects of your financial future. For example, most people consider being financially prepared for retirement as a very important financial goal. But, you may also be thinking about funding a child's education or planning for emergencies.

Before meeting with your advisor, you should think about your financial goals in specific terms. For instance, if one of your goals is to be financially prepared for retirement, you should be able to quantify the amount of income you would like to receive during your retirement years. You should also be able to identify other sources of

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Understanding Financial Goals (continued)

retirement income that may be available to you other than your investments (for example, pension benefits you may be entitled to receive). This process of quantifying your financial goals is important and requires you to invest the necessary time thinking about your specific goals. This time invested will pay off when it comes to formalizing your strategies.

In order to prepare for a discussion with your advisor about your financial goals, a short checklist can be made available to you. This checklist is a brief orientation to help get you thinking in the right direction. This checklist also prompts you to collect the various pieces of information necessary in order for you to finalize your investment decisions.

Establishing Investment Strategies

After clarifying your financial goals, it is important to determine the strategies that will improve the likelihood of success. Together with your advisor, you will determine the appropriate financial strategies.

There are many different paths available to you when planning for your financial future. Often, the path to achievement of your goals may contain multiple pieces in order to maximize the likelihood of success. For example, changes in your saving habits may be required. This is often the case when it comes to building a retirement nest egg where regular contributions to an RRSP provide a base from which your investment can grow. But, changes in savings habits alone may not be enough. You may also need to be targeting higher returns over the long term to increase the likelihood that your investment will grow to a level that will satisfy your needs. Equally, if your risk tolerance makes certain types of investments offering potentially higher returns

inappropriate, you may need to be adjusting your financial goals or increasing your regular contributions to compensate.

Determining the best path to take is a personal process and one that will be different for every investor. It can only be achieved by taking responsibility and getting involved. The process of mapping the path requires that your personal circumstances are taken into consideration.

In discussing investment strategies, it is important to understand that no investment plan can guarantee any specific result. The future is just too uncertain. What professionals are looking to achieve are strategies that can increase the probability of success. As a result, it is important to understand the relationship between investment returns and the associated risks. A key piece of this discussion will focus on risk tolerance, as tolerance for risk is a key factor in determining an appropriate investment strategy.

Risk vs. Return

The concept of risk is an important one to understand. When it comes to investing, risk can be defined in many different ways, but generally speaking, risk is understood to be the probability of a loss occurring of a specified amount.

It is difficult and sometimes complex to try to quantify risk in terms that can easily be understood and controlled. One common method for measuring the risk associated with an investment is to measure the historical variability in the value of the invest-

ment over time. Using this variability or volatility as a measure of risk assumes that the more volatile the investment, the higher the probability the investment will cause a loss for the investor.

Looking back at the historical returns of all types of investments, there is a tradeoff between risk (as measured by volatility) and return. In order to achieve higher potential returns, there is usually more volatility in the price of that investment over time. In other words, when making an investment

Risk vs. Return (continued)

which historically has had a greater likelihood of having higher returns, the increased historical volatility means there is also a greater likelihood of it incurring a loss.

The historical measure of return and volatility is a statistical analysis and as a result cannot be considered a future prediction. However, it is a commonly used calculation used as guidance. The historical measure of return and volatility can be done for individual securities such as a specific stock or bond. However, it is more helpful to do this by general asset classes.

An Asset Class is a group of investments that are characterized by similar attributes, the key ones being risk and historical return. Asset Classes can be broken down into a high level of detail, but for simplicity, they can be categorized into the following three basic classes: Cash, Fixed Income and Equities.

The following chart graphically represents how each of these three asset classes compares on a historical risk vs. return basis:

Asset Classes Risk vs. Return



Examples of investment products in each Asset Class:

- Cash** Savings Accounts, Money Market Instruments
- Fixed Income** Bonds
- Equities** Shares in publicly traded companies

Volatility vs. Time Horizon

Volatility is just one way to quantify the risks associated with investing. But, most individuals confuse short-term market volatility with the risk of permanent loss.

It is important to note the relationship between the volatility of an investment and the time horizon for holding that investment. The longer your time horizon for holding an investment, the more likely it is that you will be able to realize the benefit of the long-term growth potential of the investment without concern for short-term volatility. You have the ability to ride out potentially wide swings in the value of the investment over the long term.

Shorter time horizons though, mean that there is more at risk of short-term market fluctuations, possibly causing a loss for the investor. Shorter time horizons may mean that the investor may be under increased pressure to sell an investment during periods of relatively negative swings in value. Therefore, in general, the longer the time horizon, the less likely that volatility will result in permanent loss in value of an investment.

Your Risk/Return Balance Point

Understanding that there is a tradeoff between risk and potential return is important in determining your personal investment strategy.

This tradeoff may impact the strategies you have considered for achieving your financial goals and may even cause you to adjust them.

For example, in order to improve the likelihood of achieving your retirement income goals, your strategy may assume a specific long-term rate of return target for these investments. But, this long-term return target may require that your portfolio is invested in assets that have an expected volatility that is higher than you are willing to tolerate. This may mean that your portfolio should be invested in assets that have a lower potential return with a correspondingly lower historical volatility.

Alternatively, you may determine that your long-term return target is something on which you are not willing to compromise. Therefore, re-examination of your tolerance for risk in the form of volatility is required in order to determine if you are willing to accept more risk than you initially thought.

The level of risk you are willing to tolerate as an investor is dependent on many things such as your time horizon for investing and your financial resources. Tolerance for risk is a very personal matter and one that is not easily measured. Your advisor will help you with this process through the use of an Investor Decision Grid. This Grid is comprised of a series of questions that will help you to identify your Risk/Return balance point.

The Investor Decision Grid is available from your advisor. It is important that you spend time reviewing these questions before meeting with your advisor. Your answers to these questions will, in large part, determine your personal risk/return balance point.

The questions in the Investor Decision Grid should be considered only as they relate to one specific investment goal since you will likely answer the questions differently for each of your investment goals. For example, you may answer the question "What is my time horizon for this investment?" differently as it relates to your retirement savings than for investments that have been set aside for an imminent purchase.

Although the Investor Decision Grid is a useful tool that can help identify your personal risk/return balance point, it is important to remember that it is only a guide. Ultimately, your own personal tolerance for risk should be explored with your advisor through additional discussion. Only you can determine your tolerance for risk and you have the final say in the level of risk you take on with your investments. Regardless of the outcome of the Investor Decision Grid, you need to be comfortable with the investment strategy suggested at the end of the process.

Establishing a customized Investment Policy

Strategies need to be translated into action and your advisor has the tools to help you make decisions on your strategy.

Using tools such as the Investor Decision Grid, your advisor will create a personalized Investment Policy. An Investment Policy translates financial objectives into concrete investing activities based on your personal goals and constraints. An Investment Policy is a set of guidelines that will assist you and your advisor as you make investment decisions. It sets the course for the long-term and will help you stay disciplined to your plan when market fluctuations tempt you to steer in a different direction

One of the primary goals of an Investment Policy is to identify the personal balancing point between your need for long-term investment returns and your tolerance for risk. The Investment Policy Statement will summarize your answers to the Investor Decision Grid and will provide a description of your investment style in terms of your objectives and risk tolerance.

Asset Allocation

After fully exploring your financial goals and your personal risk/return balance point, the next step in the process is to identify appropriate investing activities. Your advisor will consider an investment principle called Asset Allocation to help you establish your customized Investment Policy.

Asset Allocation is an investment approach that seeks to reduce risk while improving returns through the diversification of investments across different Asset Classes. Exposure to the right combination of Asset Classes can improve your return potential while reducing your risk (as measured by volatility) potential.

Your advisor will suggest an appropriate allocation between equity and fixed income classes matched to your investment objectives and personal tolerance for risk. As described in the Risk vs. Return discussion above, these two asset classes have different risk/return characteristics. Over the long term, equity class investments have earned better returns than fixed income investments, but with the tradeoff of having higher volatility. Within these two broad asset classes there can be a number of sub classes. For example, equities can be divided into Canadian, US and European Equities for example. Fixed Income can be divided into Canadian Bonds or Global Bonds. Each sub class has its own historical relationship between return and volatility.

Within PILOT, there will be seven asset classes examined and used. These are Cash, Canadian Bonds, International Bonds, Canadian Equities, USA Equities, European Equities and Pacific/Other Equities. Your asset mix will likely include a combination of some or all of these seven asset classes.

Based on the answers you provide on the Investor Decision Grid, PILOT will point you in the direction of one of seven model asset mixes. Each of these asset mixes has a different asset allocation. As a result, each of these asset mix models will likely behave differently on a risk vs. return basis. As the equities component of each mix is increased, the volatility will be expected to increase while the potential for higher returns is also likely to increase (based on historical data).

There are other approaches to investing that seek to find the appropriate balance between risk and return requirements. The Asset Allocation approach has proven to be consistent over time and one that can easily be managed by most investors.

For more a more detailed description of Asset Allocation please read the separate information piece entitled 'Asset Allocation: Setting the Course' available from your advisor.

Customized Portfolio Solution

After the appropriate Asset Mix is determined for you, your advisor will take this process one step further by suggesting a specific portfolio solution that he/she believes will be the most suitable for you.

It is important to note that there are many different investment products available within each Asset Class. Investments within an Asset Class may behave very differently based on the features of the specific product. For example, a mutual fund that may be classified as an Equity Class investment may have a significantly different risk/return profile than another mutual fund classified in the same Asset Class. This difference in behaviour can be due to many factors, including the management style of the mutual fund and/or the underlying holdings.

Your advisor will suggest a portfolio solution taking into consideration many factors including:

- The Asset Mix suggestion
- The specific product(s) features
- Your expectations and requirements

The suggested portfolio solution will be the final component of your Investment Policy.

Personalized Investment Policy Statement

This entire process will serve to build a personalized Investment Policy. This Investment Policy will guide you and your advisor as you make investment decisions together. You will be provided with a copy of the Investment Policy Statement at the end of this process. This document will summarize the goals and personal constraints you have discussed along with the strategies and activities to which you have agreed.

This Investment Policy Statement will be a living document that attempts to capture your current financial goals and translate them into meaningful activities. Your advisor will work to ensure that the plan, once developed, is executed with discipline. To ensure the Investment Policy stays relevant, it should be revisited at least annually or whenever there is a change in your life circumstances.

It is important to remember that a plan is only as good as the assumptions that were used to develop it. Ultimately, your advisor will rely on you to provide accurate and well thought out feedback as the Investment Policy is being developed. It is important that you come prepared to discuss your specific goals along with your concerns in order to ensure you play an active role in this process.

Your financial health is your responsibility. It cannot and should not be delegated. Your financial advisor has the knowledge and the tools to help you, but without your active involvement no one can define your goals or make the decisions that are right for you.

The foregoing discussion is intended for purposes of information only and is not, and should not be construed as, financial advice. Please consult your Dundee financial advisor to discuss how the elements of this discussion may apply to your personal circumstances.

Perform way guarantees the future performance of these asset classes.