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3rd Edition

Investing For Canadians

FOR DUMMIES®

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- Make smart, profitable investment decisions in any economic climate
- Diversify your portfolio
- Conquer investing obstacles

**Eric Tyson, MBA
Tony Martin**



Investing For Canadians

FOR

DUMMIES®

3RD EDITION

**by Eric Tyson, MBA
Tony Martin**

 **WILEY**

John Wiley & Sons Canada, Ltd.

Investing For Canadians For Dummies®, 3rd Edition

Published by

John Wiley & Sons Canada, Ltd.

6045 Freemont Blvd.†

Mississauga, ON L5R 4J3

www.wiley.com

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Library and Archives Canada Cataloguing in Publication Data

Tyson, Eric (Eric Kevin)

Investing for Canadians for dummies / by Eric Tyson and Tony Martin. — 3rd ed.

Includes index.

ISBN 978-0-470-16029-9

1. Investments. 2. Investments—Canada. I. Martin, Tony (Tony M.) II. Title.

HG4521.T97 2009

332.6

C2009-901892-6

Printed in the United States

1 2 3 4 5 RRD 13 12 11 10 09



WILEY

About the Authors

Eric Tyson is an acclaimed best-selling personal finance author, lecturer, and adviser. Through his work, he is dedicated to teaching people to manage their money better and to successfully direct their own investments.

He earned a bachelor's degree in economics at Yale and an MBA at the Stanford Graduate School of Business. Despite these impediments to lucid reasoning, he came to his senses after working as a management consultant to businesses, deciding that life was too short to spend it working long hours and waiting in airports for the benefit of larger companies.

An accomplished freelance personal finance writer, Eric is the author of numerous best-selling books including *For Dummies* books on personal finance, mutual funds, taxes (co-author), and home buying (co-author) and is a syndicated columnist. His work has been featured and quoted in hundreds of U.S. national and local publications, including *Newsweek*, *Kiplinger's Personal Finance Magazine*, *The Wall Street Journal*, and on NBC's *Today Show*, ABC, CNBC, PBS's *Nightly Business Report*, CNN, National Public Radio, and Business Radio Network.

Tony Martin is a nationally recognized best-selling personal finance writer, speaker, and commentator. Tony's focus is on giving Canadians the tools they need to make sense of the world of money and investing. Through his work, he is dedicated to teaching people how to manage their money better and to successfully choose and grow their own investments.

Tony is the co-author, along with Eric, of the national best-seller *Personal Finance For Dummies For Canadians*. For many years he has also written the popular and widely read column, "Me and My Money," for the *The Globe and Mail's* Report on Business. These columns were the focus of his book *Me and My Money: Strategies of Real-life Investors*.

A graduate in Commerce at Queen's University, his work appears regularly in leading national publications, including *The Globe and Mail*, *Canadian Business*, *Profit Magazine*, and *Reader's Digest*. Tony has produced television and radio programs about personal finance, and has also appeared on numerous television and radio programs, including CBC, BNN, and TVOntario.

Dedication

Actually, before we get to the thank-yous, please allow us a *really* major thank you and dedication.

This book is hereby and irrevocably dedicated to our family and friends, as well as to all those who have spoken with us over the years about investing and personal finance, who ultimately have taught us everything we know about how to explain financial terms and strategies so that all of us may benefit.

Authors' Acknowledgements

First, we'd like to thank Georgette Beatty, project editor of the US edition. Thanks as well to Elizabeth McCurdy for managing the project in Canada, and to Lisa Berland for her fine copy editing. Thanks also to all of the fine folks in Composition and Graphics for making this book and all of our charts and graphs look great! Thanks also to everyone else who contributed to getting this book done well and on time.

And last but not least, a tip of our cap to the fine lot of technical reviewers who helped to ensure that we didn't write something that wasn't quite right. For the 3rd edition, this important job was well handled by Christopher Cottier.

Publisher's Acknowledgments

We're proud of this book; please send us your comments through our online registration form located at <http://dummies.custhelp.com>

Some of the people who helped bring this book to market include the following:

Acquisitions and Editorial Development

Editor: Robert Hickey

Senior Project Editor, US Edition:
Georgette Beatty

Project Manager: Elizabeth McCurdy

Project Editor: Pauline Ricablanca

Copy Editor: Lisa Berland

Technical Editor: Christopher Cottier

Cartoons: Rich Tennant
(www.the5thwave.com)

Composition Services

Vice-President Publishing Services:
Karen Bryan

Project Coordinator: Lynsey Stanford

Layout and Graphics: Claudia Bell,
Reuben W. Davis

Proofreader: Laura L. Bowman

Indexer: Valerie Haynes Perry

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Introduction

The almost ten years since the first edition of this book was published have witnessed increased interest in and media coverage of the investment world. In that time, the Internet has established itself as a fixture within the home and office, along with all the investment-related stories, facts, figures, applications, and scams that reside there. You can't flip through the channels on your television without running into a stock ticker at the bottom of your screen or a pitchman claiming that folks are just waiting to pay you to buy their property. And new books are published daily that claim to possess *the* secret to investing success. With all this attention, you may think that investing times have changed. But to a large degree, things haven't changed all that much. Investments that were considered lousy years ago — products with high fees and commission — generally are still lousy today.

The best investment vehicles for building wealth — stocks, real estate, and small business — haven't changed either. And you still need money to play in the investment world. Like the first edition of *Investing For Canadians For Dummies*, this third edition includes complete coverage of these wealth-building investments as well as other common investments, such as bonds. Here are the biggest changes in this edition:

- ✔ **Completely revised and updated:** We've freshened up the data and examples in this book to provide you with the latest insights and analyses, including an explanation of the credit crisis that hit in 2008 and the stock market collapse that followed. Wondering what all the fuss is about with gold, oil, and other commodities? Seeking a way to invest in stocks without exposing yourself to tremendous risk? Curious about what an exchange-traded fund or hedge fund is and whether you should invest? Weighing whether it's too risky or difficult to invest in real estate? Wondering what the best ways are to invest globally? Having trouble making sense of various economic indicators and what they mean to your investment strategy? Confused about how tax law changes should affect your investment strategies? Wanting to invest in a Tax-Free Savings Account but don't know why, where, or how? You can find the answers to these questions and many more in this edition.
- ✔ **Investing resources:** With the continued growth in Web sites, software, publications, media outlets, and many other information sources offering investing advice and information, you're probably overwhelmed about how to choose among the numerous investing research tools and resources. Equally problematic is knowing whom you can trust and listen to — and whom you need to ignore. We explain how to evaluate the quality of current investment tools and resources, and we provide tips for whom to listen to and whom to tune out.

How Savvy Investors Build Wealth

Through our many years speaking with many hundreds of individuals of modest and immodest economic means, we know that the time-tested ways they use to increase their wealth are by doing the following:

- ✓ Living within their means and systematically saving and investing money, ideally in a tax-favoured manner
- ✓ Buying and holding a diversified portfolio of stocks
- ✓ Building their own small business or career
- ✓ Investing in real estate

That kind of investing is what this book is all about. Equally, if not more, important, we help you understand and choose investments compatible with your personal and financial goals.

You don't need a fancy university or graduate-school degree, and you don't need a rich dad (or mom), biological or adopted! What you do need is a desire to read and practice the many simple yet powerful lessons and strategies in this book.

Seriously, investing intelligently isn't rocket science. By all means, if you're dealing with a complicated, atypical issue, get quality professional help. But educate yourself first. Hiring someone is dangerous if you yourself are financially challenged. If you do finally decide to hire someone, you'll be much better prepared by educating yourself, and you'll be more focused in your questions and better able to assess that person's competence.

Conventions Used in This Book

We use the following conventions in this book to help you manoeuvre through topics:

- ✓ We *italicize* all new words and terms that are defined.
- ✓ We **boldface** keywords or the main parts of bulleted items.
- ✓ We use monofont for all Web addresses.

Foolish Assumptions

Every book is written with a certain reader in mind, and this book is no different:

- ✔ You may have some investments, but you're looking to develop a full-scale investment plan.
- ✔ You'd like to strengthen your portfolio.
- ✔ You want to evaluate your investment adviser's advice.
- ✔ You have a company-sponsored pension plan, and you're looking to make some decisions.

If one or more of these descriptions sound familiar, you've come to the right place.

How This Book Is Organized

This book helps you fill in the gaps in your investment knowledge. It's structured so that you can read it cover to cover or simply dive in to particular sections that most interest you. Here are the major parts.

Part I: Investing Fundamentals

Before you can confidently and intelligently choose investments, you need to be able to cut through the lingo and jargon to get to the heart of what investments are and are not, and how they differ from one another. In this part, we explain what rate of return you can reasonably expect to earn and how much risk you need to take to get it. This part also details how investments best fit your specific financial goals and situation.

Part II: Stocks, Bonds, and Bay Street

We know that you probably don't want to trade in your day job for one where you'd wear a three-piece suit and need to know on which page of *The Globe and Mail's* daily Report on Business section you can find yield curves. But you *do* need to understand what the financial markets are and how you can participate in them without suffering too many bumps and bruises. In this part, we explain what stocks and bonds are all about and how to best buy them and build your future fortune.

Part III: Getting Rich with Real Estate

We all need places to live, work, and shop, so it makes sense that real estate can be a profitable part of your investment portfolio. Intelligently buying and

managing real estate is harder than it looks, which is why this part covers lots of territory. We show you the best ways to invest in real estate and provide a crash course in mortgages, landlording, buying low, selling high, taxes, and more.

Part IV: Savouring Small Business

There's nothing small about the potential profits you can make from small business. You can choose the small-business investment option that matches your skills and time. If you aspire to be the best boss you've ever had, here you can find the right ways to start your own business or buy someone else's small business. Or maybe you'd like to try your hand at spotting up-and-comers but don't want to be on the front lines — try investing in someone else's small business.

Part V: Investing Resources

Flip through your cable television channels, crack open a magazine or newspaper, or surf the Web, and you quickly discover that you can't escape investment advice. Surprisingly, each new guru you stumble upon contradicts the one who came before. Before you know it, although you've spent an avalanche of your valuable free time on all this investment stuff, you're no closer to making an informed decision. In fact, if you're like most people, you find yourself even more confused and paralyzed. Fear not! In this important part, we explain why many experts really aren't experts and why most of them try to make the world of investing so mysterious. We highlight the best resources to use and the experts worth listening to.

Part VI: The Part of Tens

These shorter chapters build your investment knowledge further. You find advice about topics such as overcoming common psychological investment obstacles, tips for investing in a down market, and points to ponder when you sell an investment.

If you're the kind of reader who jumps around from topic to topic instead of reading from cover to cover, you'll be pleased that this book has a helpful index and that it highlights the pages where investing terms are defined.

Icons Used in This Book

Throughout this book, icons help guide you through the maze of suggestions, solutions, and cautions. We hope you find that the following images make your journey through investment strategies smoother.



In the shark-infested investing waters, you'll find creatures that feast on novice waders, ready to take a bite out of a swimmer's savings. This icon notes when and where the sharks may be circling.



If you see this icon, we're pointing out companies, products, services, and resources that have proved to be exceptional over the years — in other words, resources that we would or do use personally or would recommend to our friends and family.



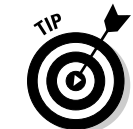
We use this icon to highlight an issue that requires more detective work on your part. Don't worry, though; we prepare you for your work so you don't have to start out as a novice gumshoe.



We think the name says it all, but this icon indicates something really, really important — don't you forget it!



Skip it or read it; the choice is yours. You'll fill your head with more stuff that may prove valuable as you expand your investing know-how, but you risk overdosing on stuff that you may not need right away.



This icon denotes strategies that can enable you to build wealth faster and leap over tall obstacles in a single bound.



This icon indicates treacherous territory that has made mincemeat out of lesser mortals who have come before you. Skip this point at your own peril.

Where to Go from Here

If you have the time and desire, we encourage you to read this book in its entirety. It provides you with a detailed picture of how to maximize your returns while minimizing your risks through wealth-building investments. But

you don't have to read this book from cover to cover. If you have a specific question or two that you want to focus on today, or if you want to find some additional information tomorrow, it's not a problem. *Investing For Canadians For Dummies*, 3rd Edition, makes it easy to find answers to specific questions. Just turn to the table of contents or the index to locate the information you need. You can get in and get out, just like that.

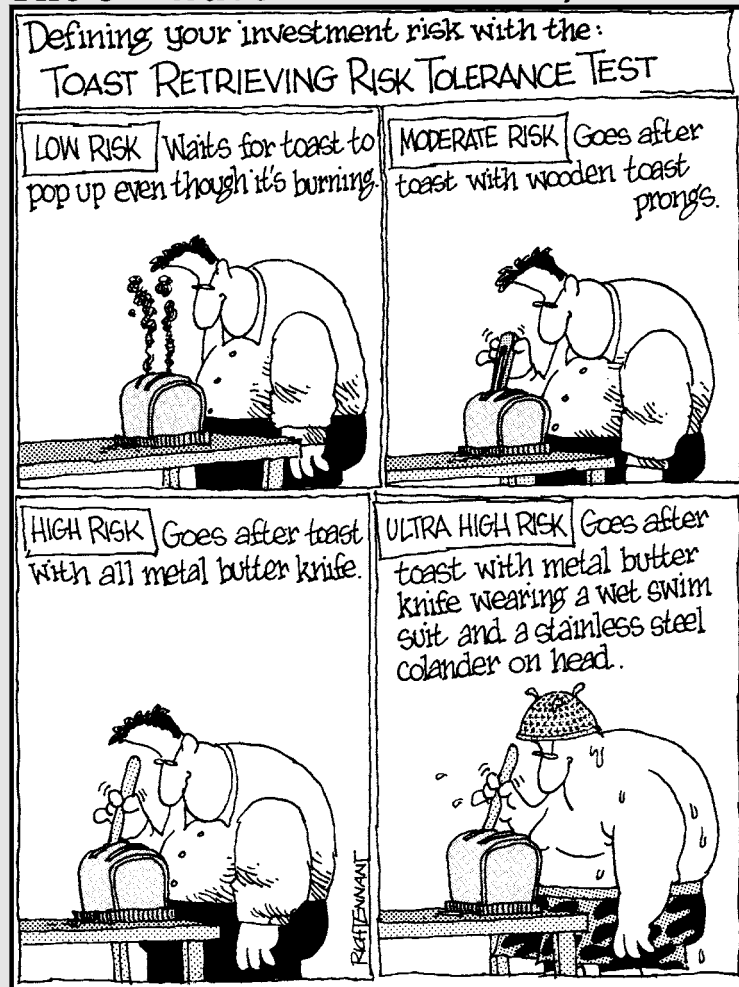
Part I

Investing

Fundamentals

The 5th Wave

By Rich Tennant



In this part . . .

Like a good map or aerial photograph, this part helps you see the big picture of the investment world. Here, we explain the different types of investments, which ones are good and bad for a variety of circumstances, what returns you can expect, and how to make wise investing decisions that fit with your overall financial situation.

Chapter 1

Exploring Your Investment Choices

In This Chapter

- ▶ Defining investing
 - ▶ Seeing how stocks, real estate, and small businesses build wealth
 - ▶ Understanding the role of lending and other investments
 - ▶ Knowing where not to put your money
-

In many parts of the world, life's basic necessities — food, clothing, shelter, and taxes — gobble the entirety of people's meagre earnings. Although some Canadians do struggle for basic necessities, the bigger problem for most Canadians is that they consider just about *everything* — eating out, driving new cars, hopping on an airplane for vacation — to be a necessity. We've taken it upon ourselves (using this book as our tool) to help you recognize that investing — that is, putting your money to work for you — is *also* a necessity. If you want to accomplish important personal and financial goals, such as owning a home, starting your own business, helping your kids through university (and spending more time with them when they're young), retiring comfortably, and so on, you must know how to invest well.

It has been said, and too often quoted, that the only certainties in life are death and taxes. To these two certainties we add one more: being confused by and ignorant about investing. Because investing is a confounding activity, you may be tempted to look with envious eyes at those people in the world who appear to be savvy with money and investing. Remember that all of us start with the same level of financial knowledge — none! *No one* is born knowing this stuff! The only difference between those who know and those who don't is that those who know have invested their time and energy acquiring knowledge about the investment world.

Getting Started with Investing

Before we discuss the major investing alternatives in the rest of this chapter, we want to start with something that's quite basic, yet important. What exactly do we mean when we say "investing"? Simply stated, *investing* means you have money put away for future use.

There are thousands of stocks, bonds, mutual funds, and other investments. Unfortunately for the novice, and even for experts who are honest with you, knowing the name of the investment is just the tip of the iceberg. Underneath each of these investments lurks a veritable mountain of details.



If you wanted to and had the ability, you could make a full-time endeavour out of analyzing economic trends and financial statements and talking to business employees, customers, suppliers, and so on. However, we don't want to scare you away from investing just because some people do it on a full-time basis. Making wise investments need not take a lot of your time. If you know where to get high-quality information, and you purchase well-managed investments, you can leave the investment management to the best experts. Then you can do the work that you're best at and have more free time for fun stuff.

An important part of making wise investments is knowing when you have enough information to do things well on your own versus when you should hire others to help you. For example, foreign stock markets are generally more difficult to research and understand compared with domestic markets. Thus, hiring a good money manager, such as through a mutual fund, makes more sense when investing overseas than going to all the time, trouble, and expense of trying to pick your own individual stocks.

We're here to give you the information you need to make your way through the complex investment world. In the rest of this chapter, we clear a path so that you can identify the major investments and understand what each is good for.

Building Wealth with Ownership Investments



If you want your money to grow, and you don't mind a bit of a roller-coaster ride from time to time in your investment's values, ownership investments are for you. *Ownership investments* are those where you own a piece of some company or other asset (such as stock, real estate, or a small business) that has the ability to generate revenue and, potentially, profits.

If you want to build wealth, observing how the world's richest have built their wealth is enlightening. Not surprisingly, the champions of wealth around the globe gained their fortunes largely through owning a piece (or all) of a successful company that they (or others) have built. Take the case of Steve Jobs, co-founder and chief executive officer of Apple Inc. Apple, of course, makes the iPhone, the iPad, the iPod portable digital music player, computers, and software, among other products.

Every time we, or millions of other people, buy an Apple iPod, computer, or iPhone, Apple makes more money. As an owner of more than 5 million shares of stock, each of which was valued at around US\$100 per share in late 2008 — after soaring to over US\$200 — Jobs makes more money as increasing sales and profits drive up the stock's price, which was less than US\$10 per share as recently as 2004.

In addition to owning their own businesses, many well-to-do people have built their nest eggs by investing in real estate and the stock market. With softening housing prices in many regions in recent years, some folks newer to the real estate world incorrectly believe that real estate is a loser, not a long-term winner. Likewise, the stock market goes through down periods but does well over the long-term. (See Chapter 2 for the straight scoop on investment risks and returns.)

And of course, some people come into wealth the old-fashioned way — they inherit it. Even if your parents are among the rare wealthy ones and you expect them to pass on big bucks to you, you need to know how to invest money intelligently.



If you understand and are comfortable with the risks and take sensible steps to diversify (don't put all your eggs in the same basket), ownership investments are the key to building wealth. To accomplish typical longer-term financial goals, such as retiring, the money you save and invest needs to grow at a healthy clip. If you dump all your money in bank accounts that pay little if any interest, you're likely to fall short of your goals.

Not everyone needs to make his or her money grow, of course. Suppose that you inherit a significant sum and/or maintain a restrained standard of living and work your whole life simply because you enjoy doing so. In this situation, you may not need to take the risks involved with a potentially faster-growth investment. You may be more comfortable with *safer* investments, such as paying off your mortgage faster than necessary. Chapter 3 helps you think through such issues.

The stock market

Stocks are an example of an ownership investment because they represent shares of ownership in a company.

If you want to share in the growth and profits of companies like Apple, you can! You simply buy shares of their stock through a brokerage firm. However, just because Apple makes money in the future, there's no guarantee that the value of its stock will increase.

Some companies today sell their stock directly to investors, allowing you to bypass brokers. You can also invest in stocks via a stock mutual fund, where a fund manager decides which individual stocks to include in the fund. (We discuss the various methods for buying stock in Chapter 6.)



You don't need a BA, MBA, MD, or PhD to make money in the stock market. If you can practice some simple lessons, such as making regular and systematic investments and investing in proven companies and funds while minimizing your investment expenses and taxes, you'll be a winner.

However, we don't believe that you can "beat the markets," and you certainly can't beat the best professional money managers at their own full-time game. This book shows you time-proven, non-gimmicky methods to make your money grow in the stock market as well as in other financial markets. (We explain how in Part II.)

Real estate

Another method that people of varying economic means use to build wealth is to invest in real estate. Owning and managing real estate is like running a small business. You need to satisfy customers (tenants), manage your costs, keep an eye on the competition, and so on. Some methods of real estate investing require more time than others, but many are proven ways to build wealth.

John, who works for a city government, and his wife, Linda, a computer analyst, have built several million dollars in investment real estate *equity* (the difference between the property's market value and debts owed) over the past three decades. "Our parents owned rental property, and we could see what it could do for you by providing income and building wealth," says John. Investing in real estate also appealed to John and Linda because they didn't know anything about the stock market, so they wanted to stay away from it. The idea of *leverage* — making money with borrowed money — on real estate also appealed to them.

John and Linda bought their first property, a duplex, when their combined income was \$20,000 per year. Every time they moved to a new home, they kept the prior one and converted it to a rental. Now in their 50s, John and Linda own seven pieces of investment real estate and are multimillionaires. "It's like a second retirement, having thousands in monthly income from the real estate," says John.

John readily admits that rental real estate has its hassles. "We haven't enjoyed getting calls in the middle of the night, but now we have a property manager who can help with this when we're not available. It's also sometimes a pain finding new tenants," he says.