FINANCIAL INDEPENDENCE
IT'S MORE ACCESSIBLE THAN YOU THINK

FÉRIQUE
INVESTMENT SERVICES

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In recent years, the idea of working until retirement has been falling out of favour. A new goal is gaining popularity: financial independence.

Financial independence means being able to stop working or to work less without affecting your standard of living. How do you go about achieving it? Mainly by investing regularly and early in life with the goal of being able to finance your lifestyle with the return on your investments.

How do you get there? By defining your projects and financial goals and by implementing an investment plan to achieve them.

Stop working or work less. That's what financial independence is all about.

Financial independence doesn't mean doing nothing.

Imagine how much you could do if you didn't have to work full time! With no end of projects, you can embark on, work will take a new meaning. Here are some ideas:

> **Return to school**
Go back to school for enjoyment or to develop a new career without financial stress.

> **Teach and mentor**
Share your expertise with the younger generation for a few hours a week.

> **Volunteer**
Once your income is assured, why not donate time to a worthy cause or to your community?

> **Start a business or become self-employed**
You'll have no worries about having enough income to maintain your standard of living during the start-up phase.

> **Travel the world**
Now that you're not limited to four weeks of vacation a year, take advantage of your freedom! You could even start a new life elsewhere in the world.

> **Buy a property almost without borrowing**
Make a 70% down payment and lower your cost of living with a minimal mortgage.

SUMMARY

ACHIEVE FINANCIAL INDEPENDENCE
WITH A FINANCIAL PLAN

Is financial independence a pipe dream? Not if you know how to go about it.

With a clear goal and a well-defined financial plan, you can develop savings and investment discipline that will allow you to achieve your well-deserved financial independence.

Why a financial plan?

Whatever the reason, sound planning means setting a clear, specific goal so that you can:

> maintain control and get results;
> persevere and stay motivated; and
> be realistic and focus on what is achievable.

Obtain professional help

Establishing a financial plan requires extensive financial knowledge. Being accompanied by professionals able to give you advices can make a difference and facilitate the achievement of financial independence.

The way forward

1
ESTABLISH YOUR GOAL AND TIMELINE

This step involves determining the amount you'll need to accumulate to achieve financial independence as well as the time when you want to reach it. The target amount will depend on your desired standard of living as well as your plans.

2
DECIDE HOW MUCH INCOME TO PUT ASIDE

To achieve financial independence, unless you come into a large inheritance, you'll have to live within your means and most likely invest a portion of your income. But how much? Once your goal and timeline are established, you'll be able to answer that question. You may have to adjust your budget by lowering or eliminating some expenses. Working to increase your income is also an option you should consider.

3
DETERMINE YOUR INVESTOR PROFILE

To achieve your goal of being able to live off your investment returns, simply putting money aside won't be enough. You'll also need to invest those savings. That being said, there are no risk-free investments. Could you tolerate the loss of, say, 5% of your investments? This step involves determining your risk tolerance.

4
CHOOSE YOUR SAVINGS VEHICLE AND INVESTMENTS

Once you've established your investor profile, you can choose accounts and investments suited to your needs. Different types of accounts offer a variety of tax benefits to encourage investment and to facilitate the growth of returns.

Depending on your goals and timeline, as well as your financial situation, some investment vehicles are more appropriate than others. You'll need to choose carefully.

A PRACTICAL APPROACH TO ACHIEVING FINANCIAL INDEPENDENCE

Financial independence is a way of life. It involves accepting a lower standard of living than your employment income allows you, so that you can invest substantial amounts. With a more modest standard of living, you can more easily build an investment portfolio enabling you to live off your returns.

JONATHAN. 35.

Gross salary: $80,000 $/year
Current investments: $80,000
Savings: $1,875 a month
Expenditures : $35,000 a year

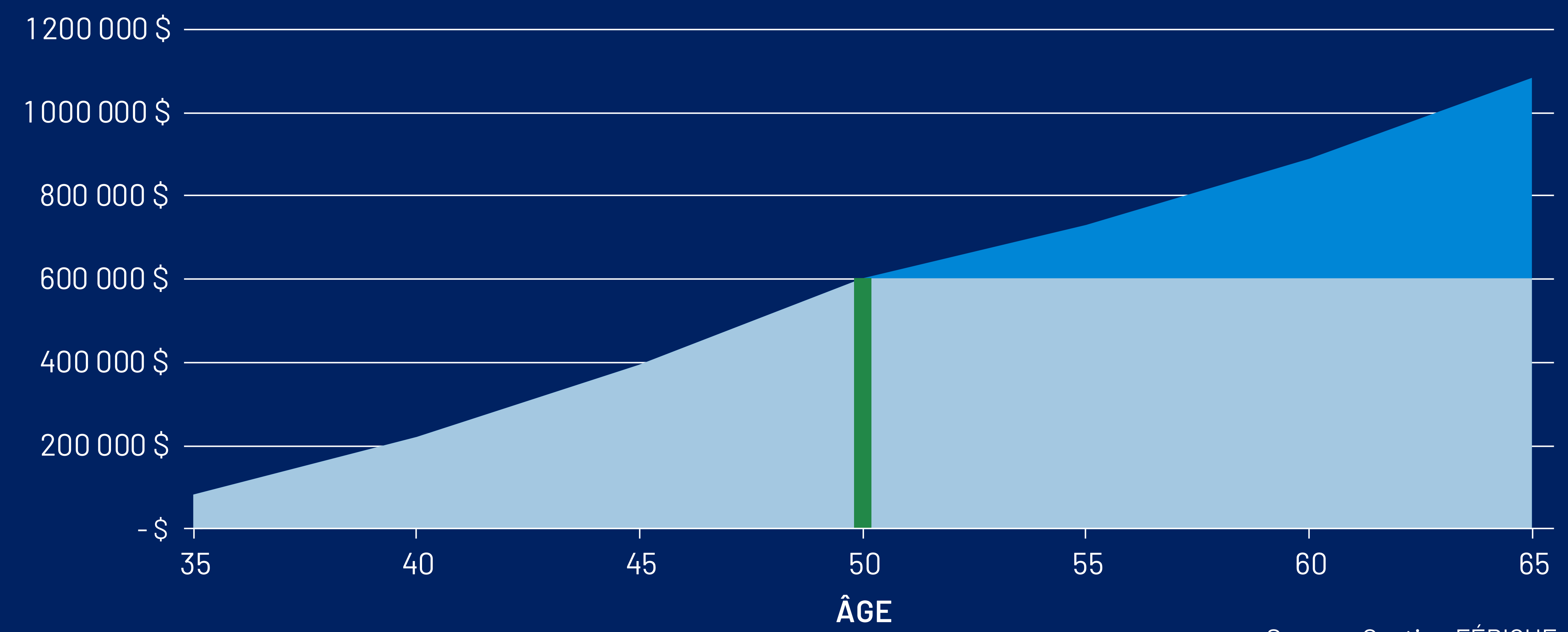
If Jonathan saves about **30% of his gross salary** until age 50, he can hope to reach his goal of working only a few months a year. He'll be able to cover his expenses with the assurance of having enough investments for retirement.

How so?

Initial investment : $80,000
Hypothetical annual return net of fees[1] : 4 %
Current age: 35

Legend :

- Returns after contributions stop
- Amount accumulated from contributions and returns
- Age when contributions stop



Source: Gestion FÉRIQUE

1 Based on the recommandations of the Institut québécois de la planification financière

INVEST EARLY TO REACH YOUR GOALS FASTER

“Time is money.”

When it comes to investing, time is a precious asset.

The magic of compound returns

Earn a return on your returns; compound returns are a key investing concept. Thanks to the return on the initial amount invested as well as on the cumulative returns since then, you can increase the value of your investments and future returns without additional contributions.

If you already have $80,000 in investments at age 35, with a hypothetical return of 4%, you could have more than $256,000 in investments with no further effort by age 65.

Discipline is your best friend

If you want to achieve financial independence before retirement age, the compound return on your current investments might not do all the work.

Savings discipline is necessary. If you invest your savings, compound returns and time will become powerful levers facilitating your progress toward your goal.

Imagine two 35-year-old engineers: Jonathan and Anaïs. They earn the same salary and their investments have the same value. Each of them, jointly with their spouse, owns a house with a mortgage balance of less than $200,000.

While Jonathan continues to invest, Anaïs stops for several years.

JONATHAN. 35.

Gross salary: $80,000 a year	
Current investments: $80,000	
Current savings $1,875 a month	
Investments at age 50 : $600,000	

ANAÏS. 35.

Gross salary: $80,000 a year	
Current investments: $80,000	
Waits until age 40 to save $1,875 a month	
Investments at age 50: $421,000	

+ $179,000 for Jonathan[1]

Jonathan can take the summer off. Every. Year.

At age 50, Jonathan could stop investing, accept a drop in income of nearly 30% by taking full summers on unpaid leave and still hope to have more than $1 million at age 65 to enjoy his retirement to the full.

Anaïs will have to continue working full time and invest the same amount until age 63 to accumulate the same nest egg for her retirement.

1 Hypothetical annual return 4 %

PAY YOURSELF FIRST WITH PACs

For many, saving means investing leftover income at the end of the month. If you have a surplus to put aside, then so much the better. But it can be difficult to maintain your savings discipline if you prioritize other expenses. After all, money can easily burn a hole in your pocket.

By automating your savings through preauthorized contributions (PACs) – say, on your payday – you can pay yourself first. A PAC limits your spending by making some of your income unavailable, with no extra effort on your part.

The advantages of PACs

Maximize your precious free time

Piecemeal investing involves constantly making changes to your accounts. Each time, you have to calculate what you can afford and then transfer the amount from your bank account to your investment account. Do you really want to waste all that time when technology can do it for you?

Make the most of compound returns

The longer you invest your money, the more the compound return becomes a powerful lever. If you let your money languish in a bank account, you'll miss out on the markets' best days. In the long run, your investment could suffer.

Avoid giving in to your emotions

The stock markets go through periods of strong gains interspersed by sharp declines. Investors who are swayed by their emotions may be tempted to invest when the markets are peaking and then stop investing during pullbacks. In addition to experiencing unnecessary stress, you're likely to buy high and sell low, or even sell at a loss. Automatic contributions prevent you from making such poor choices.

Reduce risk during periods of volatility

If you use dollar-cost averaging, you'll generally obtain a better average purchase price per unit by smoothing out bullish and bearish variations. In this way, you can increase your potential return. When the price is high, you buy fewer units and are, therefore, less at risk during sudden declines. During market selloffs, you buy more shares and, therefore, benefit more when the market resumes its advance.

What about market timing?

Trying to time the market is a tempting strategy but a losing approach over the long run. Even financial professionals with in-depth knowledge of the markets can't accurately pick the best time to invest. The markets are unpredictable and they're affected by a multitude of factors.

By resisting this temptation, you won't miss out on the markets' best days and you'll also spare yourself effort, stress and regret.

CHOOSE AN INVESTMENT VEHICLE

Several types of accounts allow you to invest on a tax-free basis. The two main ones are the Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA). Each has distinct tax advantages. Which one should you choose?

RRSP

The RRSP is designed to provide a constant source of income that replaces employment income. For many, it's the preferred vehicle for retirement planning. It's also an excellent vehicle for achieving financial independence.

Its great advantage is that you can deduct your contributions from your taxable income to accelerate your savings. Reducing your taxable income in this way provides a sizable tax refund that you can then reinvest. The higher your income and taxes payable, the more effective the RRSP becomes.

What's more, you can use your RRSP to finance the purchase of your first home or to go back to school, through the Home Buyers' Plan (HBP) and the Lifelong Learning Plan (LLP).

TFSA

The advantage of the TFSA is its flexibility: you can withdraw money at any time without losing your contribution room and without being taxed. TFSA income can supplement your RRSP or employment income without increasing the tax you pay.

Contribution room can be retained

If you haven't maximized your contributions in years past, don't worry about not being able to do so in the years to come. You won't lose out. Unused RRSP and TFSA contribution room is retained.

In the case of the RRSP, you may benefit from delaying your contributions if you're just starting your career or if you expect to have higher income in the years to come. By contributing to your RRSP later, you can accumulate contribution room and get more generous tax refunds.

TFSA VERSUS RRSP: MAIN FEATURES

	Savings goal	Contribution deadline	Annual contribution limit	Contribution room	Deductions	Withdrawals	Investment income	Impacts of withdrawals on government benefits/credits	Excess contributions	Contribution to a spousal account
TFSA	Accumulate tax-sheltered savings for financial independence, retirement or any other project in your lifetime.	None	$6,000 in 2022	Contribution room has been cumulative since the TFSA was introduced in 2009, reaching $81,500 in 2022.	Contributions are not deductible from taxable income.	**Non-taxable.** You can withdraw money from your TFSA at any time without being taxed. The amount withdrawn is added to the ceiling for the following year.	Non-taxable	Contributions are not deductible from taxable income.	Results in a penalty of 1% a month on the excess amount until it is withdrawn from the TFSA.	**There is no such thing as a spousal TFSA**, but the Canada Revenue Agency's income allocation rules do not apply when an amount is given to a spouse to contribute to his or her own TFSA.
RRSP	Accumulate tax-sheltered savings for financial independence, retirement, a down payment on a first home or a return to school.	Before the 60th day of the following year. For fiscal 2022: March 1st, 2023.	18% of income earned in the previous year to a maximum of $29,210 in 2022. Contribution room is cumulative. Pay attention to the pension adjustment.[1]	Contribution room is cumulative and corresponds to unused deductions from previous years, starting in 1992.	Contributions are **deductible from taxable income**.	**Taxable**. You have to pay tax on money withdrawn from your RRSP. The amount withdrawn is not added to the limit for the following year.	Non-taxable until withdrawn.	Causes a decrease or loss.	Results in a penalty of 1% per month on the excess amount until it is withdrawn from the RRSP. A lifetime surplus of $2,000 is allowed without penalty.	**Possible and results in a deduction** for the contributor. Amounts paid into a spousal RRSP cannot exceed the contributor's contribution limit.

1 The pension adjustment calculates the retirement savings accumulated by or on behalf of the member in a year in employer-sponsored pension plans. It is deducted from the RRSP annual contribution limit.

PURCHASE A PROPERTY FOR FINANCIAL INDEPENDENCE

For many, the purchase of a house or a condo is an end in itself that makes financial independence possible. For others, home ownership is an integral part of an investment strategy designed to achieve this ultimate goal.

Whatever your reason, various investment options are available to people who want to save for a down payment on their first home.

TFSA

Because you're not taxed when you withdraw funds from a TFSA, a large withdrawal for a down payment won't penalize you. You'll also get your contribution room back the following year.

RRSP

Under the Home Buyers' Plan (HBP), you can withdraw up to $35,000 from your RRSP to finance the purchase of your first home, without being taxed. With the reduction in taxable income offered by the RRSP, you can accumulate a down payment under the HBP faster. You have 15 years to repay your HBP. In other words, you can use your RRSP to make a loan to yourself.

TFFHSA

NEW

The Tax-Free First Home Savings Account (TFFHSA) is a new vehicle that will come into effect in 2023 to make it easier to buy a home. As with an RRSP, your contributions will be deducted from your taxable income, but no reimbursement will be required if you cash out to buy your first home.

The contribution limit will be $8,000 a year to a maximum of $40,000. If you don't use the TFFHSA to buy a property within 15 years of opening it, you can transfer the amount to your RRSP.

FINANCIAL INDEPENDENCE TO GO BACK TO SCHOOL

Have you ever thought "What if I could have a do-over?" when you look back on your education and career choices?

What if you really could start over?

For some, financial independence means the opportunity to reorient their careers by going back to school. And why not? If you no longer need to work full-time, you'll have free time to train for a new occupation and start a new career without worrying about earning a salary.

In addition to your RRSP and TFSA investments, which can provide you with basic income, another tool is available.

Lifelong Learning Plan (LLP)

The LLP allows you to withdraw up to $20,000 from your RRSP without having to pay additional taxes. It's a tidy sum that can help finance occupational, college or university studies!

But you'll have to pay the funds back to yourself within 10 years.

Basic LLP rules

- Enrolment on a full-time basis at a designated educational institution
- Up to $10,000 a year in authorized withdrawals
- Maximum lifetime withdrawal of $20,000
- Ten years to repay your LLP
- Spousal participation allowed

SOUND ADVICE TO AVOID THREE PITFALLS

Financial independence doesn't mean going it alone. To get there without advice, you'll need excellent knowledge of investment, taxation, insurance and more. Advice from a professional can help you reach your goal faster.

Here are three pitfalls that a professional can help you avoid.

Improvising without a clear financial plan

Underestimating the amount of money you'll need to achieve your goals can be problematic. A financial plan will estimate the required amount and set out the steps to achieve it. To help you with this process, an advisor will:

- design with you a financial plan adapted to your situation, regardless of your age or assets;
- review the plan with you and adjust it to your life events; and
- explain how to optimize your financial situation so that you can save more while increasing and preserving your assets.

Betting on a single security or asset type

Who hasn't dreamed of finding the next Microsoft, Apple or Google?

Unfortunately, the risk of betting on the wrong stock is high! The key to a successful portfolio lies not in a single security but in diversification.

You can have an advisor diversify your portfolio across a wide range of securities and asset types associated with different industries and regions.

Trying to time the market

Timing the market involves trying to predict when the market will rise or fall in order to invest at the right time.

But there is no indicator showing when a security, an asset class or the market as a whole will rise or fall. In addition to taking on the complexities of multiple transactions, you could buy and sell at the wrong time.

An advisor will help you optimize your portfolio's risk-return ratio and maximize your chances of achieving your goals.

THREE TYPES OF PROFESSIONALS AND THEIR EXPERTISE

You can obtain financial expertise from several types of professionals. Some provide guidance whereas others perform asset management.

Mutual fund representative

- Establishment of the investor's profile
- Ways to achieve financial goals
- Investment account taxation
- Investment choices
- Investment and savings strategy

Financial planner

- Analysis of movable and immovable investments
- Withdrawal plan for retirement
- Tax optimization of investments
- Need for critical illness, disability and life insurance
- Estate planning
- Debt structuring and repayment
- Protection mandates and matrimonial regimes

Portfolio manager

- Asset analysis
- Purchase and sale of securities
- Composition of funds and portfolios
- Assessment of risk-return ratio

TAKE ADVANTAGE OF THE FÉRIQUE DIFFERENCE

Diversified Funds and Portfolios

You'll have access to a range of high-performance investment solutions, including five turnkey portfolios.

Minimal fees

FÉRIQUE Fund Management offers Portfolios and Funds with some of the lowest management fees in the industry, relative to their reference universe in Canada.[1]

Exclusive offering

The FÉRIQUE Funds are available only to engineering graduates and students, as well as their families and businesses.[2]

Advice from FÉRIQUE Investment Services

For sound advice, whatever your situation, contact Advisory Services at FÉRIQUE Investment Services, the main distributor of the FÉRIQUE Funds.

Its team of mutual fund advisors and representatives and financial planners have the tools to help you design a solid financial plan and build a properly diversified portfolio.

They can also help you optimize your financial situation and achieve financial independence.

Open an account

Online

Open an account

On the phone

Monday to Thursday 8 a.m. to 8 p.m.
Friday 8 a.m. to 5 p.m.

T 514 788-6485
Toll free 1 800 291-0337

Make an appointment

Reserve a time slot

1 The management expense ratios of the FÉRIQUE Funds are among the lowest in their reference universe in Canada, according to Fundata Canada Inc.
2 Eligibility requirements: ferique.com/admissibilite

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