**Fin 1194-1-F,2024-Asgn.2-G (1)**

Assignment #2 (Online) – Group #1

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| **Group Assignment 2 (10%)**  **Case study** |

**This assignment is based on the Investment part presented in Unit 2.**

Your Client Mr. Jeffry called you and asked for a kitchen meeting a.s.a.p.

In this meeting he revealed his intention to downsize his current residency by selling his 2 million houses to move to a CAD 6oo K apartment in a seniors building.

He wanted to secure a good return on investment for the rest of the CAD 1.4 M, but he is concerned with the current turbulent economic conditions, the escalating interest and inflation rates.

He asked you to suggest alternative investment products that would give him both peace of mid and good return so that he can enjoy the rest of his life with no financial stress and secure his wife well being financially after his death.

Mr. Jeffry is 65 years old, his wife Mary 62 have independent children and grand children that are well being.

Your task is to present at least two mega investments, not just products, in details explaining their merits and weaknesses.

Clarify in details different scenarios, e.g. If some cash will be needed how to liquidate this investment, partially or totally.

Explain the tax implications of cash withdrawal and after the death of either Jeffry or Mary or both, what fees will be incurred and what is the optimal tax planning and fees minimization.

Your explanation would include **numeric examples** for illustration and ease understanding.

The presentation would not be more than 4 pages.

The assignment grade is based on how clear and thorough the presentation of the two products would be, their matching to the client needs and their fulfillment to his future objectives.

The presentation and logical sequence of ideas are also graded.

**Conversation Between Client (Jeffry) and Financial Advisor**



***Image generated using DALL·E by OpenAI: Financial Advisor with Jeffry and Marry.***

Jeffry: Thank you for coming on such short notice. As I told you, I'm about to sell and downsize to a seniors' apartment, in which I'll end up with CAD $1.4 million to invest. With the economic turmoil at this point, I'd like some safe and profitable options to give me peace of mind, knowing that Mary is financially taken care of. What do you suggest?

Financial Advisor: Thank you, Mr. Jeffry. Based on your priorities-safety, growth, and estate planning-I highly recommend exploring Mutual Funds and Segregated Funds. These options go well with your goals and offer the balance of growth and security you are looking for.

Jeffry: That sounds promising. Can you explain to me how these two options works and why they're suitable for me?

Financial Advisor: Of course. Mutual Funds are professionally managed diversified portfolios offering growth potential. They're designed to generate returns through a mix of equity, bonds, or balanced assets.

On the other hand, Segregated Funds are similar to mutual funds but include additional insurance guarantees such as principal protection on maturity or death. They also bypass probate, thus being ideal for estate planning.

Jeffry: Interesting. How do these compare in terms of risk and liquidity?

Financial Advisor:

- Mutual Funds: Depending on the asset mix, mutual funds show moderate to high growth. However, there is no guarantees and they are subject to market fluctuations.

- Segregated Funds are less risky since, well, there are guarantees. For example, **75%-100%** of your principal invested is guaranteed at maturity or upon death. They're also a bit less liquid, as there might be penalties against early withdrawals.

Jeffry: What about returns and how the taxes work?

Financial Advisor: Good question.

- Mutual Funds: They produce returns by dividends and capital gains, and both of these are taxable. The capital gains are taxed favourably, in that **only 50%** of the gains are taxable.

- Segregated Funds: These present similar returns but also offer added benefits. At the time of your death, the proceeds will skip probate to the beneficiaries, which accelerates the process of transferring and may reduce the amount of estate tax owed.

Jeffry: That's good. Can you recommend how that would work in my case?

Financial Advisor: Yes, certainly. We split your $1.4 million equally between Mutual Funds and Segregated Funds:

**- $700,000** investment in Mutual Funds, with an annual return of 6%, it’ll be $42,000 per year.

- **$700,000** investment in Segregated Funds, with a net return of 5%, you'd earn $35,000 per year.

Put that together: you get **$77,000 per year**, enough to provide consistent income and peace of mind. In addition, the Segregated Funds ensure that Mary or other named beneficiaries have direct receipt of the proceeds, bypassing delays in probate.

Jeffry: How about fees?

Financial Advisor:

- Mutual Funds carry less cost, but there is no guarantee on returns.

- Segregated Funds involve higher costs due to the insurance features that come with it, but for the guarantees and estate planning benefits, Segregated Funds are well worth it.

Jeffry: That makes sense. How does this help Mary in the event of my death?

Financial Advisor: If something happens to you, the Segregated Funds will transfer directly to Mary, without going through probate. This avoids delays and additional costs. For the Mutual Funds, we’d ensure they’re set up in joint ownership.

Jeffry: Thank you. I think this is a very good combination that meets my needs. Let's finalize this program.

Financial Advisor: Great to hear that, Mr. Jeffry. Now, I'll prepare the documents like; Fund Facts, Prospectus and Information Folder for both Mutual Funds & Segregated Funds. We shall make your investment serve the purpose of providing security and comfort to you and Mary.