WHAT DO I DO NOW?

THE RECOVERY IS UPON US AND IT'S TIME TO START PLANNING FOR THE FUTURE. THAT MEANS LOTS OF QUESTIONS, AND THEY'VE BEEN POURING IN: 'IS THIS MARKET RALLY FOR REAL?' 'HAVE I MISSED THE RECOVERY?' 'IS IT SAFE TO BUY A HOUSE?' MONEYSENSE TALKED TO CANADA'S TOP EXPERTS TO FIND THE ANSWERS YOU NEED TO THRIVE IN THESE UNCERTAIN TIMES

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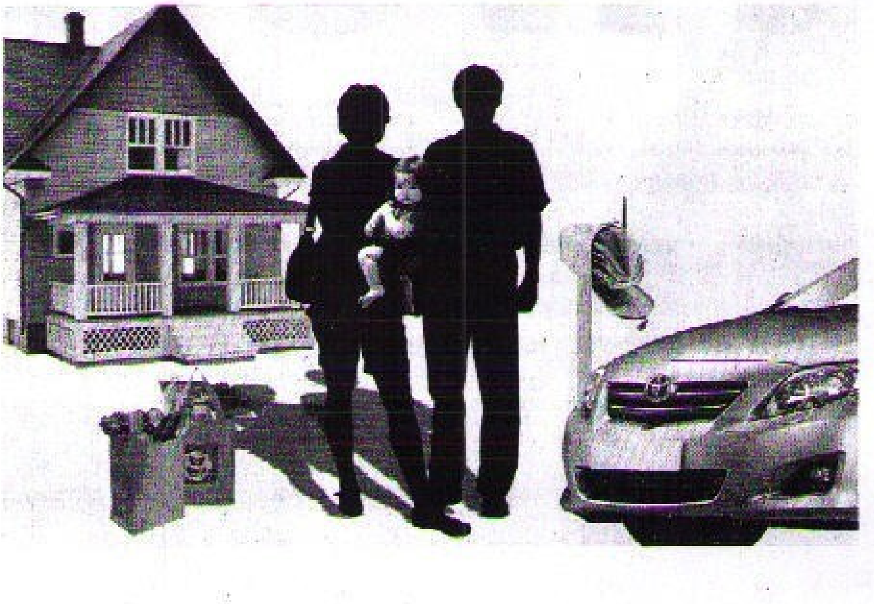
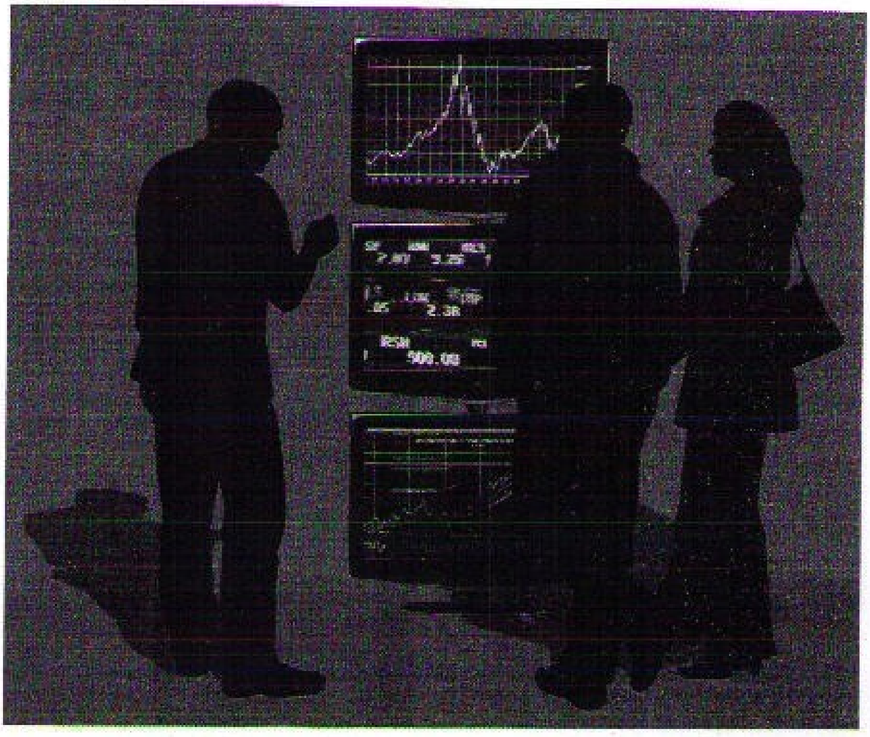
Just over a year ago, we experienced one of the most dramatic synchronized global market meltdowns ever, and the after-effects are still resonating. For many, it was like being tied to the railway tracks as a locomotive hurtled toward them. You could see disaster coming, but what could you do? Many watched helplessly as the financial malaise trickled through the system until their savings were in ruins and in some cases, they were out of a job too.

Now the recovery is upon us, and dazed Canadians are shaking their heads and trying to figure out what to do next. It's time to start planning for the future again, but it's hard to say what kind of future it will be. Given such uncertainty, it's not surprising that you have more questions than ever: Will I still be able to retire when I hoped to? Are my investments still too risky? How safe is my job? To help out, we've taken some of the most common questions we get and asked the experts to answer them. Sometimes the news is good, sometimes it's bad—but no matter what your problem is, we have an answer to help.



INVESTING

Q: Is this market rally for real? Or could there be another crash?



A: Who better to answer that question than the world's greatest investor, Warren Buffett. Last fall, as you may recall, the Oracle of Omaha announced in the *New York Times* that he was going to start buying U.S. stocks. He encouraged others to do the same, but those who did had a bit of a rough ride. After his October column appeared, stock markets plunged faster than a mountain climber who just lost his grip.

Since March though, stocks have been on a tear, and those who bought when Buffett suggested are in the black. You'd figure he would be pleased. But he's not. In another op-ed *New York Times* piece over the summer, Buffett sounded almost despondent. Rather than predicting another bull market, he warned the masses of government stimulus spending would come back to haunt us. "Before long we will need to deal with their side effects," he warned.

Such ominous words made many fear the "double dip" scenario, in which we see another tumble in the market, perhaps even worse than the first. But few seem to be expecting something quite so dramatic. Certainly, given that the market has bounced out of this recession faster than any other in history, we shouldn't be surprised if we do have another nasty stumble, but the more worrying scenario may be that we drift sideways from here, and drift for a long time.

The problem, says Aron Gampel, deputy chief economist at Scotiabank, is that the recovery so far has been due to three temporary factors, and as the impact of those factors wanes, the economy could lose steam. The first factor is the government's fiscal stimulus, the next is the current low interest rates, and the third is the drastic inventory slashing that companies did last year, which helped to provide a bounce this year as the supply chain was replenished.

For now, those three factors are acting like high-octane fuel driving the economy, says Gampel—but at some point that fuel will run out. Government spending will be pulled back, interest rates will rise, and businesses will stop restocking their warehouses. "There's isn't any sign that we're into any sustainable expansion. It's going to be a very weak recovery and we should brace for it," says David Rosenberg, chief

Q: Have I already missed the recovery?

A: The stock market's rebound has been so sudden and unexpected this year, it's easy to think that if you haven't yet invested, it's too late to join the party. Well, we hate to tell you this, but you're at least half right.

The TSX Composite index plummeted 50% from summer 2008 to mid-March of this year. It has since posted an amazing 45% recovery. But it still has another 39% to go before it hits the 2008 peak. "So you've missed a lot of the recovery, but not all of it," says Norm Rothery, chief investment strategist at Dan Hallett & Associates.

The bad news is it could take years to make up the rest of that 39%. Few economists are predicting that the TSX will top the peak it hit in June of 2008 anytime soon. And if you do decide to get into the market now, you'll have trouble finding deals. "I think the market has probably gotten a little ahead of itself even," says David Phipps, senior financial adviser at Assante Capital Management.

Phipps doesn't think missing the recovery should worry most people too much though. Few get the timing of such surges right, so most people shouldn't try to time the market at all. Instead, you should concentrate on making sure you have a balanced portfolio that can weather the market's ups and downs over the long run, whatever it does. So go ahead and invest. Put about 50% to 60% in equities, and the rest in bonds and fixed income. As long as you don't sell when the market drops, or make foolish bets when it rockets up, you'll do fine.

economist and strategist at investment firm Gluskin Sheff. "We can probably go through a couple of quarters of positive growth but it's probably more a reflection of the extreme bottom that we crawled out of."

Rosenberg thinks the recovery could be slower even than the sluggish turnaround after the early 1990s recession. Back then, the spending power of thirty-something boomers eventually helped drive the economy back in shape. This time around, consumers have more debt, and 50-plus boomers are trying to save for their retirement. Plus, sooner or later there will need to be tax hikes to pay for the current government spending. "The transition to the next expansionable market is going to be a very choppy one."

Q: Are my investments too risky?

A: They could be. To answer that question you need to look at what you're holding. The first tip-off is if most of your money is in equities. By their very nature stocks are risky, so they should almost always be mixed with safer investments like bonds and GICs.

Most experts suggest using the rule of 100 to figure out the proportion of your investments that should be in equities. To do this, you subtract your age from 100. That is the percentage of your portfolio should be stocks. So, if you're 25 years old, you subtract 25 from 100 to get 75, which means that 75% of your money should be in stocks. If you're 60, you subtract 60 from 100 to find that 40% of your money should be in stocks. The idea is that you take more risk on the stock market when you're young, and less risk as you near retirement.

Trouble is, when the stock market is hot, as it was up until last fall, people get greedy. Even as they close in on age 65 they keep most of their money in stocks. Jim Otar, a certified financial planner and founder of RetirementOptimizer.com, thinks the best way around this problem is to keep only 40% of your money in stocks if you are over 50. That's a very conservative strategy, but it's "going to give you peace of mind," he says. "You'll make less money, but you'll also lose less."

RETIREMENT

Q: My investments took a beating. Can I still retire when I planned to?

A: It depends on how old you are. If you're still in your 30s or 40s, you're fine. You've got plenty of time for the market to bounce back. In fact, the market plunge may have done you a big favour because you have now witnessed first hand how suddenly the market can drop. So you've probably learned a bit of caution, which could serve you well in the years to come.

If you're over 50, you may or may not be able to retire when you hoped. Jim Otar, a certified financial planner and founder of RetirementOptimizer.com, has an easy rule of thumb you can use to find out. If you plan to stop working at 65, you'll need $270,000 in savings for every $10,000 you hope to withdraw from your nest egg each year in old age. Say you think you'll need to withdraw $30,000 each year. You must have banked three times $270,000, or $810,000. "It's basically a ratio of 1:27. For every $1 you need each year in retirement you must have saved $27," Otar explains. Similarly, if you want to retire at 55, the ratio goes to 1:33. In that case, you'll need $330,000 set aside for every $10,000 of annual retirement income.

The result of Otar's calculation can be a frighteningly big number. But here's some good news: you may not need as much as you think. According to Statistics Canada figures compiled for *MoneySense*, a typical Canadian who earned between $50,000 and $90,000 when he or she was working only replaces between 48% and 53% of his or her working income in retirement—and the more you earn while you're working, the lower that percentage is.

Many financial planners will suggest you should save a million dollars or more to retire comfortably. But you'll probably do

Q: I've been laid off. Should I take my pension in cash or leave it in the plan?

A: If your company has a defined contribution plan, you may not have much of a choice. Most firms with such plans won't let you leave money in the plan, says Marc Lamontagne, a certified financial planner with Ryan Lamontagne Inc. in Ottawa. You'll have to take it out and deposit it into a LIRA, a locked-in retirement account that you won't be able to tap into until age 55.

On the other hand, if your company has a defined benefit pension plan, then leaving your money in may be better. That way, the company's pension plan is on the hook for making sure that you get the payout you expect. If you take the money out, it's your problem. You should also consider the health benefits your company offers retirees. You won't be able to collect those benefits if you take the money out as a lump sum when you leave the company. "That's one of the reasons most people leave it in," according to Lamontagne.

Still, it may be dangerous to leave your cash in a defined benefit plan if it looks like your company is in perilous shape. If the pension plan is underfunded and the company goes bankrupt, you could be left with nothing. That's not an issue if you have a government job, though, says Lamontagne. "In that case you definitely want to leave your pension where it is."

fine with $500,000 in RRSPs, savings and pension funds. That'll provide you with close to $20,000 a year for as long as you live. In addition to that, you and your spouse could collect as much as $22,000 a year in Old Age Security and Canada Pension Plan payments, putting you above $40,000. For most retirees right now, that's plenty.

MONEY AND FAMILY

Q: My children are grown up, but now they want to move back home. Should we let them?

A: Amazingly, nearly one third of parents with adult children have at least one of their kids living at home. "Boomerang kids," as they're called, aren't coming back because they miss Mom's cooking. More often than not, they've lost their jobs or just gotten divorced and need a fresh start.

If your son or daughter does return to the nest, go ahead and welcome them with open arms. But unless you set down rules right off the bat, get ready for a flashback to those turbulent teenage years. "As soon as he's back in the bedroom, you're right back into your old roles. You're the parent and he's the child," says Ruth Hayden, a financial educator and author in St. Paul, Minn. In no time, you'll be doing his laundry and cooking his favorite dishes. After a while the joy of having your offspring back home will turn to resentment.

To keep that from happening, you need to take charge before he sets foot in the door, says Hayden. Make it clear the house doesn't belong to him, and assign him some chores, like doing the vacuuming or cleaning the bathroom every week. It's also a good idea to insist on a time line for when your offspring will be out of the house. At the very least you want them working toward a specific goal. One of Hayden's daughters,

for instance, moved back home with the intent to work on her master's degree. That was fine, because there was a specific end date to the arrangement.

One question most people grapple with is whether to charge rent. Don't feel obligated if you don't need the money. But don't make their stay a free ride either. When Hayden's kids moved back home, she asked them to open a bank account and deposit money in it every month for a down payment on a house later on. "If they missed a month, then the next month's money came to me as rent. You have to show your kids that living at home is no longer an entitlement."

WORK AND CAREERS

Q: How safe is my job?

A: In September, Canada's unemployment rate fell for the first time in 16 months, making some wonder if the risk of losing their jobs is over. But it turns out that may be overly optimistic. Many think the only reason the unemployment rate declined is because things got so bad, Canadians began dropping out of the job market altogether, so they weren't counted.

The truth is, unemployment is a lagging indicator in recessions, and the job cuts usually persist long after the market begins to recover. Dale Orr, an economist in Toronto, is predicting unemployment will actually rise next year, not fall, eventually peaking at 9.5%. It'll take at least until 2012 to start to see a recovery, he says, and another two years after that before we're anywhere close to the 6% unemployment rate Canadians enjoyed a few years ago. Even then, many of the new jobs we see will be part-time or contract jobs, rather than full-time.

So how safe is your job in particular? It depends on what you do, your age and where you live. So far in this recession young people have suffered the most, with those in their 20s hit the hardest, and men aged 30 to 54 hit almost as badly. So if you're a young male, watch out.

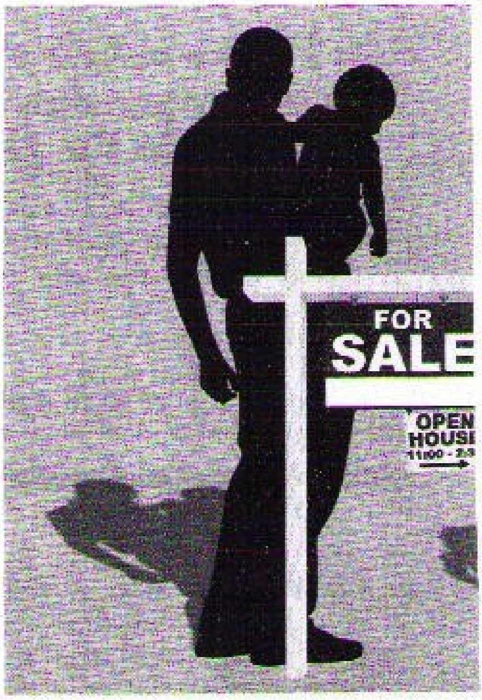
On the other hand, if you're a woman or you're over 55, you're on safer ground. So far, despite the recession, more jobs have been created for women and there are 90,000 more in the 55 and up bracket working now than at the start of the recession—although some of those jobs may be retirees who were forced to take on part-time work because their portfolios tanked.

If you want a safe job, you might try applying to work for the government or in health care. Anyone engaged in big construction projects, such as building roads and bridges, will also be in demand over the next year as federal stimulus spending projects get underway. "If you can run a backhoe, I think you're going to be very busy," Orr says. On the other hand, if you work in manufacturing, the media or the financial sector, you may be vulnerable.

Your location makes a difference too. Western Canada will do best, especially Alberta, says Orr, as it's expected that oil sands production will ramp up again to meet Chinese demand. Meanwhile, "it's tough to see Ontario thriving anytime soon," says Doug Porter, an economist with RBC. The province's manufacturing economy is too reliant on the U.S., he says, which will be slower to come out of recession. Some say that many of the manufacturing jobs lost in Ontario and Quebec may never come back.

Q: I hate my job. Should I quit and go back to school?

A: Before you tell your boss to shove it and go train for the job of your dreams, you should probably decide if you can afford it. Tuition is shockingly expensive these days, and meanwhile you're not earning any income. Then, when you graduate, are you sure you're prepared to start at the bottom in your new career? It can be surprisingly tough when you find yourself competing with recent university grads for poorly-paid entry-level jobs.



Luckily, Karen Kelloway, a career coach in Halifax, says there are lots of other ways to find the career of your dreams. Often companies are willing to help people transition from one career to another if such a job exists within their organization. They may even help pay for the training. Or consider going to night school to learn a new career

Q: I recently lost my job. Should I take the first thing that comes along, or wait for a job I love?

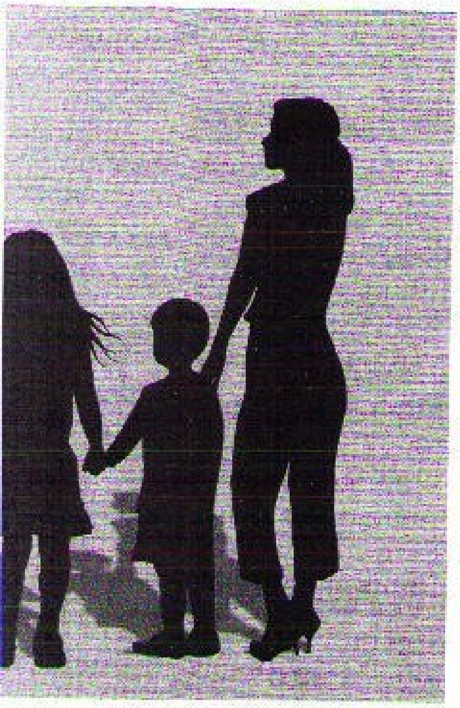
A: Ask your grandfather that question and he'll probably howl with laughter. Then he'd tell you what folks in his day did when they lost their job: You went down the street to the next factory and asked if they were hiring. No one ever worried how fulfilling sweeping floors was, or that it might hurt your résumé.

Times are different now, though. Taking a job as a Wal-Mart greeter to pay the bills could actually undermine a professional career, says Alan Kearns, founder of Toronto-based career coaching company Career Joy. On the other hand, once you hit management level, you can't start thinking that all non-management jobs are beneath you, either. Sometimes going too high up the corporate ladder can make you less employable, as there are fewer and fewer jobs near the top.

In those cases, shifting your career path slightly can create new chances. Kearns once helped a woman who'd been laid off from her position as director of sales at her company. One of the first job offers she got was to work as a salesperson—which was like taking three steps backward in her career. But she took it anyway. Soon her new boss left and she got the job. "It turned out to be a stepping stone for her," Kearns says.

Another good reason for not being too picky is job search burnout. The longer people look, the more disillusioned they get. The feeling of not contributing becomes overwhelming, says Kearns. You get lonely and stuck in a rut. Simply having work and getting a paycheque is an enormous confidence booster. If you don't find something quite as fulfilling as your old job, consider volunteering in something you do enjoy. A laid-off accountant could improve his résumé by volunteering to help keep the books for a local non-profit.

As for taking that job at Wal-Mart—if you're desperate for the money, just do it, says Kearns. It's only for a while, and who says you have to put it on your résumé?



while keeping your day job.

Another idea, says Alan Kearns, founder of Career Joy, is to think about what you love to do and see if there are jobs in that area that fit your skills. "You may be in IT but you love to run. Maybe you should aim to find a job in IT working for the Running Room."

REAL ESTATE

Q: Is now a good time to buy a house?

A: Canada's housing market seems to be defying the law of gravity these days: Economic growth is non-existent and unemployment is high, so why are home prices recovering? The number of homes sold shot up 60% over the past spring and summer, while house prices jumped by almost 4% between April and July, according to the Teranet-National Bank House Price Index.

The answer likely lies in our rock-bottom interest rates. A few months ago, you could get a five-year mortgage at just 5.25%, close to as low as those rates have ever been. Such low rates mean affordable monthly carrying costs for homes bought on credit, even though house prices, by long-term historical standards, are quite high. Robert Hogue, a senior economist with RBC, says that housing affordability, as measured by the percentage of household income needed to pay monthly mortgage, property tax and utility bills, hasn't been this low in years. Two years ago it took 46% of Canada's median pre-tax household income to own a typical detached bungalow. As of this spring it was down to 39%.

That's good news if you plan on borrowing lots of money to buy a house. If that's the case, you may very well want to jump in and take advantage of today's low mortgage rates, as they are already starting to creep up.

On the other hand, if you are able to make a large cash down payment on your house you may want to wait. House prices are high now because of the demand due to low rates. If rates go up, and it's possible they will next summer when the Bank of Canada's pledge to keep rates low expires, demand for homes could drop, and house prices could drop too. Grant Bishop, a TD economist, says the Bank of Canada may even allow rates to rise before next summer, if the surge in the housing market threatens to create another bubble.

Pascal Gauthier, an economist at TD Bank, says the current flock to real estate is likely a temporary blip caused by not only the low rates, but also the pent-up demand from people who held off buying last fall and winter while they waited to see if the recession was going to turn into a depression. He forecasts that home prices will rise 5% next year and fizzle to 2% in 2011. That means that after inflation, prices will have stopped rising altogether.

So should you buy? Certainly. Go right ahead if the time feels right, and you have money saved up for a down payment. Just don't spend more on a house than you can afford. Experts suggest your monthly carrying costs on a house should be no more than 32% of your household income, and that's assuming a 25% down payment. The main thing you should keep in mind is that you should treat your house like any other purchase—not an investment—and that it's possible that prices will tumble or at least go sideways over the next little while. After the stimulative effect of low rates evaporates, all we'll be left with is slow economic growth and high unemployment—hardly the kind of environment in which house prices normally surge. ■