THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

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It's summer — a time to relax and get away from it all.

That relaxed feeling is a great reminder for why you should take the worry out of your financial future. Whether you're planning for a stress-free retirement or simply want the peace of mind that comes from knowing today's financial needs are taken care of, it's important to be confident in whatever lies ahead.

So while you might take a summer vacation, your money never should. We're committed to helping you find innovative ways to make investments work harder for you.

FOCUS ON INVESTING

# A blue-chip comeback for your portfolio

**If you want the growth that equities provide but you're still wary of stock markets since their 2008-2009 decline, it's time to take another look at blue-chip stocks.**

Here are a few reasons why.

**You own high-quality companies.** By investing in large, top-quality companies, you can capitalize on the growth potential of equity markets while managing risk and volatility. Think of investing in blue chips as owning pieces of top-tier businesses with proven track records. Historically, blue-chip stocks are good long-term performers because of their solid financial fundamentals. In addition, shares of large, well-established companies are often less volatile than those of smaller companies and may suffer less in stock market downturns.

**Blue chips are poised to lead.** As the economic recovery matures, many experts expect market leadership to continue to move toward larger-capitalization stocks with the best fundamentals. This shift will benefit the blue-chip investments in your portfolio. Until recently, the recovery has been led by smaller-capitalization and cyclical stocks, which is typical.

**They're strong and have cash.** Also working in favour of blue chips is the fact that large corporations are generally in the best financial shape in years. Cost-cutting, efficiency improvements, and record profits have left them with strong balance sheets and huge amounts of cash.

That cash can be used to reward investors through increased dividends, share buybacks (which can create demand for stocks and drive up prices), and business expansion for future growth.

Interested? Let's talk. We can explore how blue-chip stocks can be a valuable component of your portfolio. ■

# For more opportunities, take your portfolio on a trip


**The world is full of investment opportunities. However, many of them are in countries that you might not have ventured into, investment-wise. Not being familiar with the financial markets in certain countries can prevent you from taking advantage of investment potential outside Canada.**

However, there is a simple and effective way to invest in countries that can add some spice to your portfolio, while benefitting from expert advice and professional management: "single-country" mutual funds.

### The advantage of a concentrated focus

Single-country funds specialize in investments in companies located in a particular country. They are an effective alternative choice to wider-ranging "geographic area" funds that typically include investments in a number of countries.

Single-country funds provide exposure to narrower — yet potentially lucrative — slices of the global market to which you normally wouldn't have access, or where you might be reluctant to venture through individual securities. With one investment, a single-country mutual fund lets you hone your international focus while increasing portfolio diversification.

### The advantage of access

These funds help overcome the difficulties you might have investing in individual securities in these countries. Many foreign markets can be difficult to navigate because of language barriers, a lack of research material available to individuals, and difficulties trading securities from Canada.

Canadian mutual fund organizations offer a selection of single-country funds, including those that focus on China, Japan, and India. These funds are managed by fund managers in these countries who know their economies, financial markets, circumstances and individual companies in their target countries.

Mutual fund portfolio management teams comb these markets for attractive investment opportunities that meet each fund's individual objectives. Their expertise turns what to the average investor might pose a barrier into an opportunity for investors in a single-country fund.

### The advantage of diversification

With one investment, you instantly have a stake in a wide selection of holdings. This level of diversification can be extremely difficult to achieve through individual investments in foreign countries.

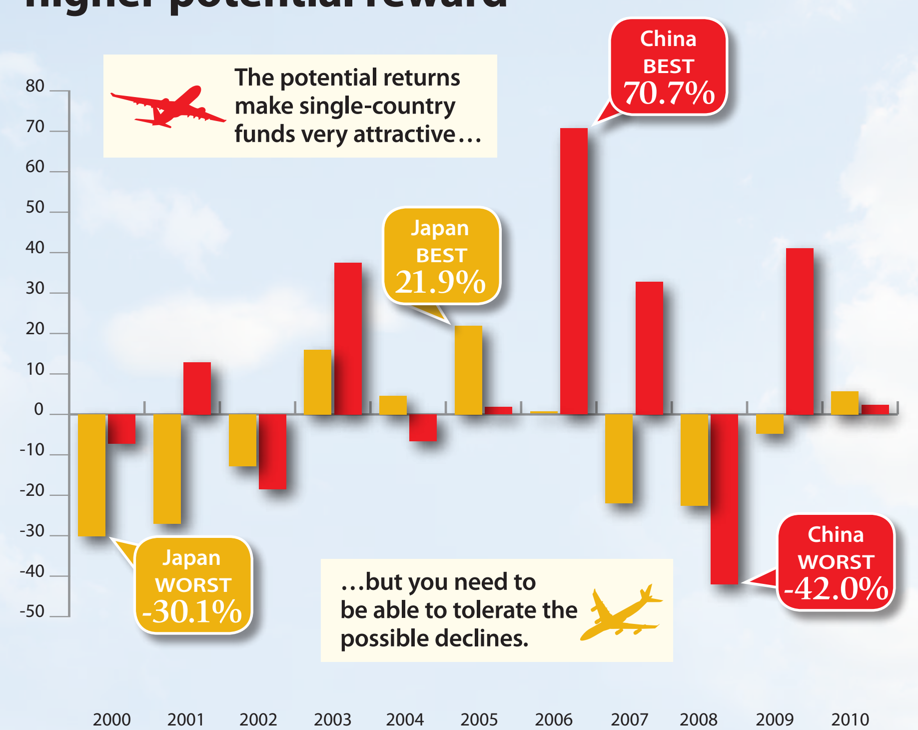
It may also be costly, since buying and selling stocks on foreign exchanges is typically more expensive than trading on those of North America.

However, some caution is warranted. While single-country funds can often be leading performers, they can also be volatile. Global investments may be subject to market and economic forces that differ from those in North America. For these reasons, single-country funds should be a supplement to a "core" mutual fund strategy, not your principal investment focus.

Who are single-country funds for? Investors who have a specific interest in one country, or who want to build a broad-based international fund portfolio through a series of country and regional funds.

Talk to us. We can work with you to explore the world of single-country funds and help select the right investments for your mutual fund portfolio. ■

## Just one destination? Expect higher risk, higher potential reward




Source: Globefund 15-year mutual fund review
Average return of all funds in group for a one-year period, reflecting a reinvestment of dividends, and subtracting management fees and expenses.

**INVESTMENT PLANNING**

## Keep more for yourself and your partner

If you and your spouse have an income gap, you may be in an ideal position to take advantage of one of the few income-splitting opportunities available for Canadian couples: the spousal investment loan. This strategy gives you the potential to reduce your total income taxes as a couple — and increase investment returns. The reason now's a good time? The interest rate prescribed by the Canada Revenue Agency is the lowest it's been in years, just 1%! The rate can be locked in for the life of the loan. Here's how it works.

Through a spousal investment loan, a higher-taxed spouse lends money to a lower-taxed spouse, who then uses the funds to invest. Income earned from the investment is taxed in the hands of the spouse with the lower tax rate. This results in lower combined taxes for a couple than if the higher-taxed spouse does the investing.

Interest on the loan must be paid by the end of January every year for the previous calendar year. There is no obligation to repay the principal. The borrowing spouse receives a tax deduction for the interest and the lender pays tax on interest income.

We can help you decide whether it makes sense for you and your spouse to use this income-splitting strategy and help you choose a suitable investment. ■

**EDUCATION PLANNING**

## Learning goes beyond the classroom

A Registered Education Savings Plan (RESP) isn't only about saving for your child's post-secondary education. It's also about using the funds wisely. Here's how to best help your child draw and use the money in the plan.

To start, once your child is registered in a qualifying post-secondary program, funds from an RESP are made available through Educational Assistance Payments (EAPs).

The most a child can receive for the first 13 weeks of an educational program is $5,000. After that time, the funds that can be made available are limited only by the actual costs of study. Remember, as the plan "subscriber" you get to maintain control over the RESP. This is where the real planning comes in. Together, we need to ensure that the money is distributed so it lasts throughout the time it's required.

It's also important to manage your child's expectations. RESP beneficiaries should be aware that you control the funds, and should be part of a discussion about how much they'll receive and when. Your child should also know that he or she might be responsible for income taxes as a result of payments received (although in reality taxes are usually minimal or non-existent). We should also discuss how your child can successfully manage education finances. ■

**WHAT YOU NEED TO KNOW ABOUT...**

## Preferred shares in mutual funds

In today's environment of erratic bond yields and low interest rates, it can be a challenge to put together an effective mix of income-generating investments. Preferred shares and the mutual funds that hold them may provide an attractive alternative.

**Q: What are they?**

**A:** Preferred shares are a class of a company's shares that have preference over common shares when it comes to paying dividends. They typically do not have voting rights. Preferred shares provide the potential for income as well as capital appreciation. Like common shares, they represent ownership in a company. Unlike common shares, they generally pay a fixed dividend.

**Q: What are the caveats?**

**A:** Dividends may not be guaranteed, so the income stream can end. Another thing to note is that a number of preferred shares are redeemable, which means that the issuing company has the right to call in the shares at a certain price. A company may do this if market rates fall below the rate the shares were issued at, at which point they might repurchase them from investors and issue new shares at a lower rate.

Preferred shares tend to be less volatile than common shares. The preferred dividend offers some protection from equity market downturns, but may also limit price appreciation. Preferred shares are also affected by changes in interest rates (though to a lesser degree than bonds); when rates go down, prices go up, and vice versa.

**Q: Who are they for?**

**A:** If you are looking for relatively low volatility but decent yield, mutual funds that includes preferred shares may have a useful place in your portfolio. Many Canadian income funds focus on preferred shares. In addition, if keeping your income tax lower is a priority, dividend income from preferred shares issued by Canadian companies benefit from the dividend tax credit. This favourable tax treatment applies to dividend income earned by mutual funds and distributed to unitholders.

The range of preferred share features adds to the complexity of investing which is one reason many people prefer to invest through a professionally managed mutual fund. We can help you sort through the possibilities.

# The emotional challenges of an inheritance

**Receiving an inheritance is much more than a financial event. It's an emotional one as well. If you're expecting a considerable inheritance, it's important to plan for the transition that sudden money requires.**

Taking care of the financial transition may also help you with the emotional one.

## A truly mixed blessing

Emotionally, an inheritance can affect you in ways you might not expect. The fact is, it is a truly mixed blessing. You've suddenly gained a sum of money that could alleviate financial worries or open up desirable opportunities for you, but you have also lost a loved one.

There can be other potentially complicated consequences of receiving an inheritance. Family relationships can be strained, and sudden wealth can result in jealousy on the part of family and friends. For people who are facing the complexity of emotions that an inheritance can bring, it might be helpful to keep in mind that the person who left you the legacy did so with the intent of helping you forge a secure or more comfortable future. It's also crucial to plan.

## Do not proceed without a plan

A financial plan that is specifically created to address your inheritance is a must. The absence of a plan for this windfall can actually put it in jeopardy. Time and again, people who come to receive a substantial sum of money tend to blast through it far too quickly, and without addressing the needs they had before receiving it.

By letting emotions cloud good judgment, you are more likely to make decisions that aren't consistent with your financial needs and goals.

There's also the unavoidable fact that newfound wealth may change your life and therefore involves major decisions about what you want to do with your life. With more money, you'll have more possibilities now and in the future. These might include possibilities you've never considered before.

By working together, we can establish clear financial objectives and a roadmap for reaching them. With a plan, we can avoid missteps and prepare you for the challenges of safeguarding, and benefitting from, the legacy of a loved one.

## Take your time

A plan will also give you the luxury of taking a little time to become accustomed to your new situation. You'll already know where you're headed, and you won't be in a hurry to figure things out. Often it's a good instinct to wait a few months before you do anything major with a windfall. Taking a break gives you a chance to gain control over your emotions.

Everyone's reaction to sudden wealth is unique. If a major inheritance is in your future, let's talk now about the best way to handle it. Planning today can avoid problems tomorrow and ensure that the money you inherit will help provide financial security for you and your family. ■



# Time to get serious about your TFSA

**IT'S TIME TO stop treating your Tax-Free Savings Account (TFSA) only as a "savings account" or emergency fund and treat it like the grown-up tax shelter it is. By focusing solely on conservative, traditional savings investments, you could be robbing yourself of much of the tax-free, compound growth potential your TFSA offers.**

**What do we mean by "grown up"? The TFSA is now in its third year. That means you've been able to contribute as much as $15,000 to your plan. What started out as a maximum $5,000 account is now a vehicle with serious investment and tax-saving potential. Yet a recent survey shows that 87% of Canadians who have a TFSA use it as an emergency fund.**

**The real value of a TFSA lies in its ability to shelter capital gains and dividend income earned by stocks, equity mutual funds and other investments as well as interest income. These investments have better growth potential than "savings"-type investments.**

**A TFSA also allows you to meet sophisticated financial planning needs. For example, using a TFSA to shelter dividend income can help higher-income retirees avoid the Old Age Security "clawback."**

**By working together, we can ensure that you use your TFSA to its maximum advantage.** ■

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