THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

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Bert Griffin, BComm., CFP
Senior Investment Advisor
Insurance Representative

Manulife Securities Incorporated
Manulife Securities Insurance Inc.
Suite 700, 10050 - 112th Street
Edmonton, AB T5K 2J1
Telephone: (780) 488-9889 ext. 1
Toll-Free: 1-877-455-3222
Cellular: (780) 298-9975
Fax: (780) 482-1099
E-mail: Bert.Griffin@manulifesecurities.ca

In summertime, it's always great to enjoy the heat and take it all down a level, to recharge and relax.

If, while you sip a chilled lemonade in the backyard, you start to think about your goals and how they might be changing, don't be shy about giving me a call to chat; I'm always happy to be a sounding board, particularly if there have been any changes in your circumstances. Or if you simply decide it's time to save for a new boat, or a vacation property.

Summertime is also a great time to catch up on your reading — about investing strategies or other topics. Remember, we're always here to chat, and remain committed to helping you make your investments work harder.

FOCUS ON INVESTING

Why taking profits is the most difficult part of investing

Let's say an investor named Jake has a target asset allocation of 60% equities and 40% fixed income. The stock market goes on a bull run and Jake's equity holdings grow to the point that they now represent 70% of his portfolio.

Will Jake sell to take a profit and rebalance his portfolio like he should?

The "buy high" trap

Unfortunately, our man is like a lot of investors out there, with an overwhelming impulse to do the exact opposite: invest more money into that so-called sizzling stock market. Jake's impulse is leading him to "buy high."

This is where reason should prevail. Jake's original 60:40 asset mix is part of a well-planned, long-term strategy. And by redeeming a portion of his equity holdings to rebalance, he'll be selling high and investing his new money into fixed income, so his asset allocation is back on track.

Stick to your plan

Instead of overinvesting, taking your allocation out of whack, and watching the cooling market sink a large portion of your portfolio, stick to your plan. After all, a hot bull run will eventually run its course.

We are here for you in situations like this. Together, we can review your investment plan and portfolio, and then determine the best course of action. Ultimately, the goal is to keep your portfolio aligned with your risk tolerance and time horizon to keep it on track towards achieving your long-term investing goals. ■

Are you a victim of 'home bias'? Don't ignore global equity funds

Having a bias for your home country is, ironically, truly global, especially among investors. Mutual fund and equity investors alike all around the world tend to shy away from "foreign" markets, preferring to stick to the funds that are close to home — a phenomenon that's known as "home bias" or "domestic bias."

It's no mystery that there's comfort in the familiar. The question for mutual funds investors is this: what does home bias do to your mutual fund portfolio? Are these investors actually going to get closer to their goals with this approach, or are they missing out?

Blame Canada

For Canadians, there's an even bigger explanation for home bias — performance. From 2003 to 2012, the S&P/TSX Composite Index outperformed the S&P 500 in seven of 10 years. But as disclaimers warn, past performance is no guarantee of future performance. In 2011 and 2012, the S&P 500 outpaced the S&P/TSX Composite. It is interesting to note that as of December 31, 2012, the Canadian Pension Plan (CPP) Investment Board did not show domestic bias, instead holding 82% of the CPP Fund's equities in markets outside the Great White North.

To illustrate the risks of domestic bias and the opportunities presented by exposure to global equity funds, let's compare the strategies of two mutual fund investors, Ian and Marie.

Ian has always trusted Canadian equity mutual funds for almost all of his equity holdings.

Marie takes a different tack. Her equity mutual funds are diversified across Canadian, U.S., and international markets — and her plan is based on her tolerance for volatility, her investment goals, and her time horizon.

Expand those horizons

Ian believes he's playing it safe by focusing on Canadian equities, but he is limiting his investment opportunities — the Canadian market capitalization represents only about 5% of that of the world. He's not only sacrificing diversification by geographic region, but also by sector. Nearly 80% of the benchmark S&P/TSX Composite is composed of only three sectors — energy, financial services, and materials. And what if Ian wants the security of large caps? Canada is home to only 11 of the world's largest 500 companies.

Marie, on the other hand, gains all of the benefits of diversification by geographic region, sector, and market capitalization. She has the opportunity for higher potential returns through exposure to the best-performing markets. Marie decreases risk because she spreads out her investment dollars over a variety of markets. Also, over time, diversifying tends to smooth out the highs and lows of her overall portfolio performance.

Is your portfolio constructed to take advantage of equity opportunities around the world? Together, we can make sure your investments are well-diversified globally, without domestic bias or overemphasizing any one geographic region or sector. ■

Don't play follow the leader

Imagine this. It's the first week of January 2012, and an eager investor is searching for a new place to invest a holiday bonus. She sees that the Emerging Markets Equity Index dropped 16% in 2011, and decides to avoid that "loser" index by keeping her bonus out of her emerging markets equity fund.

As it turned out, if our eager investor had chosen emerging markets, she would have enjoyed a gain of 16% in 2012. Welcome to the tricky world of predicting leaders in global equity performance, where pundits try to pick what's hot and what's not. The key? Don't get pulled into the game.

Take any year, and you'll find that the market leader in equity returns tends to be a different country or region — and nobody can consistently guess which geographic market will be next year's leader — or loser.

So how can individual mutual fund investors be sure to include the world's outperformers in their portfolios? Not by guessing, that's for sure. Think diversification, think about trusting your long-term plan, and think about discussing with us mutual funds that contain equities from different markets around the world.

Top equity regions in the past four years

The "winning" region is typically different from year to year.

2009	2010	2011	2012
Emerging Market Equities 51.6%	**Canadian Equities 17.6%**	**U.S. Equities 4.6%**	**Emerging Market Equities 15.6%**
Canadian Equities 35.1%	Emerging Market Equities 12.7%	Canadian Equities -8.7%	Foreign Equities 14.7%
Foreign Equities 11.9%	U.S. Equities 9.1%	Foreign Equities -10%	U.S. Equities 13.4%
U.S. Equities 7.4%	Foreign Equities 2.1%	Emerging Market Equities -16.4%	Canadian Equities 7.2%

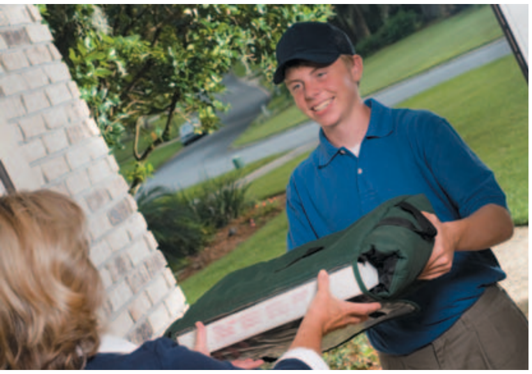
Canadian equities: S&P/TSX Composite Index U.S. equities: S&P 500 Foreign equities: MSCI EAFE Index
Emerging markets: MSCI Emerging Markets Index
Source: Morningstar

TAX PLANNING

Does your child have a summer job?

When your son or daughter gets a summer job or a part-time job during the school year, he or she may be wondering if it's necessary to pay income tax. Thanks to the federal basic personal amount of $11,038 plus any applicable tax credits, your child may not owe a dime.

While working teens don't need to file a tax return if they don't owe tax, there are reasons to file anyway. Here are just some of the benefits to doing so.



Your teen may:

1. Build RRSP contribution room. By filing a tax return and recording income, your daughter or son builds Registered Retirement Savings Plan (RRSP) contribution room that can be used for future contributions and tax deductions.

2. Get a tax refund. Did the employer withhold income tax from your child's paycheques? By filing a tax return, your child can get a refund of the amounts deducted.

3. Qualify for the GST/HST credit. Your child needs to file a tax return to qualify for the GST/HST credit. The quarterly amount is payable if your child is 19 or over; no income is required to qualify.

4. Receive student tax credits. Post-secondary students are eligible to receive tax credits for tuition fees, education amounts and textbooks, provided they file a return. When the student doesn't owe tax or even has no income, the credits can be carried forward until they can be used or transferred to an eligible family member to use that year.

Let your children know they should save their pay records and take advantage of these benefits. And if your son or daughter is 19 or over, or a post-secondary student, remember that no income is needed to file a return and benefit from the GST/HST and student tax credits. ■

Giving while living

Your will probably spells out which assets are going to which children or grandchildren. But is that the best strategy for your situation?

For some families and situations, it's worth exploring beyond the most common estate planning strategies of leaving assets to your heirs through a will. Here are some advantages to giving assets now.

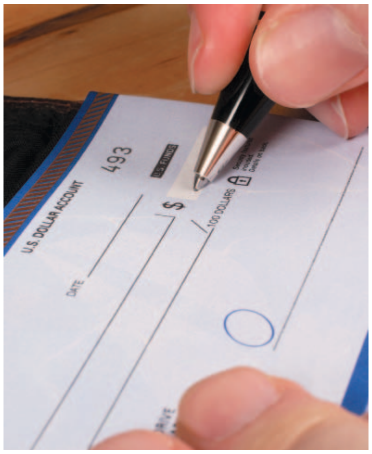
Tax advantages

For certain cases, and for certain amounts of money, giving while living may better suit both the giver and the recipient.

- **No tax on cash gifts.** Giving while living can make a lot of sense in many situations, especially since there's no tax on gifts of cash in Canada. No tax to you, no tax to the recipient.
- **Earned income on a gift to a minor child is taxed to you.** If you give an investment to a minor child, any interest or dividends it generates will be taxable to you until the child turns 18. Capital gains however, are taxable to the child.
- **Capital gains on gifts are taxed in your hands.** If you are giving the family cottage to your child, doing it now can be a smart move tax-wise. If you are ready to hand over responsibilities for maintenance and upkeep, you may want to give (or even sell) the property to your children right now. The transfer may trigger capital gains taxes on any gain in the property's value to date, but future capital gains will accrue to the children. Make sure you discuss these strategies with a tax advisor, as they can be complex.

Benefits may go beyond the financial

By giving now, you are able to see your children or grandchildren benefit from your gift — a meaningful advantage over leaving an inheritance. You'll have the satisfaction of watching them meet life goals more easily and enjoy a better quality of life.



You may also eliminate any delays that may be caused through administration of the will, and reduce probate fees and potential executor fees (note that probate fees are not a factor in Quebec and are minimal in Alberta and the three territories).

In some cases, there's reason to distribute funds privately. A will is public, but funds given now can be transferred with discretion.

Unfortunately, heirs are sometimes known to disagree over the way estate assets are distributed. If you plan on giving now, you will be there to help settle any issues and avoid conflicts among siblings.

The concerns

If you give a gift now, you relinquish all control over the gift and you may not approve of the way it's being spent or managed. And you'll be here to watch it all!

What if something completely unforeseen happens — such as the economy suffering a deep recession or you developing a costly illness? You must be absolutely certain that you will not need the funds.

Talk to us as well as your tax advisorwhen you're thinking about estate matters. We can help you determine whether it's best to give an inheritance through your will, give while living, or use a combination of the two. ■

Should you take a multi-faceted approach to education savings?

For many Canadians, the Registered Education Savings Plan (RESP) will meet their kids' needs for college or university. But what if they need additional funds to meet the costs of post-secondary education?

Take the case of a student enrolling in 2012. It's estimated that a four-year degree at a Canadian university may cost more than $100,000.[1] But what if your son or daughter takes graduate studies? What if your child chooses a career path with higher tuition — like medicine, law or dentistry, or pursues an MBA?

You may have reason to complement your child's RESP with other funding vehicles, taking a multi-faceted approach to saving for a possibly extended post-secondary education.

Lay the cornerstone first

Education savings begins with the RESP, whether it's the sole funding vehicle or the foundation of an education savings program. Your contributions grow on a tax-deferred basis and, equally important, you receive the Canada Education Savings Grant (CESG). Each year you can get $500 in "free money" for each child, up to a $7,200 lifetime grant per child. If you live in Quebec, the Quebec Education Savings Incentive (QESI) can add up to an additional $3,600.

The possible concern with an RESP is the maximum contribution limit of $50,000. That may not be an issue, but it's advisable to monitor your plan's growth and consider your child's career path in case you see a potential problem arising.

Some investors will face a choice: whether or not to complement their child's RESP with another strategy.

Additional strategies

Tax-Free Savings Accounts (TFSA) – yours, your spouse's or both — can be ideal investment vehicles for education savings. Your contributions grow tax-free and are withdrawn for your child tax-free. In fact, after you withdraw funds for your child's education costs, you can re-contribute the amounts to the TFSA in a later calendar year.

Another option is to set up an informal trust for your child and make investments for your child's education — the primary benefit being that there are no limits to the amount you can invest. Keep in mind that the account belongs to your child at the age of majority and that he or she will be able to use the funds for any purpose.

If you choose equity investments, capital gains are taxed — typically favourably — in your child's hands, while interest and dividend income is taxable to you. However, reinvested interest and reinvested distributions are taxed to your child.

We can help you determine whether to complement your RESP with TFSAs or an in-trust account. And if you do, we'll discuss various ways to get the most from each vehicle and strategies on using the vehicles together. ■

1 Source: BMO Bank of Montreal Economics Department in conjunction with the Association of Universities and Colleges of Canada (AUCC), based on a national average for a four-year university degree including accommodations, tuition, books, and meals.

Manage your RRSP like a pension fund

Your Registered Retirement Savings Plan (RRSP) strategy has been designed to ride out the bumps of volatile markets and fulfil your long-term goal of helping to fund your retirement. It is your personal pension fund.

Looking to the practices and strategies of the large pension funds can be very insightful.

Conventional strategies

Most pension funds position the fund for growth without assuming unnecessary levels of risk. Typically, large-cap dividend-paying companies play a key role, as do U.S. and other foreign equities for enhanced diversification and growth. Emerging market investments may be included for potential outperformance.

The fixed-income portfolio is designed to provide stability and may include higher-yielding corporate and foreign bonds.

Does any of this sound familiar? Remind you of your own plan?

Standard practices

Just as we do with your RRSP, pension fund managers establish an overriding plan and stick to it. They rebalance the fund on a regular basis to maintain the desired asset allocation.

And always, they invest for the long term, not making short-term changes in reaction to market movement.

If you want to review your "personal pension fund," please give us a call. ■