THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

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As you gather your paperwork and receipts for another tax season, remember, there are various ways to reduce your tax burden. It's what's left after tax that really counts.

If you expect to receive an income tax refund, consider putting this extra money to work for you by getting a jump on your Registered Retirement Savings Plan (RRSP) contribution for 2010 or topping up your Tax-Free Savings Account (TFSA).

Questions? Please feel free to give me a call.

FOCUS ON INVESTING

When to fine-tune your investment portfolio

Investing for the long term requires discipline and consistency. While the "buy and hold" approach has been proven to provide reliable growth over 10 to 15 years or longer, there are times when it's advisable to make changes to ensure you are adhering to your long-term strategy.

Here are some situations:

When investments in a particular asset class have significantly outperformed (or underperformed), the portfolio's asset allocation may have drifted away from its target. Sometimes it takes just one streaking stock — remember Nortel Networks? — to throw things off.

When this happens, we need to rebalance your portfolio to maintain your target asset mix by reducing positions in sectors that have become overweight and reallocating the proceeds to sectors that have become underweight. This will restore the balance appropriate to your risk tolerance and time horizon.

When a better alternative is discovered — such as a sector or a stock that has superior growth prospects to an underperforming investment in your portfolio — it can make sense to replace it.

When a specific investment simply cannot keep pace with its peers, it might be time to get rid of it. From time to time, we may identify a stock or other security that has underperformed and seems unlikely to recover sufficiently. In such cases, we may suggest replacing it with a more competitive investment.

Ask us. To review your portfolio for some fine-tuning to ensure you're on strategy and on track, please don't hesitate to contact us. ■

MUTUAL FUNDS

What past performance can teach investors

Investing for the long term in equity markets is a winning strategy, although the recent turmoil in worldwide markets certainly put that adage to the test. But the pain of falling fund values was quickly eased by a strong rebound in 2009, proving yet again that patience pays for the disciplined, long-term equity investor.

In 2008, equity mutual funds were labouring under the load of the credit crisis, testing even the conservative investor's confidence in the market's ability to come back. The median Canadian equity fund had a 33% negative return in 2008, while funds that invested outside of the country fared not much better. It was not unusual to hear pundits predict years of losses and even depression.

By late last year, however, the markets had bounced back and many Canadian equity funds recovered ground. U.S. equities had a tougher time, struggling under the burden of a soaring national debt and continuing worries about a consumer credit crunch. International markets, on the other hand, roared back, fuelled in particular by rebounds in Asian and emerging economies.

The contrast between the two years' equity fund returns is striking, and weathering such volatility can be unnerving. But history proves that it has happened time and time again.

Echoes from the past

A year or two of declines followed by a strong rebound is a pattern that's been repeated over the decades and around the world.

Canada. In 2001-02, the median fund in the Canadian equity fund category fell by nearly 20% according to Morningstar. That was followed by four straight years of double-digit gains. Going further back, we find 2% drops in 1998 and 1994 followed by powerful double-digit rallies in the following years.

In fact, Canadian equity funds have posted negative returns in seven of the past 20 calendar years. Yet the overall compound annual return over that time is a respectable 7%.

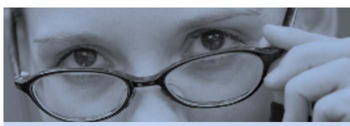
The U.S. We see a similar story when we look to the U.S., although the 2009 rally was muted for Canadian investors because of the strength of our dollar against the American greenback. Still, despite suffering negative returns in six of the past 20 years, investors in U.S. equity funds have managed to enjoy an average compound annual return of 4.7% in Canadian-dollar terms over those two decades.

Lessons for the future

While the past is no guarantee of what the future will bring, past performance can help us maintain a long-term perspective. The message appears to have sunk in for Canadian fund investors.

Redemptions of Canadian equity funds rose by less than 2% in 2008 from the 2007 level. That compares with a year-over-year redemption jump of nearly 10% the last time Canadian equity funds lost ground (in 2002). This is an encouraging trend, suggesting investors don't panic-sell as much as in the past.

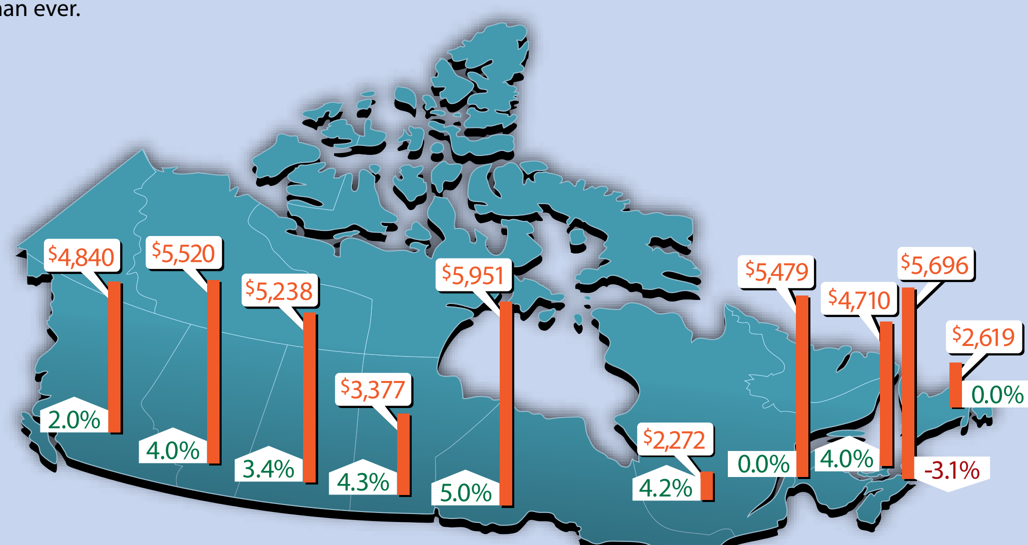
One of the benefits of working with a professional advisor is having the support you need to make the decisions that are right for you, even when times are tough. Remember, we're here any time you're feeling uneasy or you have a question about your investments. ■



EYEOPENER
graphic evidence of how investing works

Tuition: Big and getting bigger

Undergraduate university tuition fees rose for the 2009-10 year everywhere except in some of the Atlantic provinces. Saving for your kids' post-secondary education is more important than ever.



Source: Statistics Canada. Percentage change in 2009/2010 average annual undergraduate tuition fees over 2008/2009 fees.

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

TAX PLANNING

Get your tax refund up front

When you get a tax refund, it means you have given Ottawa an interest-free loan of funds you could have used last year to reduce debt or boost your investments.

The good news is that if you think you'll be in line for a refund, you don't have to wait. Your district taxation office can authorize your employer to deduct less tax from your pay to reflect ongoing payments that typically trigger a tax refund — things like Registered Retirement Savings Plan (RRSP) contributions, charitable donations, deductible support payments, and childcare expenses. You might also qualify if you will be making a large RRSP contribution or "catch-up" contribution early in the year, or if you expect to have significant carrying charges, rental losses, allowable business investment losses, or legal expenses incurred to collect child support.

If you'd like to request a reduction in your at-source deductions, contact the Canada Revenue Agency or Revenu Quebec for the necessary forms. ■

TAX PLANNING

Tax time! Remember to claim insurance premiums

Are you missing out on potential tax savings because you're not making the most of the Medical Expense Tax Credit? This credit is available for medical expenses that exceed 3% of your net income or $2,011 (whichever is less) in 2009. But a lot of people don't realize that in addition to the cost of prescriptions and eyeglasses, qualifying expenses include:

- The portion of travel insurance that relates to medical coverage.
- Premiums that you pay for medical or dental coverage as a member of an employee group benefits plan (premiums paid by your employer or premiums relating to critical-illness or disability coverage are not eligible).
- Supplementary medical/dental insurance that you purchase on your own.

If you are self-employed, it's usually better to claim health insurance premiums as a business expense, as these tax savings are likely to be greater than those available with the Medical Expense Tax Credit. Premiums may be claimed as a business expense up to a maximum of $1,500 each for you, your spouse, and any dependent adult children, and $750 per minor child. ■

RETIREMENT PLANNING

Important changes afoot to the Canada Pension Plan

Proposed changes to the Canada Pension Plan (CPP) may affect your decision on when to retire and begin drawing benefits. The changes, to be phased in starting in 2011, would mean higher payouts for those who wait beyond age 65 and less for those who collect earlier.

In 2010, the maximum CPP retirement benefit is $934 monthly at age 65. Under the proposals, those who defer their pension would see benefits increased by $78 each year to reach $1,326 monthly by age 70. Those who start early would lose $67 each year and receive only $598 monthly if they collect at the first opportunity at age 60. Actual benefits will depend on individual contribution history and are adjusted for inflation every January.

A second significant change affects those opting to take benefits early. Currently, in order to qualify for CPP, you must stop work or reduce earnings for at least two months. That test will be dropped in 2012. Instead, those who collect early and continue working will be required to contribute to CPP at the same time, as will their employers. This will mean a higher pension the following year. Contributions will be optional for those 65 and older. ■

INVESTING

Canada shines in your portfolio

Investing abroad allows you to take full advantage of worldwide stock market growth and helps improve portfolio diversification. But over the long term, domestic investments have typically provided good returns and solid fundamentals.

And there is an even more compelling reason to remain focused on home — Canadian stocks have outperformed U.S. and other foreign equities more often than not, particularly during the past decade.

The numbers tell the story

The S&P/TSX Composite Index has bettered its U.S. counterpart, the S&P 500 Composite Index, in eight of the past 10 calendar years and 11 of the past 20.

The average compound annual returns are even more compelling, with Canadian stocks gaining around 5.5% over the 10 years ended Dec. 31, 2009, compared with a loss of about 4% for U.S. stocks. Over 15 years, Canadian stocks' annualized return was more than three percentage points higher. (All returns are in Canadian-dollar terms.)

We've also held our own against overseas markets, as the S&P/TSX has beaten the MSCI EAFE Index in all but two of the past 10 years; the EAFE lost nearly 2% on a compound annual basis over that period. Over 15 years, the TSX has come out ahead 12 times, with the EAFE falling in excess of 3% on an annualized basis.

Things look rosy for Canadian markets going forward, too. Despite an inflated federal deficit, our economic growth has been the strongest among the leading industrialized nations (G7).

We also entered the downturn in excellent fiscal shape, having run a budgetary surplus for more than a decade. This has made it easier to fund a huge economic stimulus, keeping our deficit smaller (as a percentage of gross domestic product) than those of competing nations.

Fundamentals are encouraging

While the weak U.S. dollar has hurt Canadians' investments south of the border, the same fundamental market factors that have driven the loonie are propelling our stock market. Rising oil prices have fuelled stocks in the TSX's energy sector, as well as pipelines.

Meanwhile, the mining, utilities, technology, and transportation groups have continued to attract investor interest. Gold at more than US$1,000 an ounce in early 2010 has boosted the fortunes of producers. And our banks came through the recent credit crisis not only intact, but with enhanced reputations on the world stage, and financial stocks have been top performers.

A cheap U.S. dollar may make investing on Wall Street an attractive proposition and the continuing promise of Asian and other emerging markets may entice — but it might make sense to direct an appropriate proportion of your focus to the significant opportunities here at home. ■

EDUCATION SAVINGS

Turbo-charge education savings with a TFSA

REGISTERED EDUCATION SAVINGS Plans (RESPs) remain the first choice when saving for post-secondary education. However, the introduction of Tax-Free Savings Accounts (TFSAs) affords a new opportunity to turbo-charge savings. Here's how.

Contribute $2,500 annually to a child's RESP to generate $500 from Ottawa via the Canada Education Savings Grant. That's a guaranteed 20% return up front (with the funds to be used for the post-secondary costs of specific beneficiaries). Then contribute up to $5,000 each year to a TFSA, where your contributions and earnings grow tax-free — and can be withdrawn tax-free at any time and for any purpose.

You can make tax-free withdrawals from your TFSA and give the funds to the student once he or she is in school. The amount can be recontributed the following year or later.

Alternatively, you could give a child 18 or older the funds to open his or her own TFSA. There are no tax consequences for the individual who makes the gift and the student can make tax-free withdrawals as needed while at school.

We can help you to crank up education savings, taking into account such factors as your tax bracket, the level of education your student is expected to pursue, and the number of investment years remaining. ■

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