THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

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Before the summer days set in, we invite you to get in touch with us for a review of your portfolio, particularly if there have been any changes in your circumstances. It makes sense to ensure everything is in order now so you can kick back and enjoy the summer season.

Also, if you received a tax refund this year, consider how you can put it to use wisely — perhaps by adding it to your RRSP or TFSA, or paying down debt. We can help you find the most appropriate solution.

FOCUS ON INVESTING

Cash earning next to nil? There *are* alternatives

Most investors keep a portion of their assets in cash, whether it's for security in their portfolio, to hold onto while deciding on new investment opportunities, or simply to have some money ready for an unexpected expense.

Typically, that means holding either cash or cash-equivalent assets, such as Treasury bills (T-bills), Guaranteed Investment Certificates (GICs), or redeemable term deposits. In today's low-rate environment, however, these highly secure vehicles don't offer much in the way of returns — typically half a percentage point or less on an annual basis as of first-quarter 2010.

There are, however, a couple of alternatives to consider that may provide better returns while still providing reasonable security and access to cash when you need it:

Short-term bonds. By assuming slightly higher risk, government bonds with maturities of one year or less potentially offer better returns over cash or guaranteed deposits. Plus, their short maturities provide liquidity if you need access to cash.

Because they're backed by the federal or provincial government, short-term government bonds can be considered very secure (although not guaranteed). Bond yields can fluctuate according to changes in prevailing interest rates, so they do have a small amount of risk.

Money market funds that invest in short-term debt instruments. Consider money market funds that include bonds and other short-term debt instruments — these may produce higher yields with only marginally more risk.

For more information on enhancing the returns of your cash-equivalent investments, please contact us for professional help. ■

For steadier returns and lower volatility, consider bond funds for your portfolio

With interest rates continuing to hover near 30-year lows, fixed-income yields are also near record low levels. As a result, some investors might be tempted to give bond funds a pass.

However, as part of a diversified portfolio that also includes equity funds, bond funds offer two important benefits that make them valuable at all times:

Steady returns. Bonds offer a fundamental element of stability because they provide regular interest income and full principal repayment on their maturity. As a result, bond funds can provide steady returns with moderate volatility, making them a valuable offset to the potential higher returns and higher volatility of equity funds over the long term.

Non-correlation. Bond funds tend not to be highly correlated with equity funds, largely because bonds tend to react favourably to conditions that are not positive for equities, and vice versa.

It was these characteristics that enabled fixed-income markets to show positive returns during 2008, when most equity funds were reeling from the effects of the global economic downturn.

The benefits of a fund approach

Holding bond funds, rather than buying and selling individual bonds on your own, offers a number of advantages. You'll achieve greater diversification of issuer, maturity date, and yield, along with professional management.

Bond funds can adjust their holdings, selling existing issues to generate capital gains or losses, extending or shortening their term, and adjusting weighting of different issuers in response to changing market conditions.

Types of funds

Bond funds come in a wide array, with different goals and holdings. The fund or funds that are right for you will depend on your investment objectives, time horizon, comfort with volatility, and fit with your other investments.

Mutual funds that focus primarily on short-term bonds or other fixed-income securities are favoured by those who want a temporary parking place for cash. They offer lower volatility returns than equity funds; indeed, Morningstar statistics show that the median Canadian short-term fixed-income fund did not lose money in 18 of the past 20 calendar years.

Mutual funds that hold primarily long-term bonds offer potentially higher returns, but are also more volatile because long-term bonds are more sensitive to interest-rate fluctuations.

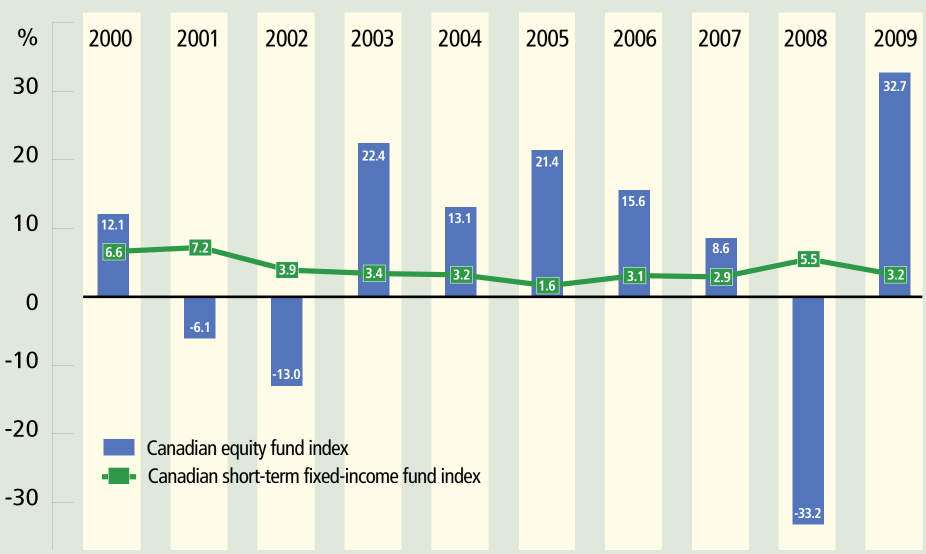
Government bonds. These bonds, particularly those issued by the federal government, are considered some of the most secure investments around. As a result, funds that hold them can be expected to provide lower but steadier returns.

Corporate bonds. Bonds can also be issued by corporations. Funds that hold a large portion of corporate bond issues are usually seeking to provide higher yields than government issues. Note, however, that with higher yields comes greater volatility.

We can help you determine how bond funds may play a role in your portfolio. ■

Bond funds + equity funds = 2 keys to a diversified portfolio

Bond funds tend to provide relatively steady but more modest returns; equity funds can provide potentially higher returns but tend to be much more volatile. The lesson? Having both in your portfolio will help give you a mix of growth potential and lower volatility.



Source: Morningstar, Canadian Investment Funds Standards Committee indices; annual returns Dec. 31, 1999, to Dec. 31, 2009.

PERSONAL FINANCES

Use your credit report to protect against identity theft

According to the Canadian Anti-Fraud Centre, Canadians lost almost $11 million last year to identity theft. What can you do to protect yourself? One of the most valuable tools available to you is your credit report.

Your credit report is important because it is an electronic snapshot of your financial health compiled and shared by credit granting agencies such as financial institutions and department stores. It provides a picture of your loan payment history and potentially negative data such as bankruptcies, judgments, and tax liens.

If you find anything untoward on your report, it could indicate that your identity has been confused with that of another person or stolen by identity thieves intent on using your good name for their own profit.

It's a good practice to check your credit report once a year to confirm the accuracy of your personal and financial information. You can view your credit report online with Equifax (www.equifax.ca) and TransUnion (www.transunion.ca) for a fee, or download a form to request a free report.

Mail in the completed form with photocopies of two pieces of identification, and you should receive a full report in the mail in about two weeks. ■

RETIREMENT SAVINGS

Got a refund? Think RRSP

If you anticipate receiving a tax refund, you may already be dreaming about how to spend it — maybe a trip or a plasma-screen TV. Here's a better idea: Use your refund to top up your Registered Retirement Savings Plan (RRSP) and enjoy a bigger nest egg when you need it.

If you contribute now for the current year, you will be putting your money to work almost a year earlier than those who wait until the last minute, and you will maximize the tax savings and tax-deferred growth that make RRSPs so attractive in the first place.

Let's say you're expecting a tax refund of $2,000. Putting that in your RRSP will give you a $2,000 tax deduction for 2010. Assuming a marginal tax rate of 35%, that represents tax savings of $700.

Even better, your contribution will begin to grow on a tax-deferred basis. Assuming you can leave it in your RRSP for 30 years and earn an average of 6% annually, your $2,000 will grow to almost $11,500.

For other effective ways to put your tax refund to work for you, give us a call. ■

FINANCIAL PLANNING

Self-employed? New EI changes give you benefits

One of the biggest risks faced by people who are self-employed has long been potential loss of income caused by illness, injury, having a child, or caring for a gravely ill loved one. Now, you can protect against that risk by making voluntary contributions to Employment Insurance (EI).

Starting Jan. 31, 2010, self-employed individuals who choose to contribute to EI will be able to apply for the same "special benefits" as salaried employees who contribute:

If you give birth, you may be eligible for up to 15 weeks of maternity benefits.

If you become a biological or adoptive parent, you may be eligible for up to 35 weeks of parental benefits (these may be shared between two parents).

If you are unable to work because of illness or injury, you may be eligible for up to 15 weeks of sickness benefits.

If you need to be away from work temporarily to care for a gravely ill family member, you may receive up to six weeks of compassionate care benefits (during a 26-week period).

You must have earned a minimum of $6,000 from your business in the previous calendar year in order to be eligible. Premiums must be paid for at least 12 months before benefits become available.

Self-employed residents of Quebec will continue to receive maternity and parental benefits through the Quebec Parental Insurance Plan, and will now be eligible to receive sickness and compassionate benefits through EI.

For more information, visit www.servicecanada.gc.ca and look for Employment Insurance. ■

Income trusts may still have much to offer

Remember income trusts, those income-generating investment vehicles custom-made to deliver high income during a time of low interest rates? You could be forgiven for believing they were mortally wounded when the federal government introduced legislation on Halloween 2006 to eliminate their tax advantages by January 2011. As of that date, income trusts (with the exception of most Real Estate Investment Trusts) will be subject to the same tax treatment as corporations.

Does that mean you should ditch them from your portfolio or not even offer them a spot on your short list of future potential investments? Not necessarily. Many income trusts continue to offer compelling investment value in the form of reasonably steady, long-term distributions.

Underlying quality

Many income trusts were originally designed to generate high yields as interest rates declined. They were created out of mature companies with steady cash flow and successful franchises that could maintain distributions while continuing to expand. These ranged from companies that produced and distributed oil and gas to utilities to fast-food chains.

Solid businesses make solid investments, and that won't change when the new tax rules come into effect.

In addition, you might say that income trusts are on sale. Their prices have largely been discounted to reflect the new tax rules.

Indeed, mutual fund managers have recognized there may be bargains in a sector that has shrunk 75% since the tax changes were announced. Some managers are including income trusts in their high-yield funds, targeting those with proven track records and the potential to maintain cash flow.

The question of risk

Income trusts are not without risk. Just like corporations, they are vulnerable to market fluctuations and difficult economic times that may affect the sector in which they operate. Resource-based trusts, for example, are vulnerable to declining oil and gas prices.

If economic growth is slow, trust distributions are likely to go down. Conversely, an economic rebound typically promises more surplus cash to pay out to investors.

The road ahead

The number of available income trusts will continue to decline as the new taxation era approaches. Trusts that have accumulated tax losses may be able to maintain their tax-exempt status until the end of 2012.

Existing trusts that have not converted will eventually do so, becoming dividend-producing equity investments. At that point, we would need to review their appropriateness for your portfolio and their prospects for potential growth and dividend income (no longer trust income) in the future.

If you're interested in exploring income trusts as an addition to your portfolio, or if you own existing trusts that haven't yet converted, ask us; we're happy to help answer your questions. ■

Three ways to teach kids about money

WE HEAR A LOT about financial literacy these days as Ottawa promotes its efforts to educate Canadians about money management, saving, and investing. Clearly, the first steps begin with our kids, and not just in the classroom.

Parents, grandparents, and other caregivers can provide some of the building blocks to economic maturity by sharing their own experiences with money.

Since children learn best by doing, here are three ways you can help them understand basic financial concepts.

1. Let them manage their own income. It's important for your kids to have their own money to manage — and mismanage. Painful lessons tend to stick, whether it is losing cash for the first time through carelessness, or blowing their entire allowance on an impulse purchase, and then dealing with having nothing left.

2. Help them set goals and allocate their money. You can help your kids learn the discipline of saving by helping them set goals for donating, saving, and spending, and giving them separate piggybanks to allocate the chosen portion of the money they earn.

3. Show them the power of compound growth. Open a savings account, Guaranteed Investment Certificate, or other investment for your child. If you have online access to the account, even better — your child can track its accumulation and use online calculators to project future growth.

We can help you if you'd like to set up a savings vehicle for your child. ■