THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Manulife Securities

MANULIFE SECURITIES INCORPORATED
MANULIFE SECURITIES INSURANCE INC.

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

Another year is coming to a close. Such turning points often prompt reflections on the past and resolutions for the future.

Now may be the time to consider your investment personality in more depth – what appeals to you and what you fear – and make changes to your portfolio to better reflect and manage those fears and expectations.

We are here to help you find the most appropriate investments for your investment personality and to make your portfolio as tax-efficient as possible.

When it comes to investing: Are you a tortoise or a hare?

Or perhaps a cat or a dog? We're not talking about the Chinese zodiac, but four basic investment personality types. Do you:

• Always seek the fastest route and highest potential returns, even if there may be dangers along the way? Then you're a hare, known for speed. The hare is an aggressive risk-seeker, but sometimes relies too much on a late boost of speed to win the race.

• Prefer to stick to the slow-but-steady road? In the classic folktale, the tortoise plodded along, not caring about how much further ahead the hare seemed to be — or how distant the finish line seemed to be. The tortoise, classically, is risk-averse — a conservative investor, in other words.

• Want to explore new investment opportunities but retreat quickly at the first sign of trouble? You're a cat — a moderately aggressive investor, well known for your curiosity. Cats typically rush to the sound of flowing water but retreat abruptly when they get their paws wet.

• Stay loyal to what's worked for you in the past? Balanced investors are like faithful dogs. They're not likely to take on new risks and can have a hard time learning new tricks.

Of course, most people are a mix of all four kinds of investment animals. What's important is to recognize which one resonates with you the most.

We can help you determine the type of investor you are so that you can take advantage of market opportunities — and still be able to sleep at night. ■

Think these funds are boring? Think again

The reputation of fixed-income funds as the dullest and most staid of the investment classes is not entirely undeserved. After all, their steady returns and low volatility are the reasons why investors love them.

But their performance over the last 10 years has shown off a different side of fixed-income funds, displaying their potential to keep pace with equity funds — and sometimes outperform them. Here's how they did it.

When bonds trumped equities

Over the 10-year period from 2000 to 2009, the average annual compound return for the average Canadian equity fund was 5.19%. Fixed-income funds, in spite of their much less aggressive mandate, came close to equalling that return, posting an average annual compound return of 5.03%.

Looking a little shorter-term, the average annual compound return for Canadian fixed-income funds over the past four years was 3.41%; in contrast, the return over the same time period for Canadian equity funds was 1.81%.

How did this happen? The global financial meltdown of 2008 not only affected stock markets around the world — erasing any equity mutual fund returns — but events proved to be beneficial for bonds and bond funds. Shell-shocked investors swiftly deepened the crisis with massive equity fund redemptions and stock dumping, and moved their money into the safer havens of bonds and bond funds, and cash.

Steady as she goes

The lesson to be learned from this story isn't that bonds and fixed-income funds are the new hot asset class. In fact, fixed-income funds are still the investments we have and hold for their steady returns and low volatility.

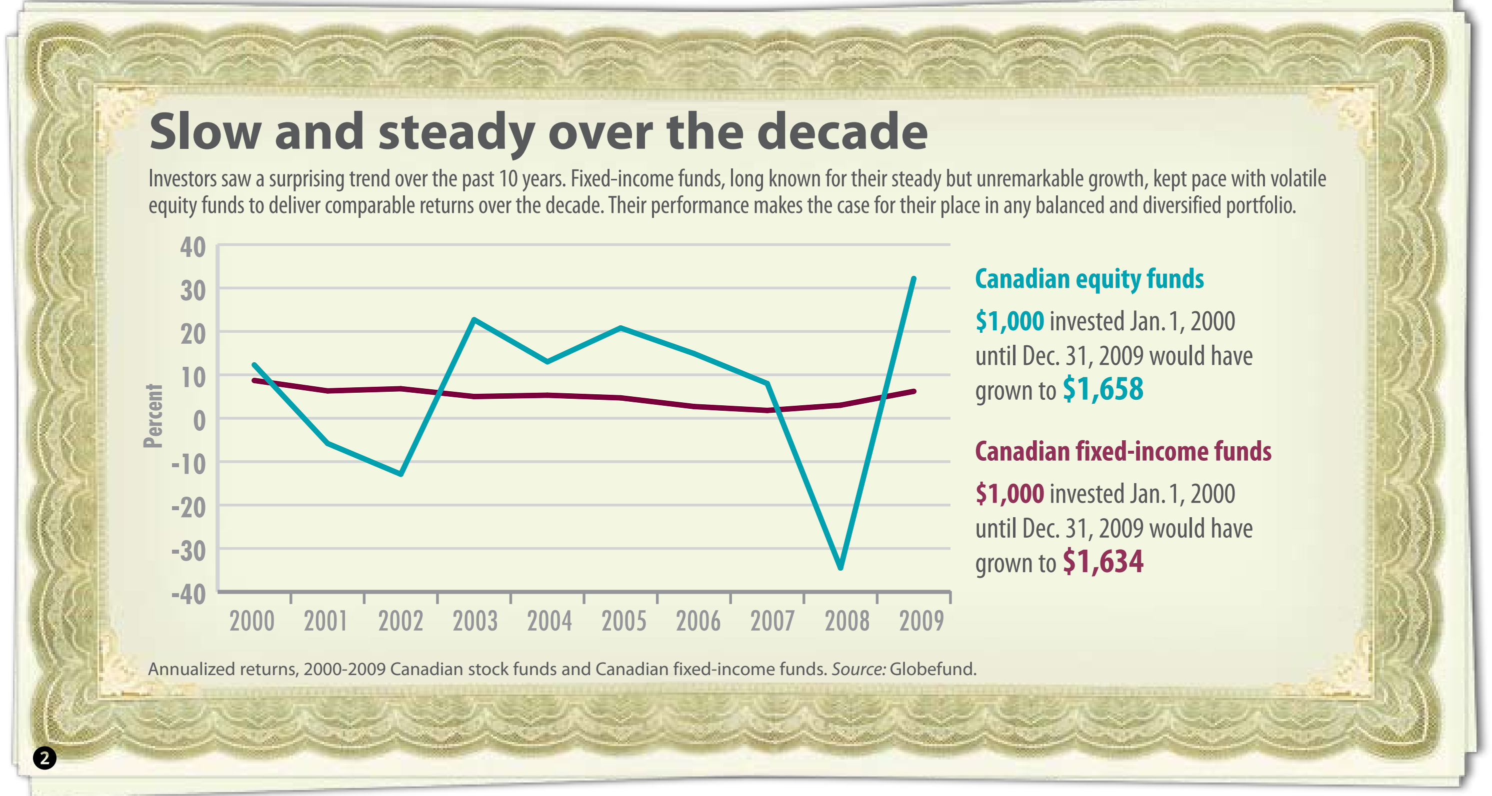
And speaking of volatility, just as it's atypical for fixed-income funds to trump equity funds, a meltdown on a global scale like what we saw in 2008 is also a rare, almost-unheard-of phenomenon. Equity-based investments are key to providing growth.

While equities and equity funds collapsed during the financial crisis, the fact is they still present great growth potential for your portfolio.

Pillar of your portfolio

The bottom line? Both fixed-income and equity funds are key components in a diversified portfolio. You need to hold a variety of investments with a mix of assets that are appropriate to your investing goals, time horizon, and tolerance for volatility.

Looking forward, we can help you to determine the right proportion of fixed-income funds and equity funds for your portfolio. ■



Annualized returns, 2000-2009 Canadian stock funds and Canadian fixed-income funds. *Source:* Globefund.

FINANCIAL PLANNING

Are you under an inheritance illusion?

We've read a lot about Canada's $1-trillion inter-generational wealth transfer, but some individuals may inherit far less than they expect from their parents.

Here are some reasons why:

Retirees have a lot of demands on their savings, which may reduce their final estate. They are living longer, out-of-pocket healthcare costs keep climbing, fewer have indexed pensions, some have suffered significant investment losses, and marital breakdown may have taken a toll.

More divorce and fewer children per family mean frail seniors are likely to be spending more on in-home care to fill gaps in support from the traditional family circle.

Seniors are increasingly tapping into their home equity through lines of credit or reverse mortgages to pay for lifestyle choices or long-term healthcare. Those bills will have to be settled before any legacies can be left for loved ones.

Some parents are tapped out after choosing to give while they are still alive and when their kids most need their help to pay for education or to buy a starter home.

While it may be tempting to make big plans for a hoped-for inheritance, focusing your energies on accumulating your own nest egg is the best strategy to achieve your goals and bring you peace of mind. ■

INSURANCE PLANNING

Here's an easy way to cut costs

Would you like to pay less for your insurance, whether it be life, disability, critical illness, health, home, or auto protection?

Paying annual premiums in full, rather than spreading them out over 12 monthly installments, could reduce your total costs by 8% or more in certain situations. That could add up to hundreds of dollars for some clients.

While monthly plans are convenient and spread the cost, it makes sense to pay up front if you can find the cash, perhaps from a Tax-Free Savings Account or even by getting a short-term loan from a relatively low-cost source such as a secured line of credit.

After all, if you believe that a penny saved is a penny earned, reducing premium costs by 8% or more brings you a pretty penny indeed. ■

WHAT YOU NEED TO KNOW ABOUT...

TFSA penalties

Confusion reigned around Tax-Free Savings Accounts (TFSAs) this year as the Canada Revenue Agency (CRA) moved to punish excess contributions with tax penalties, while considering flexibility for those who genuinely misinterpreted the rules. Here's what you need to know.

Q: What is the TFSA contribution limit?

A: Individuals 18 and over accumulate $5,000 of new TFSA contribution room on January 1 each year. Deposits in one year cannot exceed that year's contribution room, *regardless of that year's withdrawals*. When you make a withdrawal, a matching amount is added to your contribution room for the *following* calendar year.

Q: What caused the confusion?

A: One of the key benefits of a TFSA — the freedom to withdraw money and then recontribute it — was widely misunderstood by many investors. A number of people inadvertently broke the rules by withdrawing money from their TFSA and then later recontributing it within the same calendar year, putting their total annual contribution over the limit of $5,000.

For example, let's say you contributed $5,000 in January, then withdrew $1,500 in February, then recontributed that $1,500 in March. According to the rules, you've contributed a total of $6,500 — a no-no. You must wait until the following year to recontribute the $1,500 you withdrew.

Q: What are the penalties for excess contributions?

A: The penalty is 1% per month ($10 per month per $1,000) on excess contributions until they are withdrawn from the TFSA. For those who make deliberate overcontributions in hopes that the gains will outweigh the penalties, any gains will be taxed at 100%.

How to turn losses into gains

Do you have a stock that has dropped in value? Or perhaps you have sold one that produced spectacular gains, triggering an equally spectacular capital gains tax? If so, now is the time to consider tax-loss selling — a strategy that could significantly reduce your tax bill for 2010.

When to do it

Tax-loss selling is applicable only to non-registered accounts. In registered accounts, such as Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), and Tax-Free Savings Accounts (TFSAs), there are no tax implications to selling.

Outside of registered accounts, however, capital losses can be used to reduce taxable capital gains. Here's how it works:

- Current-year losses must first be used to reduce capital gains in the same year.
- Excess losses can be applied against previous capital gains — up to three years from the current tax year — or held indefinitely to offset future capital gains.
- To claim a loss for 2010, the trade must settle before the end of the year. Settlement typically takes three business days, so, to play it safe, you may want to sell before Christmas.

Beware the superficial loss rule

Sometimes, you might want to claim a tax loss but still believe in the value of the underlying fund or investment. Can you sell the investment, claim the loss, and then buy back in?

The answer is no. Your loss will be denied if you buy the same stock within 30 days before or after the sale on which you are claiming the tax loss.

You can, however, purchase a similar stock, Exchange-Traded Fund (ETF), or mutual fund to remain fully invested, without penalty.

Calculating the loss

Calculating the size of your capital loss may not be as straightforward as you think. Essentially, it's the difference between your adjusted cost base (purchase price) and your selling price. The calculation gets more complicated when you have made multiple purchases at a range of prices or reinvested mutual fund distributions or stock dividends at the current market price. These purchases may not be at the same price as your original purchase, and therefore may increase or decrease your adjusted cost base.

The situation is complicated further if you hold income trusts or mutual funds that make return-of-capital distributions. These payments are not taxable in the year of receipt. Instead, they reduce your adjusted cost base, resulting in a larger capital gain (or smaller capital loss) when you eventually sell or redeem the underlying investment.

Review your situation

If you're considering tax-loss selling, we can help you find appropriate candidates and calculate your adjusted cost base so you don't pay more tax than necessary.

We can also help you keep a healthy perspective. While it's important to recognize income tax implications, they should never be the driver of your investment decisions. ■

Watch for extra taxes from distributions at year-end

AS THE YEAR-END approaches, your thoughts may be turning to the holiday season — planning festive get-togethers with friends and family and thinking about what gifts to buy (or get!).

However, it's also time to attend to another year-end tradition — distributions from mutual funds, stocks, closed-end funds, income trusts, or ETFs that could result in a tax bill for you.

What's taxable and what's not

Distributions from shares and mutual fund units owned in a registered account, such as a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), have no tax implications. Outside of registered accounts, however, these distributions are taxable. And the tax applies whether you receive the distributions as cash or use them to purchase new holdings.

On the positive side, any income received as capital gains or dividends retains its tax-preferred status. Capital gains are taxed on only half their value and dividends from a Canadian corporation benefit from the dividend tax credit. Interest income and non-Canadian dividends, however, will be taxed at your marginal tax rate.

Lower tax means higher returns

Now may be an opportune time for a discussion about what investments to hold in which accounts, in order to minimize your tax load. We can help you make sure your portfolio is as tax-effective as possible. ■

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus carefully before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Manulife Securities Incorporated is a Member of the Canadian Investor Protection Fund. Manulife Securities Investment Services Inc. is a Member MFDA IPC (excluding Québec). Manulife Securities and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Securities Incorporated, Manulife Securities Investment Services Inc. and Manulife Securities Insurance Inc. The information contained herein was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. The objective of this publication is to provide information on current developments, not to provide legal or accounting advice. As each situation is different, you should consult your own professional advisor for advice based on your specific circumstances. This publication is not an offer to sell or a solicitation to buy any of the securities mentioned. This newsletter has been written (unless otherwise indicated) and produced by Ariad Custom Communications. Vol. 24, No. 6 © 2010 Ariad Custom Communications. This newsletter is copyright; its reproduction in whole or in part by any means without the written consent of the copyright owner is forbidden. The information and opinions contained in this newsletter are obtained from various sources and believed to be reliable, but their accuracy cannot be guaranteed. Readers are urged to obtain professional advice before acting on the basis of material contained in this newsletter. Readers who no longer wish to receive this newsletter should contact their financial advisor. ISSN 1205-5840