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

While the hot weather typically tells us it's time to kick back and relax, the economy is happily taking the opposite path. Employment is rising and companies are posting healthy profits.

The stronger economic climate presents new opportunities and challenges. This would be a good time to revisit your finances and plan ahead for potentially higher interest rates.

We can help you make the best of the stronger economic climate.

FOCUS ON INVESTING

The pension divide: Which side are you on?

As baby boomers start to reach their retirement years, income security looms on the minds of an increasing number of Canadians. For good reason: Some Canadians have secure pensions. Others do not.

The growing gap

According to Statistics Canada, almost all public-sector workers — up to 90% — are enrolled in defined benefit plans that pay a guaranteed income in retirement.

The private sector, however, is not so lucky. Fewer than 25% have an employer-sponsored pension plan, and most of these are defined contribution plans that don't guarantee payouts.

An additional 27% or so of workers have a Group Registered Retirement Savings Plan (RRSP), according to the Canadian Health and Life Insurance Association. But like defined contribution plans, Group RRSPs don't guarantee what you'll get in retirement.

That leaves most boomers with responsibility for their own retirement planning and long-term investments.

Steps to a plan

Our first step is to determine the kind of lifestyle you envision and when you want to retire.

Next, we will determine roughly what that lifestyle will cost and review the income sources you'll have available. These may include government benefits, employment-based pension plans, your RRSPs, possible inheritances, and savings held outside registered plans.

These may be sufficient to fund your retirement lifestyle. If they're not, we can take action to bridge the gap. The important thing is to get started. Working together, we can create a roadmap for the future you want. ■

Looking for income and diversification? Real estate funds may be the answer

When it comes to real estate, most people think of their home. This makes sense, as the single biggest investment many Canadians will ever make is the purchase of their principal residence. But real estate is a distinct asset class, and one that can offer a number of benefits as part of a diversified portfolio.

For individual investors, gaining a stake in a wide range of commercial real estate holdings in Canada or around the world is easy, thanks to professionally managed mutual funds. Real estate mutual funds may invest directly in stocks of real estate companies and associated sectors, such as the construction industry. They may also invest in Real Estate Investment Trusts (REITs), which typically hold portfolios of commercial properties, including apartment buildings, hotels and seniors' homes, industrial buildings, offices, and shopping malls.

Why real estate?

Given the events of the past couple of years, you may wonder why anyone would want to invest in real estate. In the U.S., in particular, property values fell and overextended borrowers simply walked away from their losses. New construction waned, and vacancies rose in offices and malls.

With more stringent lending criteria and a more conservative mindset, Canada escaped the brunt of the global real estate meltdown, as well as the worst ravages of the recession. And with signs of economic resurgence, now may be an ideal time to revisit the potential benefits of real estate mutual funds. These include:

• **Income.** Whether they own real property directly or hold REITs, most real estate mutual funds focus on generating a regular stream of rental income from the properties they hold.

• **Tax benefits.** Where that income comes from REITs, a large portion of it may be tax-deferred. That's because some or all of a REIT's distributions are considered return of capital (ROC), reflecting the depreciation that the REIT can claim for tax purposes on the properties it holds. ROC is not taxable in the year of receipt. Instead, it decreases the investment's adjusted cost base, resulting in a higher capital gain when the investment is eventually sold or transferred.

• **Inflation protection.** Historically, real estate has provided an effective "hedge" against inflation. After all, people will always need a place to live.

• **Diversification.** From a historical perspective, real estate as an asset class has not always moved in lockstep with other equities.

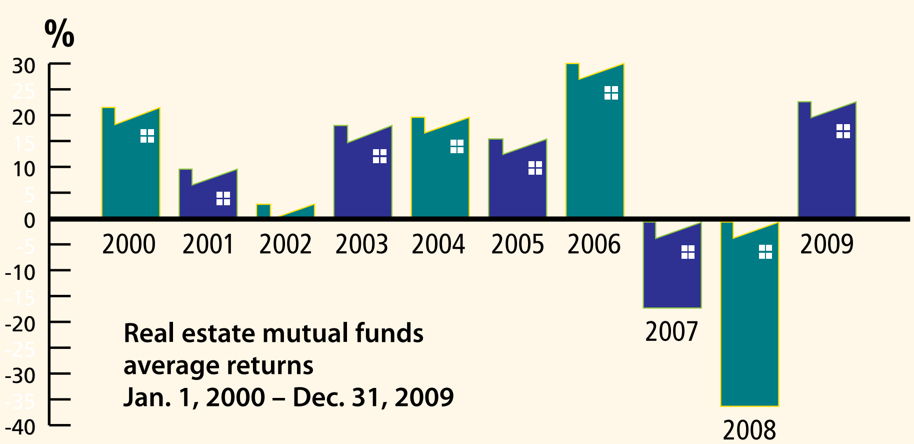
How to invest

Real estate funds may be international (offering global diversification) or focus on Canada. The former tend to be dominated by real estate stocks, while the latter typically focus on REITs. In addition, many broadly diversified equity and income funds include real estate holdings in their portfolios.

Professional advice can help you determine whether a real estate mutual fund would enhance your portfolio and help you choose an appropriate fund or funds. ■

Real estate funds bounce back

Like all equities, real estate mutual funds felt the effects of the global downturn in 2008. But they recovered strongly in 2009, with an average return of more than 20% for the year.



Source: Globefund. Mutual funds in the Real Estate Equity category must invest at least 90% of their equity holdings in the Real Estate industry group according to S&P Global Industry Classification Standards.

EDUCATION SAVINGS

Invest in yourself with the Lifelong Learning Plan

It's never too late to go back to school. And whether your goal is to increase your earning power or pursue a more satisfying job, your Registered Retirement Savings Plan (RRSP) can help.

The federal government's Lifelong Learning Plan allows tax-free RRSP withdrawals of up to $10,000 each year over a four-year period, to a maximum of $20,000, for you or your spouse. These can be used to pay for full-time career training or post-secondary education. The funds must be repaid over 10 years.

The plan can be especially beneficial for younger people who have plenty of time to make up for the loss of any tax-deferred growth resulting from early RRSP withdrawals. But, at any age, going to school to upgrade skills or retrain can raise your potential to earn more — so you'll be able to make higher RRSP contributions in the future to repay the loan and build your savings. ■

HOUSEHOLD FINANCES

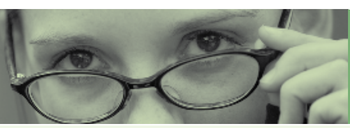
Ditch the car, save a bundle

Many Canadians consider their car part of their everyday cost of living. But they might think again, if they knew just how much they could save by leaving the car at home.

Consider this: During the Vancouver Olympics, the city was able to cut downtown traffic by 30% — and accident claims by 20% — by closing off roads and urging people to take public transit.

And the dollar figures are even more compelling: The Canadian Automobile Association says it costs $8,441, on average, to own and operate a 2009 four-cylinder Chevrolet Cobalt sedan, driving 18,000 km per year. Make that $11,216 for a 2009 six-cylinder Dodge Grand Caravan. This includes ownership and operating costs, such as fuel, maintenance, insurance, and car loan payments. Add in the cost of parking, and you're looking at additional savings of about $2,000 per year. Another benefit: monthly transit passes qualify for a tax credit.

In other words, if you're willing to give up your vehicle (or maybe a second family car), you could save as much as $1,000 a month — money that you could use to eliminate debt or top up your investments. ■



EYEOPENER
graphic evidence of how investing works

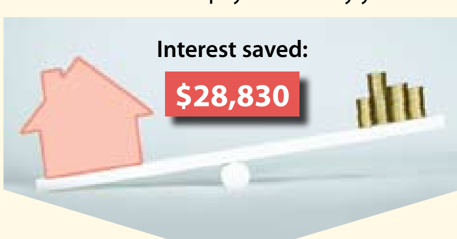
3 strategies to be mortgage-free sooner

With mortgage interest rates already climbing, many homeowners are anticipating higher payments in the future. These strategies can help you pay down your principal faster, possibly saving you thousands of dollars in interest and shaving years off your amortization.

Just how much can you save? The following examples are based on a $200,000 mortgage at 5.5% amortized over 25 years and monthly payments of $1,221.*

1 Increase your payment frequency

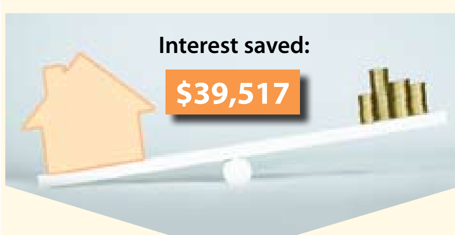
Go from $1,221 monthly to half that amount every two weeks. You'll make the equivalent of an extra month's payment every year.



Time saved:
3 years and 10 months

2 Make lump-sum prepayments

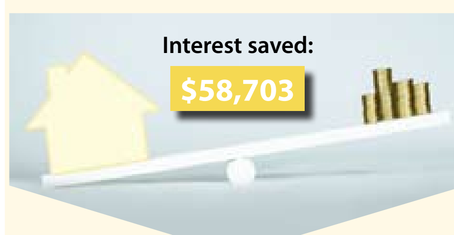
Come up with $2,000 annually from a tax refund, bonus, or other windfall.



Time saved:
5 years and 3 months

3 Increase your regular payments

Bump up your monthly payment to $1,500.



Time saved:
7 years and 10 months

*Assumes an interest rate of 5.5% over the mortgage's amortization period. All pre-payments commence at the start of a 25-year amortization. For illustration only. Actual rates will vary.

How to prepare for higher interest rates

As expected, the Bank of Canada raised interest rates by 25 basis points in early June, and increases are expected to continue. That's good news for some and bad news for others: It all depends on how you're invested and your debt relative to savings.

Here's a quick rundown of how rising rates affect the different areas of your financial life — and what you can do to benefit or protect yourself.

Cash and GICs. In a rising-rate environment, high-interest savings accounts, Guaranteed Investment Certificates (GICs), and money market funds pay higher returns.

What to do: With GICs, it can make sense to build a ladder to capture rising rates, investing equal amounts of money in different terms, from one to five years, and rolling over on maturity to get the best rate offered at the time.

Fixed-income investments. When rates rise, the price of previously issued bonds typically falls, to compensate for the higher rate available on newly issued bonds. Long-term bonds feel the effect more than short-term bonds. Bond mutual funds may be more or less affected by rising interest rates, depending on their holdings.

What to do: The interest paid by any bonds that you currently hold will not be affected by the increase in rates. It's only the price that changes, which will affect the value of your investment if you decide to sell it; staying invested is one way to protect yourself from any potential capital loss. If you have a bond fund, you simply leave the decisions up to the fund managers.

Stocks. Interest rates typically rise when economic growth heats up. And for certain sectors, like resources and commodities, economic growth means higher demand. Other sectors, however, such as utilities, automobile manufacturing, and banks, do better in a low-rate environment.

What to do: Depending on your situation, we may want to look for new investment opportunities or consider rebalancing the equities portion of your portfolio.

Your mortgage. If you have a fixed-rate mortgage, your interest rate won't change for the length of your term. If your mortgage is variable, your payments may increase, or the amount of each payment that is directed to principal may decrease.

What to do: If you have a variable-rate mortgage, you may want to consider locking in some or all of it at a fixed rate, to protect from further increases. There's no one solution that's right for everyone, and it's important to review all the factors in your situation.

Consumer debt. If you're carrying a balance on a line of credit or a variable-rate loan, your interest costs will rise. You may also see an increase in the rate your credit card charges.

What to do: If you're carrying significant credit-card debt at a high rate, you may want to consider consolidating — that is, taking out a lower-rate loan or line of credit to pay off all your card debt.

If you'd like to review your financial situation in light of rising interest rates, please give us a call. We can help make sure you're positioned to take advantage of the opportunities while protecting yourself from potential risks. ■

For tax-preferred income, consider preferred shares

BLUE-CHIP CANADIAN companies issued near-record amounts of preferred shares last year. Among the issuers were large banks and insurance companies seeking to raise new capital and shore up reserves depleted by the credit crunch.

For investors and mutual fund managers, this means there's a broader selection of preferred shares to choose from than the market has seen in some time, and a potential opportunity to purchase good-quality equities that may provide a regular stream of tax-preferred income. Here's what you need to know.

Preferred shares are issued with a pre-set dividend. Yields have decreased over the past year, but preferred shares may still offer higher rates than those available from government bonds of an equivalent term.

Preferred shares have another advantage over the interest income that bonds pay: Dividends paid by Canadian corporations qualify for the dividend tax credit when held outside a registered plan.

This advantageous tax treatment applies whether you hold shares directly or indirectly, through a dividend mutual fund.

Like any equity investment, preferred shares are not without risks. There is no guarantee that the dividends will be paid, and the price of the share may fluctuate.

We can help you assess how appropriate this kind of investment would be as part of the income portion of your portfolio. ■

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