

The Francis Forum



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A Grain of Rice

At the heart of sound investment theory is a simple calculus known as the Power of Compounding or the “*Grain of Rice*” theory.

If you put your money in an investment that delivers a return -- and then reinvest those earnings as you receive them -- the snowball effect can be astounding over the long term. This is particularly true in retirement accounts, where principal is allowed to grow for years tax-deferred or even tax-free.

The lesson is this: The longer you leave your money invested and the higher the interest rate, the faster it will grow.

So the question a poet once asked a king was “would you take 100,000 grains of rice today invested @ 7% rate of return for 32 years or 1 grain of rice doubled every year over the next 32 years?”

The answer: 100,000 grains becomes **523,000** in 32 years, 1 grain becomes **2,147,493,648**.

What to do going forward?

- **Make your Tax-Free Savings Account (TFSA) Contributions early in the year**
- **Get your RRSP Contribution room filled (You have until March 1st for 2010 tax year)**
- **Start periodic contributions into your plans**

Never underestimate the power of compounding. If you stay invested long enough, it'll work for you.

In equities, time levels the bouts of under and over performance and produces optimum returns.

Equities are predictable only over the long term and short term performance or forecasts are of little use. I hope we continue to remember this, especially when the going gets tough.

If I buy a farm, I don't know whether there's going to be drought next year, but I know that there are not going to be 20 straight years of drought, and I know there's not going to be 20 straight years of great rainfall – Warren Buffett

Thank you all again for your continued support and please give us a call if you require anything at all.

Yours very truly,

Duane



Take a step back to move forward

In our fast-paced world, who needs an overly complicated investment life? If you find that you're dealing with too many investments at too many financial institutions, it might be time to take a more holistic approach by consolidating.

Bringing all your investments together under one roof means getting rid of duplication and eliminating tracking difficulties. You've already taken a key step to a holistic approach by working with a financial advisor. Looking at the whole rather than the parts makes it easier to establish the right direction for your investments.

With a holistic approach we can:
Simplify. Dealing with fewer statements and less potentially conflicting information helps to avoid potential overlap and duplication, such as holding too many similar investments.

Clarify. With the big picture in view, we'll position your investments to meet

all your objectives. We'll also see how other assets fit into your overall plan. For example, your home's equity should be included as an asset, and any registered plans, such as Tax-Free Savings Accounts, should be included as part of your whole plan.

Balance. When your investment picture is clearer, we can more easily see whether your portfolio is properly diversified according to your time horizon and goals. We can also make sure that its risk-return ratio accurately reflects your desire for growth and tolerance for risk. If not, a consolidated and holistic approach makes it easier to get back on track. And we can more effectively allocate investments inside and outside your Registered Retirement Savings Plan (RRSP) for maximum after-tax returns.

Let us show you how a holistic investment approach can help meet all your financial objectives. ■

Are you looking for yield in all the right places?

Every balanced portfolio should include fixed-income investments, but in today's financial climate, selecting the right ones for your particular goals and risk tolerance involves some unusual challenges.

Investments that have traditionally offered safety and decent income are now generating such historically low returns that they may be losing their appeal. But what attractive alternatives are out there?

Viewing the landscape

Typically, many investors find security and income by investing in government bond funds. Unfortunately, falling yields and rising prices have reduced the attractiveness of some funds. This situation is largely the result of huge amounts of money being pumped into government bonds by investors seeking a "safe haven" and by central banks as part of economic stimulus measures.

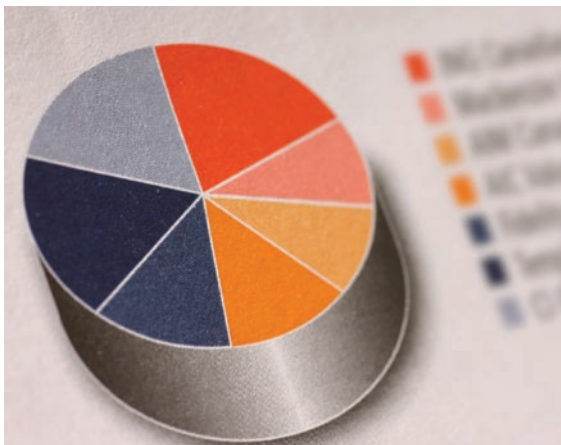
Where can you turn if you want to add some additional yield to the fixed-income portion of your fund portfolio? One option to consider is high-yield bond funds.

A high-yield fund, tactical yield fund, or global bond fund, for example, can add an element of extra income to your portfolio. We'll prepare you for and guide you through the process of weighing any potential rewards against risk.

Here are some of the issues we should explore if you're considering a high-yield fund.

High-yield realities

As their name suggests, high-yield funds can provide you with higher potential returns. But there's a tradeoff — increased risk.



MUTUAL FUNDS

Traditional bond funds hold bonds that are rated as "investment grade," which are the least risky. High-yield bond funds may hold bonds issued by corporations and organizations that don't qualify for "investment-grade" ratings by major bond rating agencies. They're rated below investment grade because they have a greater risk of defaulting on their debt obligations — for example, not paying bond interest or failing to repay bond principal. Consequently, they pay higher interest to compensate for additional risk. That higher interest is what makes them attractive.

Defining "safety"

Mutual funds that invest in North American government bonds, on the other hand, are considered very secure when it comes to protecting against potential loss of capital.

However, returns are likely to be in line with the low yields offered by government bonds. By diversifying among different types of fixed-income investments — including high-yield funds — you can control your personal risk-reward balance.

It's important to be aware that high-yield funds can be volatile. They're generally more susceptible to changes in the economic climate than funds that invest in government or investment-grade bonds. As a result, an investment

in high-yield funds may experience greater ups and downs than investments in more stable government funds. Some experts consider the risk and volatility of these funds to be more akin to that of equity funds.

The advantages of funds

Because of the nature of high-yield bonds, a mutual fund that invests in these securities can be a better candidate for a typical portfolio than investing directly in bonds.

With a high-yield bond fund, you can invest any amount you choose and instantly participate in a diversified bond portfolio.

Not only will a high-yield bond fund offer diversification, you'll benefit from the selection and management of the portfolio by professional experts in their field. These carefully selected investments can help keep risk and volatility in check. By investing in bonds of many companies and sometimes different maturities (short-term, mid-term, and long-term bonds), funds are able to balance the risk-reward ratio.

In terms of asset mix and investing strategy, high-yield bond funds would typically be just part of your total fixed-income fund holdings just as fixed-income would be a part of a fund portfolio that holds all asset classes.

Talk to us about your income investing needs. Together we can explore whether a high-yield bond fund is suitable for your portfolio. ■

ESTATE PLANNING

Life can move quickly, your will should keep pace

Did you know that changes in your life could make your will invalid? For example, marriage invalidates a previous will unless the will was drawn up in anticipation of the marriage. In some provinces, divorce may revoke provisions that deal with your former spouse, while in others leaving your ex in a will could mean he or she is still entitled to a portion of your estate.

To avoid complications and unintended results for your estate, review your will regularly. This will ensure that it reflects the realities of your life, your financial situation, and your wishes. And be aware of the laws and regulations dealing with wills and estates in your province. They vary across Canada.



Anytime you experience major changes in life is a good time to review your will. These include marriage, separation, divorce, birth of children or grandchildren, receipt of an inheritance, substantial changes in your financial picture, moving to a new province or country, and death or illness of a beneficiary currently in your will. ■

EDUCATION PLANNING

A graduate degree increases earnings potential

If you're saving for a family member's education, look beyond a basic college or university diploma or degree. Think about putting money away for post-graduate studies. It could help a child or grandchild earn more and increase his or her chances of finding a job.

Statistics Canada, in its most recent annual National Graduates Survey, found that the average salary for a worker with a bachelor's degree is \$45,000. With a master's degree, the average rose to \$60,000.

The same StatsCan study showed that two years after graduation, a higher proportion of those with a master's degree were working full-time than college graduates or those with only a bachelor's degree.

It will cost more upfront to help a child achieve a higher level of education, but don't let that be a barrier to helping someone you love achieve their full earnings potential. Talk to us about how you can help a child make the most of a post-secondary education. ■



FINANCIAL CLASSROOM

Using your TFSA to split income and reduce the family tax bill



Your Tax-Free Savings Account (TFSA) is more than a way to maximize investment growth. It's also an income-splitting tool that can reduce your family's tax bill.

What it is

A TFSA is a registered plan in which investment earnings are not taxed. Withdrawals are also tax-free. Canadians over the age of majority can contribute up to \$5,000 a year in a TFSA.

How it works

Using a TFSA to split income is very straightforward. The spouse with the higher income gives the lower-income spouse the funds to contribute to his or her own TFSA.

Ordinarily, giving your spouse funds to invest would trigger what are known as "attribution rules" — any income generated by the gifted funds would be attributed back to you for tax purposes. But the government makes an exception when the gifted money is used to contribute to a TFSA.

Why it matters

It can make good financial sense to give your spouse money for a TFSA contribution — particularly if he or she earns less than you. By doing so, you'll create a \$5,000 non-attributable deposit that will generate tax-free income every year.

Assuming you're the higher-income spouse, you are essentially doubling the amount that you can shelter in a TFSA by giving your spouse the funds to contribute. The money in the TFSA can be withdrawn by your spouse, tax-free, at any time. ■

How your policy statement keeps you on track

Using the most effective tools available to manage your investment life is crucial. Your investment policy statement (IPS) is one of those tools.

Together, we develop and maintain this written, detailed roadmap of your investment future — dramatically increasing the potential for achieving your financial goals. Here are the many ways your IPS benefits you.

It's all about you

The process of creating your investment policy statement is just as valuable as using it to guide future decisions. It requires us, together, to clarify your investment strategy, commit to a disciplined plan, and create a key reference point by putting it all in writing. Think of it as an all-in-one map, reference point, and basis for monitoring your portfolio's progress.

It evaluates your progress

Creating an investment policy statement for you provides an opportunity to determine whether your current investment portfolio and strategy are meeting your needs. If adjustments are necessary, together we can see them clearly, and change your asset mix to keep you on track to reach your goals — for example, altering how much of your investments should be in equities, fixed income, and cash.

It clarifies your priorities

Your IPS will clearly detail all the investment criteria that matter to you. Anything that is critical or of concern to you in your investment life will be included in your policy statement. For example, your various investing goals

are likely to have different time horizons — your child's education, a big family trip, and, of course, retirement — so we'll always be working within those time frames with a strategy designed to produce the investment results you require.

In addition, we will at all points along the way take into account your tolerance for investment risk, so the choices we make together will always be in line with your risk tolerance. Your tax objectives and needs will also be incorporated into your statement, so you'll always be investing for maximum tax effectiveness.

It plays a key role in changing markets

As your investment life progresses, a policy statement provides the framework for maintaining focus.

For example, if changing market conditions throw your desired equity allocation off balance, we'll work to get it back within the guidelines you specify.

Your policy statement can also act as a reality check — a buffer against the sometimes emotional reactions many of us have to unfolding economic and market events. By adhering to the guidelines set out in your policy statement, we can stick to your long-term plan through market ups and downs and prevent emotions from influencing investment decisions.

We'd be pleased to help you prepare, review, or revise an investment policy statement. We'll work with you to ensure it reflects the realities of your financial life, your goals, and your investment thinking and adjust it as the future unfolds. ■

Time to tune out the noise

WE LIVE IN an age of constant information. We're bombarded 24/7 by economic news — much of it confusing and contradictory. All this news can easily raise your anxiety level as you worry about how it might be affecting your investments.

Yet much of what you hear is just "noise." Focusing too much on it can detract from your long-term investment strategy and cause you to consider moves that might be harmful to your portfolio. Here's why it's wiser to tune it out.

- Knee-jerk reactions to temporary economic news can lead to the wrong investment moves. Making decisions based on short-term events is a form of market timing, an ill-advised strategy that seldom produces satisfactory results.

- Stick with a strategy based on sound fundamentals and a longer-term time horizon that smooths out the temporary ups and downs.

- A number of factors determine investment success. Successful investing isn't about forecasting the economy; it's about finding high-quality companies with long-term potential.

It's also about creating and maintaining a diversified portfolio with the right mix of safety, income, and growth to help you achieve your long-term goals while weathering all kinds of economic climates.

We can help you discern what's pertinent from the noise and keep your investment plan on track so you can have peace of mind. ■

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