

# Planning Ahead

THE NEWSLETTER OF  
MONEY MANAGEMENT AND  
FINANCIAL PLANNING IDEAS



Neil Bocking, CLU, CH.F.C.  
Financial Advisor  
Bocking Financial Solutions Inc.  
Manulife Securities Investment Services Inc.



Peter Bocking  
Financial Advisor  
Bocking Financial Solutions Inc.



1180 Simcoe Street N  
Oshawa, ON L1G 4W8  
**Telephone:** (905) 728-7465  
**Fax:** (905) 728-7251  
info@bockingfinancialsolutions.com  
www.bockingfinancialsolutions.com

- Maximize Your Wealth!
- Minimize Your Taxes!
- Protect Your Loved Ones!

We specialize in building long term, trusting client relationships. We help clients make informed financial decisions by delivering knowledge, ideas and information they can use.

 **Manulife Securities**  
| INVESTMENT SERVICES INC.

March, 2011



## Take a step back to move forward

**N**obody needs an overly complicated mutual fund portfolio. But that's exactly what you might have if you're invested in too many funds at too many financial institutions. It can lead to information overload, difficulties in tracking your portfolio, and can even steer you away from your investment objectives.

Get rid of the confusion. Consolidate your investments and take a holistic approach to managing your funds.

You've already taken a key step to a holistic approach by working with a financial advisor. Now we can bring your mutual funds together and refine your portfolio to efficiently and harmoniously meet your financial objectives.

With a holistic approach we can:

**Simplify.** Dealing with fewer statements and less information means we can better track and monitor your funds. We can avoid potential duplication,

such as holding mutual funds with identical investment objectives or 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, such as investments in individual securities and home equity, fit into your overall plan.

**Balance.** When your investment picture is clearer, we can see at a glance whether your mutual fund portfolio is diversified and balanced. If it's not, a holistic approach makes it easier to get it back on track. And we can more effectively allocate funds inside and outside your Registered Retirement Savings Plan (RRSP) for maximum after-tax returns.

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

# Are you looking for yield in all the right places?

**E**very 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.

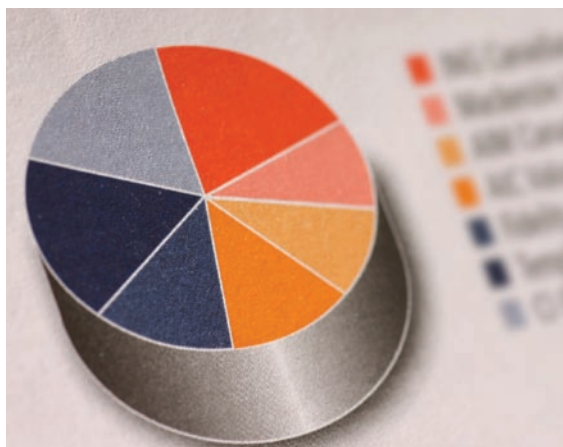
Where can you turn if you want to add some additional yield to the fixed-income portion of your fund portfolio? One option to consider is high-yield bond funds.

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. ■

# Avoid these 5 fund mistakes

**M**utual funds are a great way to get where you want to go with your investment portfolio. Yet many people fail to make the most of what funds offer because of a few common mistakes. By avoiding these errors you can increase your chances of investment success.

## 1. Investing piecemeal

Many investors build fund portfolios in bits and pieces over a number of years without giving much thought to an overall investment strategy.

Instead of investing on an as-needed basis, you should have a strategy based on advice and recommendations that we can provide. These will take into account important factors such as financial goals, risk tolerance, and diversification.

## 2. The single-fund approach

Don't assume one mutual fund can meet all your investment needs. While every fund offers exposure to a range of individual investments, a single fund may not provide the diversification that is critical to investment success.

Your portfolio should be diversified among a number of funds that invest in different asset classes — for example, equities, fixed income, and cash. A multi-fund approach also allows you diversity among geographic regions and even industry sectors. It may also be worth considering funds that adhere to different management styles, such as growth and value.

## 3. Too many funds

While one fund isn't enough, don't go overboard by investing in more funds than

you need. You can end up with a portfolio that is difficult to track and manage, and that may not accurately reflect your investment objectives.

For example, while you think you're diversifying through dozens of funds, you might have funds with overlapping investment objectives or with similar investments. This duplication actually reduces portfolio diversification instead of increasing it. It's better to streamline your portfolio with a smaller, more manageable selection that can achieve the same goals.

## 4. Ignoring risk

Like all investments, mutual funds involve risk — some more than others. Just because a fund is professionally managed doesn't mean risk is eliminated.

In most cases, the level of risk depends on the types of investments a fund holds. Other factors also come into play, such as the latitude given fund managers to make portfolio changes. Without carefully evaluating a fund's risk before investing, you could set your portfolio up for unexpected volatility.

## 5. Hanging in too long

Many investors buy funds but fail to sell when appropriate. While a "stay the course" approach to investing isn't a bad thing, the reality is that the fund you buy today may not always be the fund you want tomorrow. A regular review of your fund holdings will help you avoid the trap of hanging in too long with the wrong funds.

We can discuss how a diversified portfolio of mutual fund investments can meet your needs and help you avoid the mistakes. ■

# 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 mutual funds.

Yet much of what you hear is just "noise." Focusing too much on that noise 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 mutual funds with long-term promise.

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 mutual fund investment plan on track so you can have peace of mind. ■

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. 25, No. 2 © 2011 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