Manulife Securities
INCORPORATED
INSURANCE AGENCY

Wealth DIRECTIONS
SUMMER 2013

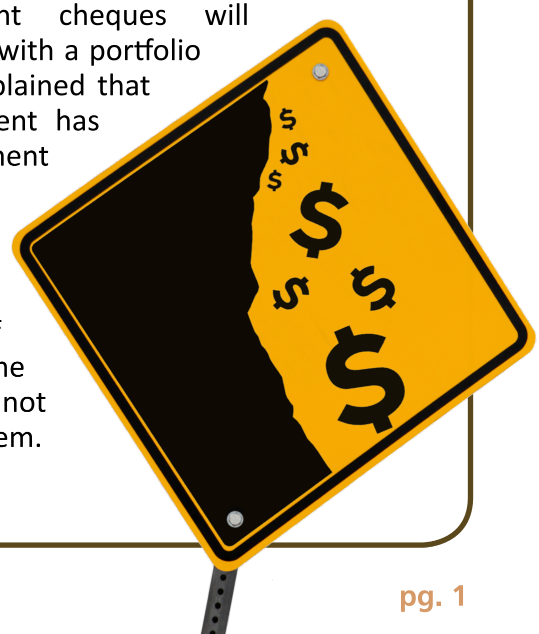
Looking in the Rear View Mirror

(not how one should drive)

The Toronto Stock Exchange (S&P/TSX) was over 15,000 back in June 2008. 5 years later, it is around 12,400. We understand that many investors are disappointed with their investment returns. A little while ago, a young and new investor was excited to hear on the news media announcing that the US S&P500 was at a 5 year high! We pointed out that this may sound good... until you realize that had you invested in this index 5 years ago, only now have you made money. (Excluding dividends ... make note of this observation for later).

Up until 2008, most of the world experienced 25 years of increasing leverage. Companies, governments and individuals each continued to borrow and refinance which further increased their debt. During periods of increasing leverage, returns are also increased. The peak of this was culminated with the packaging of leveraged debt in the USA (called CDOs) where high risk loans were packaged together, leveraged and promised above average returns for what was supposed to be 'low-risk' loans. When the house of cards fell, so did a number of financial institutions. This resulted in governments being forced to bail out the financial (and others such as auto) sectors to prevent a global depression.

Since then, the world continues to be concerned about problems with Europe (often referred to the PIIGS problem - Portugal, Ireland, Italy, Greece and Spain.) Those countries face resistance to measures from their citizens as the government attempts to address their fiscal challenges (bankruptcy!). The rest of the world is not immune to this problem either (in some cases on a lesser scale). Globally, many governments face a challenge with both their debt as well as their deficit. In simple terms, many governments are spending more than they are collecting (budget deficit) and this is causing their debt to further increase. This received a lot of media attention with the US approaching their 'fiscal cliff'. In simple terms, the two US political parties were trying to agree to a new number of tax increases and government spending cutbacks before previously agreed upon measures (which were believed are too dramatic) which could cause the USA (and likely the rest of the world) to go into a recession. Then the US government needed to get permission to increase their debt ceiling (be allowed to borrow more). Congress allowed this and once again it will need to get permission to borrow more. If this is not approved, then government cheques will bounce! We met with a portfolio manager who explained that the US government has a flooded basement and to solve the problem, they are raising the roof higher. This is a good way of explaining how the solution does not address the problem.



Where We Are

(at a stop sign at an intersection)

We are in a deleveraging environment. People and corporations are making serious efforts to reduce their debt. Governments claim they are also working towards this. In this environment, stock market return expectations should be reduced as we experience slow economic growth. Interest rates remain near historic lows and people should be cautious of bonds should we enter into in an increasing interest rate environment (although interest rates are not likely to increase too significantly nor quickly). Although governments are financially troubled, many companies are in a better financial position than ever before. They have record levels of cash, are increasing their dividends, buying back their shares and calling their bonds and replacing the debt with new lower interest debt. We continue to find stocks we like at an attractive valuation.

How Do We Get To Where We Want To Go?

(map out the route and looking forward)

Given the world conditions, what is an investor to do? GIC's are only offering a token interest rate. This means the income from GIC's is half what it was 20 years ago. Many conservative investors are forced to look for other options.

Depending on the perceived risk of who you loan your money to – fixed income yields range between 1-5%. Returns could be negative should interest rates rise.

In this environment, we continue to favour solid dividend paying equities (stocks). If equity growth (increase in value) returns are expected to be 2-4%, then equities with a dividend of 2-4% can generate an average total return of 4-8%. Remember our earlier observation of the market returns quoted on the news excluded dividends? We expect that going forward, up to half of the return from investing in equities could come from dividends.

In selecting companies to invest in, we look for a six step filter and have a **bias towards companies that:**

- Have barriers to entry from competitors (referred to as having a moat)
- Have strong brand recognition (within their industry)
- Have recurring revenues (their customers need to keep purchasing from the company),
- Have earnings (are profitable),
- Share a portion of those earnings with their shareholders (dividends)
- Who offer, produce or manufacture things that "we will need"' in the future.

We are generally underweight fixed income and believe some exposure outside Canada is necessary both for diversification and to attain exposure to certain industry sectors.

(...continued on pg 3)

How Do We Get To Where We Want To Go?
(continued)

Below is a chart of different asset classes and sector exposure with our team's current outlook. Each individual investor **will have a different investment portfolio** depending on their personal circumstances which includes their: Risk Tolerance, Income Requirements (both current and future), Time Horizon, Taxation (depending on if the accounts are registered such as RRSP or TFSA or taxable), and of course Temperament (investor behavior). We then look for opportunities to tax optimize the holdings based on which plans hold which investments. You should consult us to determine the ideal asset mix and asset selection given your circumstances.

		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
FIXED INCOME						
Government	Long-term	●				
	Mid-term	●				
	Short-term		●			
Corporate	Investment Grade			●		
	High Yield			●		
	Floating Rate			●		
EQUITIES						
Canadian	Dividend Focused					●
	Large Cap				●	
	Small Cap			●		
US					●	
European			●			
Asia				●		
Emerging Markets				●		
	BRIC			●		

Sector		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary				●		
Consumer Staples					●	
Energy				●		
Financials	Banking			●		
	Insurance		●			
	Asset Managers		●			
	REITS			●		
Materials				●		
Utilities					●	
Telecommunications					●	
Healthcare				●		
Information Technology			●			

Who is HOLISTIC WEALTH?

This is the trade name that the Summerland office of Manulife Securities Incorporated operates under. We call ourselves this as most traditional stock brokers and investment advisors do not take the same holistic wealth approach in working with clients. We prefer to take a financial planning approach when advising clients incorporating their debt, insurance and investment portfolios into consideration. We use solutions that people understand and avoid 'synthetic' investment products (such as hedge funds).

We currently advise clients throughout BC, Alberta and Ontario. We are still growing our practice and welcome new clients. If you or someone you feel would benefit from a confidential and complementary consultation, please contact our office.

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