Manulife Investments

Wealth*Styles*

Giving the complete picture to focus on financial health

When getting advice from any professional, identifying all of your resources and contributing factors is essential. For example, when you go to the doctor you naturally give her all of your medical history so she can treat you most effectively and help you stay physically healthy. It's also just as important that you give your advisor all of the information when talking about your financial health.

RITA AND HER MANY INVESTMENTS

Meet Rita, someone who didn't understand the value of providing her advisor with the complete picture. When Rita, 45, accepted her new job in human resources with a major automotive company, she was thrilled with the benefits package offered. Especially the savings program.

Now, not only did she have the pension from her old job with a steel manufacturer, she had a group RRSP consisting of mutual funds, and stock options from her new employer. Not to mention her universal life product with her insurance company, a bank account, two GICs, and an individual RRSP that she started nine months ago with her bank.

Rita thought she was set. After all, she'd always heard that diversification is the key to successful investing. And she'd worked hard to find a good financial advisor who understood her goals and investing personality. When Rita met with her advisor last year for her annual portfolio review, she didn't have her individual RRSP with the bank. And when she met with him for the current year's review she forgot to mention it, caught up in the excitement of telling him about her new job.

They sat down and discussed if there were any changes in Rita's goals and time horizons. Then the advisor adjusted Rita's investment strategy to incorporate her additional investments with her new employer.

INCOMPLETE INFORMATION = INCOMPLETE ADVICE

When Rita met with her advisor, she didn't realize that the investment strategy he developed was only as effective and as accurate as the information she gave him.

Based on all of her investments he might have helped her select another, more suitable insurance plan, introduced other investments better suited to her circumstances and needs, or consolidated some investments to eliminate duplication.

Even though Rita's advisor took her new employer investments into account, he would have made even more changes had he known about the individual RRSP. He would have found that Rita's investments were over-diversified, and that she simply had too many similar funds, both of which can have drawbacks.

HERE'S WHY

- Having too many funds can potentially limit returns. Essentially you're spreading yourself too thin. By doing this, you're not allowing the assets in your portfolio to work for you. The impact of any gain from an individual investment will be marginal on your overall portfolio.

- Ensure the funds you own are not too similar to one another. The goal should be to have enough variety for proper diversification, e.g. geographically, across asset classes and investments styles. Your advisor can help you choose the right balance of funds to achieve your financial goals.

- With too many different investments, proper asset allocation may become difficult to maintain. Regular monitoring is essential to the health of any financial plan as portfolios may need to be adjusted over time. The problem with having too many investments may be the costs of rebalancing. Buying and selling investments to maintain proper asset allocation is essential but has the potential to be costly to your portfolio.

DRAWBACKS OF TOO MANY DIFFERENT INVESTMENT ACCOUNTS

1 Increased fees – Remember, for every account you have there's the potential for paying either an administrative or commission fee for each one. By consolidating some investments, your returns may increase simply because you're paying less in fees.

2 Difficult to monitor performance across all plans – If you have so many plans that it's difficult to look at your performance statement and keep track of which ones are contributing to returns, it may be time to consolidate. By consolidating, you receive one statement detailing all your investments, making it easier for you to monitor your portfolio and plan your financial future. It's also easier to avoid over-diversification.

3 Unclear inventory of assets leading to:

Duplication of investments – The Canadian marketplace is relatively small when compared with that of the U.S.; in fact, many Canadian equity funds are simple variations of the TSX. You may own 40 mutual funds but a closer evaluation may reveal that 30 of them may have very similar holdings.

Incomplete financial plans are created because of lack of information – There are many tactics your advisor can use to tailor your portfolio to your objectives. But without all of the information, there may be unforeseen shortcomings that he could not predict.

Estate planning problems – The issues surrounding estate planning can be complex, especially if there's a significant amount of wealth spread across several personal and business assets. And if any of your investments are not included in your Will, the investments may become intestate and not passed on in accordance with your wishes.

The simple solution: Talk to your advisor. Avoiding all of the above problems and achieving your goals can be simple and likely won't require any extra work – just be sure to give your advisor your complete investment picture. Having all the information will help him focus on your overall financial health so that all aspects of your fiscal life are working smoothly.

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