



Finding a healthy balance

Are your life and your investments in balance? There are many different types of investors. Some check on their holdings everyday because they enjoy the security selection process. They get a thrill from hunting down the latest, greatest stock and discussing it with their advisor. These people welcome investing into their lives and are happy to spend several hours each week assessing and adjusting their portfolios. Let's call them the "investment watchers."

There are other investors, too. They see their investments as a means to an end and would prefer to leave day-to-day management decisions in the hands of professionals. They are often quite savvy about investing it's just that they have other priorities in life.

So although these investors want to be regularly informed of their progress towards their financial goals, they certainly don't want the ongoing management of their portfolios to intrude into time spent with family, friends or favourite hobbies.

It's important to determine what type of investor you are so you can make sure your life and your investments are in balance. It's not necessarily an "either/or" decision. Some investment watchers choose to manage a portion of their overall portfolio directly, with their advisor's guidance, and delegate the rest to professional management. That way, they keep a hand in the markets and benefit at the same time from the value added by expert analysts and portfolio managers who invest for a living.

What's critical is that you consider how active you want to be in the everyday supervision of your holdings and then develop an appropriate strategy with your advisor. As you choose products that meet your investor type, keep four basic principles in mind:





1. Diversification helps to minimize risk and maximize returns.
2. Professional management can deliver superior results and peace of mind.
3. Ongoing monitoring is key to your investment success.
4. Clear, comprehensive reporting is essential to assess your progress towards your goals.

Let's explore each of these principles in more depth.

THE BENEFITS OF DIVERSIFICATION

Regardless of what type of investor you are, diversification is the investment industry's "free lunch." It's often assumed that you have to reduce your performance expectations in order to achieve lower volatility. For example, by investing in a money market fund instead of a stock fund, you can limit your risk – but you also have to accept lower potential returns. With diversification, you can lower the overall volatility of your portfolio without reducing your potential performance.

At its most basic level, here's how diversification can work in your favour. Let's assume that you live in a small village just above the Arctic Circle. There are two big companies in town: one manufactures sunglasses

and the other produces flashlights. The sunglasses factory benefits from high demand during the long bright summer days, however, that demand dries up as autumn closes in.

On the other hand, the flashlight business has its peak season during the long, dark winter nights, while people have very little call for flashlights when the sun is shining 24 hours a day. If you were to invest half your money in the sunglasses factory and half in the flashlight business, you would spread out your returns throughout the year. And in addition to lowering the volatility of your portfolio, you would be exposed to the long-term growth potential of both companies.

The key to successful diversification is to mix different asset classes, such as cash, fixed-income and equities, and to spread your holdings across different geographic regions, economic sectors, market capitalizations and investment management styles. It can be a challenge to find the optimal asset allocation that maximizes returns for a given level of risk, which is why asset allocation, or "wrap" products are so popular. A wrap product is a collection of funds or portfolios, constructed by professional managers, that work together to provide carefully monitored and continuously rebalanced diversification. Because experts determine the asset mix, wrap products leave you freer to enjoy the "life" part of your everyday. Whether you and your advisor

decide to develop a diversified portfolio or invest in a product that offers ready-made diversification, your goal should be to construct a portfolio appropriate to your personal financial objectives, tolerance for risk and investment time horizon.

HIGH-QUALITY MANAGERS MAKE THE DIFFERENCE

Investors are faced with thousands of possible investments and millions of potential combinations of holdings. The Toronto Stock Exchange, for example, lists more than 1,300 publicly traded companies, and the New York Stock Exchange hosts about 2,800 businesses. So achieving optimal diversification in the current broad universe of stocks, bonds and funds can be extremely difficult, even with the assistance of an advisor.

Professional management can help you and your advisor sort through the available choices and build a portfolio that truly meets your needs. By delegating the responsibility for choosing individual investments, you can focus on the activities you enjoy. Meanwhile, your savings will remain top of mind for the highly trained people who conduct sophisticated analysis work as their “day job.”

That said, your investment results will only ever be as good as the expertise of the people making investment

decisions on your behalf. Whatever investment you and your advisor choose, to earn the luxury to truly relax and shift your attention to other aspects of your life, look carefully at both the in-house portfolio managers and third-party managers to ensure that they are among the best in their field. Examine their years of experience and professional qualifications. Check their investment style and record for consistency. And assess their process – for example, find out how they go about analyzing potential holdings and who makes the final decisions on whether or not to invest. If you would prefer to delegate this responsibility, consider that some investment products have independent teams that recommend best-in-class managers and put underperforming funds “on watch” until they either improve their results or are removed from the portfolio.

MONITORING PROVIDES PEACE OF MIND

That leads into another important point: find out who “manages the managers.” How can you be sure they will meet performance expectations? What are the consequences if they don’t? When you know that a rigorous ongoing monitoring process is in place, you and your advisor can have a greater degree of confidence that your investments will meet your stated goals. It’s an extra level of due diligence that can help you get a good night’s sleep.





REPORTING SHOWS YOU WHERE YOU STAND

Clear, comprehensive reporting is the final piece in the puzzle. If you don't want to spend a lot of time calculating your personal performance, look for simplified options. Many mutual fund statements list personal rates of return for each product you purchase. Wrap products frequently offer consolidated statements that give you one personalized rate of return for a collection of investments, along with a list of the individual products in the wrap. This makes it easier to see how close you are to meeting both your performance and diversification goals. Remember that without reliable information about where your investments stand, you and your financial advisor cannot make adjustments to your investments that enable you to stay on track to achieve your objectives. It all comes down to balance. Investment watchers have the option to do their own research, establish a diversified portfolio with their advisors, and rebalance regularly to maintain an optimal allocation. For others, however, it is preferable to discuss with an advisor the benefits of allocating assets to best-in-class professional investment managers who offer superior monitoring and reporting services. These investors can sit back and relax, secure in the knowledge that their money is headed in the right direction to finance their lifestyle dreams. Even

better, by choosing products that fit their specific investor type, they can achieve a comfortable personal balance between their life and their investments.

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