Manulife Securities

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MANULIFE SECURITIES INSURANCE INC.

FINANCIAL STRATEGIES FROM

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Straight Talk about the World of "Safe" Investments

All about GICs, bank accounts and bonds….

Let's be honest: not too many people have the appetite to invest in the stock market right about now. After a small decline in the stock markets in 2007, a large decline in 2008 and now 2009 starting out with more negative returns, parking your cash into a savings account, or a bond or a GIC sounds pretty good.

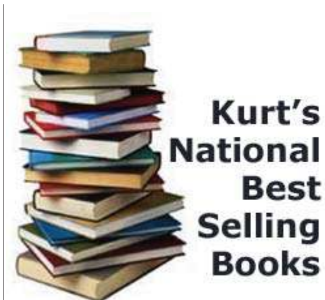
And investment firms know it – the papers are full of advertisements for high interest savings accounts and GIC term deposits offering teaser rates and bonuses to get you in the door.

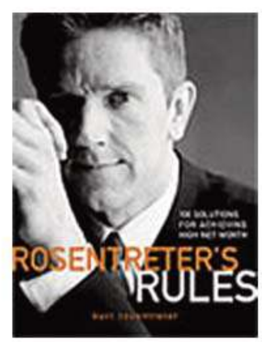
So, the question is: what is the best way to invest for safety?

Let's explore some options:

Money Market Mutual Funds – these are mutual funds that often hold hundreds of short term government bonds, treasury bills, commercial paper, corporate bonds and asset backed securities. Yes, I said asset back securities, one of the types of products that have been problematic in the United States lately. Money market mutual funds, particularly the ones offered by the Canadian banks, are some of the most popular savings vehicles for Canadians. Yet, few ask what is owned inside these products and money market mutual funds offer no insurance to protect you. Simply put, think twice about using a money market mutual fund for any large savings – there are better options for return with low risk.

Treasury Bills – also called "T-bills", are short term debt obligations of the Federal Government. They can be purchased with maturities from one day to 365 days for as little as $10,000. Since these are bonds offered by the Federal Government and the Federal Government prints our money, they are viewed as the safest form of fixed income investment you can own. But with safety and low risk, comes low return. You see the world of bonds and fixed income products is policed by credit rating agencies like Standard and Poors, Dominion and Moody's. These independent firms review products offered by governments, corporations and other entities and assign risk ratings to each product. The higher the risk the higher the return. So if you want to feel as safe as possible with your money, buy a Tbill and accept the return for what it is. If the world goes to hell in a handbasket, this is the place to be.





Provincial Government bonds – are debt obligations or bonds of the provincial governments. Every day in the bond market thousands of different types of provincial bonds are available for purchase and sale. Some mature in one year. Some mature in twenty years. They can be bought and sold in the open market, pay interest yearly (sometimes up to four times a year), are not locked in, fluctuate in price (this can be good or bad), offer the potential for capital gains on top of interest payments and can be purchased for as little as $10,000.

Each province has a different credit rating resulting in a different rate of return on the bond. The rate of return is a function of the interest paid yearly and the initial purchase price paid. Combined these two factors are called yield. Yield is what you earn on the bond in total. Currently provinces like Quebec or Newfoundland are viewed as bigger credit risk than provinces like Ontario or Alberta, so their credit rating is lower and their provincial bond yields are higher.

In my opinion, provincial bonds are safe – I cannot see a province going bankrupt. If you believe this too, selecting provincial bonds with higher yields can make sense for your savings.

Corporate Bonds – this is debt issued by companies around the world. Again, the yield you earn is a function of the risk that the market foresees in the company's ability to pay back the bond, along with interest, in the future. In 2008, with so many investors fearing bankruptcy of major companies, investors fled from corporate bonds causing the price of the bonds to drop. As prices dropped the yield rose. Today early in 2009, many corporate bonds pay 6% to 8% return on a three year bond. Compared to a GIC or a provincial bond, this may be four times more return. But let's be very clear: if the company goes bankrupt you will lose the entire amount of your bond. Corporate bonds should be considered to carry the risk level of a stock – they are not for the faint of heart. However, with that said, many investors can think of many large, strong companies where business trouble is unlikely (e.g. an oil company making billions in profits). In this case, buying their bonds may seem like a pretty safe bet. And holding a bit of corporate bonds alongside the rest of your safe GICs or government bonds means little added risk, but a nice boost to your portfolio average return.

Guaranteed Investment Certificates (GICs) – GICs have been around for decades and are debts of the Canadian banks and trust companies that investors buy. They can be cashable or locked in, although the cashable versions often offer lower returns. You can purchase maturities of one month to five years. And of course they carry a guarantee – that $100,000 of GICs per separate account of each GIC issuer is insured by Canada Deposit Insurance Corporation (CDIC). GICs are very popular among older Canadians that have grown up knowing them as a simple to use tool offering steady interest returns from a local bank branch that they trust. Many Canadians still run from branch to branch of different banks to roll over their GICs because holding too much in GICs in one branch of one bank means going over the insurance limit.

But times have changed for GIC investors. There is no need to run from branch to branch anymore – in fact, buying GICs and keeping an account at the bank branch may be the worst way to buy GICs in Canada today.

Today in Canada the brokerages are better places to hold your GICs – for many reasons: First, most of the brokerages (including ours) can offer GICs everyday from various banks and trust companies, all with the latest rates which we get every morning at 8:45 am. This provides broad choice from one source without having to run from bank to bank. When you go to each bank, they only offer you their own products, limiting your choice and providing no objectivity in their advice. Third, because the CDIC $100,000 insurance is offered on the GIC issuer (e.g. the bank or trust company), we can hold your account at the brokerage level, buy 20 different GICs in one account and have CDIC $100,000 insurance apply all 20 times! Gone are the days of having to run from bank to bank - brokerages can manage all of your GICs from one platform and ensure you get the same CDIC insurance. Fourth, in our world of too much paper, if you hold GIC accounts at five banks, you will get statements and confirms from five banks. It's a paper jungle out there. Brokerages offer you one statement for all of your GICs. This makes your money easier to manage while saving the environment at the same time. The bottom line: there is little reason to shop for GICs at the local bank any more – standing in line, clerks that don't know your name and advisors who have no desire to shop for the best rates for you.

High Interest Savings Accounts - high interest savings accounts like ING Bank account, PC Financial, Dundee Savings, Manulife Bank Account, Altamira Cash Performer and Citizen's bank are bank accounts, despite often being confused for money market mutual funds. The bank accounts are created under the Bank Act, qualifying them for inclusion of CDIC $100,000 insurance. They are not mutual funds. In my opinion, these are superior to mutual funds not only because they often offer higher interest rate, but because they come with the insurance guarantee. Your money is also accessible day to day with no fees. If you need day to day accessibility to your money, high interest savings accounts are a great way to go.

Short Term Bond Mutual Funds or Pooled Funds – these mutual funds often hold hundreds of government and / or corporate bonds in a pool that you can buy and sell. Your return consists of interest payments and possibly some capital gains over time. Note however that short term bond funds, mortgage funds, high yield funds, and bond funds in general are not designed for short term savings. The price of the bond pool changes daily and can decline below your cost for periods of time. If you need your money back in a short time, you may end up selling the product at a loss.

Worthy of Note

ING Direct has made great in-roads in Canada in recent year to become a top choice for short term savings with their easy to use savings accounts. However, they have had their share of issues: recently some clients have said they remained on hold for 20 minutes trying to access their accounts, creating a less than desirable service experience. Second, their interest rates which used to be consistently the best of the best, have been beaten by competitors in recent years for extended periods of time. Third, their claim of no fees is something that is easily matched by many institutions including us. Perhaps most disturbing however, is the activity of their parent company, across the ocean – far from the Canadian news. Recently their parent company in the Netherlands received an emergency $10 Billion dollar injection of capital from the Dutch government as a lifeline to keep the bank well capitalized in the face of heavy losses from the US subprime industry. ING's stock price on the New York Stock Exchange has fallen from a high of $40 to a low of $7 in the last year and their once large dividend has been cancelled. On February 11, 2009, ING announced the elimination of 7,000 jobs worldwide, after announcing a fourth quarter global loss of 3.9 billion Euros or more than $6 billion Canadian dollars. Even more recently, ING worldwide sold off their Canadian insurance division at what some call firesale prices to raise capital. A class action lawsuit was filed against ING in the United States in recent months, claiming retribution against securities they sold – what will this cost? And even the global CEO stepped down recently. All indications are that ING is not a company that has a strong business currently – is this really the safest place to stash cash even with a CDIC guarantee?

And just who is CDIC?

CDIC or Canada Deposit Insurance Corporation has come to be known by Canadians as the guardian angel of bank deposits and GICs. Many people think that CDIC is the government of Canada. It is, sort of. It is a Crown Corporation created by parliament. It monitors member organizations like banks, charges them premiums to be a member institution and insures their deposits up to $100,000 per certain accounts and products. If a financial institution is not a member, they don't get insurance. CDIC does not insure US dollar deposits, GICs greater than a five year maturity, principle protected notes, bank bonds and debentures nor any mutual funds.

Interesting, according to the 2008 (March 31) Annual Report for CDIC, their total assets / reserves are $1.6 Billion, while total insurable deposits (GICs, bank accounts, etc) at member institutions were $477 Billion at April 30, 2007. While CDIC can turn to the Federal Government for money in the case of a financial disaster, it is a bit unnerving to see such a low reserve. It makes one really think whether the quarter percent more on that 5 year GIC is really worth it compared to the safety of a government treasury bill or bond.

What About Credit Unions?

Credit unions have their own form of insurance over deposits and it is different for each province. In Ontario, DICO, or the Deposit Insurance Corporation of Ontario protects qualifying deposits for up to $100,000. DICO is an Ontario Provincial Agency established under the Credit Unions and Caisses Populaires Act. In reviewing the 2007 Annual Report for DICA, I noted that the Deposit Insurance Reserve Fund totaled $105.3 Million, which is only 0.57% of the system's nsured deposits (page 17). Given that less than DICO doesn't have enough money to cover even 1% of GICs and other insured deposits at credit unions in Ontario, make sure you have a good understanding of what steps would be taken to protect your money if you are choosing to invest with credit unions. Once again, that juicy 0.50% more on their GICs may seem like a no-brainer instead o fthe provincial bond, but in a world where nothing is safe anymore, is it really worth it?

Conclusions

To invest your money safely in Canada means getting comfortable with the characteristics of each product. In examining the different product types, I believe a few facts become clear:

- High interest savings accounts are about as good as it gets for investing money over a few months or less.
- Money market mutual funds, short term bond mutual funds and bond funds are rarely the right choice for very short term savings in large amounts.
- If you invest in CDIC insured products, keep investment levels below $100,000.
- Draw a line in how much you are willing to hold in GICs in total. In the event of failures of major financial institutions it may take a while to get your money back.
- Shop at brokerages, not banks for your GICs to get broader choice, independence and objectivity in the advice provided and hopefully better rates.
- Maintaining GICs at more than three financial institutions will cause an estate nightmare if something happens to you. There is no need for this in the 21st century.
- Corporate bonds, high yield bonds and bond mutual funds have the same kind of volatility that stocks do – they may not be as safe as you desire.
- Advisors who sell you fixed income products, even a teller at the bank counter may be earning commissions, referral fees, trailers or bonuses based on what they sell you. Ask for disclosure of any compensation before you buy.
- Recognize that bond returns are based on risk of the bond issuer in all cases. Even GICs are not as safe as a Federal Government bond. If a fixed income investment has a higher return it is because there is higher risk associated with it.
- All Canadians, no matter what age, are well served with some short term savings in a fixed income product – whether to serve as an emergency fund or as part of a longer term investment plan.

Contact us to answer your questions, schedule a meeting, get a second opinion, refer a friend, order a book, receive a brochure on services and fees, create a financial plan and more. Manulife Securities Incorporated is a member of CIPF.

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