

Align financial goals with product choices, say investment experts

For Canadian investors, the vast number of investment products available can be a stumbling block: behavioural finance has proven that the more choices we're faced with, the more likely we are to be paralyzed by indecision and unsatisfied with the decisions we ultimately make.

So how can the average Canadian – with a career, family and too few hours in the day – make appropriate choices from among the thousands of GICs, Canada Savings Bonds, annuities, stocks, segregated funds, mutual funds and specialty products available?

Start with basic asset and product allocation, say the experts – the science of aligning your product choices with your financial objectives.

“Undoubtedly, the most significant factor with respect to product allocation revolves around its suitability for your investment time horizon, risk tolerance and investment experience,” says Tony Mahabir, CFP, chair of the Canadian Institute of Financial Planners. “There is no point in allocating

savings to an aggressive equity mutual fund if you only have a one-year time horizon and you cannot stomach even minimal fluctuations in your portfolio. A holistic approach, following the financial planning process, will go a long way in identifying an effective product allocation.”

For the majority of individuals, life consists of two primary financial phases, the accumulation years and the de-accumulation years (otherwise known as ‘retirement’).

Of the accumulation phase of life, Kevin Strain, senior vice-president, individual insurance and investments, Sun Life Financial Canada, says, “As you're gathering assets and investing, as your savings are working for you, there are distinct differences among the needs of individuals. You may be buying a home as well as creating a savings program for retirement; you may be looking at ways to protect your dependents from the impact of premature death or critical illness.”

Each product available has a specific purpose and risk pro-

file, he says, and a financial advisor can help you tailor a plan that suits your exact needs and risk tolerance and put that plan into action with the appropriate products.

“The best option is not necessarily the one that promises the highest rate of return or the most significant tax benefits, as important as these considerations may be. Rather, the best option is the strategy that enables you to achieve your goals without forcing you outside your investment comfort zone,” says Mr. Mahabir.

Conventional wisdom may well call for individuals in the early stages of the accumulation phase to maximize capital appreciation by investing in equities; however, if doing so causes the individual stress and restless nights, the recommendation is of little value, he says.

As the individual moves closer to retirement, or the de-accumulation phase, it is critically important that product choices be realigned accordingly. “In the accumulation phase, dollar-cost averaging (the practice of investing an

essential info

Why insurance should be part of your overall financial plan

So, you have taken the steps to plan ahead for your retirement. You have carefully kept track of your pension plan and bridged any gaps by making investments that you hope will grow to meet your future needs.

But have you considered the key “what if” questions?

What if you become disabled or contract a life-threatening illness?

What if you need to be placed in a long-term care facility or require expensive drugs and treatments?

What if there is another severe downturn in the economy? Will your savings be adequate to cover such unforeseen events?

Your overall financial plan should prepare you for the unexpected. Discussions with your financial advisor should include an explanation of life and health insurance products and a determination of which ones would best suit your needs. For example, you should know about life insurance, segregated fund contracts, critical illness insurance and long-term care insurance.

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Established in 1894, the CLHIA is a voluntary association whose member companies account for 99 per cent of Canada's life and health insurance business.

equal amount regularly) lowers overall cost and reduces risk. In the de-accumulation phase, when you start to extract assets from your savings plan, that principle begins to work against you,” says Mr. Strain.

Risks such as outliving assets, inflation, market volatility and health must be considered when making product choices, he says. “People are living longer than ever before: for a couple both age 65 today, there is a 25 per cent chance that one of the couple will live to 94. Retirement savings may need to last from 28 to 35 years or more.

“A financial plan addresses those needs and those risks,” says Mr. Strain, noting that there are products available that can provide guaranteed income streams, life insurance, long-term care and estate planning solutions as well as investment solutions.

Working with a trusted advisor to help compare and identify appropriate products is critical to success. “Clearly, not all investment vehicles are equal,” says Mr. Mahabir. “Factors such as fees, performance history, liquidity, tax efficiency and complexity must be evaluated. Hand-in-hand with proper asset allocation, effective product allocation significantly increases the likelihood that the objectives spelled out in the financial plan will be achieved.”

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online? Visit clhia.ca for more information from Canada's Life and Health Insurance Association. To locate an advisor, visit Sunlife.ca/AdvisorMatch.

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