SUN LIFE INVESTMENT LITERACY SERIES

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Aiming for investment success? Start by managing risk.

While it seems counterintuitive, investing when others are deserting the field is one of the primary ways that professionals manage risk. Although the downturn has traumatized investors, it also means that the stocks of many great companies are now trading at very attractive valuations.

"We are finding opportunities today in what we would call higher-quality companies," says Christine Girvan, managing director, MFS Investment Management.

MFS, which introduced the first mutual fund in the U.S. in 1924, defines high-quality companies as those that have a stable competitive advantage that gives them pricing power; superior business models, such as the ability to generate cash flow so they don't have to get financing; healthy balance sheets and strong management.

"We believe these companies outperform in the long term," says Ms. Girvan.

For the average investor, separating the companies that are underpriced because they are no longer viable from those that the market is undervalued can be very difficult. But there is an alternative. "When you invest in mutual funds, you invest in diversification and professional money management," says Rick Headrick, president, Sun Life Global Investments (Canada) Inc.

The events of 2008 highlighted the critical importance of understanding the companies you invest in as well as applying traditional evaluation metrics, says Ms. Girvan. "Our analysts around the world ensure we understand all the risks embedded in the companies we invest in, such as regulatory, political and currency risks."

For retail investors, risk can be further reduced through dollar cost averaging, says Mr. Headrick. "Investing in units of a mutual fund on a regular basis means you are investing in all cycles of the market – you don't have to worry about market timing, which is very difficult to get right. If you kept buying throughout early 2009 when the markets bottomed out, for example, you bought at the lows and benefited as markets improved."

Another important risk reduction technique is regular, disciplined rebalancing. "You reduce risk by taking profits off the table and investing those profits in lower-performing assets. If you invest in a balanced fund, a professional does the rebalancing for you; in a mutual fund portfolio, you can also rebalance funds within the same family, usually without incurring any charge for rebalancing."

Diversifying by asset type is also an essential risk management strategy. "If you look at the past 10 years, bond funds have outperformed equity funds, but the point of fixed income investments is that they tend to do well when equity portfolios don't," says Roger Beauchemin, president and CEO, McLean Budden. "They also lower volatility in the sense that, while they do change in price very frequently, those changes aren't as dramatic as on the equity side."

But not all fixed income assets are created equal. "Typically, in addition to diversifying our holdings, we also conduct proprietary credit analysis rather than relying on third party agencies," says Mr. Beauchemin. "We're paid a premium for taking risk, so we want to ensure we're paid adequately for any risk we take. And when we do take risks, we do so in small bites, so that if anything happens, it minimizes the impact on the overall portfolio."

As a result, McLean Budden, which manages over $32 billion, largely in pension assets, has never had a credit default since its inception in 1947.

For Canadians investors, the lesson from the professionals is clear: do thorough, extensive research; diversify by assets, geographic sectors and asset type; rebalance and ensure you're paid adequately for incurring risk. And if you don't have the ability or time to do that, consider investing with the professionals who do.

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Rick Headrick, president, Sun Life Global Investments (Canada) Inc.

essential info

from the Canadian Life and Health Insurance Association

Some of the products offered by the life and health insurance industry may be used as vehicles for saving or investment: universal and whole life insurance have significant savings components as well as insurance elements, and segregated fund contracts provide a variety of investment options and guarantees.

With segregated funds, premiums are invested in investment funds selected by the client, who can receive the market value whenever they want, and the investment is protected by death and maturity benefits that will pay out a minimum of 75 per cent (depending on the contract) of the amount invested if the client dies, or on a specified date. Some contracts also offer a guarantee on future income flows from the policy.

To find out more about life insurance options that offer savings and investment features, speak with a financial advisor who is life-licensed.

online? Visit **clhia.ca** for more information from Canada's Life and Health Insurance Association. For more investing information, visit **Sunlifeglobalinvestments.com.**

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PREPARING FOR TOMORROW MEANS THINKING LONG TERM.

Discover how our new investment solutions can help you diversify for long-term success and manage risk in your portfolio. It's a little added certainty in an uncertain world. Speak to an advisor today about Sun Life Global Investments.

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