Investing 101 – Introduction to Investment Types

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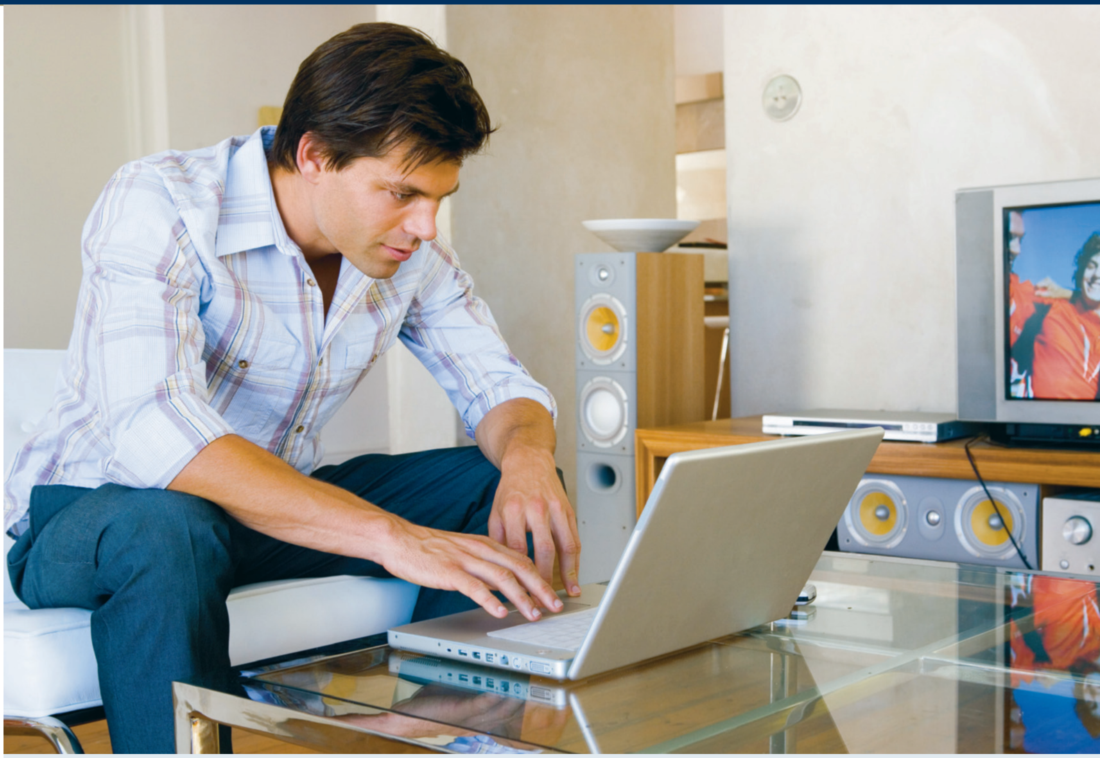

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Understanding your investment choices

With all the options available in today's market, choosing the right investments for your portfolio can be a complicated task, especially if you don't have much experience with investing. It helps to understand the different types of investments available, and how they can help you achieve the different financial objectives you may have.

SECURITIES

A "security" is the basic building block of most investments. It represents ownership in an investment such as a bond or equity. Investors can own securities directly in their own investment portfolios or indirectly by purchasing units in mutual funds or investment pools.

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FIXED-INCOME SECURITIES

With a fixed-income security, you essentially make a loan to an organization such as the federal government or a financial institution. In return, you receive regular interest payments and you also get back the full amount you loaned after a set period of time (on the "maturity date"). Common fixed-income securities include government bonds, corporate bonds, Guaranteed Investment Certificates (GICs), Treasury-Bills (T-Bills) and Banker's Acceptances (BAs).

Why own fixed-income securities?

Fixed-income securities are generally the most secure investments available. They provide predictable income and add stability to an investment portfolio. They are also very liquid – most fixed-income securities can be easily bought and sold through major investment dealers. In addition to receiving interest payments, you can also earn capital gains on fixed-income investments. For example, if you buy a bond "below par" (or face value) and hold it until maturity, you will receive the full face value and earn a capital gain.

Who should own fixed-income securities?

Almost any investor can benefit from holding some fixed-income investments, but they are particularly important for risk-averse and income-oriented investors. Generally, the more risk-averse you are, the more fixed-income investments you should own relative to higher-risk growth investments like equities. In addition, if you are retired, you will probably need more fixed-income investments to provide you with regular income.

Types of fixed-income securities

- Guaranteed Investment Certificates (GICs) are debt securities issued by financial institutions. You loan money to the financial institution, which pays you interest and returns your principal (the amount you loaned) on the maturity date. GICs with later maturity dates tend to pay higher interest. GICs are generally insured by the Canadian Deposit Insurance Corporation (CDIC) up to $100,000 per issuer.
- Government bonds are debt securities issued by governments to raise capital, for example, to help fund government programs. In Canada, municipal, provincial and federal governments all issue bonds, which they guarantee. Like GICs, bonds have different maturity dates, with longer-term bonds normally offering higher interest. Bonds also tend to offer higher interest than GICs.
- T-Bills are similar to government bonds, except they are usually shorter-term and pay less interest. They are often used to "park" funds before they are redeployed elsewhere.
- Corporate bonds are debt securities issued by corporations, as one way they can raise capital (issuing equity securities or shares being the other). Corporate bonds vary widely in quality from "junk bonds" offering higher interest to attract investment to higher-quality bonds offering lower interest but greater security.
- A BA is a shorter-term debt security issued by a corporation, but guaranteed by a financial institution rather than the corporation. As a result, they tend to offer greater security, but lower interest than a corporate bond.

EQUITY SECURITIES

Equities are securities based on ownership in private or public companies. There are different types of equities, including common shares (or stocks), preferred shares, business income trusts, royalty trusts and real estate investment trusts (REITs). Investors normally invest in publicly-listed equities through stock exchanges such as the Toronto Stock Exchange (TSX).

Why own equities?

Typically, you would include equities in your investment portfolio if you are investing for growth. Historically, equities have provided greater long-term growth compared to other investments such as bonds. However, unlike bonds, equities are not guaranteed and they tend to fluctuate more in value – they're more "volatile."

Who should own equities?

Growth-oriented investors will normally hold more equities, while more conservative investors will hold less. Growth-oriented investors generally have more time to invest, so that over time the fluctuations in value smooth out. They also have the stomach for the fluctuations – a higher "risk tolerance".

However, conservative investors can also benefit from holding a certain percentage of equities in their portfolios. The long-term growth potential offered by equities can help a portfolio retain more of its value over time, countering the eroding effects of taxes and inflation.

In addition, many equities, including income trusts, preferred shares and higher-quality stocks ("blue chips") pay dividends, making them attractive to income-oriented investors.

Types of equity investment

- Common shares are issued by companies to raise capital. They offer investors a share in the profits (or the losses) of the company proportionate to the number of shares they own. Common shares usually have voting rights and sometimes pay a dividend. They can be sold on the secondary market (e.g. the Toronto Stock Exchange) to other investors, for a capital gain or loss.
- Preferred shares are also issued by companies to raise capital, but have some differences from common shares. First of all they are "preferred", which means that preferred shareholders have a priority claim on assets, earnings and dividends ahead of common shareholders (though behind bondholders). Preferred shares have no voting rights. Because they generally pay a steady (though not guaranteed) dividend, they are usually considered income investments rather than growth investments.
- Income trusts are an alternative to the corporate ownership structure and offer investors ownership through trust units. Like shares of public corporations, income trusts can be bought and sold on secondary markets for a profit or loss. But unlike corporations, income trusts tend to pay most of their profits to investors, rather than reinvesting in the business. Business income trusts are based on a single underlying business. Royalty trusts and Real Estate Investment Trusts (REITs) offer ownership in a number of underlying assets, respectively, energy / resource properties and real estate.

MUTUAL FUNDS

Mutual funds are portfolios of securities offering built-in diversification and professional management. With mutual funds, you buy units of the fund, but specific buy and sell decisions within the fund are left to the professional expertise of fund managers who invest in a variety of opportunities according to the fund's "investment mandate". For example, a Canadian equity fund's mandate might be to achieve long-term growth by investing primarily in Canadian equities listed on the TSX.

A fund's value is based on its underlying assets, minus certain fees. You can buy and sell funds through most financial institutions, which may charge a "load" or commission either on purchase ("front-end load") or sale ("back-end load"). Types of mutual funds include fixed-income, balanced, equity, geographic-area, sector and style funds.

Why own mutual funds?

Mutual funds offer a convenient way to benefit from professional investment management and built-in diversification. You make one simple investment decision and leave the rest to the professionals.

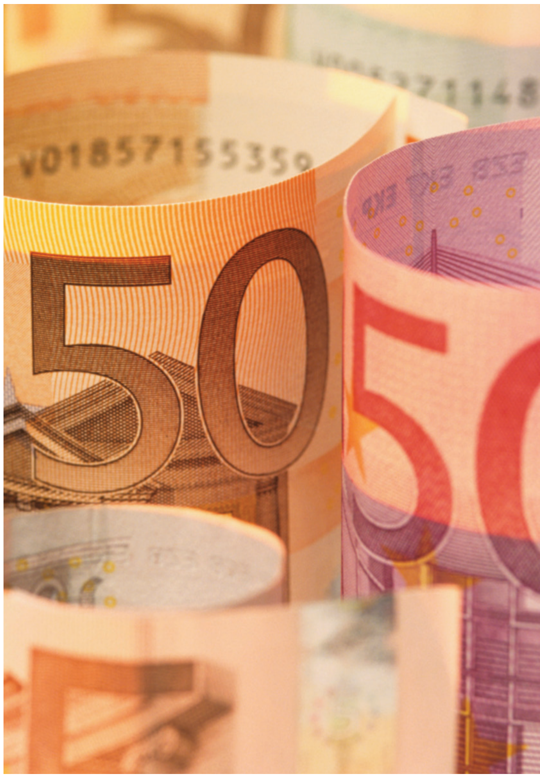
Who should own mutual funds?

With a wide range of choices, mutual funds can help you whether you're seeking capital preservation, income or growth. They are very appealing if you lack the time, inclination or expertise to pay close attention to your investments, and prefer a more convenient investment solution.

They are particularly useful for your smaller accounts, as they provide easy access to a diversified portfolio of investments that you would need substantial investment assets to replicate on your own. However they are also useful for your larger accounts, as they can help fill gaps quickly and easily.

Types of mutual funds

- Fixed-income funds invest primarily in fixed-income securities to provide capital preservation and income.
- Balanced funds invest in both fixed-income and equity securities to provide a balance of stability and growth.
- Equity funds invest mostly in equity securities in order to provide greater growth potential.
- Geographic-area funds focus on a specific geographic area, such as Canada, the U.S., Europe or Japan.
- Sector funds invest in specific economic sectors, such as energy, technology or health-care.
- Style funds invest according to a specific investment style, such as "value" where the fund managers look for securities priced below fair market value.



INSURANCE-BASED INVESTMENTS

Insurance is best known as a way to protect you from the various risks in life. But insurance can also be used for investing. There are several different insurance-based investments, including segregated funds, insured annuities and tax-exempt insurance policies. An insured annuity is an insurance contract that combines a life annuity contract and a life insurance policy. You can deposit funds into an insured annuity and in exchange receive fixed interest payments, usually guaranteed for life.

Why own insurance?

In addition to protecting you from risk, insurance can help you grow your retirement savings, augment your retirement income, protect the value of your estate, enhance your charitable legacy and ensure you don't outlive your assets.

Who should own insurance?

Nearly everyone can benefit from insurance-based investments. Segregated funds can meet a range of investment goals, while insured annuities and tax-exempt insurance can enhance your retirement income and estate.

Types of insurance

- A tax-exempt life insurance policy enables you to invest within the policy on a tax-deferred basis. You can take out tax-free bank loans against the policy if you need income during your lifetime or simply allow the assets to accumulate for your estate.
- An insured annuity can provide greater after-tax retirement income compared to a GIC. However, bear in mind you lock in the assets at the prevailing rate, so it's usually best for just a portion of your assets.
- Segregated funds are an insurance company's version of a mutual fund. They are often based on an underlying professionally managed fund and offer some of the upside of the fund, while limiting the downside through guarantees and lock-in features.

INVESTMENT ACCOUNTS / PLANS

There are several different types of investment accounts and savings plans that are used for different purposes. Here are a few of the key ones:

- Non-Registered Accounts are the main type of investment account, and enable you to invest in virtually every type of investment. They are regular, taxable accounts with no special tax features, as opposed to the registered accounts discussed below.
- Registered Retirement Savings Plans (RRSPs) provide important tax incentives to help you save for retirement. You can contribute up to 18% of your previous year's earned income to your RRSP annually (up to $22,000 for 2010 and $22,450 for 2011). Your contributions are tax-deductible, providing you with potentially significant tax savings. You can invest your contributions in a wide range of choices and your investments grow tax-free until you start making withdrawals.
- Registered Retirement Income Funds (RRIFs) are an extension of your RRSP (or your Registered Pension Plan). You have to convert your RRSP into a RRIF (or another income source) by the end of the year in which you turn 71. The key differences – you can't contribute to your RRIF and you have to withdraw a minimum amount each year. However, while your assets remain within your RRIF, they continue to grow tax-free and you continue to have control over your investment choices.
- Tax-Free Savings Accounts (TFSAs) enable you to invest in most of the same choices you have in an RRSP or RRIF, earn tax-free investment growth and make tax-free withdrawals for any reason. You can contribute up to $5,000 annually, regardless of your earned income, and any unused contribution room carries forward indefinitely.
- Registered Education Savings Plans (RESPs) are designed to help you save for the post-secondary education of a family member. You can contribute up to $50,000 for each family member who is a beneficiary of the plan. As with other registered plans, your investment growth remains untaxed within the plan. In addition you can receive Canada Education Savings Grants (to a maximum of $7,200 per beneficiary).

IN SUMMARY

Even within each investment category, there is a great deal of choice. It's important to understand how an investment fits before including it in your portfolio. With the help of a professional Investment Advisor, you can build a portfolio designed to achieve long-term success, while staying within your risk tolerance and time horizon for investing.

Our Investment Advisors are here to help you select the right investments to achieve your goals. To learn more, please contact us today.

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