BUILDING A FOUNDATION FOR FINANCIAL SUCCESS

OBJECTIVES CAN HELP YOU ACCOMPLISH YOUR GOALS

"If you don't know where you are going,
you'll end up somewhere else."
— YOGI BERRA

Whether you have years of experience or are new to investing, it's important to take the time to consider what you want to accomplish when building a foundation for financial success. Just as you would start with a blueprint before you built a home, it's critical to have a financial blueprint to ensure you are building the future you have envisioned for yourself. As the quote from Yogi Berra so eloquently suggests, planning ahead is an essential first step towards achieving your goals.

This article discusses four easy steps that can help you determine and achieve your financial goals:

1. Set short- and long-term goals.
2. Determine your tolerance for risk.
3. Match investment options with your time horizon and risk tolerance.
4. Create an investment plan and revisit it frequently with your advisor.

1. Set short- and long-term goals

If you haven't taken the time to set your goals, your money may not be properly allocated to help you meet your objectives. Begin by identifying financial goals and then consider how long you think it will take to accomplish them. Your time horizon is an important consideration as it defines the number of years before you need to access your money and can help you decide which objectives are achievable over the short or long term.

Short-term goals are tangible objectives that you plan to attain within the next five years — for example, saving for a car. Long-term goals will likely consist of objectives that reside roughly five years or more in the future — for example,

Table 1: Examples of typical short- and long-term goals

Financial goal	Short-term (1–5 years)	Long-term (5+ years)
Buy a car	✓	
Start a business	✓	
Take a vacation	✓	
Make a down payment on a home	✓	
Pay for a child's education		✓
Save for retirement		✓
Purchase a vacation property		✓

saving for retirement. While every person will have different goals and time horizons for achieving them, Table 1 illustrates some typical short- and long-term goals that are shared by many Canadians.

Once you determine your objectives and where they fit within your time horizon, your next step is to determine your tolerance for risk.

2. Determine your tolerance for risk

Your tolerance for risk is the level of comfort or degree of acceptance you have in regards to a decline in the value of your investment portfolio. In general, an investor's short-term goals should be approached more conservatively, while longer-term goals can tolerate higher levels of risk. Yet every person is different; how one person reacts to a 20 per cent drop in an investment's value will vary dramatically from how another person reacts. Therefore, it's important to come to terms with your own tolerance for risk, and relate that to your time horizon, before you start to invest.

Investor profile questionnaires can help as they feature a number of short questions designed to determine how tolerant you are of market volatility. Take a minute to complete the *Investor profile questionnaire* included in this edition of *Solut!ons* magazine to help you get started.

Table 2 provides a framework that can help you assess your own tolerance for risk. The final column is important since it provides you with an idea of how many years it can take to recover from an investment loss. Reviewing this table and the results of your *Investor profile questionnaire* with your advisor will help determine how conservative or aggressive you may choose to be in the pursuit of your financial goals.

3. Match investment options with your time horizon and risk tolerance

In general, the sooner you require your money, the more conservative you'll need to be. That's because if the markets turn volatile and your portfolio declines in value, there will be less time to make up for the loss. Therefore, if you are putting money

Table 2: Recovering from an investment loss takes time

Starting lump-sum account balance ($)	Percentage loss (%)	Balance after loss ($)	Gain needed to return to starting account balance (%)	Number of years needed to recover from investment loss*
10,000	10	9,000	11.1	1.14
10,000	15	8,500	17.6	1.76
10,000	20	8,000	25.0	2.42
10,000	30	7,000	42.9	3.87

*Source: Manulife Investments and Morningstar Direct as at December 31, 2012. Based on a 30-year compound average annual rate of return of 9.65 per cent using a hypothetical portfolio consisting of 60 per cent S&P/TSX Composite Index and 40 per cent DEX Universe Bond Index. An index is unmanaged and cannot be purchased directly by investors. For illustration purposes only. Past returns are not indicative of future results. Past performance is no guarantee of future results.

aside for a short-term objective, you'll want to consider investing more conservatively by including fixed-income investments.

One excellent way to gain access to fixed-income investments is through a mutual fund that invests in a diversified portfolio of fixed-income securities that is overseen by a professional portfolio manager. Your advisor can explain your options and their associated risks to ensure that you are comfortable with how you approach your short-term investment goals.

When you plan for a long-term objective such as a comfortable retirement, a recreational property or even a child's post-secondary education, you may want to consider equity investments that have the potential to generate higher rates of return. It's important to remember that in a low interest rate environment, it can be difficult to grow your savings without taking on a higher level of investment risk. While exposure to higher-risk investments such as equities may increase the chances of a loss to your portfolio in the short term, having a long-term time horizon will help to minimize the impact of short-term market volatility. Simply put, more time gives your portfolio more of an opportunity to recover.

Balanced mutual funds contain a mix of fixed-income and equities. They are great building blocks for investor portfolios since they provide growth potential and a measure of stability in one investment solution. Balanced mutual funds can range from conservative to more aggressive, and your advisor can select the one that's best for you.

4. Create an investment plan and revisit it frequently with your advisor

As you work with your advisor to build your plan, you may realize that your short- and long-term goals are competing with each other. You may also learn that you are in a great position to achieve your goals, or that it will be very challenging to realize all that you are hoping to accomplish. Regardless, a good approach is to start by setting goals and building a plan that focuses on what you really want.

Keep in mind that as your life changes in the coming years, so too will your financial priorities. Be sure to schedule regular appointments with your advisor to reassess your plan to make sure you remain on track.

WHAT IS VOLATILITY?

Volatility typically refers to the amount or degree of change in an investment's value either up or down. Describing an investment as volatile implies that its value can change dramatically over a short time period.

Speak with your advisor

Take a few minutes to fill out the *Investor profile questionnaire* and share the results with your advisor. You can work together to create a financial plan that will help you achieve your short- and long-term objectives within the risk tolerance you are comfortable with.

Solutions

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Investor profile questionnaire

Your age, your investment time horizon and how you feel about risk will help to determine your investor profile. Once you know your profile, you can then work with your advisor to select investments that will help you achieve your financial goals.

DETERMINE YOUR INVESTOR PROFILE

To determine your investor profile, answer each of the following eight questions. **Your total score will correspond with one of five investor profiles – conservative, moderate, balanced, growth or aggressive.**

- **Circle one answer** for each question
- **Write your score** – shown in brackets at the end of each answer – in the box to the right of each question
- **Tally the scores** you record for each question to get your total

Your score

1. What is your investment horizon – when will you need this money?

- **a**. Within 3 years (0)
- **b**. 3–5 years (3)
- **c.** 6–10 years (5)
- **d.** 11–15 years (8)
- **e.** 15+ years (10)

2. What is your most important investment goal?

- **a.** To preserve your money (0)
- **b.** To see modest growth in your account (4)
- **c.** To see more significant growth in your account (7)
- **d.** To earn the highest return possible (10)

3. Please indicate which statement reflects your overall view of managing risk:

- **a.** I don't like risk and I am not prepared to expose my investments to any market fluctuations in order to earn higher long-term returns. (0)
- **b.** I am prepared to experience modest short-term market fluctuations in order to generate growth of capital. (2)
- **c.** I am prepared to experience average short-term market fluctuations in order to achieve a higher long-term return. (4)
- **d.** I want to maximize my long-term returns and am comfortable with significant short-term market fluctuations. (6)

4. If you owned an investment that declined by 20 per cent over a short period, what would you do?

- **a.** Sell all of the remaining investment (0)
- **b.** Sell a portion of the remaining investment (2)
- **c.** Hold the investment and sell nothing (4)
- **d.** Buy more of the investment (6)

5. If you could increase your chances of improving your investment returns by taking more risk, would you:

a. Be unlikely to take more risk (0)

b. Be willing to take a little more risk with some of your portfolio (2)

c. Be willing to take a lot more risk with some of your portfolio (4)

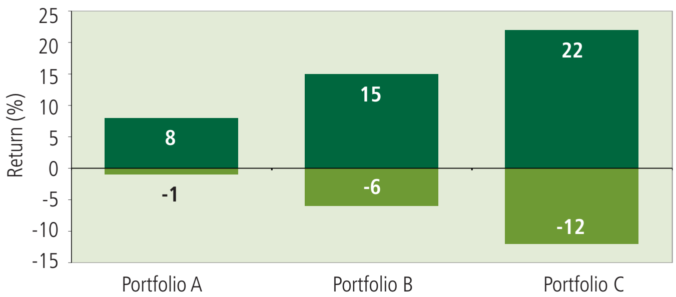
d. Be willing to take a lot more risk with your entire portfolio (6)

6. The following picture shows three model portfolios and the highest and lowest returns each is likely to earn in any given year. Which portfolio would you be most likely to hold?

a. Portfolio A (0)

b. Portfolio B (3)

c. Portfolio C (6)



7. After several years of following your financial plan, you review your progress and determine you are behind schedule and will need to modify your strategy in order to meet your goals. What would you do?

a. Keep the same investments you currently hold, but increase your contributions as much as possible. (0)

b. Slightly increase your exposure to riskier investments and slightly increase your contributions. (3)

c. Move your entire portfolio to riskier investments, hoping to achieve the highest long-term return. (6)

8. Which statement best applies to your approach regarding achieving your financial goals on time?

a. I must achieve my financial goal by my target date. (0)

b. I would like to come close to achieving my financial goal by my target date. (2)

c. If I have not reached my financial goal by my target date, I have the flexibility to delay my target date. (4)

d. I re-evaluate my financial goals and target date regularly and have the flexibility to adjust them to align with the performance of my investments. (6)

Your total score

Match your score to an investor profile below

If your score is between…	Your investor profile is…	About your investor style
0–7	Conservative	Protecting your money is your chief concern. You prefer to take a cautious approach to investing and preserve your money.
8–22	Moderate	You want your money to grow, but are more concerned about protecting it. Financial goals may be in your near future so you may prefer to be cautious with your investments and preserve your money.
23–37	Balanced	You want a balance between growth and security although you will accept some risk to have the potential for higher returns over time.
38–48	Growth	You want to increase your money and are somewhat comfortable riding the ups and downs of the market in exchange for the possibility of higher returns over the long term. You may have time on your side until you need the money.
49–56	Aggressive	You want to maximize the long-term growth of your investments. You understand the ups and downs of the markets and are comfortable taking a lot of risk to maximize potential returns. You have plenty of time to wait out market cycles until you need the money.

My investor profile is: ____________________

GET STARTED TODAY!

Now that you know your investor profile, speak with your advisor who can create a financial plan that will help you achieve your short- and long-term objectives within the risk tolerance you are comfortable with.

FOR MORE INFORMATION, PLEASE CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS

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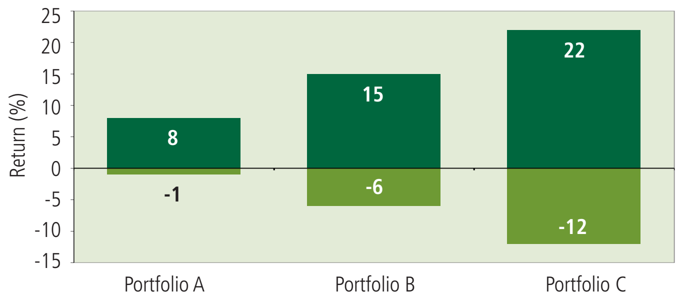

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