



Peace of mind... For the long haul

Raoul is 52 years old and plans on retiring in eight years. He's also in a quandary.

Historically, Raoul has taken the risk-averse approach in a number of life's situations: he's stayed with the same employer for the past 20 years; he gave up his sports car for a four-door sedan when he got married; and he installed an alarm system in his new house before he moved in. So it's not surprising to learn that he has always been a relatively conservative investor. Even when he was younger and he and his wife Audra were both working, Raoul had invested in more conservative investments without a lot of exposure to equities. He became even more wary of the volatility in equity markets after seeing his parents' investments ravaged by the 1973 OPEC crisis. And to top it off, he'd seen his own investments shrink after the market drops of 1983, 1989 and 2000. So keeping his capital safe has always been a priority.

Raoul and Audra have worked hard to pay down their mortgage early so they can enjoy the lifestyle they had always dreamed of when they were in their early '20s. They drive a nice car, own their own home and are able to afford a luxurious vacation every now and then. Now Raoul's concern is being able to continue that lifestyle in retirement.

So here's his dilemma: Audra has been trying to convince Raoul to incorporate some additional equities into their portfolio. She realizes that, to continue their lifestyle in retirement, they need the growth factor that equities can add to their investments. But Raoul has been avoiding it because retirement is not far off and they can't afford to lose anything should the markets take a downturn – there wouldn't be enough time to recoup any losses. Feeling he needed options, Raoul went to see their advisor, Joan.

Upon hearing Raoul's concerns about wanting the return of equities while preserving his capital, Joan recommended that he put a portion of his portfolio in a new investment that is gaining popularity: a Principal Protected Note, or PPN.



THE BEAUTY OF PRINCIPAL PROTECTED NOTES

When Raoul expressed that he was unfamiliar with the product, Joan explained how PPNs work: they're secure investments offering a 100 per cent guarantee of principal at maturity. The beauty is that they are linked to the performance of an equity-based investment, usually a portfolio of equity investments. If the equity investment generates a positive return, Raoul will not only get his principal back, but the additional returns as well. If the equity investment doesn't garner positive returns, his principal is still guaranteed.

Raoul agreed that a PPN was something he could use as part of his portfolio. Joan explained that she could easily arrange the purchase, as PPNs are widely available and offered by a range of providers.

AS ALWAYS, DIVERSIFICATION IS IMPORTANT

Joan had always advocated diversification in Raoul's portfolio no matter what investments he held. When Raoul asked if the PPN would fit in with his diversification strategy, she explained that he could choose from a wide variety of notes that are linked to different equity investments. The underlying investments can range from a single conservative investment fund, to a fixed set of holdings, to hedge funds. The best option for Raoul, Joan explained, is to

hold a note that links to a diversified portfolio of investments. She went on to explain that 90 per cent of a portfolio's performance can be attributed to its asset allocation.

PPNS ARE FOR THE LONG HAUL, NOT THE SHORT SPRINT

Since preserving his capital is a top priority, Raoul knows that negative returns are not the only factor that can erode his savings – time can be just as damaging. Yes, retirement is only eight years away, but Raoul's retirement could last 20 or 30 years. He needs to know that his investment can see him and Audra through retirement. Joan confirmed that it would.

Most PPNs average a seven- to 10-year term to maturity. After the maturity date, Raoul can easily invest in another similar one, choose a note with different underlying investments, or select a totally different investment type altogether, depending on his needs. It's important to remember, the guarantee of capital is only good if the note is held to maturity.



IN A NUTSHELL

Joan explained that no matter what type of PPN Raoul is looking for, there are certain characteristics that all should offer. In a nutshell, a PPN should be:

- 100% maturity guaranteed
- Linked to a diversified portfolio of investments
- Issued by an established company with a good credit rating

INVESTMENTS SHOULD ACCOMMODATE YOUR LIFE

Once Raoul and Audra agreed with Joan that a PPN was right for them, she helped them invest in a PPN that met their financial objectives and timelines. They continue to live the lifestyle they always wanted and are confident they can continue it in retirement.

To learn how a PPN can give you peace of mind and possibly fit in with your own investments and lifestyle, talk to your financial advisor.

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