Retiring? Buy This Company's Shares Instead of its Products

Description

If you're retiring and deciding which investments to hold, there are certainly plenty of options. For example, **Manulife Financial's** (TSX: MFC)(NYSE: MFC) RetirementPlus funds offer a lifetime of guaranteed income, with an opportunity for capital appreciation. Who wouldn't want that?

Meanwhile, Manulife's shares have been on a roller-coaster ride over the past 10 years. The stock did very well leading up to the financial crisis, then plummeted as Manulife struggled to raise capital. Only recently have the shares recovered, and they only yield 2.4%. Sounds awful, doesn't it?

However, both of these options deserve a closer look.

RetirementPlus: not as great as you might think

The RetirementPlus funds may look very tempting, but come with numerous issues. One is a lack of inflation protection, which can hurt badly if you live long enough.

The bigger issue is the high fee structure. For example, the company's RetirementPlus U.S. Equity fund comes with an annual fee of 3.2%. Investors also have to pay an upfront sales charge of up to 5%. These fees eat into the value of your nest egg. If you want to switch to a different investment product within seven years, there are even more fees to pay.

In short, these fees are simply too large to justify the guarantee that you would be getting.

Manulife shares: the better option

It is true that Manulife's stock comes with a fairly low dividend yield. However, that is because Manulife pays out less than a third of its net income to shareholders. This is understandable — Manulife went through a horrible experience during the financial crisis, and does not want to repeat that experience again. The company has been building up capital instead, and is now better capitalized than its large peers.

Because of its low dividend and shaky history, Manulife trades at a very reasonable price, just 12.6

times earnings. In comparison, **Great-West Lifeco** (TSX: GWO) trades for 13.5 times earnings, and **Sun Life Financial** (TSX: SLF)(NYSE: SLF) trades for over 16 times earnings. These companies do offer better dividend yields — 3.9% and 3.5% respectively– but is it really worth paying a premium for a stock just because it devotes more of its income to dividend payments?

Manulife also has ambitious growth plans, hoping to increase its core earnings from $2.6 billion last year to $4 billion by 2016. If it is able to execute, then the dividend will have to be raised eventually, and you won't have to pay any annual fees to see that happen.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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