CHARACTERISTICS

OF VARIOUS TYPES OF SECURITIES

This Guide provides an overview of some common types of securities in terms of three basic characteristics - *liquidity, expected return and risk:*

LIQUIDITY

LIQUIDITY: (or marketability) is the ease with which you can turn your investment quickly into cash, at or near the current market price. Some securities, such as mutual funds, offer liquidity by allowing investors to redeem their securities (return them to the issuer) on short notice. For non-redeemable securities, liquidity will depend on the owner's ability to sell the securities to other investors in the open market. Listing on a stock exchange may help, but does not guarantee liquidity. With some securities, investors may be restricted by law or contract from reselling the securities for months or even years, or they may find that there is no market for the securities when they want to sell.

COMMENT: In Canada, there are three exchanges - TSX, TSX Venture, and Bourse de Montréal.

EXPECTED RETURN

EXPECTED RETURN: is the overall profit that you might expect to receive from your investment — either as income, in the form of interest or dividends, or as capital gains (or losses) resulting from changes in the market value of the security. In theory the higher the expected rate of return of a security, the greater the risk.

COMMENT: The rate of return earned on an investment, minus the rate of inflation, is referred to as the 'real rate of return'.

RISK

RISK: is the degree of uncertainty about your expected return from an investment, including the possibility that some or all of your investment may be lost. With some securities (e.g., Canadian government treasury bills) there is very little risk that investors will lose any of their initial investment. With some other securities, the risk of loss can be very substantial.

In addition to considering these factors, you must also consider your own financial needs and objectives, your tolerance for risk and other issues, such as taxes, before making any investment decision.

Income tax considerations are important because they will affect your net return from an investment. Interest, dividends, capital gains and capital losses are all treated differently for tax purposes. For example, if the return on your investment is in the form of:

- **INTEREST**, it will generally be treated as ordinary income for tax purposes and taxed at the same rate as your earnings from employment;
- **DIVIDENDS** from a Canadian corporation, you will generally be able to claim a *dividend tax credit* that will result in the dividend income being taxed more favourably than interest or other ordinary taxable income;
- **CAPITAL GAINS**, you will generally be entitled to exclude a portion of the capital gain from your income for tax purposes;
- **CAPITAL LOSSES**, you will generally only be able to use the capital loss to offset capital gains.

COMMENT: Dividends are paid to shareholders from the after-tax income of the corporation. Tax legislation allows investors to claim a dividend tax credit to ensure that this income is not taxed twice — once at the corporate level and again in investors' hands.

Canadian tax legislation provides some significant tax benefits for individuals who make qualifying investments through tax-deferral plans such as *Registered Retirement Savings Plans* (RRSPs), *Registered Retirement Income Funds* (RRIFs) and *Registered Education Savings Plans* (RESPs). Consult your financial advisers about your eligibility to contribute to any of these plans and whether or not they will meet your financial needs and objectives.

Some types of securities — like units of labour-sponsored funds and flow-through shares — also take advantage of special tax incentives provided by the federal or provincial governments. The tax implications of these securities for individual investors can be complex and expert advice should always be sought.

Remember though, that tax implications should not be the only factor you consider when making an investment decision. Each potential investment should be analyzed first on its own merits, on how it will affect the risk and expected return of your overall investment portfolio, and on how well it fits your personal financial objectives and investment time horizons.

The descriptions of securities that follow are not exhaustive. It is always a good idea to seek the assistance of qualified, professional advisers before investing.

SECURITIES

EQUITY SECURITIES

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
1. Common Shares Common shares represent ownership of a company. As owners, common shareholders normally have the right to elect directors and to vote on certain major corporate decisions. They are also entitled to share in any residual assets of the company if it is wound up.	Common shares are normally traded on stock exchanges, ATS or in over-the-counter markets between dealers. For some common shares however there may be little or no market and/or the shares may be subject to restrictions on resale.	Return on common shares may take the form of dividends and capital gains (or losses). Many larger, established companies try to pay regular dividends to shareholders. Others may not pay dividends, either because they are not profitable or because they choose to retain earnings for reinvestment. Companies may also change their dividend policies from time to time. In many cases, returns will depend mainly on changes in the share price (leading to capital gains or losses when the shares are sold). The common share prices of all companies can go up and down, in some cases rapidly and substantially.	**Moderate to Very High:** Risk will depend on many factors such as the size, profitability and financial stability of the company, the capabilities of its management and its exposure to general economic downturns, foreign exchange risks and new competition. Common shareholders are the last in line (behind tax authorities, employees, creditors and preferred shareholders) to claim on the assets of the company in the event of insolvency.
2. Restricted Voting Shares Restricted voting shares represent ownership, like common shares, but offer holders restricted or no voting privileges.	Comments concerning Common Shares apply.	Comments concerning Common Shares apply.	Comments concerning Common Shares apply.
3. Preferred Shares Preferred shares typically give holders the right to receive a fixed dividend before any dividends can be paid to the company's common shareholders. Preferred shareholders are also entitled to a portion of the residual assets of the company if it is wound up. Holders often do not have voting rights, but in many cases are offered special features such as the right to redeem their shares at certain times or convert them into common shares at a predetermined price.	Comments concerning Common Shares apply.	Dividends on preferred shares are generally fixed, but the company many reduce or suspend dividend payments if, for instance, it fails to make adequate profits or needs to preserve its capital. The capital gains potential of preferred shares is usually less than for common shares of the same company, although conversion privileges, redemption privileges or other special features may enhance the potential for share price increases.	**Moderate to High:** Comments concerning Common Shares apply. Dividend payments may be reduced or suspended for various reasons (e.g., the company is not sufficiently profitable) and any reduction or expected reduction of dividends can have a significant impact on share prices. An increase in the rate of return offered on other investments can also affect preferred share prices as the fixed dividend of the preferred share becomes relatively less attractive. Preferred shareholders are in line behind tax authorities, employees and creditors in claiming on the assets of the company in the event of insolvency.
4. Flow-through Shares Flow-through shares are a special type of common shares that may be issued by oil and gas companies or mineral exploration companies. These shares allow certain tax deductions for qualifying exploration, development and property expenditures to 'flow through' from the company to shareholders.	Comments concerning Common Shares apply.	Returns will depend on the potential tax benefits to the investor, and the capital gains or losses that may result from the success or failure of the exploration program. Potential tax benefits will be greater for those in the highest tax brackets.	**High:** Resource exploration and development programs are generally high risk. In addition, there are risks that the company's expenditures may not meet the strict requirements of the tax legislation and tax deductions may be disallowed. Flow-through shares are most suitable for experienced investors who can take maximum advantage of the tax benefits and who can withstand the loss of some or all of their investment.

COMMENT: Over 4,000 companies have their common shares listed for trading on a stock exchange in Canada.

FIXED INCOME SECURITIES

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
1. Savings Bonds Savings bonds are issued in a number of forms by the federal and some provincial governments. They are evidence of a loan by the investor to the issuing government and are backed by the general credit and taxation powers of the government. Savings bonds are usually offered for sale to individual investors at regular times each year. Purchase limits often apply.	Savings bonds are generally not transferable. Some savings bonds may be redeemed by the holder at any time, while others may only be redeemed at specified intervals (e.g., every six months) or are not redeemable before maturity.	Most savings bonds guarantee a fixed rate of return for each year to maturity or specify a minimum rate of return that can be adjusted upward by the issuer if market conditions demand.	**Very Low:** Federal or provincial government backing of savings bonds means there is virtually no risk of default.
2. Bonds Bonds are evidence of a loan by the investor to the government or company that issues the bond. The issuer generally promises to pay a specified rate of interest to the bond holder and to repay a certain amount (the face value of the bond) at maturity. Bonds may be sold at prices higher or lower than their face value. Corporate bonds are typically secured by a pledge of specific assets. Some bonds offer holders the right to convert their bonds into common shares.	Bonds are normally sold through investment dealers or limited market dealers in an over-the-counter market. Some bonds offer redemption privileges.	Interest on bonds is usually paid at a fixed rate. (See comment on 'yield' below.) Bond values will fluctuate as returns offered on competing securities change. If interest rates go down, for instance, the market value of a bond would normally go up because its fixed interest payments would become more attractive to investors. The market value of a bond may also be affected by changes in the credit rating of the issuer. Conversion privileges enhance the potential for capital gains on a bond.	**Low to High:** The risk of a bond will depend mainly on the risk that the issuer will default on its payment obligations (*default risk*) and the risk that prevailing interest rates will increase, pushing the value of the bond downward (*interest rate risk*). Some bonds, commonly called 'junk bonds', offer unusually high yields — typically because there is thought to be greater risk that the issuer will default on its payment obligations.
3. Debentures Debentures are similar to bonds, but typically not secured by the pledge of specific corporate assets. They may, however, be secured by a 'floating charge' on the issuer's assets generally.	Some debentures are listed on stock exchanges while some others trade in the over-the-counter market. In some cases, there may be no established market for a debenture or it may not be transferable.	Comments concerning Bonds apply.	**Low to High:** Comments concerning Bonds apply.
4. Treasury Bills (T-bills) Treasury bills are short-term (less than one year to maturity) debt securities issued by the federal and some provincial governments. They do not pay interest but instead are sold at a price below their value at maturity. T-bills are issued by the government regularly and are typically sold in large denominations.	T-bills are not redeemable but they can usually be sold quickly through investment dealers.	Return will be determined by the difference between the purchase price and the value of the T-bill at maturity. Market values may be affected somewhat by changing market interest rates.	**Very Low:** There is virtually no risk of default and the short-term nature of T-bills limits risk of significant changes in market value caused by changing market interest rates.
5. Guaranteed Investment Certificates (GICs) GICs are deposit certificates issued by financial institutions. Most GICs pay specified rates of interest to maturity, although some base the returns to investors on the performance of a benchmark such as a stock exchange index.	Most GICs must be held to maturity, but some offer limited redemption privileges.	Returns are often fixed, but in some cases are tied to the performance of a stock market index or some other benchmark.	**Low to Moderate:** GICs are guaranteed by the issuer and the principal is insured (subject to certain limits) by a deposit insurance agency such as the Canada Deposit Insurance Corporation. As a result there is very limited risk that the principal will not be repaid. If the GIC's returns are tied to a benchmark, however, there may be risk that interest payments will be lower than anticipated or there may be no interest payments at all.

COMMENT: The actual rate of return, or '**yield**', that you earn on a bond or debenture will depend on the price you pay for it and the time remaining until it matures. For example, a debenture paying a 7% nominal rate of interest will pay you $70 per year for each $1000 (face value) debenture. If you are able to buy that debenture for only $950, the actual rate of return you receive will be higher than 7%. Calculating the yield precisely can be complex, but your financial adviser should be able to do the calculation for you.

COMMENT: The return on a stock exchange index, such as the S&P/TSX Composite Index is a statistical tool that measures the performance of a basket of stocks listed on the exchange. Some indices are designed to reflect the overall market, while others measure the performance of specific industry sectors.

INVESTMENT FUNDS

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
1. Shares or Units of Mutual Funds Mutual fund shares or units represent ownership in a pool of investments that is managed by a professional money manager. Ownership will be in the form of **shares** if the mutual fund is organized as a corporation or **units** if the fund is organized as a trust (the most common form). Holders have the right to vote.	Mutual funds are not generally traded on stock exchanges but investors may return their shares or units to the fund at any time for redemption and will receive a cheque for their *pro rata* share (the Net Asset Value per Share, or NAVPS) of the current market value of the fund's portfolio.	Returns can include distributions to investors of dividends, interest, capital gains or other income earned by the fund. Returns may also include increases or decreases in the value of the fund's shares or units. Returns will depend on the fund's investment objectives, described in the fund's prospectus, and on its success in achieving them.	**Low to Very High:** Risk will depend on the type of securities or other assets that the fund invests in (e.g., bonds, equities, real estate). The majority of mutual funds are not insured against investment losses, however, there are some 'protected mutual funds' that insure the return of at least the principal invested at a specified date in the future (e.g., five years). You can still lose money on a 'protected mutual fund', however, if you must redeem your investment before the specified date.
2. Shares or Units of Closed-End Investment Funds Closed-end funds are similar to mutual funds, except that they do not issue or redeem shares or units on an ongoing basis. Closed-end funds issue a finite number of shares or units and often list them on a stock exchange so they can be traded among investors.	Liquidity will generally depend on whether or not the fund is listed on a stock exchange and on the volume of trading activity in the fund's securities.	Comments concerning Mutual Funds apply.	**Low to Very High:** Comments concerning Mutual Funds apply.
3. Units of Segregated Funds Segregated funds are a special form of insurance contract with benefits based on the performance of a professionally managed pool of assets owned by an insurance company but 'segregated' from its other assets. Unlike most mutual funds, segregated funds offer a limited guarantee protecting at least part (typically 75-100%) of the original investment.	Segregated funds are not traded on stock exchanges but investors may redeem their units at any time at current market value from the insurance company.	Comments concerning Mutual Funds apply.	**Low to High:** Risk will depend on the type of securities or other assets that the fund invests in (e.g., bonds, equities, real estate). Unlike most mutual funds, segregated funds offer a guarantee that most or all of the principal invested will be returned on a specific maturity date (e.g., ten years) or on your death. You can still lose money on a segregated fund, however, if you must redeem your investment before the specified maturity date.
4. Shares of Labour-Sponsored Investment Funds These are common shares of investment funds sponsored by labour organizations under federal and provincial legislation that establishes certain investment criteria and provides some tax incentives for investors.	Shares in labour-sponsored investment funds are redeemable but only a limited number of redemptions per year may be permitted. Redemption of a labour-sponsored investment fund (before a specified time) may have tax implications for investors.	Labour-sponsored investment funds provide venture capital to new and small businesses. Returns will depend on the performance of the fund's investments.	**High:** Limited liquidity and the speculative nature of the fund's investments make labour-sponsored investment funds most suitable for investors who are able to make long-term investments and who can withstand the loss of some or all of their investment.

COMMENT: The expected returns from any type of investment fund will also be affected by the fees and expenses charged for the management and operation of the fund.

COMMENT: When considering the purchase of any investment fund, investors should consider the potential impact that any redemption fees or deferred sales charges could have on the liquidity and the expected returns of the investment.

UNITS & TRUSTS

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
1. Limited Partnership Units Limited partnership units represent interests in a partnership consisting of a general partner, who manages the partnership, and limited partners, who provide the investment capital. The liability of limited partners is generally limited to their initial investment, provided that they do not become involved in management. Limited partnerships will typically invest in a specific industry sector (such as real estate or oil and gas) and often provide for some tax benefits to 'flow through' from the partnership to the limited partners.	There is often no established market for these securities and in many cases they are subject to legal restrictions on resale. In some cases, the general partner may offer limited redemption privileges. If the partnership is dissolved, the assets and securities remaining after all debts have been paid are distributed among the limited partners.	Returns will depend on the success or failure of the business projects undertaken by the partnership, and on any tax benefits that may be available to investors.	**Moderate to Very High:** The risks associated with the partnership's business venture, combined with limited liquidity, make many limited partnerships suitable only for certain qualified investors. There may also be risks that anticipated tax benefits will be disallowed.
2. Trust Units Trust units represent interests in the net assets and net income of a trust. These trusts are generally set up to invest in assets such as real property (*real estate investment trusts*), royalties from oil and gas production (*royalty trusts*) or the income generated by one or more businesses (*income trusts*). Many are designed to offer tax advantages to investors.	Some trust units are listed for trading on a stock exchange. For others there may be no established market. Where there is no established market, trust units may be redeemed (generally) at their net asset value.	Returns will depend on the profits received by the trust from the assets it holds, and on the tax benefits, if any, available to investors.	**Low to High:** Risk will depend on the type and performance of the assets held by the trust. Trust investors are not insured against investment losses.

OPTIONS WARRANTS & RIGHTS

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
1. Options Options are securities that give the holder the right to buy (a 'call' option) or sell (a 'put' option) an asset at a specific price for a specific period of time. Many options on common shares, other financial products and commodities are traded on exchanges. The holder of an exchange-traded option may sell it, exercise it to buy the underlying asset or let it expire.	Exchange-traded options can usually be sold or exercised on short notice. Some options are not traded on an exchange and may not be transferable.	Options do not pay dividends or interest. Returns will depend mainly on changes in the market value of the underlying asset. The market value of an option will tend to decline as it approaches its expiry date.	**Very Low to Very High:** Risk depends on the underlying instrument and the use of the option. If used as a hedging tool, risk is reduced. If used to speculate, risk increases.
2. Warrants Warrants give the holder the right to acquire from the issuer a specific number of other specified securities at a specified price for a specified time. They are typically offered to investors in conjunction with the sale of another security, like a common share.	Comments concerning Options apply.	Comments concerning Options apply.	**Very Low to Very High:** Comments concerning Options apply.
3. Rights In a rights offering a company gives its shareholders the right to buy additional shares from the company at a specified price within a specified period of time. Rights are issued in proportion to the number of shares already owned by each shareholder.	Some rights are listed for trading on a stock exchange and may or may not trade actively. In some cases, rights may be subject to resale restrictions or holders may be subject to restrictions on their ability to exercise the rights to acquire additional shares.	Comments concerning Options apply.	**Moderate to Very High:** Comments concerning Warrants apply.

FUTURES CONTRACTS

TYPE	LIQUIDITY	EXPECTED RETURN	RISK
Futures Contracts Futures contracts are agreements in which the seller agrees to deliver to the buyer a specified quantity of an asset at a specified price on a given date. Exchange-traded futures contracts trade on standardized terms and transactions are settled by a clearing agency.	Not all futures contracts are traded on an exchange. For those that are, liquidity will depend on the type of underlying asset and on the exchange on which the contract is traded. Futures contracts traded on over-the counter markets are not very liquid.	Returns on futures contracts will depend mainly on changes in the value of the underlying asset.	**Very Low to Very High:** Risk depends on the underlying instrument and the use of the future. Futures contracts are often used by commercial enterprises as 'hedging tools' to reduce the risk of expected future purchases or sales of the underlying asset. If used as a hedging tool, risk is reduced. If used to speculate, risk increases.

COMMENT: Futures contracts are traded on all kinds of commodities (grain, livestock, coffee, etc.) and financial products (market indices, bonds, currencies, common shares, etc.).

COMMENT

Leveraged Investing: Borrowing money to invest (leveraging) magnifies the potential gains, and the potential losses, of any investment. Leveraged investing increases risk and should be approached with caution by most investors. If you are considering borrowing money to make an investment, be sure that you fully understand and are prepared to accept the increased risk.

Diversification: Diversification means not putting all your investment eggs in one basket. Every investment product has its own risk profile. Some are very high risk, others very low. For most investors, what is important is the risk profile of their overall investment portfolio. By combining several different investments in your portfolio, you can reduce the overall level of risk for a given level of expected return. This is the benefit of diversification. It is one of the things that every investor should do.

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