

Insurers gain as trust investors flee

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It comes as little surprise that the Conservative government's Halloween decision to tax income trust distributions drove more investors into quality blue-chip financials.

While the announcement may have trust-holders feeling tricked, it appears to have been a treat for dividend-paying stocks such as some of Canada's largest insurance companies.

Ohad Lederer at Veritas Investment Research thinks quality financial services companies Manulife Financial Corp. and Sun Life Financial, both near their 52-week highs, stand to make further gains. His price targets are \$44.50 for Manulife and \$51.35 for Sun Life. Both company's shares jumped on the Federal government's announcement and have continued to move up since.

In a research note, Mr. Lederer also points out some relevant facts for these companies: As the first Baby Boomers turn 60, these life insurers-turned-wealth managers continue to be in the midst of a growth period. And "over the long-run, we're also all dead."

Mr. Lederer expects both companies will continue to increase earnings and dividends by complementing their core businesses with further investment in more complex wealth management offerings in North America and basic financial products in rapidly developing Asian markets.

Veritas expects Manulife to trade at a premium to Sun Life, and as a result, suggests investors who own both insurers overweight Manulife due to its superior prospects for new business growth.

While Manulife did rise following the government's announcement, "these levels are not 'expensive' given the robust growth and experience gains the company delivers on a regular basis," Mr. Lederer wrote.

Nevertheless, he doesn't consider Manulife invincible, citing the potential of possible blips such as a slowdown in sales or increased competition.

Veritas is also clear about Sun Life shares: they are not cheap. But nor are they considered excessively expensive, since dividend increases are expected to come "at a measured pace" and investment in developing markets could emerge as something significant in the future.

The only other financial institutions with equally-compelling international strategies for Mr. Lederer are Scotiabank and Great West Lifeco.

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