

# Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2016 NEWSLETTER

*Carl Eppstadt, Financial Planner, CLU, CHFC, CFP, CHFS*

*Julie Westall, Financial Planner, CFP, CIM, FDS*

*Eva Comeau / Kristin Farinas*

## Carl's Comments

### When is Nothing Something?

Recently, when Britain voted to exit the European Union, capital flocked into safe investments including cash, government bonds and gold as general panic set in.

My first post-Brexit thought was that this market pull back would correct itself in a very short period. Upon writing this, the damage was corrected within a week. The wild market swings the morning after the Brexit vote reflects the reality that more money is being risked despite little appetite for it and this can cause hasty reactions, especially for those without a financial advisor.

We are being supported by record monetary stimulus keeping rates near rock bottom levels. Bonds are being issued at next to nothing and negative yields. This is great for spending but not saving and our goal is to help you save and build your nest egg. In a near zero interest environment, this continues to be a challenge which cannot be understated. This is why investing with money managers that are not taking on excess risk to generate returns and at the same time protecting your investments on the downside is so crucial.

Going into 2016, a fair amount of cash was on the sidelines. Portfolio managers were waiting for an event just like Brexit so they could 'go shopping'. For a short time, Nothing became Something and this Something once again became Nothing. Good managers thrive on market volatility as it can create long term opportunities.

From all of us at Future Financial, wishing you a terrific summer!

## Portfolio Returns

Do investment rate of returns take into account your investment contributions? The answer is yes and no. There are several ways to calculate the rate of return on an investment. The two methods used most often are *time-weighted* and *money (or dollar) weighted*.

Time-weighted has been the common way in the industry for years however, with the roll out of CRM2 (Client Relationship Model, Phase 2) across the financial services industry, money-weighted will now be the primary method used to calculate an investor's returns.

What is the difference? Unlike the time-weighted method which only shows the compounded returns over time thus eliminating the impact of contributions or withdrawals, the money-weighted method incorporates investor trading activity (i.e. timing) in their portfolio.

### Time-weighted

- 1) Market conditions
- 2) Portfolio manager's skill

### Money-weighted

- 1) Market conditions
- 2) Portfolio manager's skill
- 3) **Investor's actions – contributions/withdrawals, the timing of actions and magnitude**

Money-weighted returns therefore are a better reflection of an individual's personal investment experience. This will now be reflected on December 31<sup>st</sup> reports.

Source: Dynamic Funds. CRM2 Clarified

## Tax Planning for Your Children

It is never too early to start tax planning and here are three options for your children.

1. Contribute up to \$2,500/year to a child's RESP and receive at a minimum 20% in Canada Education Savings Grants. Other grants are also available based on income and province of residence. Grants and investment growth are tax sheltered until withdrawn. When the child attends a qualifying institution and makes a withdrawal, the child pays the taxes and will likely be in a lower tax bracket than the parents.<sup>1</sup>
2. Open an in-trust-for (ITF) account for gifts, (i.e. birthday and holiday money). As capital gains generated from gifts to minors are not attributed back to the giftor, consider an investment geared toward generating capital gains only (as interest and dividend income would be attributed back).
3. Finally, if you child has reached the age of 18, they can now open a Tax Free Savings Account! There are limits on annual contributions but unused room is never lost and all growth and withdrawals are 100% tax free. This is a great, flexible savings vehicle especially when you are in a lower tax bracket.

For additional information on these or other ideas, please contact our office. We are always available to speak to friends, children or other relatives of our clients.

## Where to Park Extra Cash

If you are looking to keep some of your portfolio in "cash", the ideal investment should be principal protected, liquid and offer some yield. A High Interest Savings Account (HISA) or Investment Savings Account (ISA) meets all three criteria. These investments are always priced at \$1 per unit and monthly interest can be reinvested or paid out. The underlying investments are deposits at the banks. Our current rates for these investments range from 0.75% - 1.3% depending on the account type. Money market funds are another similar option yet, the yield is much less than ISAs. Cashable GICs are yet another option however rates do vary substantially among issuers. The current

best non-registered 1 year cashable GIC rate is 0.9%.<sup>2</sup>

If you have a slightly longer time horizon of at least one year, a floating rate note fund may be an alternate option that may pay a higher yield. Call to find out if this investment is right for you.

## Pension Sharing & Income Splitting

In regards to pension income, these two terms are not the same. You can share Canada Pension Plan (CPP) pension benefits. A form must be completed and can be done when you first apply for CPP benefits or separately after the fact. This election can be cancelled at any time and will automatically cancel upon death or divorce.

Pension income splitting on the other hand is the annual joint election when you file your tax return to split eligible pension income (i.e. RRIFs or employer pension benefits). You need to elect this splitting annually with your tax return. Unlike pension sharing where the combined CPP benefits are split 50/50, here you have the choice and it can vary year by year. There are different rules if you are under or over 65. For most, you need to be over 65 to split your RRIF income.

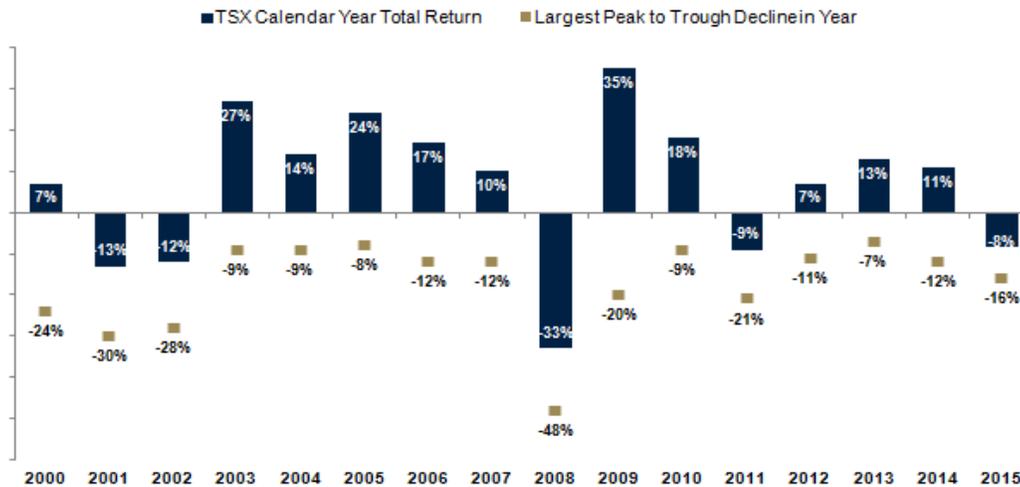
If you continue to work while receiving your CPP benefit, and are under age 70, you can continue to participate in the CPP. CPP contributions will go toward post-retirement benefits (PRB), which will increase your retirement income. Note that PRBs are NOT eligible for pension sharing.

## Even Good Years Have Dark Days

The chart on the next page, shows that even when a calendar year's where performance is positive, depending on the investment window, there can be negative performance. The largest peak to trough decline in each year from 2000 to 2015 is shown. At Future Financial, we are less concerned about short-term performance. It is 'time in the market, not timing the market' that counts.

<sup>1</sup> Only accumulated income payments (AIP) are taxable.

<sup>2</sup> July 7, 2016. Offered through WFM. Home Trust 1 year non-registered cashable. Minimum \$5000 purchase.



Source: Bloomberg. Performance data as of December 31, 2015.

## Breaking Down RESP Withdrawal Rules

An RESP consists of two types of money. Before making a withdrawal, it is important to understand the taxation of both types.

- 1) **Contributions** into the plan (i.e. \$2500 per year). Once the child goes to a qualified college or university, there is no restriction on the amount of “contribution” money that can be withdrawn. Contributions are not taxed when withdrawn from the RESP as contributions are made with after tax money.
- 2) **Canada savings grants, learning bonds and growth** on the investments. This money is called Educational Assistance Payment (EAP). EAPs are taxable to the child only when withdrawn. In most cases, the student will pay little to no tax as they are going to school, earning little income and have tuition credits etc.

Taxes aside, it is beneficial to withdraw EAP income before contributions so that grants etc. are depleted before your own contributions.

Another rule to be aware of is that in the first 13 weeks of school, a maximum of \$5000 (\$2500 for part-time students) can be withdrawn as an AIP. Withdrawals above \$5000 must come from contribution money. In the next newsletter, we’ll discuss options if you child does not go to school.

### DID YOU KNOW?

When an irrevocable beneficiary predeceases the life insured, the irrevocable beneficiary designation ends. No rights are given to the estate of the deceased irrevocable beneficiary in respect of the beneficiary. If no contingent beneficiary is named, the estate of the insured shall receive the proceeds. If there are surviving beneficiaries, they shall receive the proceeds.



### Disclaimers

The information contained in this communication is for general information purposes only and is based on the perspectives and opinions of the owners and writers. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call 613-728-0589 to discuss your particular circumstances.

Commissions and trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the CDIC or any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. Mutual Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other Products and Services are offered through Future Financial Planning Group and term/mart Insurance Agency Inc.



# FFPG FUND REPORT

Compounded to July 7, 2016



<u>Fund</u>	<u>YTD</u>	<u>1 yr %</u>	<u>3 yr avg %</u>	<u>5 yr avg %</u>	<u>10 yr avg %</u>
<b>CANADIAN EQUITY FUNDS</b>					
BMO Growth & Income Advisor	7.71	-4.26	1.95	2.25	3.82
Fidelity Canadian Growth Sr. B	6.86	4.02	17.50	15.33	8.73
Dynamic Small Business Sr. A	12.65	4.59	8.12	5.94	9.54
Sentry Canadian Income Sr. A	4.13	2.24	9.68	9.63	8.38
Fidelity Dividend Plus Sr. B	8.66	7.68	9.81	7.01	8.69
Fidelity Canadian Large Cap Sr. B	4.89	5.63	10.99	12.62	10.62
IA Clarington Strategic Equity Income Sr. A	3.86	0.55	6.72	n/a	n/a
IA Clarington Canadian Small Cap Sr. A	8.86	2.34	8.31	10.60	6.47
IA Clarington Focused Cdn. Equity Cl. A	8.14	-6.81	-0.58	n/a	n/a
<b>US/INTERNATIONAL/GLOBAL EQUITY</b>					
Dynamic Global Discovery Sr. A	-4.67	3.16	14.12	7.64	6.17
Fidelity Small Cap America Sr. B	-3.64	1.00	20.16	21.48	11.02
Trimark Global Endeavour Fund Sr. A	-7.00	-4.71	12.64	11.24	7.13
Sentry U.S Growth & Income Sr. A	-6.45	0.47	13.73	15.79	n/a
<b>BALANCED FUNDS</b>					
AGF Monthly High Income MF Series	8.93	-3.25	2.24	2.11	4.78
CI Signature Canadian Balanced Cl. A	-0.68	-4.11	5.87	4.31	4.87
Dynamic Power Balanced Sr. A	-4.61	-8.27	6.04	2.55	4.55
Dynamic Value Balanced Sr. A	2.87	-4.30	5.79	3.96	4.72
Fidelity Monthly Income Sr. B	5.64	4.48	7.18	6.77	6.73
Fidelity Canadian Balanced Sr. B	3.73	-0.42	9.33	6.70	6.61
Fidelity Income Allocation Sr. B	4.19	4.10	7.65	6.92	7.03
IA Clarington Focused Balanced Sr. A	4.33	-7.04	0.72	n/a	n/a
IA Clarington Canadian Balanced Sr. A	4.52	0.52	5.07	4.84	4.18
Sentry Conservative Balanced Income Cl. A	4.26	1.39	5.81	n/a	n/a
<b>ALTERNATIVE FUNDS * as of June 30/16</b>					
Vertex Fund Class B	-8.17	-9.25	0.7	1.22	5.30
Vertex Managed Value Sr B	-2.18	-12.02	3.76	8.93	6.48
Arrow Curvature Mkt Neutral Cl A (capped)	1.57	4.44	6.44	6.49	n/a

### All Mutual Funds Sold by Prospectus Only & Alternative Funds Sold by Offering Memorandum

Future Financial Newsletter is an information service. It does not render accounting, legal or other professional advice. It is recommended that the reader consult professional advisors with regard to any matter in this publication. Future Financial Planning Group (FFPG) is an independent financial, estate and tax planning firm dealing with many financial instruments offered through trust companies, insurance companies and mutual fund companies. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Rate of returns provided in the chart above obtained from morningstar.ca and arrow-capital.com (Arrow Funds). Although we believe the sources used to be reliable, we cannot guarantee its accuracy.

**FINANCIAL, ESTATE, TAX AND RETIREMENT PLANNERS SINCE 1978**

201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. [www.futurefinancial.com](http://www.futurefinancial.com)