Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2016 NEWSLETTER

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Carl's Comments

Many of you have had the opportunity to converse with Eva over the past year as she stood in while Kristin has been on maternity leave. Eva's term has come to an end and we are very pleased that she has found full time employment with a financial institution. We thank Eva for her tremendous dedication during the past year and wish her all the best.

Pondering the US Election

According to an RBC Asset Management report[1], a Clinton win in November would be fairly neutral for the market in the early years and more positive in the latter part of her presidency. In comparison, a Trump victory would provide short-term economic stimulus immediately following the election. Later on, his anti-trade and anti-immigration policies would likely more than offset this tailwind resulting in a diminishing economic end point.

National political polls point to a close race. The averages of these polls suggest that Clinton leads by about 2%. It is suspected this lead will widen, arguing that Clinton outdueled Trump in the first September 26th debate. In August, a Clinton victory probability was as high as 80% and pulled back to 60% in advance of the debate. As of today, it is likely 70%, therefore, Clinton is twice as likely to win in November.

Focus has predominantly been on the presidential victor, but in November the entire House of Representatives and a third of the Senate are elected as well. The most likely outcome is status quo, a Democratic president paired with a Republican Congress (i.e. House and Senate). The second most likely scenario is more consequential; a Trump victory paired with a Republican Congress. Historically, this is very rare. Finally, the third most likely outcome is a Democratic president and Senate with a Republican House.

Historical market reaction following an American election has been positive for the S&P 500. The market rose 11% with an incumbent president win, 19% with an incumbent party and new president and 7% with a different party. Stock markets have historically performed better with Democrats in office.

As it turns out, the three most likely outcomes for this election are the most favorable for stocks. There's also a good argument to be made that close elections are positive for the markets as markets tend to rally after close elections. The logic is that markets are happy when unresolved issues and uncertainty are reduced. The world has enough uncertainty already.

For what it's worth, historical trends tend to be favorable for future stock market performance. Especially, if predictions are correct and Hillary becomes the first woman president.

Regardless of who wins, when mistakes have been made, they usually are undone by future politicians. Meanwhile, good decisions tend to be cemented firmly in place forever.

Financial markets continue to rise over the long run not because of presidents, but thanks to increases in ingenuity, manufacturing and technology, and the rising standard of living of the world population.

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[1] RBC Global Asset Management. Pondering The Presidential Election. Eric Lascelles. September 28, 2016

[2] Scotia rate band from 31-36 at $0.13/$1000 coverage. Taxes at

RESP Options When Your Child Does Not Go to School

Recently, a client asked "What happens to my RESP if my child does not go to school?"

If you have or are opening an RESP, you hope that post-secondary education is in your child's future; however that may not be the case or there could remain money inside the RESP after school is complete. In either case, here are your options broken out as Grants, Income/Growth and Capital.

1) Government grants must be re-paid.
2) Growth on investments (i.e. income) can be transferred to the subscribers RRSP or the spouse of the subscribers RRSP provided there is enough contribution room available and it does not exceed $50,000.
3) Alternatively, growth can be withdrawn but will be subject to a 20% penalty and taxed at your marginal tax rate.
4) Capital is returned to the subscriber. There is no tax as contributions are paid with after tax dollars.

Another option could be to re-direct the plan to another sibling for their education. The Canada Education Savings Grant received cannot exceed $7200 per child. Please contact our office for additional details information.

Watch Out for Group RESPs

In this type of plan, your savings are combined with others. You don't get to make investment decisions and you must contribute a certain amount over a specific period of time. If a contribution is missed, you could be forced to pay a penalty plus interest on the contribution just to stay in the plan. Additionally, there is a chance that your plan could be terminated in which case you would have to give up your investment earnings.

Investment returns will be limited as Group RESPs often only invest in GICs and bonds. In today's low-interest rate environment, returns on these fixed income products are very low.

There are account opening fees as well as annual fees to open and maintain a Group RESP.

Finally, in a Group RESP, if your child does not go to school, your capital will be retuned but the income will remain in the plan for other beneficiaries. All the growth on your investments will go to other people in the plan.

NEW 2017 Insurance Tax Rules

On January 1st, 2017 changes will be effected to modernize the tax exempt rules of life insurance policies. These rules will impact the amount of money that can accumulate within an exempt life insurance policy on a tax-preferred basis. The most significant impact will be to the level cost of inurance universal life policies.

Summary of Changes:

- Lower limit on the cash value that can accumulate in the policy means less tax advantaged growth.
- Reduced maximum premiums/deposits means it takes longer to quick pay or overfund a policy.
- Less attractive tax treatment for corporate owned polciies means lower credits to the CDA.

Types of policies with grandfathered status:

G1 – issued prior to Dec 2, 1982

G2 – issued between Jan 1, 1983 and Dec 31, 2016 (or those that lost G1 status)

G3 – issued after Jan 1, 2017 or those that lost G1/G2 status

Care must be given when making changes to existing policies as some changes may result in a loss of grandfathering status.

If you are considering converting an existing Term policy or purchasing a new permanent insurance plan, policies before the end of 2016 will be grandfathered and will maintain preferred tax treatment. Don't delay however as insurance companies are expecting a lot of last minute applications.

Regardless of the changes to the exempt test, the need for life insurance protection remains the key driver for any policy. If you have any questions on a new or existing policy, do not hesitate to contact us.

Mortgage Protection Insurance – Expensive or Good Value?

A picture (or a simple table) is worth a thousand words. Here we compare the cost of insuring a 35 year old female, non-smoker and regular health for $300,000 with Soctiabank's mortgage insurance versus individual term insurance with BMO and RBC.

Scotiabank	Term 20 BMO	Term 25 RBC
$44.07/month	$19.80/month	$27.12/month

The chart shows that insurance bought with your mortgage through the bank is substantially higher, at over 50% of the cost. Not only is the cost higher, but every time a mortgage payment is made, the amount you are covered for under the bank plan is reduced. With an individual policy, coverage is never reduced unless requested by you and premiums would be reduced accordingly.

In this example, over 25 years, the potential savings is over $5000. Rates with BMO, RBC or another insurer can be even lower if you are aged 31 to 34 and if you are in better than average health. The rate at Scotiabank regardless of age or health remains unchanged.[2]

There are many other benefits to choosing an individual insurance policy over the bank's mortgage protection and include:

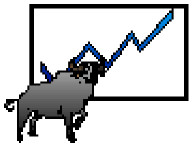
- You name the beneficiary of your policy.
- You have ownership and control.
- Option to renew or convert to permanent coverage.
- Coverage can continue after mortgage paid.
- Taxes (HST in Ontario) are included in quotes.
- Portable.

[2] Scotia rate band from 31-36 at $0.13/$1000 coverage. Taxes at Scotiabank are additional and are included in the example. BMO and RBC rates are as of Sept 28/16.

Taxation of Cash Values and Loans

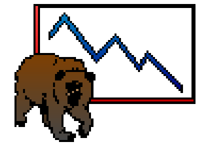
The cash value (CV) of a permanent life insurance policy is an asset that generally increases over time. As with other assets, it may be used as security against a line of credit. Within prescribed limits, the CV is only subject to income tax when it is withdrawn. There are several ways to access the CV, each having different tax consequences. Like mutual funds, CV's have an average cost base (ACB) to determine the taxable amount. Generally speaking, the ACB are the premiums paid to date less cumulative cost of pure insurance over the years less policy dividends not used to buy more insurance/pay premiums less policy loans.

When you access a policy's CV, you may have a taxable gain depending on the ACB. This amount is 100% taxable as income. It is not a 'capital' gain where only 50% taxable, as with mutual funds. Before using the CV built up in a policy, be sure to know if there are any tax penalties.



FFPG FUND REPORT

Compounded to October 3, 2016



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	13.15	8.91	3.01	6.82	4.38
Fidelity Canadian Growth Sr. B	11.39	16.27	16.16	19.85	9.41
Dynamic Small Business Sr. A	18.64	16.81	9.58	9.17	9.90
Sentry Canadian Income Sr. A	6.31	7.86	9.76	12.29	8.65
Fidelity Dividend Plus Sr. B	8.81	9.90	9.83	10.64	8.45
Fidelity Canadian Large Cap Sr. B	7.43	10.99	10.12	14.42	10.93
IA Clarington Strategic Equity Income Sr. A	7.66	9.06	7.03	10.24	n/a
IA Clarington Canadian Small Cap Sr. A	14.46	15.58	7.96	14.60	7.58
IA Clarington Focused Cdn. Equity Cl. A	16.35	15.13	1.35	n/a	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	-0.04	11.93	14.55	11.84	6.23
Fidelity Small Cap America Sr. B	-2.99	5.37	17.67	24.68	11.23
Trimark Global Endeavour Fund Sr. A	1.18	5.32	13.63	15.65	7.51
Sentry U.S Growth & Income Sr. A	-1.70	8.31	15.73	17.94	n/a
BALANCED FUNDS					
AGF Monthly High Income MF Series	13.44	10.20	2.07	4.83	4.56
CI Signature Canadian Balanced Cl. A	2.42	3.35	5.89	7.21	4.97
Dynamic Power Balanced Sr. A	-0.08	-0.73	5.49	6.05	5.17
Dynamic Value Balanced Sr. A	3.62	2.85	4.82	7.46	4.70
Fidelity Monthly Income Sr. B	7.25	8.43	6.99	8.35	6.49
Fidelity Canadian Balanced Sr. B	6.04	6.91	8.73	8.74	6.44
Fidelity Income Allocation Sr. B	5.38	6.76	7.70	7.54	6.82
IA Clarington Focused Balanced Sr. A	10.26	7.22	2.16	n/a	n/a
Sentry Conservative Balanced Income Cl. A	5.88	6.43	5.60	n/a	n/a
Mackenzie Cundill Canadian Balanced Sr. C	4.28	5.62	2.16	7.86	4.27
ALTERNATIVE FUNDS *Vertex as of Sept 30/16. Arrow as of Aug 31/16					
Vertex Fund Class B	-3.61	2.64	1.14	3.67	5.74
Vertex Managed Value Sr B	13.28	20.55	7.57	15.33	7.05
Arrow Curvature Mkt Neutral Cl A (capped)	1.83	4.26	6.15	6.05	n/a

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

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