

# Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2017 NEWSLETTER

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## Carl's Comments

### Why and When People Bail on a Fund

It's important for investors to understand a portfolio manager's methodology, their investment style, their process to generate returns and how they control for risk. Do we hire a manager because they are skillful in a geographic region or sector? Perhaps we want a balance between value and growth or maybe we want a manager to control risk and volatility and provide downside protection.

Sometimes we can be too quick to suggest replacing a manager if their performance begins to lag. There are numerous variables that must be analyzed, including time frames to understand and account for the underperformance.

David Taylor, a portfolio manager for IA Clarington, had a terrible 14 month period beginning November 2014. In speaking with David about his performance in 2015, he explained that he had a healthy weight in energy and materials, and when oil fell from its high of \$146 he watched a number of great energy company shares plummet. He invested heavily in these companies when oil hit \$60, only for oil to fall even further to \$26 a barrel. He explained how Labrador Iron Ore fell 80% as did many of his other holdings including MEG Energy. He explained that while oil continued to fall, he continued to buy the stocks, dollar cost averaging all the way to the bottom. He possessed a high conviction in his value style bias. Over David's career, the majority of the time, he has outperformed his peers. After scrutinizing his process to gain a clear understanding, our recommendation was

to stay the course through his difficult period. Last year, he was in the top 1% of all the managers in the Canadian equity market.

Another example is the Fidelity Canadian Large Cap fund. Last year the fund underperformed the benchmark by 7%. On the surface, this return is poor however; I understand the importance that the manager, Dan Dupont, places on preservation of your capital. Upon analyzing this fund, it exhibits roughly three-quarters of the volatility of the S&P/TSX index<sup>1</sup>. In 2011 the index was down roughly 11% and yet this fund was up over 10%. Similarly in 2015 this fund was up 3.6% when the index was again down 11%<sup>2</sup>. A deeper review reveals that the manager has completely different sector weights than the S&P/TSX and the ability to expand outside of Canada, for example, should opportunities in the US arise. More recently, Dan has been playing defence and converting some of the portfolio into cash. He's doing this to crystallize gains on holdings he feels have overly high valuations and secondly, he is raising cash waiting for new opportunities that should provide better value. If we invested in the Fidelity Canadian Large Cap fund because of its low volatility and the fact that it has had excellent returns, beating the index by 3.5% per year on average for 10 years, why should we abandon it just because of one year of underperformance.

It is important to understand a manager's style and not abandon them in haste when they are doing what you hired them to do. Sometimes the best trade you can make is the one you don't make.

<sup>1</sup> Morningstar MTP Stats. 10 year trailing vs. standard index. Beta is 0.78 FID231

<sup>2</sup> Morningstar Calendar Year Performance. FID231

## Help Yourself and Someone Else

With a little planning you could eliminate your capital gains and at the same time benefit a charity close to you.

You may recall that capital gains on securities donated in-kind are tax exempt whereas if you were to sell a security and donate the cash, capital gains are payable. Taking this a step further, by using T Series funds to receive income, the distributions are return of capital (ROC) and not taxable in the year received. By not increasing income, you avoid potential clawbacks and other income tested benefits. The investment's book value is decreased by this income, which can increase the capital gain. If these same securities were later donated in-kind, the larger capital gain is eliminated and the annual income that was received would be tax free.

An example using T-Series mutual funds.

Series T value	\$100,000
Adjusted cost base (all return of capital paid)	0
Potential taxable gain	\$50,000
Potential tax liability (46.41 % marginal rate)	\$23,205
Tax receipt issued	\$100,000
Capital gains exemption	(\$100,000)
Fed & Ont charitable donation credit	\$40,120
<b>TOTAL TAXES SAVED</b>	<b>\$63,325</b>

\*Assumes an Ontario resident with taxable income of \$150k

No need for monthly income? Why not leave your mark and establish your own 'Foundation'? Mackenzie Investments offers a low cost solution to form your own foundation and receive an immediate tax receipt. Again, securities can be donated in-kind avoiding capital gains. The program is very flexible, allowing you to name the foundation; make lump sum and/or regular contributions; grant annually to any CRA listed charity or institution; relinquish administration tasks such as cheque writing and record-keeping and choose and switch between investments. Further to your grant instructions, Mackenzie will annually distribute donations in the name of your Foundation. What a great way to leave your legacy. For more information or to find out if this is right for you, please contact us.

## GICs and Your Purchasing Power

GIC interest rates are less than inflation and the income is 100% interest income. If you are investing in GICs, after accounting for the loss in purchasing power, you are losing money.

### GIC and Inflation

GIC investment returns after the effects of inflation



GICs are guaranteed investment certificates that offer a predetermined rate of return over a specific period of time. GIC rate return is based on the chartered bank 1-year middle rate. Source: CANSIM - Statistics Canada, Datastream. As at July 31, 2016.

### The Rule of 72 – It Works!

Simply divide 72 by your rate of return to find out how many years it would take to double your investment.

### State-of-the-art platform coming this fall!

Our mutual fund dealer, **Worldsource Financial Management Inc. (WFM)** is yet again investing in technology enhancements. This fall, WFM is partnering with Broadridge Financial Solutions Inc. to provide a new platform to advisors and clients. Broadridge is one of the industry leaders of technology driven solutions for financial institutions worldwide.

As technology keeps changing so does the way we operate and do business. We welcome this change and are very excited about this transition. **Worldsource Financial Management Inc.** is always finding ways to help us provide better functional support and to operate more efficiently for our clients. We will continue to communicate these changes as they become available. One of the changes is likely to include a new portal for clients to access their information online.

## It's Tax Time

March 1<sup>st</sup> seems to mark the day when calls about tax slips start to come in. If you are missing any tax slips, please contact our office by phone or email to request a duplicate.

Capital gains reporting can cause some confusion. All information on a T-slip must be reported including capital gains from distributions. Note, these gains should not be confused with capital gains resulting from the sale of a mutual fund. Capital gains from sales are either reported on a T5008 or simply a capital gains/loss summary report. If you are unsure and have questions, please do not hesitate to get in touch.

## The Best of Both

Functioning in a low interest rate environment, coupled with obligations to fund liabilities and provide retirement income, investors may be challenged if their investments do not produce the desired or much required capital appreciation. More recently, we are seeing the need not only for capital growth but for capital preservation. How does one get the best of both? There are different ways to manage equity risks in a portfolio such as allocating to bonds or other fixed income equivalents. In these times, we are seeing a need for low-volatility equity investing strategies that offer downside protection.

Low-volatility or low-vol equity strategies are fully invested stock portfolios constructed and managed to have less risk than common indices. Generally the portfolios contain individual stocks with lower volatility or when combined, the correlation produces a low-vol basket of stocks. Low-vol should not be confused with high dividend, defensive sector or value investing.

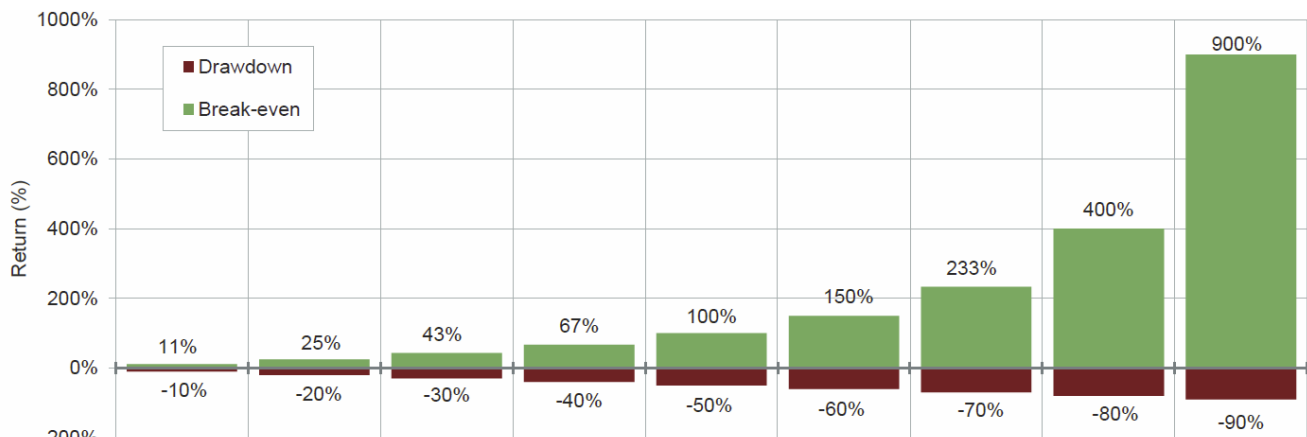
Protecting a portfolio from losses is more important than keeping up with the "Jones' index". As shown in the chart below, negative returns are more impactful than their positive equivalent.



### Disclaimers

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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.



Source: Fidelity Investments: Changing the Conversation in the Active vs. Passive Debate



# FFPG FUND REPORT

Compounded to March 28, 2017



<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	2.23	14.87	1.45	4.67	4.84
Dynamic Small Business Sr. A	3.77	18.47	7.97	7.45	9.38
Dynamic Equity Income Sr. A	5.01	15.11	8.34	8.25	7.80
Sentry Small / Mid Cap Income Sr. A	4.00	22.38	8.35	13.57	13.09
Sentry Canadian Income Sr. A	0.89	7.76	7.03	9.71	8.80
Fidelity Canadian Growth Sr. B	3.79	16.53	13.22	17.11	8.67
Fidelity Dividend Plus Sr. B	1.39	5.84	7.32	8.03	7.92
Fidelity Canadian Large Cap Sr. B	0.49	7.00	7.41	11.70	9.95
IA Clarington Strategic Equity Income Sr. A	3.44	13.38	5.54	8.33	n/a
IA Clarington Canadian Small Cap Sr. A	-1.03	16.59	4.20	12.18	7.25
IA Clarington Focused Cdn. Equity Cl. A	-0.25	31.74	1.96	n/a	n/a
<b>US/INTERNATIONAL/GLOBAL EQUITY</b>					
Dynamic Global Discovery Sr. A	7.17	13.61	12.58	13.11	5.34
Fidelity Small Cap America Sr. B	2.89	6.58	13.86	20.20	9.88
Mackenzie US Mid Cap Growth Cl. Sr. A	4.13	20.82	11.70	15.38	10.44
Trimark Global Endeavour Fund Sr. A	8.00	12.54	11.78	14.39	5.76
Sentry U.S Growth & Income Sr. A	6.22	17.20	12.98	16.52	n/a
<b>BALANCED FUNDS</b>					
CI Signature Canadian Balanced Cl. A	3.07	12.10	4.86	6.51	4.53
Fidelity Monthly Income Sr. B	1.20	5.80	4.89	6.55	5.85
Fidelity Canadian Balanced Sr. B	1.55	7.86	5.82	7.45	5.65
Fidelity Income Allocation Sr. B	1.04	4.49	4.97	6.20	6.06
IA Clarington Focused Balanced Sr. A	0.76	21.19	1.25	n/a	n/a
Sentry Conservative Balanced Income Cl. A	1.05	6.29	3.25	5.84	n/a
Mackenzie Canadian Growth Balanced Sr. A	3.23	11.82	11.32	10.83	5.71
<b>ALTERNATIVE FUNDS *Vertex as of March 24/17 Arrow as of Feb 28/17</b>					
Vertex Fund Class B	-0.39	4.85	-1.85	4.26	4.30
Vertex Managed Value Sr B	5.52	55.79	9.56	17.58	8.32
Arrow Curvature Mkt Neutral Cl A (capped)	0.75	-0.69	4.08	5.86	n/a

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

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