Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2017 NEWSLETTER

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Carl's Comments

As your advisors, a primary means in which we add value is by scrutinizing and monitoring investment funds and portfolio managers. This includes a fund's risk adjusted returns, fees, tax efficiencies, asset allocation and rebalancing. We also monitor your risk, goals and objectives to assist you in making sound financial decisions.

We are big believers in active rather than passive management. At present, many of your portfolio managers have taken the approach to have higher than normal cash positions as they remain defensive and wait for better opportunities to deploy cash. We favour funds where the manager is not bound to geographic region, sector or company size; giving full access to invest where the opportunities are. Proper asset allocation and rebalancing is equally critical to adding value and is not as simple as a mix of cash, bonds and stocks. The options for bonds are almost endless and given that rates are due to rise, active managers will look for lower duration and/or floating rate notes. Managers may use puts and other derivatives to decrease downside capture in an effort to minimize portfolio losses when the market retreats. Additionally, portfolio managers have access to company executives, a multitude of research and the tools to pick great stocks (and sell the dogs). An index fund will no doubt contain some dinosaur companies, take Sears for example, detracting value and returns.

I recently returned from a conference where a manager spoke about his 'top ideas' fund, consisting of only 26 holdings. The manager definetly is a forward thinker and looks for companies that will have extremely good long term prospects, 5 to 10 years into the future. One company manufactures artificial hips and I can only see this trend increasing. Mead Johnson, another company, is a leader in baby formula. There is a huge trend that women are going back to work sooner after childbirth and therefore there is an increasing demand for formula.

The rate of change in financial markets continues to increase. It will be more important than ever to pick long-term winners and be dynamic enough to replace losers. A static index fund, on the other hand, merely mimics an index without any consideration on stock selection or appropriate weightings. An active portfolio manager combined with a skilled advisor has the tools and foresight to add more value.

Alphabet Soup

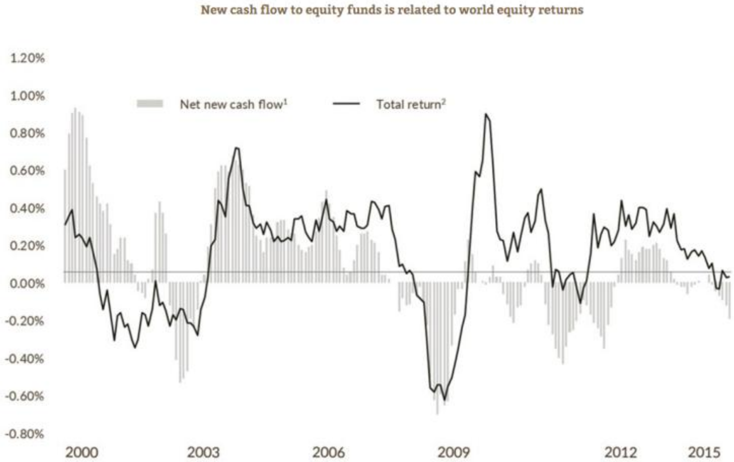
Have you found yourself wondering what the letters after the mutual fund names stand for? Firstly, there is no uniformity and different letters can mean the same thing. For example, series A and B generally are the series sold by financial advisors. Series F are exclusive to fee-based mutual funds where the part of the investment fee is paid directly from outside of the plan. T-Series generally refer to funds that offer a tax advantage, pay a fixed distribution of 5, 6, 7 or 8 percent and the payment includes return of capital that is not taxable. Some companies offer G series for sale in non-HST provinces. Some codes are grandfathered and closed to new purchases, one company codes as series X. For larger minimums and preferred pricing, series P and E are available. Depending on the company, you may be able to group funds and investors within a household to qualify for preferred pricing. Fund companies are not likely to standardize these letters as it is simply far too costly to change prospectuses and marketing materials but that's where we can help. We know all the series and only invest your dollars in the fund that is right for you.

Buying High and Selling Low?

Although by no means does anyone want to buy high and sell low, the data suggests that this still happens. It is natural to want to move from an investment that is underperforming in the short term into one that is performing well in the short term. The light bars in following chart above represent cash flows into equity funds in relation to the performance of the MSCI (Morgan Stanley Capital International) World Index – the dark solid line. When returns are positive, investors pour into funds. Conversely when returns are down, investors sell. Meaning performance is chased when the market is on the rise and selling begins when it's lagging. Proof of the well-known buy high and sell low scenario that affects many investors. The cycle of market emotions chart demonstrates this well.

At Future Financial we can help to avoid natural tendencies to sell at inopportune times.

New cash flow to equity funds is related to world equity returns

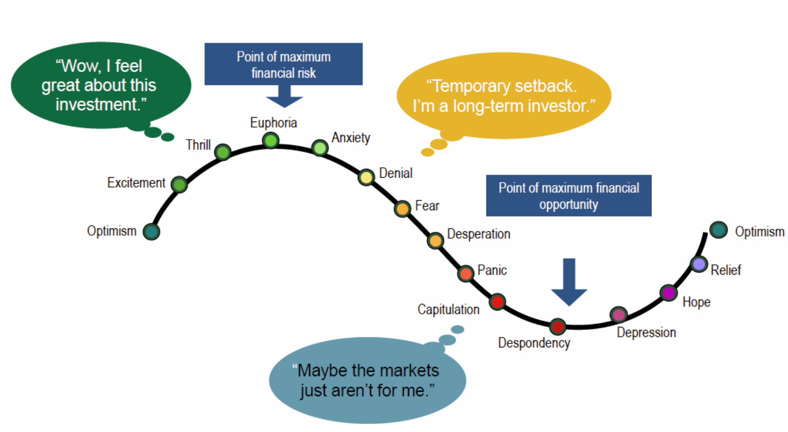


[1]Net new cash flows is the percentage of previous month-end equity fund assets, plotted as a six-month moving average.

[2]The total return on equities is measured as the year-over-year percent change in the MSCI All Country World Daily Gross Total Return Index.

Sources: Investment Company Institute, Morgan Stanley Capital International and Bloomberg LP.

The Cycle of Market Emotions



Source: Manulife Investments: Drop the Age Mantra. Philip Petursson

6 Things to Consider When Investing a Lump Sum

If you've received a lump sum of cash from a bonus, the sale of an asset or maybe an inheritance, what's the first thing you do? You may be inclined to spend it but hopefully you resist the temptation and decide (wisely) to pay off debt or invest it. If the decision is to invest, is a lump sum or over time using dollar cost averaging (DCA) the better option. DCA is a strategy where you invest equal parts at pre-determined intervals. Here are a few considerations to help determine the right way to proceed.

1) What is your timeframe and risk tolerance? Is it such that you can manage through a volatile time in the market.
2) Where we are in the business market cycle may have a big impact on your decision. A great time to invest a lump sum would have been just prior to the global financial crisis recovery in early 2009. Obviously hind sight is 20/20 but it's fair to say that in 2008/2009, stocks were very much on sale.
3) What is the size of the lump sum relative to your existing liquid assets? If it is relatively small, you might consider investing it all at once without further consideration.
4) If the money is from a retirement plan, it should likely be all reinvested back into the market.
5) If the money is from the sale of a business or property, there was a prior business risk on the funds even though not directly tied to the stock market. Depending on the amount, you may choose lump sum or a combination of lump sum and DCA.

6) Were the funds inherited or won? You may want to spread out the purchase entry point since the funds were never in the stock market or you may decide that this is "free money" you had not planned on and put it to work right away.

Source: https://portfoliosolutions.com/latest-learnings/blog/6-things-consider-when-investing-lump-sum

Alter Ego Trusts – The Answer to Avoiding Probate?

Alter ego and joint-partner trusts are types of inter-vivos trusts and are available to Canadian residents aged 65 and older. With an alter ego trust, only the settlor's entitled to trust capital and income before his or her death.

With a joint-partner trust, the client and spouse or common-law partner are entitled to receive all the trust's income while alive and no one other than the client and spouse or partner can be entitled to the capital until the death of the last surviving spouse.

The following chart outlines the advantages and disadvantages to alter ego trusts. The biggest of which may be avoiding probate and other estate related costs as well as an option to trigger a deemed disposition or transfer the assets at book value. Main disadvantages are high initial set up costs and on-going costs to manage as well as taxation at the highest tax rate.

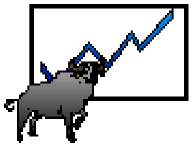
A great alternative may be low cost segregated funds. Many of the benefits are the same and there are zero set up or ongoing costs, segregated funds offer maturity and death guarantees and capital gains on death taxed at the individual's marginal tax rate. Have questions on trusts? Give us a call.

T+2 Settlement in September 2017.
Unless you make a withdrawal, not too much changes for investors. If you do withdraw, you will have your money one day earlier.

Alter ego trusts	The segregated fund contract alternative
Advantages	**Advantages**
Potential creditor protection	Potential creditor protection
Confidentiality	Confidentiality
On death avoids probate fees and other estate costs	On death avoids probate fees and other estate costs
Transfer of assets to the trust does not trigger capital gains	Flow through of capital losses
Disadvantages	Flexibility to allow for transfer of ownership and income splitting
Difficult and costly to change beneficiary	Easy and free to change beneficiaries
Capital gains on death taxed at top marginal rate	Capital gains on death taxed at individual's marginal rate
Initial set up costs	Free to set up
Successor trusts are inter vivos and taxed at top rate	Successor trusts can qualify as testamentary trusts[1]
Ongoing costs	Capital guarantees on death and maturity

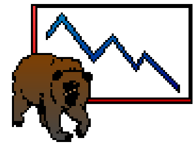
Source: Manulife Tax Managed Strategy #13. Alter Ego Trusts: the answer to probate fees?

Disclaimers



FFPG FUND REPORT

Compounded to June 29, 2017



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	-0.06	10.04	-1.38	5.10	4.03
Dynamic Small Business Sr. A	4.54	12.59	5.72	8.06	8.47
Dynamic Equity Income Sr. A	6.24	13.28	6.97	8.91	7.39
Sentry Small / Mid Cap Income Sr. A	4.43	18.33	6.65	14.45	12.55
Sentry Canadian Income Sr. A	0.49	6.21	5.47	9.69	8.10
Fidelity Canadian Growth Sr. B	3.78	12.37	11.89	18.61	7.93
Fidelity Dividend Plus Sr. B	0.98	2.04	6.50	7.38	7.40
Fidelity Canadian Large Cap Sr. B	-0.56	4.89	6.27	12.11	9.10
IA Clarington Strategic Equity Income Sr. A	3.96	11.04	3.83	9.04	n/a
IA Clarington Canadian Small Cap Sr. A	-3.56	8.09	1.88	11.33	6.18
IA Clarington Focused Cdn. Equity Cl. A	-0.25	24.85	1.41	8.03	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	11.00	16.39	13.98	14.61	4.98
Fidelity Small Cap America Sr. B	3.56	8.29	14.16	19.54	10.04
Mackenzie US Mid Cap Growth Cl. Sr. A	8.18	21.91	13.77	16.83	10.80
Edgepoint Growth & Income Sr. A	3.86	15.81	6.68	10.46	n/a
Trimark Global Endeavour Fund Sr. A	6.97	16.33	11.34	15.37	6.10
Sentry U.S Growth & Income Sr. A	8.36	19.95	13.61	17.36	n/a
BALANCED FUNDS					
Fidelity Monthly Income Sr. B	1.49	3.59	4.25	6.63	5.61
Fidelity Canadian Balanced Sr. B	1.75	4.69	5.00	7.73	5.36
Fidelity Income Allocation Sr. B	0.94	1.92	4.53	5.98	5.69
IA Clarington Focused Balanced Sr. A	-1.42	12.33	0.20	6.21	n/a
Sentry Conservative Balanced Income Cl. A	-0.01	2.82	1.78	5.67	n/a
Mackenzie Canadian Growth Balanced Sr. A	7.04	13.67	10.74	11.70	5.65
ALTERNATIVE FUNDS *Vertex as of May 31/17 Arrow as of Feb 28/17					
Vertex Fund Class B	0.19	8.66	-1.73	4.52	3.85
Vertex Managed Value Sr B	-8.00	24.72	5.61	14.03	6.86
Arrow Curvature Mkt Neutral Cl A (capped)	1.11	-0.78	4.44	5.03	n/a

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

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