Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2017 NEWSLETTER

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Carl's Comments

As we enter into the final quarter of the year, we would like to share the macro consensus from investment fund managers and economists.

1) The economic cycle is approaching the latter stages, with rising interest rates and inflation risks growing. US equities remain expensive, while developed markets (excluding the US) and emerging markets are approaching fair value. There has been a shift towards international and emerging markets as they show better valuations. Income portfolio managers are seeking to reduce interest rate risk, given the potential for rising rates.
2) Managers remain cautious on Canada and many have reduced allocations to Canada and our dollar. Concerns in Canada continue to be the overpriced housing market and the over-indebted consumer. They remain cautious in light of the Bank of Canada's recent rate hikes, which could be the catalyst for credit tightening.
3) On the oil front there are several arguments demonstrating that oil prices will be lower for longer. Mainly, additional supply as oilrig counts are rising and producers are becoming more efficient. OPEC may extend production cuts, supporting higher oil prices and benefiting Canadian producers however, with increased shale production this could have a net nil affect. Barring any geopolitical events, oil will likely trade in a very narrow range.
4) The forecast is slow growth worldwide. In the US there are positive signs, rising small business optimism, record low unemployment and no recession in sight. The International outlook is positive, especially for emerging markets as valuations are expected to rise. In Europe, consumer confidence is coming back, but could come under pressure if the central bank decides to scale back on its accommodative monetary policy.

As of mid September, the year so far has been challenging for many Canadian investors. The S&P/TSX was essentially flat and although people who invested in US equities did very well in US dollars, unfortunately the Canadian dollar was up over 10%, wiping out almost all of the returns. In Canada, there has been not one but two interest rate hikes and maybe another before the end of the year and GDP is up over 4.5%. Given this, I can understand the disconnection between expected versus actual market returns, in our home currency.

You may have heard that it is almost impossible to time the market and we agree. Timing the market not only requires you to sell at the top (feeling euphoric) but also to buy in at the bottom (feeling despondent). In our opinion, the key is to own quality managers that add value by having incredible research teams leading to careful stock selection, suitable asset allocation, can see beyond short term "noise", be different from the index, and incorporate downside risk protection into the portfolio. Right now we see managers keeping higher levels of cash, reducing their exposure to long-term bonds and taking profits on some overpriced equities. They will sit back in the weeds and re-enter the market at some point in the future. They are not willing to over-pay for a stock. The key right now is capital preservation as the US market hits new highs and the best way to do that is by not losing.

RRSP Strategies at 71

Yes, you must convert your RRSP into a RRIF before or in your 71st year. Here are some additional planning tools.

1) You can make a final RRSP contribution in the year you turn 71, provided it is completed by Dec 31st and you have the room
2) If your younger spouse is not yet 71, you can contribute to their spousal RRSP if you have RRSP contribution room
3) Depending on income and other factors, it's OK to have RRSP room you never use

Unsure whether RRSP or TFSA is the best option? We are here to help.

Retirement Myths and Mistakes

For older generations, retirement at 65 was the magic number and life expectancy may have only been another 10 years. However, with people living longer, a phased-in retirement rather than leaving cold turkey may be the answer. Statistics Canada data shows that the average Canadian male lives 18 years past normal retirement age of 65 and for women the number is 21 years[1]. Increasing, longevity is becoming the primary financial risk facing retirees as there is the risk of outliving one's money.

The big question!

1986: To whom will I leave my money?

2016: Who will want to host me when all my retirement capital is eaten up?

Myth: The Government will provide. Unplanned expenses and high health care costs could place real stresses on retirement funds. These costs will not be fully funded by the government.

Myth: If I begin late, I can catch up. Firstly, time is a necessary ingredient and the power of compounding is evidence that although the amount you invest matters, the time invested matters more. Secondly, one may feel they must take additional investment risk in order to catch up. Increasing your risk tolerance in order to make money quickly is not a recipe for success.

Myth: My inheritance is my retirement plan. Back to our first point that longevity is a big risk in retirement. The intergenerational transfer of wealth can be very uncertain. Elderly clients may still enjoy significant travelling, may head south each winter, gift too much during their lifetime, have mortgage or other debts, leave their estate to a charity or non-family member, and have considerable taxes or high health care costs.

Mistake: Ignoring Insurance. With age comes a higher probability disability or critical illness and the need for long term care. Insurance can help mitigate these costs. Additionally life insurance proceeds are received tax free and can offset probate fees, income taxes and other expenses.

Mistake: Investing too conservatively. As you approach retirement, we caution our clients not to drastically change their investment strategy by investing too conservatively as another risk is inflation risk. In this low rate environment, after inflation and taxes, returns from a GIC or fixed income portfolio may equate to a negative real rate of return causing one to run out of money too soon. We are big proponents of the balanced portfolio approach that includes exposure to both stocks and bonds in order to generate reasonable returns without unnecessary risk.

Source: Investment Executive. Sep 2017 pg. 22

Terminal Tax Returns - Electing Out of the Tax-Free Rollover to a Spouse

Most often, when one passes and a spouse survives, the property transfers tax-free at its original cost base to the surviving spouse or spousal trust. The benefit of this rollover is that it defers income tax otherwise due to the deceased until the passing of the second spouse. However, there may be circumstances where this tax deferral is not the best option.

In most cases, the surviving spouse and/or legal

[1] Statistics Canada Table 102-0122
Health-adjusted life expectancy, at birth and at age 65, by sex and income, Canada and provinces occasional (years)

representative will want this automatic rollover to apply. However, where a deceased spouse has minimal income on their terminal tax return or has shares of a Qualified Small Business Corporation that qualifies for the $824,176 capital gains exemption, it may actually make sense to elect out of this automatic rollover.

To do this, the deceased taxpayer's legal representative makes an election in the deceased's terminal tax return under subsection 70(6.2) of the Income Tax Act to opt out of the automatic tax-free rollover to the spouse. By making the election, the proceeds of disposition of the property to the deceased and the cost to the spouse or spousal trust are deemed equal to the fair market value of the property immediately before death.

For example, say Tim died in 2012 and he owned 500 shares of Bell Canada that were worth $40 on the date of his death and had a cost base of only $10. Tim left the shares to his spouse Anne in his will. If Tim's legal representative does nothing, the shares transfer to Anne tax-free with a cost base of $10, deferring the capital gain until Anne passes away. But if Tim had only $10,000 of taxable income because of various deductions he was allowed on death for medical costs and donations etc. Tim's legal representative could elect to include the shares of Bell Canada in his terminal return. This would result in an additional capital gain on Tim's final return of $15,000 ($40-10 x 500 shares). However, because he has various unused credits the Bell shares would result in minimal to no income tax on Tim's terminal tax return. Anne would then inherit the shares with a $40 cost base instead of the $10 cost base.

The election can be made on a property by property basis. The CRA has stated that "a subsection 70(6.2) election may be made with respect to a partial shareholding of a corporation. For example, where a shareholder owns 1,000 shares of A Co, the election under subsection 70(6.2) may be made in respect of some of the shares, and subsection 70(6) will apply to the remainder of the shares."

If you have questions on tax matters, please consult a qualified tax expert or we can refer you to one.

T+2 Trade Settlements
as of September 5, 2017
Unless you make a withdrawal, not too much changes for investors. If you do withdraw, you will have your money one day earlier.

Transferring Ownership – Life Insurance

In order to transfer a permanent life insurance policy's ownership and qualify as a tax-free rollover, CRA requires that:

- ✓ The life insured must be the policy owner's child, step-child, grand or great-grandchild
- ✓ There must only be one life insured at transfer
- ✓ Transfer must take place for no consideration
- ✓ Transfer cannot happen through a will

Source: Manulife Solutions Fall 2017 page 17

Interested in this life insurance topic or others? Give our office a call.

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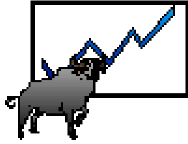
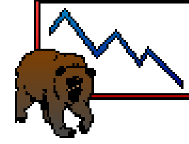


FFPG FUND REPORT

Compounded to September 28, 2017



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	1.90	6.28	-0.42	4.48	4.37
Dynamic Small Business Sr. A	5.32	6.97	6.48	7.21	8.67
Dynamic Equity Income Sr. A	6.60	9.46	7.01	7.97	7.46
Sentry Small / Mid Cap Income Sr. A	6.88	10.36	7.57	14.00	12.81
Sentry Canadian Income Sr. A	1.15	3.86	4.82	9.09	8.23
Fidelity Canadian Growth Sr. B	8.62	10.98	13.11	19.28	8.38
Fidelity Dividend Plus Sr. B	-0.08	-0.75	5.33	6.79	7.48
Fidelity Canadian Large Cap Sr. B	-1.42	0.70	5.44	12.12	8.66
IA Clarington Strategic Equity Income Sr. A	4.04	7.22	3.66	8.32	n/a
IA Clarington Canadian Small Cap Sr. A	-1.38	6.74	3.16	11.10	6.36
IA Clarington Focused Cdn. Equity Cl. A	3.85	25.24	3.46	7.40	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	13.64	13.27	13.98	15.32	5.58
Fidelity Small Cap America Sr. B	1.24	2.37	11.38	17.99	10.83
Mackenzie US Mid Cap Growth Cl. Sr. A	2.98	6.58	10.88	15.63	10.59
Edgepoint Growth & Income Sr. A	7.67	13.74	11.48	15.18	n/a
Trimark Global Endeavour Fund Sr. A	5.79	5.66	10.10	13.83	6.87
Sentry U.S Growth & Income Sr. A	6.31	10.41	11.24	16.30	n/a
BALANCED FUNDS					
Fidelity Monthly Income Sr. B	0.79	0.15	3.82	6.12	5.57
Fidelity Canadian Balanced Sr. B	1.58	0.79	4.27	6.93	5.15
Fidelity Income Allocation Sr. B	-0.87	-2.40	3.42	5.30	5.61
IA Clarington Focused Balanced Sr. A	1.82	12.27	1.72	5.85	n/a
Sentry Conservative Balanced Income Cl. A	-0.76	-0.30	1.30	5.00	n/a
Mackenzie Canadian Growth Balanced Sr. A	6.15	7.16	9.73	11.17	5.60
ALTERNATIVE FUNDS *Vertex as of August 31/17 *Arrow as of August 31/17					
Vertex Fund Class B	-8.13	-4.29	-4.71	2.01	3.20
Vertex Managed Value Sr B	-9.27	8.55	5.03	12.98	8.19
Arrow Curvature Mkt Neutral Cl A (capped)	0.53	-0.90	3.66	4.70	n/a

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

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