Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2016 NEWSLETTER

Carl Eppstadt, Financial Planner, ***CLU, CHFC, CFP, CHFS***
Julie Westall, Financial Planner, ***CFP, CIM, FDS***
Kristin Farinas

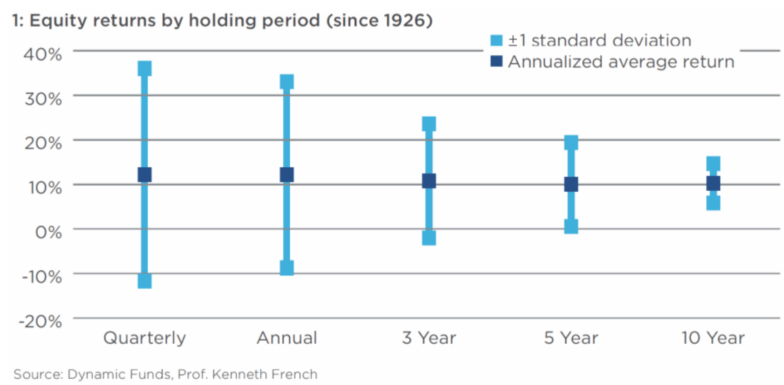
Carl's Comments

My approach to your financial success is comprehensive and focuses on building a long term financial plan to reach your financial goals. I guide clients to stay with their investment program, helping them to make sound investment decisions. This can be especially difficult in market downturns.

A long time ago when researching an all star fund, I learned that investor behavior is critical to financial success. The fund that led me to this conclusion was the Fidelity Magellan fund. This fund had a remarkable performance but I could not understand how so many people had lost money. How could this be? The answer was simple. Most investors would pour money into the fund with great enthusiasm when the market was on a bull run only to panic and sell when the market pulled back. The action of buying high and selling low is a formula for failure.

Reaping the benefits of any investment program requires patience. Unfortunately, the data shows that most investors find it difficult to stick with a long-term investment discipline. In fact, the hard-wiring embedded within many of us usually leads to immediate reactionary measures that detract from our long-term goals. Studies show that ill-timed short-term buy and sell decisions in equity markets can diminish portfolio performance by 1.2% to 4.3% per year.[1]

Today, the average length one holds a stock is roughly 0.8 years compared to 7.2 years back in the 1950-60s.[2] When it comes to investing, it would appear we are more short-term oriented than ever before.



The equity return graph above illustrates that for holding periods of 3 months to 10 years, the average annualized equity return over almost a century is constant at about 10%. The wide swings in the volatility of these returns (-12% to +36%, over 3 months) diminish the longer an investment is held. The returns we desire are much easier to realize over longer holding periods. I've often said you can't get an average rate of return over just one year.

There is very little in the market we can control. One of the few things we can control is our entry and exit points and along the way striving to avoid emotional imprudent reactions. Once again Warren Buffett tries to make it easy for us; 'Be fearful when others are greedy and greedy when others are fearful.'
Source: Dynamic Funds. Advisor Spring 2016

TFSAs and Death

Unlike non-registered accounts, TFSA rules allow you to name a beneficiary or, your spouse

[1] 7 Studies; Dalbar, Cass, Friesen, Sinha, Bullard, Barer, Dichev
[2] NYSE average holding period (9 year periods, 1956-2015)

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as a successor holder. Upon death, if a successor was named, the account may roll to the surviving spouse keeping all the earned TFSA contribution room. Any unused TFSA room of the deceased is lost.

If one spouse becomes suddenly ill and dependent on their individual situation, it may be beneficial to fully fund one's TFSA before death, taking advantage of all available TFSA room. In some cases, it may be advisable to use a short term loan to retain as much of the tax shelter as possible.

Minimize Taxes by Income Splitting

Simply put, income splitting is the process of shifting income from someone in a high tax bracket to someone in a lower tax bracket and is most often done through spouses. Common ways this can be achieved is through:

- Spousal loans
- Pension income splitting & CPP sharing
- Spousal RRSPs
- TFSAs

As announced in the March 22nd Federal Budget, income splitting between couples with children under 18 has been eliminated.

Corporate Class Mutual Funds

Another considerable change announced in the Federal Budget relates to corporate class funds. Effective October 1, 2016, investors are no longer be permitted to switch between corporate class funds on a tax deferred basis. Any switch to another fund will be a taxable disposition at fair market value.

While this change does eliminate a key advantage of corporate class funds, there remain other benefits including the possibility of reduced distributions and the ability to receive tax deferred cash flow through T-series.

T-series mutual funds pay a fixed percentage of steady cash flow, most of which is return of capital (ROC) and therefore not immediately taxable. Common options are a fixed 5%, 6%, 7% or 8% annual distribution, paid monthly. These funds are appealing for consistent, tax advantaged income that does not immediately affect income tested benefits.
Should you have any questions on corporate class or T-series funds, please contact us.

Timing Your RRSP Deduction and New Tax Rates

When it comes to RRSPs, there is a difference between when you make your contribution and when you claim your deduction.

When you make a contribution to an RRSP, you do not have to use it as a deduction right away. The RRSP deduction claim is discretionary, meaning it can be deducted in any tax year after the contribution is made. Consider using the deduction in a future tax year if you will later be in a higher tax bracket.

Effective January 1st, the federal tax rate for individuals earning in excess of $200,000 was raised to 33% from 29%. Depending on your province or territory, the top marginal rate moves up from 47% to 53%.

For those earning over $200,000 and depending on your individual situation, you may wish to delay claiming your RRSP contribution for 2015 and instead claim against your 2016 taxable income when the tax rate will be higher. The same RRSP contribution will save you an extra 4%.

Talk to us to see if this strategy makes sense for you.

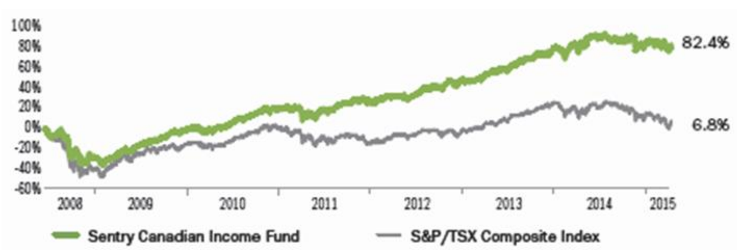
Low Volatility Funds

It appears that increased market volatility is the new normal and with this, many investment fund companies have launched new "Low Volatility" funds. So what are they and how are they different from funds you already own? Low volatility funds have been designed to give you the upside of stocks but with less violent swings than you would experience if you bought an index. These funds should better protect your capital, helping you to stay invested in market downturns. By staying invested you avoid selling low and instead can profit from market gains on the way back up. As downside protection is a main objective of these funds, some upside growth may be compromised.

There are many funds that despite not having “low volatility” their name have always been low volatility funds. A few examples would be Dynamic Strategic Yield, Fidelity Canadian Large Cap and Sentry Canadian Income Fund.

From March 1, 2009 to January 31, 2016, the Dynamic Strategic Yield Fund Series A was down more than 1% only 3.1% of all the negative days vs. 24.7% for the S&P/TSX Composite Index! In addition, the fund’s annualized return (after fees) over the same period was 10.8% vs. the benchmark’s[3] return of 7.8% before fees. The full volatility chart can be found at www.tinyurl.com/DSYJan2016.
Source: Dynamic Funds

This chart below shows that since the beginning of the Financial Crisis, Sentry Canadian Income fund fell less than the S&P/TSX and recovered much faster.



Source: Bloomberg L.P., as at January 31, 2016.

Our goal, like the aim of ‘low volatility’ funds is to succeed by not losing.

RRSP Tips

- ✓ Make RRSP contributions early in the year to maximize tax sheltering
- ✓ Children earning employment income or self-employment income should file a tax return to generate RRSP room to later reduce income taxes.
- ✓ Ensure RRSP contributions are made by the higher income spouse. This will maximize the annual tax deduction for the family.
- ✓ Contribute to your spouse’s RRSP, if your projected retirement income will be higher.
- ✓ Consider deferring repayment of Home Buyers’ Plan (HBP) withdrawals if you have a low income year. HBP repayments not made are included as income. If your spouse is in a higher tax bracket, have them use the money to make an RRSP contribution as the tax savings may exceed the income tax on the HBP income.
- ✓ In the year of death, the estate of the deceased taxpayer can make a spousal RRSP contribution as long as the deceased taxpayer had RRSP room available and the deceased’s spouse has not reached age 72.

Capital Gain/Loss Reporting

If you sell or switch a mutual fund in a non-registered account (excludes RRSP, TFSA, RESP etc.), you must report the gain or loss in the year it occurred on your income tax return. As companies are not required to issue T5008 ‘Statement of Securities Transactions’ slips (we wish they were), the information can usually be found in the December 31st year-end statement from the respective fund company. Should you have questions about capital gain or loss reporting, please contact us.

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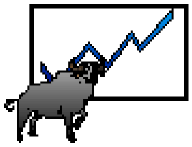
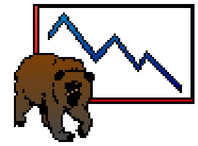
[3] 50% S&P/TSX Composite Index TR / 50% FTSE TMX Cda Universe Bond Index



FFPG FUND REPORT

Compounded to March 24, 2016



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	4.89	-11.003	0.43	1.27	3.33
Fidelity Canadian Growth Sr. B	1.48	-1.13	18.84	13.70	7.30
Dynamic Small Business Sr. A	5.16	-4.69	5.23	4.55	9.04
Sentry Canadian Income Sr. A	2.57	-0.97	10.29	9.70	8.09
Fidelity Dividend Plus Sr. B	3.43	0.97	7.53	6.87	8.33
Fidelity Canadian Large Cap Sr. B	3.39	2.02	13.59	12.83	9.59
IA Clarington Strategic Equity Income Sr. A	0.57	-4.08	6.19	na	na
IA Clarington Canadian Small Cap Sr. A	3.63	-2.94	8.92	9.36	6.04
IA Clarington Focused Cdn. Equity Cl. A	1.97	-13.80	-2.67	na	na
GLOBAL EQUITY FUNDS					
Dynamic Global Discovery Sr. A	-6.24	-1.08	14.93	7.84	5.75
Fidelity Small Cap America Sr. B	-5.20	0.19	22.56	22.46	9.77
Trimark Global Endeavour Fund Sr. A	-2.66	2.18	17.27	13.97	7.03
Sentry U.S Growth & Income Sr. A	-6.44	1.09	17.38	na	na
BALANCED FUNDS					
AGF Monthly High Income MF Series	4.32	-10.15	-0.32	1.16	4.11
CI Signature Canadian Balanced Cl. A	-3.05	-8.21	4.78	3.74	4.38
Dynamic Power Balanced Sr. A	-3.41	-6.49	6.31	2.05	4.28
Dynamic Value Balanced Sr. A	-0.95	-7.73	4.90	2.56	4.16
Fidelity Monthly Income Sr. B	1.91	-0.54	6.20	6.50	6.19
Fidelity Canadian Balanced Sr. B	-0.69	-4.45	7.76	5.57	5.71
Fidelity Income Allocation Sr. B	0.51	-0.81	6.36	6.61	6.69
IA Clarington Focused Balanced Sr. A	-1.15	-12.44	-0.84	na	na
Sentry Conservative Balanced Income Cl. A	1.27	-3.73	5.22	na	na
Mackenzie Cundill Canadian Balanced Sr. C	-4.77	-14.87	0.85	2.07	3.32
ALTERNATIVE FUNDS *YTD as of Feb 29/16					
Vertex Fund Class B	-6.15	-7.73	2.37	0.92	5.11
Vertex Managed Value Sr B	-10.17	-19.40	3.56	6.09	5.22
Arrow Curvature Mkt Neutral Cl A (capped)	1.84	6.40	7.16	6.72	na

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

201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. www.futurefinancial.com