

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2018 NEWSLETTER

Carl Eppstadt, Financial Advisor, CLU, CHFC, CFP, CHFS

Julie Westall, Financial Advisor, CFP, CIM, FDS

Kristin Farinas, Licensed Associate

Carl's Comments

Market sell-offs and corrections provide excellent case studies for behaviour biases. Over the many years in my practice, I have observed emotionally driven investment decisions based on singular "in-focus" events with the end result often leading to poor investment outcomes.

When we see on the evening news that our main stock indices plunged earlier in the day, more often than not, many feel a deep sense of anxiety and may even consider panic selling. Instead of realizing a potential opportunity to buy low, we observe investors selling low. The opposite is a sense of comfort or perhaps over-confidence in what has recently done well.

There was very little talk of Bitcoin when one coin could buy only a slice of pizza and a Coke. It wasn't until it broke through the C\$5000 barrier that we really started hearing about it. Excitement and thrill, chasing performance and fears of missing out (FOMO) exponentially pushed the price to almost C\$25,000 in five months. Less than two months after the peak, the price was down to C\$8300 – a 67% drop.

We look for managers that check their biases at the door and stick to their disciplines, rather than getting caught up with the day to day "noise". We look for active managers that are risk cognizant and will trim overpriced, overvalued securities and increase weightings towards the undervalued ones. These managers can also be active making sector, geographic and currency calls.

Several managers are poking around in the energy patch and some managers feel energy

stocks, at their current prices, are a gift. One such example is Painted Pony Energy (PONY). This stock was trading around \$3 when natural gas hit its low in 2016. Today it trades around \$2, and the price of natural gas is 60% higher than the 2016 low. A year ago PONY was trading at \$8. Energy pessimism may just be a real bubble ready to burst on the upside. Opportunistic investors may find the much needed and long-awaited entry point to buy prominent energy producers at very attractive discounts.

Elsewhere, people remain comfortable holding high-priced mega-cap stocks such as the FAANGs - Facebook, Apple, Amazon, Netflix and Google. I'm not convinced these overpriced securities have huge upside remaining. Risk rarely advertises itself on a billboard and this type of market risk only reveals itself when it's too late.

This brings us to a manager, Larry Berman who is known for removing emotion and bias from his equations. Berman uses numerous probability metrics as the basis for his holdings and allocations within his funds. He makes tactical calls, almost daily and by using a basket of ETF's, he can very quickly get in and out of positions as his indicators suggest. One of his funds I have been using has been able to deliver about 50% of the upside of the market and only 14% of the downside. He has provided investors with excellent risk adjusted returns at a very reasonable cost.

Berman's comments in mid March were "defense + technical = capital preservation and opportunity". In the midst of the February sell-off, he did become considerably less defensive but as quickly as he turned up the risk, he turned it back down in March. He added exposure to US

pipelines because as he said, they provide excellent risk/return opportunities. Japan offers the best relative value of all developed markets, and he continues to accumulate on weakness. Canada, because of its lack of infrastructure in the energy sector is likely to keep the Canadian market capped. Throw in the topping out of the real estate sector and the growth in Canada is likely to lag and the Canadian dollar should continue to soften. NAFTA risk adds significant uncertainty over the whole scenario.

Biases aside, here's some food for thought as we progress through 2018. In positive territory, global economic data remains strong, consumers are optimistic, US fiscal stimulus and corporate earnings growth continue and the US government passed a bill avoiding a shutdown. Less than positive developments include that we are late cycle in the economic stage, fears over the Canadian housing market and high debt levels, the affect of tightening financial conditions, import tariffs and NAFTA.

Economic consensus I feel is a good thing and I am seeing some consensus from a number of our money managers that inflation is likely to be higher, but not too high, probably just a return to normal. Interest rates are likely rise several times in the US, and Canada will follow at least somewhat. Rate increases will negatively impact an overheated housing market. Tax reform in the US will have positive implications on earnings growth in 2018. There is much uncertainty around US policies and geopolitical risks remain a cause for concern. We have just come off of unprecedented muted volatility levels but let's not forget, that was an anomaly and market volatility is not.

When to give Children an Inheritance

If you are considering giving your children a portion of their inheritance early, here are some things you may want to consider. The money should have a positive impact on your child's life, but will it? Is the child mature enough to put the money to good use, will they make sensible decisions or might it curb their own ambition? Maybe the money will allow them to further their education or pursue a dream they could not

otherwise have been able to do. Funds to help with a home down payment, to pay off student debt or for a grandchild's RESP contributions are generally well received. If the money is for a house, it may form part of the matrimonial property which may be an unintended consequence.

Care should be taken to ensure that the gift will not adversely affect the donor's planned retirement lifestyle. Will you have to work longer if you give this gift, will your health support you working longer? What is the impact on other siblings or is the gift equal for all children? If investments are sold, is there a capital gain? If the gift is real estate, the tax treatment could be complex and an accountant should be consulted.

As far as the paper trail goes, you may wish to formally document the gift, particularly if more than one child is involved as it could very well avoid potential disputes once you are gone. The letter should outline the details and whether the funds are a loan or inheritance. For more complicated living inheritances, a deed of gift may be prepared by a lawyer.

If you have questions on any estate transfer strategies, including how life insurance can be a valuable tool, we're here to help.

Source: Gail Bebee 3/9/18, Should you give your children their inheritance now?

Considerations before you RRIF

The deadline for converting your RRSP to a RRIF is December 31st in the year you turn 71, and you can convert much earlier if your situation warrants. Your first minimum withdrawal will in the year after you open the RRIF. Minimum withdrawals are not subject to withholding taxes and depending on your situation, you may request that a portion of taxes are withheld, thus alleviating having taxes owing the following April and/or having to make quarterly tax installments to CRA.

If your spouse is younger, you can request that the minimum withdrawal percentage is based on their age and the result will be a lesser minimum payment to you. Once this election is made, it cannot be reversed. Other options such as

frequency and date of payments, amount, and withholding taxes can all be changed.

A key estate planning matter is to confirm that you have named a beneficiary on the new RRIF application. Beneficiaries do not automatically get carried over when you move or switch accounts (even from RRSPs to RRIFs) so ensure that you include a beneficiary on any new plan you open. Most often your spouse will be the successor annuitant so that a tax deferred spousal rollover can occur however in second marriages, you may wish to leave these assets to a child(ren). From a tax perspective leaving RRSP/RRIF assets to children can have unintended financial consequences. We are happy to discuss the pros and cons of all options to balance your bequests and taxes as to not put some parties at a disadvantage relative to others.

Chart of Interest

Equity market forecasts	Current February 2018	Forecast February 2019
S&P 500 Index	2714	2900
S&P/TSX Composite Index	15443	16250
MSCI Europe Index	128	139
FTSE 100 Index	7232	7700
Nikkei Index	22068	24000
MSCI Emerging Markets Index	1195	1300

Source: RBC GAM

March 2018 | Capital markets update



Worldsource InvestorNET

We would like to take this opportunity to share some enhancements from your online InvestorNET site.

Nominee plans (unlike Client Named) are administered by Worldsource and as such through the client portal, the option can be made available to display and print tax receipts, confirmations and statements. Additional transaction information such as withholding taxes on registered accounts etc. is available. With a Nominee plan, there is additional flexibility to hold any company's funds and GICs. Trades between companies are quick

and efficient with very little time out of the market. This flexibility comes with an annual fee and for some clients is worth the cost.

Plans held directly at the fund company are done so in Client Name and tax slips, statements etc. are mailed from the fund company's themselves. There is no option for client's themselves to access copies through our online portal.

It's Tax Time

March 1st 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 may be calculated from the T5008 if there is a value in box 20 or look through your December year end statements for a Capital Gain/Loss or Summary of Dispositions statement. If you are unsure and have questions, please do not hesitate to get in touch.



Disclaimers

The information contained in this communication is for general information purposes only and is based on the perspectives and opinions of the owners and writers. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call 613-728-0589 to discuss your particular circumstances.

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.



FFPG FUND REPORT

Compounded to March 27, 2018



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
Dynamic Equity Income Sr. A	-4.76	1.24	5.74	7.17	7.36
Fidelity Canadian Large Cap Sr. B	-2.83	-3.02	2.12	8.67	8.42
Fidelity Canadian Growth Sr. B	2.99	15.44	9.94	17.64	9.78
Fidelity Dividend Plus Sr. B	-4.63	-4.38	1.09	4.69	7.23
IA Clarington Strategic Equity Income Sr. A	-4.51	-1.09	2.70	5.90	n/a
Sentry Canadian Income Sr. A	-5.66	-3.26	1.21	6.82	7.66
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	5.92	15.70	9.29	14.79	7.60
Fidelity Small Cap America Sr. B	1.42	5.41	4.04	15.61	13.20
Trimark Global Endeavour Fund Sr. A	1.50	8.91	7.66	14.60	10.58
Sentry U.S Growth & Income Sr. A	-1.14	3.97	7.13	14.31	n/a
BALANCED FUNDS					
CI Signature Canadian Balanced Cl. A	-2.42	3.93	2.45	6.00	4.98
Fidelity Income Allocation Sr. B	-0.84	-0.51	1.14	4.55	6.03
Fidelity Monthly Income Sr. B	-2.08	-0.90	1.61	4.64	5.88
Fidelity Canadian Balanced Sr. B	-1.24	2.38	1.82	6.64	5.43
Edgepoint Cdn Growth & Income Port Sr. A	-3.52	2.38	5.02	8.46	n/a
Mackenzie Canadian Growth Balanced Sr. A	0.82	7.70	6.50	10.72	6.37
GLOBAL BALANCED FUNDS					
BMO Tactical Global Growth ETF Advisor Series	-1.88	2.26	n/a	n/a	n/a
Dynamic Global Strategic Yield Sr. A	-2.74	-1.17	n/a	n/a	n/a
Dynamic Global Asset Allocation Sr. A	2.53	7.48	6.48	10.31	6.91
Edgepoint Global Growth and Income Port Sr. A	2.28	12.08	8.75	13.60	n/a
Fidelity NorthStar Balanced Sr. B	0.06	-0.89	2.97	n/a	n/a
SMALL/MID CAP FUNDS					
Dynamic Small Business Sr. A	-3.41	1.63	4.68	6.95	8.45
IA Clarington Canadian Small Cap Sr. A	-6.76	-3.21	2.83	7.62	6.84
Mackenzie US Mid Cap Growth Cl. Sr. A	2.79	9.43	7.96	14.62	n/a
Sentry Small / Mid Cap Income Sr. A	-3.67	1.09	3.87	11.05	12.27

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

Future Financial Newsletter is an information service. It does not render accounting, legal or other professional advice. It is recommended that the reader consult professional advisors with regard to any matter in this publication. Future Financial Planning Group (FFPG) is an independent financial, estate and tax planning firm dealing with many financial instruments offered through trust companies, insurance companies and mutual fund companies. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Rate of returns provided in the chart above obtained from morningstar.ca and arrow-capital.com (Arrow Funds). Although we believe the sources used to be reliable, we cannot guarantee its accuracy.

FINANCIAL, ESTATE, TAX AND RETIREMENT PLANNERS SINCE 1978

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