

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2019 NEWSLETTER

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Carl's Comments

In mid February I was fortunate enough to have dinner with Clément Gignac. Gignac is Senior Vice-President and Chief Economist at iA Financial Group. He serves as the company's spokesperson on economic matters.

Back in September, Gignac felt there was a 15% chance of a recession in the US in 2019. Interestingly, a few months later in January, he increased the risk to 25% only to reduce it back down to 15% a month later. We cannot predict the timing of a recession however it is commonly agreed that we are late in the business cycle.

Some takeaways from the meeting were that; 1) global growth should remain strong in 2019 but will continue to face headwinds; 2) US growth remains strong as US leading indicators remain quite positive; 3) interest rates remain low and 4) unemployment rates are sitting at a 40 year low. Gignac was not overly concerned about our housing market and feels it should be resilient as it is driven by immigration. Regarding Canadian household indebtedness, Gignac feels that our levels are closer to the US when you examine household debt to disposable income net of health expenses.

Some analysts believe that we are in a bear market already. Volatility in a bear market or at any time, however uncomfortable it feels, can provide excellent buying opportunities. We saw this most recently, in February, October and in December this past year. Dynamic trademarked "Volatunity®" as volatility = opportunity.

My views are that we are late in the cycle and that the need for capital preservation should be balanced with the opportunity cost of not participating in equities should markets continue

to climb. I feel strongly about active management and how it will be critical in the early stages of a bear market to generate returns above that of the benchmark. Actively managed funds will more than earn their fees as managers construct their portfolios to take advantage of pricing opportunities and protect capital.

Julie and I are reviewing your holdings and will contact you should we wish to recommend changes or to rebalance positions. In the meantime, please contact the office with any questions, concerns or thoughts.

On a lighter note, the snow is melting quickly now, the sun is stronger, the days are longer, and yes, spring is finally in the air! My almost four year old granddaughter can already see the first flowers popping through (or so she says!) Here's hoping for very few April showers and lots of May flowers.

Slips, Slips and more Slips

Tax time is here and many of you have already filed your returns. If you would like to verify that you have received all your tax slips, please call the office or send a quick email. Due to our system conversion in mid January of 2018, some clients will receive two tax slips (i.e. one for January and one for February to December) that together will account for a full year of income.

IS YOUR TEENAGER TURNING 18?

On their 18th Birthday, why not celebrate with Future Financial and open a TFSA!

Yearly contribution room is not pro-rated so the full \$6000 is available to invest.

Canadian Real Estate and Equities

Before comparing real estate to equity markets, we must have the right information so that an apples to apples comparison can be made. A common misconception is that real estate has been a better long term investment than equities; however the data shows otherwise.

The data shows that the annualized rate of return of the S&P/TSX Composite, the RBC Canadian Dividend Fund (Sr. A) and a diversified portfolio¹ of stocks and bonds yielding 7.8% are all greater than real estate returns in major Canadian cities over the same time period.

\$300,000 Investment for 25 years Ending January 31, 2018 (no leverage)

Market	End value	Rate of Return
RBC Canadian Dividend Fund (Series A)	\$1,861,784	9.6%
S&P/TSX Composite TR Index	\$1,231,213	7.3%
Toronto	\$1,082,128	6.6%
Calgary	\$1,071,451	6.6%
Vancouver	\$1,035,165	6.4%
Montreal*	\$1,031,961	6.4%
National Average	\$944,023	5.9%
Halifax	\$843,228	5.3%

What is also important to note is that real estate purchases are generally mortgaged and leverage can magnify gains. This is in contrast to equities which typically, are not leveraged.

*Montreal data is not seasonally adjusted.
Source: RBC Global Asset Management Inc. from Canadian Real Estate Association

¹ 2% cash, 43% FTSE TMX Canada Universal Bond TR, 19% S&P/TSX, 20% S&P500 TR and 16% MSCI EAFE.

Tax-Deferred or Tax-Free

Before the TFSA came along, there were two options for paying tax on investment growth; pay now or pay later. With the first option tax is paid each year along the way (i.e. T3/T5 or capital gains tax reporting) and the second option was to defer as long as possible by using an RRSP, RRIF, RESP or return of capital.

Along came the TFSA in 2009 and for the first time ever, there was an option for tax-free growth. On the surface, tax-free growth sounds like the best choice however, there are other considerations. With tax-deferred growth, your money continues to compound, staying invested until you withdraw to ultimately pay the tax. Similarly inside an RRSP, the tax deduction received on each contribution means that more money continues to work for you.

Depending on your tax bracket now and in retirement, one method will likely be better than another.

...Not at all Investment Related...

Is your licence plate peeling or bubbling?

There's a 5 year warranty on your Ontario licence plate so if you have any issues, don't delay and take both plates along with ID, proof of insurance and vehicle registration to a ServiceOntario centre. If you miss the window, it'll cost you \$59.

Get it now before "Yours To Discover" is replaced with "Open For Business".

Clarifying Book Value

Book value and adjusted cost base (ACB) are often used interchangeably and are shown on account statements. The value is used in non-registered accounts to calculate the capital gain or loss on an investment for *tax purposes only* and should not be used to determine how much money was made or lost over a given period.

Book value includes all contributions as well as fund distributions (if you elect to have them reinvested) less return of capital. Reinvested distributions increase book value and return of

capital decreases it. Withdrawals will impact book value but not ACB as ACB is a per unit cost.

In order to determine the performance of your investments, you need to know the net invested amount and compare it to the market value. If the period is greater than one year, the return will be a cumulative return, not annualized.

Things to Watch for with Multiple RESPs

If you have more than one “family” RESP account, issues may arise when it comes time to withdraw money. In family RESP plans there can be multiple beneficiaries as long as each are siblings. Each beneficiary can share grants which, is ideal if one child does not pursue post secondary education. Economic and Social Development Canada (ESDC) is the ultimate gate keeper of the grant payments for all RESPs and RESP account providers only have access to information relating to their own accounts. Unless you provide details on each grant withdrawal to all RESP providers, it is possible that you might find yourself having to pay back excess grants and/or may lose them completely.

There should not be any issues when you contribute to family plans. Education savings grants and bonds are kept track of by a child’s SIN so that in any given year, with each contribution, you cannot receive more than the maximum grant available.

RESP rules can be complicated but we are here to help! Contact Julie at julie@futurefinancial.com if you have any questions.

The Case for Dual Wills

The use of Dual Wills or Multiple Wills is an effective estate planning strategy used primarily to reduce probate costs and speed up the distribution of Estate assets.

The purpose of the Dual Will is to separate your assets into two categories: those which will likely require probate and those which will not. Bank or investment accounts that are not in joint name and do not have a named beneficiary would likely be included in the Primary Will (i.e. the will that is subject to probate). Assets which are typically included in the Secondary Will include personal

property items (automobiles, jewelry, precious art etc.), private family company shares, private loans, partnership, interests, and interests in family trusts etc.

If you are a small business owner or have significant assets that would not otherwise require probate, you may wish to speak to a qualified lawyer to discuss the use of Dual Wills. Extra caution should be taken when drafting these types of Wills regarding the freedom of the Estate Trustee (Re Milne Estate). Note, that Dual Wills are recognized in Ontario but not in all provinces.

Source :<http://www.cambridgellp.com/a-new-landscape-for-dual-wills/>

Gifts to Charity

In-kind gifts or donations of securities receive special income tax treatment if held outside of a registered account. By donating (rather than selling) a security that has a capital gain, you will receive a charitable receipt and avoid all taxable gains. Similarly, an executor that donates in-kind securities from an estate will achieve more efficient results than if they sold the investment, paid the tax and then donated residual to charity. For more information, on gift planning, please contact our office.



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FFPG FUND REPORT

Compounded to April 2, 2019



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
Dynamic Equity Income Sr. A	11.38	11.23	8.53	7.17	12.20
Fidelity Canadian Large Cap Sr. B	5.03	7.60	3.71	5.04	12.62
Fidelity Canadian Growth Sr. B	20.30	7.78	12.51	11.58	14.85
Fidelity Dividend Plus Sr. B	9.25	12.59	4.52	5.76	11.34
IA Clarington Strategic Equity Income Sr. A	9.47	8.80	6.49	4.40	n/a
Sentry Canadian Income Sr. A	9.31	4.53	2.78	4.18	11.39
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	12.73	13.07	13.45	12.38	11.87
Invesco Global Endeavour Fund Sr. A	7.86	-1.28	6.20	8.07	14.58
Sentry U.S Growth & Income Sr. A	10.91	12.10	10.47	10.45	n/a
BALANCED FUNDS					
CI Signature Canadian Balanced Cl. A	8.15	1.69	5.59	3.74	6.75
Fidelity Income Allocation Sr. B	4.49	5.83	3.21	4.01	9.01
Fidelity Monthly Income Sr. B	6.60	6.26	3.60	3.88	8.46
Fidelity Canadian Balanced Sr. B	8.53	6.06	5.24	5.87	7.80
Edgepoint Cdn Growth & Income Port Sr. A	9.78	1.76	6.64	4.91	9.62
Mackenzie Canadian Growth Balanced Sr. A	10.15	6.81	8.15	9.63	8.19
GLOBAL BALANCED FUNDS					
BMO Tactical GI Growth ETF Advisor Series	9.03	7.54	n/a	n/a	n/a
Dynamic Global Strategic Yield Sr. A	7.09	6.35	n/a	n/a	n/a
Dynamic Global Asset Allocation Sr. A	9.18	13.00	9.32	9.52	10.70
Edgepoint GI Growth and Income Port Sr. A	7.94	4.00	10.04	9.17	n/a
Fidelity Global Balanced Sr. B	7.45	5.00	6.12	5.92	8.94
SMALL/MID CAP FUNDS					
Dynamic Small Business Sr. A	10.61	1.21	6.23	4.87	10.99
Fidelity Small Cap America Sr. B	12.81	18.46	9.11	12.08	18.59
IA Clarington Canadian Small Cap Sr. A	10.39	4.07	4.80	2.05	11.47
Mackenzie US Mid Cap Growth Cl. Sr. A	14.16	22.95	16.58	12.55	14.38
Sentry Small / Mid Cap Income Sr. A	11.00	3.69	7.99	5.23	15.65

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

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