Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2021 NEWSLETTER

Carl Eppstadt, Financial Planner, CLU, CHFC, CFP, CHFS
Julie Westall, Financial Planner, CFP, CIM

Carl's Comments

We're breezing through July rather quickly and I don't know about you but I am feeling really quite good about where we are. The economy is opening up and at long last, we are able to visit friends and family again, play sports and have a meal out. While this is great news for many, concerns around health and money may be top of mind.

At the end of June, FP Canada released the **2021 Financial Stress Index** that shows that despite the COVID-19 pandemic, Canadians cited money rather than health as their primary source of stress. Financial worries outranked concerns over health, work and relationships.

The report also shows that concerns over money have; 1) kept more than 50% of Canadians awake at night, and 2) resulted in nearly a third of Canadians stating they are facing health issues (up from 18% in 2020). Money and health definitely go hand in hand.

The good news is that, the 2021 Financial Stress Index also showed that Canadians who worked with a financial planner were significantly more hopeful of their financial future than those who did not work with a financial planner. Those who work with a financial planner were:

- Significantly less likely to cite money was their top concern, compared to those who don't work with a financial planner (23% vs. 39%).
- Far less likely to say the stress led to health problems, compared to those who did not work with a planner (20% vs. 31%).

Here are a few other statistics that were interesting to me and hopefully you as well.

- 80% say there is at least one aspect of their finances causing them stress. Tracking expenses, not saving enough for retirement, debts and not having a plan are the main factors.
- 80% have taken at least one step to reduce their financial stress.
- 1 in 3 people surveyed track their expenses (key for reducing debts).
- 22% of respondents above age 55 have not taken any steps at all.
- Nearly three-quarters of Canadians who work with a financial planner (73%) say they feel more hopeful about their money situation and financial future than they did a year ago, compared with those who don't (56%) work with a financial planner.

I truly believe there is a strong need for Financial Planner Professionals to educate, create savings goals, build confidence and keep plans on track. Poor financial health can have a major impact on quality of life and affect relationships, physical and mental health and productivity at work. Julie and I are both Certified Financial Planning (CFP) Professionals, and we want to help guide, navigate and reduce stresses and reach goals in your financial paths.

For those like me that enjoy fun summer tunes, here's FP Canada's Spotify Stress-Free Summer Playlist. Enjoy and have a great summer everyone!

https://open.spotify.com/embed/playlist/7Ead5nrWR3UeltcPLZeg7s

Source: FP Canada 2021 Financial Stress Index, June 2021

Whole Life Insurance for Kids and Grandkids

Numerous clients have reached out to us about their desire to start a savings plan or leave something to their grandchildren. In terms of savings plans, two excellent options are contributing to an RESP or opening an informal trust account for the minor child.

Another often overlooked option is to use limited pay Participating Whole Life Insurance. In this strategy, assume a grandparent (owner) purchases a Whole Life policy on the minor grandchild (insured). The policy can be fully paid over 8, 10 or 20 years. The grandparent can later transfer ownership to the grandchild tax free, at any time after they reach the age of majority. The grandchild becomes the policy owner and continues to be the life insured under the policy.

Life insurance is one component, but this can also be a very useful wealth transfer strategy. Cash values that accumulate can be accessed through a policy loan or by surrendering part of the policy and unlike an RESP, funds may be used for something other than education, such as starting a business or buying a home etc. Any taxable portion of the cash value is taxed in the hands of the grandchild. As premiums are based on issue age, purchasing a Whole Life Insurance policy when a grandchild is a minor can provide low cost permanent life insurance for their lifetime.



Active vs Passive

We often talk about active management and I think this chart below is an excellent example of how truly active some portfolio managers are.

The shadowed bars show the stocks that were not in the top 10 holdings in the very next quarter. This example is not limited to two quarters; this portfolio manager has an active strategy which is evidenced in the portfolio's high turnover ratio.

30-Jun-20	30-Sep-20
Shopify Inc CL A	Shopify Inc CL A
Agnico Eagle Mines Ltd (CAN)	Canadian Pacific Railway
Canadian Pacific Railway	Agnico Eagle Mines Ltd (CAN)
Barrick Gold	Barrick Gold
Slack Technologies Inc CL A	Square Inc CL A
Suncor Energy	Zoom Video Communications
Canadian Natural Resources	SolarEdge
Etsy	Alimentation Couche-Tard, CL B
Zoom Video Communications	Dollarama
Okta Inc CL A	Peloton Interactive Inc CL A

With actively managed funds, there's no such thing as a too-high ratio. It's not uncommon to see a turnover of 50% of a fund's assets or more in a given year with funds that take a more aggressive approach. It is important to keep in mind what the fund manager is doing to manage risk and when comparing mutual funds, also consider performance, the expense ratio, the fund manager's overall track record, tenure and the fund's underlying holdings.

5 Reasons NOT to add a Child as Joint Owner on a Parent's Home

I recently read an article from a BMO Advisor on strategies that he uses in his practice to help with estate planning and transferring wealth to the next generation. One of the strategies was to recommend that senior parents make their houses joint with a child. I disagree. While this may make sense in some situations, you could be creating an entirely new difficult situation with significant, negative, unintended consequences. We suggest you consult with a qualified lawyer before changing title on your home.

Here are five reasons not to change title on your home to be joint with your child.

1. The child may lose the ability to claim the principal residence exception on the home. As a result, there may be potential income tax consequences. From the time the child is listed as a joint owner, he or she becomes legally liable to pay capital gains tax when the home is sold. A principal residence is one of the few assets that gets preferential income tax treatment, so losing this potential benefit is something you want to avoid.

2. Once a person becomes a joint owner, the equity in the home becomes available to the child's creditors. This can be a particularly problematic issue if the child goes through a divorce.

3. When you put your child as a joint owner on your residence, your child can now use the property as collateral for a new loan. A potential risk is when you sell the property, proceeds from the sale of the home could end up going towards repaying the child's outstanding loan.

4. As a joint owner, the child can prevent you from selling the property. You cannot fully dispose of a property unless all the owners agree to the sale and sign the deed of sale.

5. Proceeds from the sale of your home may not be available to other beneficiaries. Reason being,

when you list someone as a joint owner, then the property does not go through your estate on death. As a result, the joint owner will own the asset and it is possible that a sale never occurs or that proceeds are not paid to beneficiaries listed in the deceased parents will.

Source: Retire Happy, March 18,2020, Jim Yih

HMRC has approved IA Clarington QROPS for RRIFs (UK Pension assets).

They are the 1st in Canada to receive approval.

Contact Julie if you wish to discuss further.

DSC's Banned for Good!

On June 1st, 2022, Ontario will ban the sale of new deferred service charge (DSC) funds. Redemption schedules for existing DSC funds will continue and it will be several years before the final DSC sold fund is gone for good. This ban has been a long time coming as investor advocates have had growing concerns that investors could be effectively 'hand cuffed' to a poorly performing asset. Concerns also arose over the significantly high redemption fees investors could face when a sudden event such as a job loss, business failure, divorce, market crash or pandemic sparks an urgent need for liquidity.

Before the ban takes effect next year, the Ontario Securities Commission (OSC) recommended a series of proposed restrictions on DSC funds that include limits on investable amounts, investor age restrictions and redemption schedule lengths.

This is good news for investors. They will have more flexibility with their investment decisions, retain more of their investable assets and hopefully have advisors working even harder on their behalf. The Ontario government says it made this decision based on an "overwhelming" support from investors and parts of the investment industry. Investor advocates argue that keeping DSCs would allow for a compensation structure that harms investor interests. At Future Financial, we could not agree more and can't even recall the last time we sold a DSC fund. Finally, the rest of the industry is catching up!

Source: Investment exclusive: Ontario Joins DSC Ban May 2021, Greg Dalgetty

Individual and Spousal Registered Accounts

Not all firms will allow it (or even know about it) but YES, it is possible to combine a spousal and non-spousal RRSP/RRIF, as long as both registered plans have the same owner!

Thanks to a TaxTips.ca article Julie recently read, we have been actively reviewing all of our clients with both spousal and individual accounts and contacting them where it makes sense to consolidate.
There are a few considerations; 1) you can move only from an individual to a spousal plan with the result being a spousal plan, 2) combining plans cannot be reversed or undone, 3) attribution rules may apply if funds are withdrawn from the spousal RRSP/RRIF if a contribution has been made by the owner's spouse in the year or in the immediate two preceding years (we are not transferring plans in this circumstance) and 4) there is no attribution on minimum RRIF payments.

For point 4) above, even if a spousal RRSP contribution was made and the account is converted to a spousal RRIF within three years, there is zero attribution on minimum RRIF payments. This is a nice little technicality to achieve early income splitting!

For anyone that is no longer making RRSP contributions or who has a RRIF, combining accounts makes sense. Benefits may include, fee reduction, less account administration, reduced paperwork, fewer tax slips, fewer RRIF payments/banking transactions etc.

Contact our office for a review of your spousal and non-spousal accounts.

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FFPG FUND REPORT

Compounded to July 20, 2021



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
Dynamic Equity Income Sr. A	12.65	23.52	8.74	8.30	8.14
Fidelity Canadian Large Cap Sr. B	16.12	27.10	11.23	7.63	10.39
Fidelity Canadian Growth Sr. B	-2.29	17.87	12.83	15.10	15.51
Fidelity Dividend Plus Sr. B	17.41	21.08	9.62	5.93	6.70
IA Clarington Strategic Equity Income Sr. A	16.15	26.34	7.37	6.52	n/a
Sentry Canadian Income Sr. A	12.60	22.54	6.39	5.25	7.80
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	3.87	8.38	10.30	12.12	10.35
Sentry U.S Growth & Income Sr. A	15.00	25.76	11.32	11.70	14.65
Guardian Fundamental Global Equity Sr. W	10.47	16.46	12.79	15.81	n/a
BALANCED FUNDS					
Fidelity Monthly Income Sr. B	7.78	14.34	7.19	4.99	6.00
Fidelity Canadian Balanced Sr. B	5.40	10.85	6.97	6.02	6.45
Edgepoint Cdn Growth & Income Port Sr. A	17.31	35.04	7.22	7.86	7.51
Mackenzie Canadian Growth Balanced Sr. A	7.03	13.32	7.96	8.53	9.20
GLOBAL BALANCED FUNDS					
IA Clarington Loomis Global Allocation Sr. A	7.99	12.82	10.18	70.72	7.39
Dynamic Global Strategic Yield Sr. A	4.32	6.15	4.77	n/a	n/a
Dynamic Global Asset Allocation Sr. A	3.27	3.67	7.38	8.62	8.61
Edgepoint Gl Growth and Income Port Sr. A	10.56	22.17	4.45	7.76	10.21
Fidelity NorthStar Balanced Sr. B	5.25	11.70	7.01	5.05	n/a
Fidelity Global Balanced Portfolio Sr. B	4.44	11.43	7.10	6.88	7.60
CI Signature Global Income and Growth A	6.53	15.42	7.91	8.39	8.54
SMALL/MID CAP FUNDS					
Dynamic Small Business Sr. A	12.65	23.25	6.07	6.63	6.48
Fidelity Small Cap America Sr. B	14.06	23.36	5.26	6.39	14.51
IA Clarington Canadian Small Cap Sr. A	17.85	38.70	5.60	6.12	8.60
Mackenzie US Mid Cap Growth Cl. Sr. A	15.21	32.43	13.03	14.77	14.65
Sentry Small / Mid Cap Income Sr. A	15.01	35.59	8.75	9.16	11.27

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