Fall 2015

Financial focus

Risk revision in a hard-to-predict economy

Few people predicted the dramatic drop in the price of oil in 2014 and 2015. And while the consensus is that such low prices are unsustainable, no one can predict when they'll rise again or how quickly.

In the face of such uncertainty, your planning decisions may be affected.

CANADA'S OIL-BASED ECONOMY

Canada's stock market has a heavy resource presence. A decline in the price of oil typically means a drop in the TSX/S&P Composite Index. Whether your portfolio has been affected and to what degree will depend on the specific investments you hold.

Whether we need to make any changes to your portfolio is another matter entirely. Remember, your investments have been carefully selected to reflect your long-term objectives, so altering your portfolio in light of temporary market behaviour can run contrary to your financial well-being.

HAVE YOUR NEEDS CHANGED?

If your personal situation, your investment goals, time horizon, and risk tolerance have not changed, then it probably makes sense to stay focused on the long term and let your portfolio do its work.

If volatility in the oil patch has left you uneasy, if, however, it may be that you underestimated your risk tolerance. In that case, we can re-evaluate your investor profile and make adjustments if needed.

On the other hand, if you are comfortable with the potential ups and downs, we may want to take advantage of the decline in the price of oil to buy select stocks at attractive prices.

NEXT STEP: Let's get together soon and go over your portfolio to make sure you're comfortable in the current environment.

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Fall arrives gently, a moment at a time, stirring each of our senses. The flavour of harvest preserved in a mason jar. The rowdy honk of Canada geese headed south. The cool, crisp air of a last trip to the cottage. The sudden, vibrant outburst of red, yellow and orange leaves.

This is a traditional time to give thanks, enjoy feasts with family and take stock of the year's events.

We hope you find reason to celebrate these days and envision great ones ahead.

We appreciate working with you and our role to help guide your financial strategy to reach your future dreams.

François Chartier
Hélène Grandmaison

Gradual rise in interest rates not expected to slow equities

Interest rates are on the rise in the United States. Government bond yields have been slowly climbing, as investors become concerned about potentially higher inflation. In response to stronger economic growth, our National Bank Financial Economics and Strategy Group expects the U.S. Federal Reserve ("the Fed") to gradually hike interest rates later in 2015.

CHALLENGES FOR FIXED INCOME

For fixed-income investors, rising rates present both challenges and opportunities. On the one hand, when interest rates rise, bond prices typically fall. On the other hand, higher rates mean that investors will be able to earn better yields on new fixed-income investments.

In this climate, the National Bank Financial Economics and Strategy Group expects stocks to outperform bonds, supported by stronger corporate profits and economic growth. As always, the asset mix that's right for your portfolio will depend on your tolerance for risk and your investment objectives.

WHY RATES ARE EDGING UP

Expectations that a sustained U.S. economic recovery will lead the Fed to boost rates are one reason why bond yields have been climbing. Another reason is that oil prices moved higher in the first half of 2015, owing to concerns about reduced U.S. oil supplies and geopolitical tensions in the Middle East. Oil prices are expected to remain higher in 2015 than they were in 2014.

Though the prospect of higher interest rates may eventually make equities less attractive, the National Bank Financial Economics and Strategy Group believes interest rates are still far from levels that would crimp economic growth and profits. And with U.S. wage inflation still on the low side (at 2.2% year-over-year) and average monthly job creation slowing from 2014, the U.S. Federal Reserve can afford to keep rate hikes moderate this year.

CORPORATE EARNINGS TO SUPPORT STOCKS

Although stock market valuations are now in line with historical averages, corporate earnings have been showing noticeable improvement. If the global economy remains resilient, there is a strong possibility that earnings will continue to surprise on the upside and support the stock market.

In this scenario, current equity valuations are not alarming because headwinds from higher interest rates are likely to be offset by faster earnings growth. What's more, the U.S. expansion is still relatively young, which bodes well for the world economy.

NEXT STEP: We can help you review your overall investing strategy in light of the changing interest-rate climate. Please give us a call today to set up a meeting.

Earnings are growing again

Earnings per share (EPS): 12-month trailing vs. 12-month forward

Corporate earnings are on the upswing — with both reported earnings and forward estimates showing improvement. This trend could support the stock markets.

Source: NBF Economics and Strategy (data via Datastream).

Setting up millennial kids for success

When are your kids old enough to start thinking about investment and finance? If you have young children or grandchildren, it's hard to imagine them even thinking about such things — but it's something that the millennial generation (born 1980 to 2000) needs to know about now.

Research shows that millennials are likely to start out with relatively lower-paying jobs than previous generations did.[1] They'll need to rely on their own financial planning acumen more than ever — saving for retirement as the social safety net of earlier years weakens.

Canada's Task Force on Financial Literacy echoes that sentiment: "As more financial decisions are faced by Canadians at younger and younger ages, grasping financial principles early in life is crucial to being better prepared."[2]

Don't hesitate to talk about money with your kids. Start out easy and build on concepts. The Financial Consumer Agency of Canada[3] recommends that 15- to 18-year-olds should:

- Understand the pros and cons of different payment options such as cash, debit cards, and credit cards.
- Know about different kinds of basic investments such as GICs, stocks, bonds, and mutual funds.
- Understand the time-value of money (its past, present and future worth), and how it can grow.
- Know how to "live within their means."

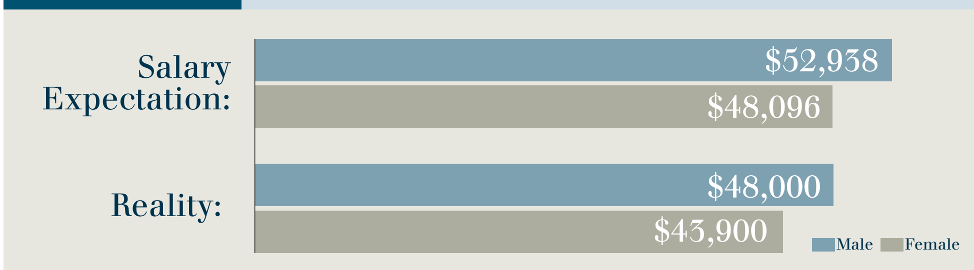
NEXT STEP: Talking about money is an opportunity for you to show your kids how financial planning can help make dreams come true. And remember, we're here to help. Why not bring your son or daughter along next time you come in to see us? We can review your portfolio and give your young one some insight into the steps you've taken to create a secure future for yourself and your family.

[1] Andrew Langille, Canadian Business, "Millennnials' job plight is more than simple unemployment," January 2015.
[2] Report of Canada's Task Force on Financial Literacy, December 2010.
[3] Financial Consumer Agency of Canada (fcac.gc.ca), "Teaching children about money."

Reality gap

In a poll conducted by one of the Big 6 banks, Canadian university students said that they expected to earn an annual salary of more than $50,000 upon graduation. Many of them may be disappointed. Data from Statistics Canada reveal the reality: the average salary two years after graduating post-secondary school is just $45,000.

NEXT STEP: Instilling good financial habits in your children can help them make the most of what they earn, even if it's less than expected.



Sources: Pollara/BMO Student Survey, September 2013 and Statistics Canada.

Testamentary trusts face new tax treatment starting in 2016

In January 2016 the taxation of testamentary trusts (trusts created through a will) is going to change. Up until now, they have been taxed at the same graduated tax rates as an individual. After January 1, 2016, all income in a testamentary trust will be taxed at the highest tax rate applicable in each province.

Does that mean testamentary trusts will become a thing of the past? Not at all. Even without the advantageous tax treatment, testamentary trusts can still play an important role in estate planning.

BENEFITS OF TRUSTS FOR ESTATE PLANNING

Trusts enable you to maintain some control over where and to whom your money will go. They help make sure that assets are managed wisely, and they can avoid costly and time-consuming probate. In some situations, trusts can also be used to split income among estate beneficiaries.

These benefits won't change in January. These changes do have implications, though, which are important to understand so you can make fully informed decisions.

WHEN TO TAKE ACTION

If you currently act as a trustee or are named as executor for a will that includes a trust, you may want to speak with a tax advisor about how the changes might affect the beneficiaries of the trust. Similarly, if you have or are thinking about setting up a trust in your will, it's probably a good time for a professional review of your entire estate plan.

Investment Strategy

Why your home doesn't belong in your portfolio

With skyrocketing home prices in some Canadian cities, some people may be tempted to think of their home as a major asset class and to treat it as simply another portion of their portfolio. But your home is a lot more than an investment. Where you live is inevitably tied in with how you live, and with your lifestyle.

SHOULD YOU SELL TO REALIZE GAINS?

In May 2015, the Canadian Real Estate Association reported that the average home price in Canada was $450,889, an 8.1% increase from May of last year.[1]

Homeowners who have seen a significant increase may be considering selling. Doing so presents an opportunity to cash in on the equity in their home and use it to pay down debt, invest, or increase retirement savings. It can be especially attractive given that any capital gain on a principal residence can be tax-free in whole or in part. However, it's not a decision to be taken lightly.

OTHER WAYS TO TAP INTO EQUITY

If you need additional capital, there are other effective ways to tap into your home's equity without selling. For example, you might consider refinancing or taking out a secured line of credit.

NEXT STEP: Before taking any of these routes — or listing your house for sale — talk to us. We can help you look at the entire picture and create a plan that supports both your financial and your life goals.

[1] The Canadian Real Estate Association (crea.ca), National Average Price Map.

Investment Planning

Make the most of higher contribution limits for TFSAs

The 2015 Federal budget boosted the contribution limit for Tax-Free Savings Accounts (TFSAs) from $5,500 to $10,000 a year — a significant increase.

Contributing $10,000 a year to a TFSA for 10 years and earning 5.5% annually would result in total earnings of $35,835. The same $10,000 split every year between a TFSA with the old limit and a taxable account (based on a 21.6% combined Federal/Provincial tax rate) would provide earnings of just $32,127, or 12% less.[1]

GET STARTED

Surprisingly, only 40% of eligible adults have a TFSA and, of those who do, fewer than 20% (17.8%) have maximized their contributions.[2]

With the cumulative contribution limit now at $41,000, that represents a significant lost opportunity to be earning tax-free interest, dividends, and "shelter" or "protect" capital gains.

EXPAND YOUR HORIZONS

What many people may not realize is that TFSAs can hold a wide variety of investments, including Guaranteed Investment Certificates (GICs), mutual funds, bonds, and equities. Moving beyond very conservative assets that only generate interest makes it possible to earn potentially higher returns.

In fact, TFSAs can be a great place to save for longer-term goals like a home or your children's post-secondary education. They can also be considered a viable alternative — or, even better, a valuable complement — to a Registered Retirement Savings Plan (RRSP).

TFSAs AND SENIORS

For older Canadians, TFSAs have some unique benefits:

No earned-income requirement. In order to contribute to an RRSP, you need to have reported earned income the previous year. With a TFSA, there's no such requirement, making them a great choice for seniors who are no longer working.

No age limit for contributing. You must convert your RRSP to some form of retirement income by the end of the year in which you turn 71. With TFSAs, there's no upper age limit. You can keep contributing — and earning tax-free returns — all your life.

Withdrawals are not considered taxable income. Because TFSA withdrawals aren't treated as income, they won't affect your eligibility for income-linked government benefits like Old Age Security.

Repository for RRIF payments. If you convert your RRSP to a Registered Retirement Income Fund (RRIF), you must withdraw a specified minimum every year. While this amount is taxable, you can deposit it into your TFSA (up to your contribution limit) to continue generating tax-free returns.

NEXT STEP: The new higher limit changes the role that TFSAs can play in your overall financial strategy. Talk to us about how your TFSA fits into your plan and whether we should look to increase (or start) regular contributions to help you achieve the maximum.

[1] Government of Canada, 2015 Budget, Chart 4.1.6, "Tax savings from increasing the TFSA annual contribution limit to $10,000."
[2] Government of Canada, 2015 Budget, Table 4.1.1, "Tax-Free Savings Account Statistics, 2013."

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