Summer 2015

Financial focus

Making sense of market noise

Almost every day, the media are subjected to a barrage of just-released economic numbers, financial data, and market stats: interest rates, the Canadian dollar, the U.S. dollar, oil prices, housing starts, record-setting gains (or losses) on market indices, etc.

But what do the headlines really mean for your portfolio? Should you be concerned? Is action required? And if so, what.

INFORMATION OVERLOAD

Our 24/7 news cycle subjects us to a near-constant stream of economic and investment-related information. Over the long term, however, all of this short-term commotion generally means very little.

Indeed, industry insiders typically call this chatter "noise," and they're skilled at shutting it out — not because it's not important, but because its relevance diminishes over time.

MAINTAINING PERSPECTIVE

For non-professional investors, it can be disconcerting to hear that "the S&P/TSX lost 300 points." Keep in mind, however, that this number currently represents less than 2% of the index's value.

Market drops — and gains — happen regularly in response to all kinds of factors, including economic forecasts, changes in interest rates, and unexpected earnings reports. Remember that your portfolio has been calibrated to go the distance, regardless of any speed bumps along the way.

NEXT STEP: If you feel uneasy about any investment news or numbers, call us. We can double-check that your portfolio is balanced to benefit from the full market cycle and that market forces haven't left you over- or under-exposed to any particular sector.

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With its slower pace, summer is a great time to sit back and reflect. Are you happy with where you are in life, personally and professionally? Are there important goals that you have yet to achieve?

Or maybe you're perfectly content in your own life and would like to help others. Giving back to the community through charitable contributions of time, skills, or money can be very fulfilling.

So whether you're relaxing in your back yard, sipping a beverage at a sidewalk café, or hiking through nature, take a moment to think about what's really important to you. Then, come talk to us so we can start planning to help you reach your goals.

François Chartier
Hélène Grandmaison

Corporate earnings expected to support equity markets

Global equity markets climbed to new heights in April 2015, and the MSCI All Countries index — a benchmark for global equity markets — remains on track for a record 11th consecutive quarterly increase. The gains have been widespread, with most major regions advancing.

Although equity valuations are close to their historical average, the National Bank Financial Economic & Strategy Group believes that global economic growth should continue to support corporate profits. As a result, we believe equities remain an attractive asset class, relative to fixed income. What's right for your portfolio will, as always, depend upon your tolerance for risk and investment objectives.

A number of factors are coming together to lift both the economy and corporate profits.

Room for expansion in the U.S. economy. The expansion phase of the U.S. economic cycle is still in its early phases. Even though there has been strong employment growth in recent months, there is room for the U.S. economy to add more jobs, which helps explain why wage inflation remains low.

Pro-growth central banks. The fall of oil prices has allowed central banks in many parts of the world to keep interest rates low, providing ongoing stimulus to economies. Low corporate bond yields are also supporting stock prices. In the Spring of 2015, the dividend yield of the MSCI All Countries index was higher than the yield on global corporate bonds.

Recovery in the Euro zone. The Euro zone appears to be on the path to recovery, with industrial output rising. Domestic demand is also on the upswing, with labour markets showing signs of improving. Loans to households, while still down from a year earlier, have been on the rise. The National Bank Financial Economic & Strategy Group believes that the Euro economy, along with corporate earnings could surprise on the upside.

Stimulus in China. In addition to increasing its budget deficit this year, China has relaxed borrowing rules for local governments by increasing its quota for bond issues — a move likely to boost spending on infrastructure. We expect 6.8% growth in China this year, and 7.1% in 2016. Stimulus measures in China could provide a lift to commodity prices.

Encouraging profit picture in Canada. Despite the recent slowdown in the energy sector, the profit picture for the Canadian market looks positive. Earnings growth of more than 6% is expected for non-energy companies in 2015. In addition, the energy sector may surprise on the upside in the coming months, helped by rebounding oil prices and a slide in U.S. oil output.

NEXT STEP: We can help you review your global equity exposure in light of your tolerance for risk and investment objectives. Please give us a call today to review your investing strategy.

When a saver and a spender live under one roof

A recent Nielsen survey[1] found some interesting differences between how men and women spend and save. Among consumers polled, 43% of men said that now is a good time to spend, compared with just 36% of women. When a spender and a saver pair up, decision-making may become a source of stress. But it doesn't have to be that way.

Savers and spenders are simply people with different expectations. They may ultimately want the same things, but they have different timelines for those acquisitions. Believe it or not, it is possible to live in harmony.

Compromise, candour, and balance are the keys. Perhaps you can agree on a savings/spending split. For example, you might agree on pre-authorized contributions to a Tax-Free Savings Account while setting aside $150 a month for "mad money." Make it more tempting by agreeing that mad money not spent this month gets rolled into next month's slush fund. After all, even spenders can be encouraged to save, with the right incentives.

Rest assured, savers and spenders do agree on some things. In that same study, men and women both said that when it was necessary to cut back, it made sense to start by reducing holiday spending, phone plans, and gas/electricity costs.

NEXT STEP: We have a lot of experience helping couples navigate their saving and spending goals. If this is a source of stress or conflict in your family, we would be pleased to help.

[1] Nielsen Insights, *"Money may make the world go around, but men and women have different spending priorities,"* March 2015.

Think beyond RESPs

A Registered Education Savings Plan (RESP) is a great way to save for a child's education. But it's not the only strategy, and, depending upon your child's situation, you might want to utilize other effective ways to set money aside. Consider these questions…

Is it possible your RESP funds will fall short of your child's expenses? RESPs have age and contribution limits. If you missed out on contributing while your child was young, if your child ages out of eligibility, or if your contributions didn't meet your expectations, there are other investment vehicles that can help you reach your goal.

Is your child considering post-graduate studies? If your child opts for a career in medicine, law, architecture, business, or engineering, expenses will go far beyond those associated with an undergraduate degree. You may want to investigate alternative investments to defray at least some of the additional costs.

Is your child keen on an Ivy League school? If you want your child to have the option of attending a prestigious U.S. university or studying abroad, an RESP will cover only a fraction of the cost.

NEXT STEP: We can show you how to enhance your RESP with other investments such as Tax-Free Savings Accounts (TFSAs), non-registered holdings, or in-trust accounts.

Tax Tip

Make the most of child-related tax credits

It's summertime! Chances are, nothing is further from your mind than paying taxes. But by staying on top of summertime receipts, you can make sure you take full advantage of all the tax credits available to you when you file your return next April. Here are two instances in particular for which you'll want to keep those receipts.

Childcare expenses. If you have kids in formal daycare, you probably already know about childcare tax credits. But summer programs, including day camp, art classes, summer school, and sleepover camp, may also be eligible. In fact, just about any childcare expense that enables you to work, study, carry out research, or run a business may be permissible.

Child fitness tax credit. Starting in 2015, the child fitness tax credit gets a whole lot more generous. If your kids are under age 16 (18 for a child with a disability), you may be eligible to claim up to $1,000 (double the amount you could claim last year). Best of all, the list of eligible activities is broad. So whether your son takes golf or sailing lessons, or your daughter goes to soccer camp or a horseback riding academy, save those receipts!

Investment Planning

Sometimes, less is more

Diversification is one of the fundamental principles of successful long-term investing. Where investment accounts are concerned, however, diversification may work against you.

When you hold investments across a number of different accounts or at multiple institutions, you may leave yourself open to a host of potential problems.

THE DANGER OF A DIVIDED APPROACH

Taking a scatter-shot approach can result in duplication, lack of diversification, portfolio sprawl, excessive fees, and less-than-optimal tax efficiency.

In addition, managing more than one account can eat up your personal time as you grapple with multiple statements, tax slips, and account representatives.

THE STRENGTH OF UNITY

Having all of your investments under the same umbrella, on the other hand, offers the following advantages:

- We can more easily track and manage your holdings and keep your weightings in alignment with your goals.
- We may have a clearer sight line to potential tax-saving strategies, such as tax-loss selling and determining when to crystalize capital gains.
- It makes it easier to allocate your investments into the most tax-friendly account (for example, holding income-producing securities in a registered plan).
- Being able to see all of your securities at a glance means we can fine-tune your portfolio as your needs change.

NEXT STEP: Let's talk about how we can ensure all of your investments are working together as efficiently as possible.

Insurance

Is your earning power really protected

The ability to earn income is one of our most important assets — one we sometimes take for granted. Consider this: About one of three people aged 35 today will be unable to work for at least six months before they turn 65.

Without the protection of disability insurance, that loss of earning power could spell financial disaster for you and your family.

Fortunately, it's quite common for employers to provide a group disability policy as part of a benefits program. But it does not necessarily mean you have adequate coverage. And if you're self-employed, you may have no coverage at all.

KEY CONSIDERATIONS

Here are the key areas to consider to determine whether your group policy provides adequate coverage:

• **Protection against inflation.** Will payments under your group policy go up as the cost of living rises? Most plans won't.

• **Payment cap.** Group plans pay out benefits that vary between 50% and 70% of your income, less any benefits paid by employment insurance or other plans. Is this sufficient for your needs? Remember: You can't supplement coverage so that you end up with more income than your normal salary.

• **Elimination period.** This is the period you have to wait for benefits to kick in. With short-term group plans, benefits are usually payable from the first day after an accident, but after eight days if the disability is caused by an illness. For long-term disability group plans, coverage usually becomes effective after six months.

• **Benefits period.** This is how long the benefits will be payable. Depending on the type of group plan, this period can be months, years, or up to age 65.

• **Cause of disability.** Some policies limit coverage to specific situations.

• **Definition of disability.** The conditions under which insurers will pay benefits vary greatly. Some will pay benefits if you are unable to perform your usual occupation or profession. Others will pay benefits only if you are unable to carry on any occupation.

• **Income tax.** If your employer pays the premiums on your group plan, any benefits you receive will be taxable. In other words, you'll be able to count on only a portion of the payments to meet your family's living costs.

FILLING THE GAP

Individual disability insurance can be an effective way to supplement your group plan. Keep in mind that the cost of private coverage will depend on the type of policy and options you choose, and your age, income, and occupation.

Tip: An effective strategy to keep costs low is to increase the elimination period of your policy.

Most companies will also account for the benefits you would normally receive under the group plan, and then agree to top up your coverage to a limit of 70% of your income.

With the professional advice of our team, you can find the best policy to protect your ability to provide for yourself and your family.

Vol. 20, No. 3. © 2015.

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