RBC DOMINION SECURITIES

PEARLSTEIN'S CORNER

WINTER 2016

Mark Pearlstein

VP, Portfolio Manager & Wealth Advisor

416.733.5257

mark.pearlstein@rbc.com

www.markpearlsteinwealthmanagement.com

Forecasting Follies: 4 Questions You Need to Ask About Those Who Make Predictions About Your Money

As the New Year begins, forecasters, experts and pundits prognosticate on the stock market, interest rates and the economy for the year ahead. I tend to look at most of them with a bit of a jaundiced eye, because when it comes to your money, there's one thing you need to be aware of that many in this group have in common: **they tend to be poor at predicting future events.** A twenty year study out of the University of Pennsylvania involving more than 280 experts found on balance their accuracy in this specific area was little better than chance.

Why do people listen? Because our ongoing trust in forecasters comes from our basic need for security and stability. Fear is the driver of our ongoing need to know what lies ahead. And while most of us are fascinated by change, at the same time, we dislike uncertainty. No one said the human condition was easy to understand. To help you keep your emotions in check and make your portfolio safer, here are four questions you can ask to assist in sorting through the onslaught of opinions that come your way.

1. What trait do most successful pundits possess?

"They're opinionated, because it's interesting, and the penalties for incorrect predictions are negligible," says Dr. Daniel Kahneman - a Nobel Prize winning psychologist. His book, **Thinking Fast and Slow**, summarizes several decades of academic research suggesting people place too much confidence in human judgment.

2. Why do the media prefer those with strong opinions?

If it's controversial, it sells ads. So the paradox is pundits that make themselves the most attractive to the media also make relatively poor forecasters. Overconfident forecasters get more space and air time than equivocal ones who hedge and have a more balanced view. **The cost of reading a comment in a newspaper or on the internet is close to being free. However, the cost of acting on it can be expensive … for your portfolio.**

3. Who's saying what and where?

Clients sometimes say to me that 'this expert' says that the stock market is going to go up or down by a certain amount within a period of time … and what do I think. I'm always happy to offer my view. **But I'll usually ask who the expert is, find out about his or her background, who wrote the article and what publication it appeared in.** It may turn out that expert is the real McCoy and I'll be able to investigate further and decide there's a good idea worth pursuing. On the other hand, there may be nothing there.

4. How often is the consensus view correct?

Forecasts for the coming year sometimes get bunched into a group of opinions. By definition, when there is a consensus everyone agrees on something. Unfortunately, outcomes that match the consensus are rare, since it's impossible to predict the future. **One American economist aptly said, "the herd instinct among forecasters makes sheep look like independent thinkers."**

At the end of the day, predictions make for good copy, but that's about it. The best approach to take when it comes to managing your money and wealth - and by extension your lifestyle and retirement - is to ignore the noise out there the best you can. **Your time is much better spent by asking questions that relate to your own situation, to prepare and then develop a plan that works for you – not on what others predict.**

If you have come across a forecast you'd like to share with me, please call or email me. Or if you know of a family member or friend who recently made a comment about an expert they just heard or read about, please forward this newsletter on to them. There may be an opportunity for me to help them.

… Wishing a Happy New Year to you and your family!

Taunia Del Ciancio and 2016 Tax Changes

Introducing Taunia Del Ciancio

We're very pleased to begin 2016 by announcing Taunia Del Ciancio has joined our team as our new Administrative Assistant. Taunia has the expertise we have been looking for to help us continue to grow our practice. We are confident you will find her a pleasure to work with and very helpful in her important role.
Taunia has been working at Royal Bank of Canada since 2008 and most recently spent a year working as a Branch Administrator at RBC Dominion Securities. Taunia will be providing support for Sam, in particular, and our team, overall.

2016 Tax Changes

A summary of the key tax measures that may have a direct impact on you

On December 7, Finance Minister, Bill Morneau, held a press conference to talk about a number of tax measures pledged by the Liberal Party and introduced a Notice of Ways and Means Motion (NWMM) to implement some of these changes.

Highlights of the NWMM include:

1. Reducing the second personal income tax rate to 20.5% from 22% effective on January 1, 2016 and for subsequent taxation years.

2. Introducing a 33% personal income tax rate on individual taxable income in excess of $200,000, effective for the 2016 and subsequent taxation years.

3. Returning the Tax-Free Savings Account (TFSA) annual contribution limit to $5,500 from $10,000 and reinstating indexation of the TFSA annual contribution limit, effective for the 2016 and subsequent taxation years.

Changes to Federal Personal Tax Rates

The Government will lower the 22% federal personal tax rate to 20.5% on taxable income between $45,282 and $90,563. If your income is above $90,563, this is expected to provide a tax savings of almost $680.

The Government will introduce a new high federal personal tax bracket that will be subject to a tax rate of 33% on taxable income above $200,000. This new rate is 4% higher than the existing highest federal personal tax rate of 29%. If your total taxable income is less than or equal to $217,000 your overall tax bill will not increase because of the tax cut in the lower bracket. However, if your income is above this threshold for 2016, you will face an increase in your taxes payable.

Reduction to the TFSA Annual Contribution Limit

The Government will roll back the TFSA contribution limit from $10,000 to $5,500 for 2016 and subsequent years. The TFSA annual contribution limit will be indexed to inflation and rounded to the nearest $500. The TFSA annual contribution limit for 2015 will remain at $10,000. Therefore, the total TFSA contribution limit from 2009 to 2016 is $46,500 ($5,000 for 2009 to 2012, $5,500 for 2013 and 2014, $10,000 for 2015 and $5,500 for 2016).

Conclusion

Tax planning should be an ongoing, dynamic process so you do not overlook opportunities to minimize tax. Please connect with Sam Kim at 416-733-5246 or sam.kim@rbc.com for more information.

RBC Wealth Management
Dominion Securities