

# The Investor's Advantage

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## GOACHER WEALTH MANAGEMENT RBC DOMINION SECURITIES

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We have added many new articles.*

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## WHAT A RIDE TO START THE NEW YEAR

The start of the new year was quite a roller coaster ride. January was punishing for investors, as everyone thought we were heading into a global recession with a sharp sell off in oil to \$26, a surge in the U.S. dollar, slowness in China, and global geopolitical issues. Not a fun time to be in the markets, but as the quarter came to a close, oil was back up to near \$40, the U.S. dollar retreated as the Federal Reserve went to the sidelines, China, Japan and Europe all took monetary policy measures to stimulate economic growth, and global political issues seemed to abate. All was good in the world again.

It seems we have come full circle again over the last three months. Global recession? Not this time around. Back to normal again, whatever that dysfunctional "normal" state is. Oil supply issues are front and center again and therefore prices are starting to fall back again below \$40. Central banks have put their foot on the gas again and are increasing monetary policy stimulus by increasing their participation in the bond markets and even moving to negative interest rates. Yes, that is correct: negative rates. You actually have to pay sovereign governments to own their bonds for safety. China has made commitments to stimulate their economy in the face of serious structural problems that I would suspect will be ongoing for many years.



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The U.S. continues to grow but it isn't without risk of global issues. The Federal Reserve has lowered growth expectations to 2.2% from 2.4% recently and has communicated that caution is appropriate in raising interest rates any further. There is also some dissension between committee members as to when and how fast to increase rates going forward, which is sending mixed messages to the markets. The U.S. dollar is also falling against all other currencies as a result, as witnessed by the rebound in the Canadian dollar back to 76 cents from below 70 cents.

All these issues reiterate my theory that change doesn't happen overnight anymore and that these knee-jerk reactions in the markets are just that. The global issues we face are going to take time to correct and things are not going to change quickly. It is going to be a long slow process to get back to "normal" and even then I am not sure we are not chartering a "new normal." The old days may be gone and this situation we find ourselves in may be the new normal for many years to come.

This environment makes it more difficult to choose a path as to how to position portfolios. I am taking a cautious approach. Oil companies sure look interesting but I am not sure the worst is over. I suspect we are going to continue to see a lot of smaller oil companies going bankrupt in this low-price environment. Defaults in the U.S. oil sector surpassed \$14B so far in 2016 versus \$17.5B for all of 2015. Caution is warranted.

As I have done in the past, I continue to look at industries and companies that are game changers—companies in sectors that are doing things that dominate their respective field and affect our lives. Examples of these include Amazon and Google. I have been picking away at some interesting companies over the past quarter, such as Microsoft, Nike, Starbucks, Palo Alto (a cyber security company), Alimentation Couche-Tard (the Quebec-based corner store operator), and Five Below Inc. (a seller of goods \$5 and under that caters to the pre-teen and teen segment). All of these companies dominate their sectors and looked especially attractive as their stock prices dropped during the recent downturn. I have found more opportunities in the U.S. than in Canada due to the sheer volume of choice and stage of economic recovery.

Volatility in the Canadian dollar has become the biggest factor affecting portfolios lately. Overall, at December 31, client portfolio returns were a slight positive when the overall markets were well down, partially the result of weakness in our currency. The Canadian dollar had slipped to almost 65 cents and has now rebounded to around 76 cents. This recovery has been the



result of stronger GDP growth in Canada, potential weakness in the U.S. economy, and a slight recovery in oil prices. As our dollar has strengthened, returns are negatively affected. We are giving back some of those gains from 2015.

I suspect that the dollar will trade around 70 – 75 cents. I really can't see any reasons for it to advance to 80 cents and higher. With that in mind I don't feel we are going to be hurt further by any increase in the Canadian dollar. Furthermore, I have been hesitant to sell great U.S. stocks to buy Canadian equities as I am concerned about the Canadian economy in a low oil price environment and I feel U.S. equities are still the place to be.



# HEY, POPS, MY STUDENT LOANS ARE DUE

I read an interesting article in *Bloomberg Businessweek* magazine, “Student Debt May Be the Next Crisis Facing Elderly Americans.” Education debt in the U.S. held by people 65 and older is fast becoming one of the biggest lending problem areas south of the border. Since 2005, this segment of the market has ballooned to \$18.2 billion from \$2.8 billion.

Parent PLUS loans are held by people 65 years and older and are similar to those made directly to students. These are federally backed loans to parents for their own and their children's education. This segment of the market is growing at twice the pace of direct student loans with the number of borrowers increasing to 2.2 million from 700,000 in 2005. Twenty-five percent of these loans are in default by 270 days or more, and more than half of these loans held by people over 75 were in default. These loans are almost impossible to discharge and the government can garnish wages, suspend tax refunds, and reduce social security payments where defaults have occurred. 155,000 seniors lost part of their social security benefits last year up from 31,000 in 2002.

Furthermore, there is no statute of limitations so these loans go with you to your deathbed and can only be discharged by showing undue hardship if bankruptcy is claimed. Undue hardship is a black hole as there is no definition of what constitutes hardship and therefore each case is specific to each person's personal circumstances. Measures have been brought before Congress to alleviate some of the concerns with this aspect of the rules.

Older workers realize that they are unemployable even after incurring debt for education loans, and their kids, although employed, are stretched with respect to their finances and unable to assist with repayment of these loans.

## IT'S A BOY!

Jennifer Snoddon and her partner Adam are now the proud parents of a baby boy! Jennifer has started her maternity leave and will be off with her baby for the next year. We wish her all the best but will definitely miss her.

We are in the process of hiring a new permanent associate for our team who will take over Jennifer's duties for now, so you will likely be hearing a new voice on the other end of the phone.

We are also taking on a student from Durham College for the next few months and will be considering her for a one-year maternity contract to fill in for Fiona when she goes off in August to deliver her baby.

We are excited for the new baby additions to the GWM family and our new associates. Neither Nancy nor Miles are pregnant so there will be no changes there!



# MEN AND DEPRESSION IN RETIREMENT: HOW TO COPE

Experts say men are more vulnerable to depression in retirement, in part because their careers are often more closely tied to their identities compared to women. Men develop a strong routine and many of their friendships come from work. When they retire, some lose that social connection and social network, and the meaningful contribution they get out of what they do.

It's not the job or money that men miss so much as the socialization and self-esteem that work brings. Most men really like the structure of the workday and the sense of purpose—that what they were doing was contributing to the greater good.

While depression needs to be treated by a mental health professional, some lifestyle changes can make a huge difference in a man's (and woman's) enjoyment of the retirement years.

**Keep things structured:** Having a regular routine for your days can help, so don't throw away that alarm!

**Stay active and social:** Join a sports team or walking group to keep the body moving. Form a book club to meet new people, socialize and hear new ideas and views.

**Go back to school:** Many universities allow seniors to audit classes for free, or at reduced rates.



**Work part time or consult:** Put those years of experience to work... but on your terms and schedule.

**Travel with purpose:** See your city, province or the world! And if volunteering is a passion of yours, why not do both? There are many opportunities to give back while you tour the globe.

**Write that book:** You have the time, and you've always wanted to write a novel or your autobiography, so put pen to paper! Or take a writing class at a local college to get inspired and learn helpful techniques.

## BILLIONS OF BARRELS OF OIL ARE ABOUT TO VANISH IN THE U.S.

America's shale patch is about to face reality with respect to its reported oil reserves. Under accounting rules that the industry lobbied for back in 2009, drillers are about to acknowledge what investors have known for a while: With crude trading at \$40 and below, a lot of oil is not going to see the light of day.

The industry pushed for rules in 2009 that made it easier to claim reserves from wells that wouldn't be drilled for years. Having more reserves on the books made it easier for

companies to raise money from investors for operations. The rules required reserves to be profitable at a price determined by a SEC formula and wells had to be drilled within five years. Well, time is up and prices of oil are down.

The formula is based on average prices on the first day of the month during the current calendar year. With oil prices depressed and the five year time limit coming to an end, many reserves will vanish from the books of oil companies, in some case up to 45% of reserves!



# IT'S BUDGET TIME!



It's budget season and we have recently seen both the Federal and Ontario budgets delivered. Here is a summary of the key components that may affect our clients.

## FEDERAL BUDGET

The Federal budget was delivered on March 22 and focuses on growing the economy, creating jobs, and strengthening the middle class. Key features included:

- The Liberal government is going to spend \$29.4 billion on stimulus measures focused on infrastructure spending that will create 100,000 jobs over the next couple of years and increase GDP by 0.5% in both 2016 and 2017.
- There was no change to the capital gains inclusion rate from 50% to 75% as rumoured.
- The budget did not eliminate the small business deduction for professional corporations and other small businesses with less than three employees as rumoured.
- There were a slew of changes to insurance policies, but they do not affect our clients as they relate to products that we do not advocate as sound investment strategies. One change to corporate-held insurance policies and the capital dividend account withdrawals for new policies issued after January 1, 2017, does not affect existing permanent policies. It will affect new policies after this date and extends the time period for which the full amount of insurance can be withdrawn from a corporate owned policy using the capital dividend account.
- Reductions in the small business tax rate currently legislated to occur beginning in 2017 have been eliminated. The current Federal tax rate of 10.5% on the first \$500,000 of qualifying active business income earned by a Canadian-controlled private corporation will remain in effect for 2016 and beyond.
- The \$2,000 of family income splitting credits is being eliminated.
- The child fitness and arts credit is being phased out in 2016 and eliminated in 2017.
- The education and textbook tax credits will be eliminated in 2017. Carry-forward amounts will still be allowed for deduction.
- The Canada child tax benefit and Universal child care benefit will be rolled into the new Canada Child Benefit beginning in July 2016. It will simplify existing child benefits and will be an income-tested benefit.
- The age for eligibility of the Old Age Security Benefits and Guaranteed Income Supplement has been rolled back to 65 from 67 years old.

## ONTARIO BUDGET

The Ontario Budget was delivered on February 25 and included the following measures:

- The deficit in Ontario is projected to reach \$5.7 billion in 2015-16 and is expected to be eliminated by 2017-18.
- Although there were no changes to personal income tax rates in this budget, the combined Federal and Ontario tax rates effective January 1, 2016, for incomes over \$220,000 are as follows:
  - Salary and other income = 53.53% vs. 49.53% in 2015
  - Capital gains = 26.76% from 24.76% in 2015
  - Eligible dividends = 39.34% versus 33.82% last year
  - Non-eligible dividends = 45.3% from 40.13% in 2015
  - Tuition and education credits are being eliminated effective the fall 2017
- New measures will be introduced to assist with tuition costs based on income-tested means. For example, families with income of less than \$50,000 will not pay any tuition in Ontario. This will also simplify the education assistance system and direct funds to those families most in need.
- The Children's Activity Tax Credit is being eliminated similar to the Federal measures.
- The Healthy Homes Renovation Tax Credit introduced in 2011 to increase the affordability of home renovations for seniors with mobility challenges is being eliminated effective January 1, 2017.
- Alcohol and tobacco taxes are being increased.
- A cap-and-trade program to limit greenhouse gas emissions will be introduced January 1, 2017, and will result in an estimated increase of 4.3 cents per litre at the gas pump and an increase of 3.3 cents per cubic metre for natural gas.
- The Ontario Retirement Pension Plan will be delayed until 2018.
- No changes to corporate income tax rates were proposed. The combined rate for small business income remains at 15%, for example.

## CRA's AUDIT LIST FOR BUSINESS OWNERS

Expect Revenue Canada to check the following areas when auditing your books.

**1. Reasonability checks.** CRA will be looking for reasonability checks on expenses versus income from year to year. Large fluctuations will be noted.

**2. Personal use of company vehicles.** Make sure all trips in the car are documented in a log – date, mileage, purpose. Only claim mileage for the business portion. If you don't have a log you will be asked to produce one for the full previous year, and three representative months for the previous two years.

**3. Meals, entertainment, travel.** Sage advice: Make sure you can explain how all such expenses relate to the business. Deduct only 50% on meals and entertainment.

**4. Ineligible business expenses.** Golf club dues, golf rounds, and equipment are not eligible business expenses. Meals are deductible at 50%, however.

**5. Loans from the corporate account.** CRA will check to see if the company is lending money to principals and on what



terms. They also want to see evidence of timely repayment. If those loans linger on the books, CRA will deem them as undeclared income.

**6. Receipts.** Receipts and record keeping is important. CRA doesn't regard a credit card statement as sufficient record keeping. You must have a proper receipt as evidence of payment.

**7. Be organized.** A well-organized file of receipts tied to tax return schedules and financial statements show that you are serious about compliance and record keeping. It goes a long way with CRA.

# CLIENT RELATIONSHIP MODEL 2 IS COMING IN EARLY 2017

The financial industry is undergoing major changes to disclosure rules now and over the next few years. There is a push towards more disclosure as to fees paid, return disclosures, and risks associated with investments. This is a good move towards full disclosure and transparency for investors.

Our team at Goacher Wealth Management of RBC Dominion Securities has always been an advocate for full disclosure and transparency for our clients. We strive for simplicity in our fee structures and open dialogue with respect to what you pay for fees. We regularly report on your returns and meet to discuss your individual financial plans and how portfolios are meeting those plans. As a result, new disclosure rules will have little impact on our clients.

Beginning in January 2017, clients will be receiving two new reports. One is on fees paid and one is on performance. Both will be based on individual investment accounts and will be mailed annually at the beginning of each year.

Performance calculations will be calculated different from that currently shown. The new calculations will be based on money-weighted returns versus time-weighted returns.

In simple terms, time-weighted return is the standard measure of performance used in the industry and purposely removes the effects of additions and withdrawals into a portfolio when calculating performance. These cash flow items are not in the portfolio manager's control and therefore are not considered. Money-weighted returns will include the effects of cash flow on returns.



Regulators chose the money-weighted return calculation as the timing and amount of contributions and withdrawals differ for each individual investor and the impact of these is the most appropriate way to measure personal returns for each investor according to them.

GWM will be discussing these changes with clients at our reviews over 2016 and we will be happy to discuss any questions or concerns you may have. This increased disclosure is an industry-wide initiative. Undoubtedly many of your acquaintances, friends and family members are going to be in for a shock as not all advisors are as transparent about returns and fees as we are. We would be more than pleased to have a conversation with them should the opportunity arise. We have appreciated the many referrals from clients over the years and will do our best to look after your family and friends.

## PREFERRED PRICING ON MORTGAGES AND HOME LINES OF CREDIT

As a valued client, you have access to a wide range of products, services and advice from across RBC to help with your financial needs beyond investment and wealth management. As an RBC Dominion Securities client, you are eligible for preferred pricing on your mortgage and home line of credit. These benefits are available to clients who are starting a new RBC mortgage or switching their mortgage to RBC from another financial institution.

As an example, you are eligible for a rate of Prime + 0% (currently 2.7%) on a home line of credit as well as preferred pricing on all ranges and types of mortgages.

If you have any interest in this program, please contact our office and we will put you in touch with our preferred RBC bank partners.

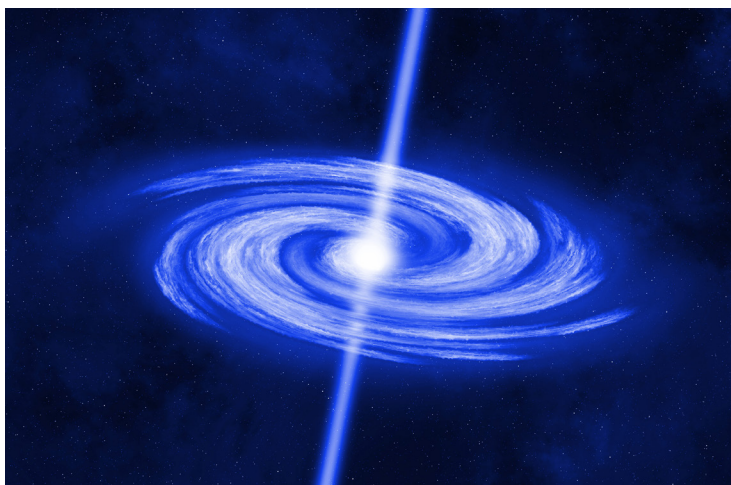


# EINSTEIN WAS RIGHT. GRAVITATIONAL WAVES DO EXIST.

I was fascinated recently by the discovery of gravitational waves after a century of Einstein's prediction that they exist in the universe. The discovery was made at the Advanced LIGO (Laser Interferometer Gravitational-Wave Observatory) in Washington on September 14, 2015. These waves were the most elusive to prove of all phenomena predicted by Albert Einstein's general theory of relativity.

Vibrations were detected by technology that was being tested by scientists to record such waves. These vibrations were no more than a quarter of a second in length. They were not carried by sound or by light but by space itself shuddering in response to the collision of two massive black holes in a distant galaxy 1.3 billion light years away. The technology works by splitting a laser beam and sending the two resulting beams back and forth along tunnels built at right angles. One of the beams is subtracted from the other and because they are identical, the beams normally cancel each other out so that nothing is detected in the LIGO. The shuddering momentarily put the two precisely tuned beams out of sync, which could be read by the detector.

The detection was by all accounts remarkable for several reasons as explained by science journalist Ivan Semeniuk in *The Globe and Mail*. First, it confirms that gravitational waves exist and can be detected by current technology, and it proves the last great theory of relativity. Second, it provides the strongest evidence to date that black holes—which do not emit light and can't be seen—are real. Third, the black holes were of enormous



mass, each one about 30 times the mass of our sun. Until now it was not clear whether nature would produce black holes of that mass, presumably formed by the collapse of one or more stars.

The key to understanding gravitational waves, says Semeniuk, is “to forget the idea that gravity is an invisible force of attraction between two objects. Instead, picture the space around those objects as curved in a way that causes them to move together.” Curvature of space cannot be seen, but its effects can be seen.

Semeniuk interviewed a director of the Perimeter Institute, whose scientists work with members of the Advanced LIGO team, who said this discovery is major and “tells us about our capacity to understand the universe.”

## Wealth Management Seminar in May

Further to the seminar which we held in early March, we are continuing our educational series with “Investing 201” on the evening of May 31. We will be discussing some of the basics of investing like what a bond is, what do we mean when we say “equity” and why we have these in our portfolios. If you would like to participate, please e-mail or call Nancy to get registered. This is open to everyone; please feel free to bring a family member or friend.

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