Michie Wealth Management's Quarterly Investment Update

Wealth Management
Dominion Securities

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The Michie Wealth Management Group of RBC Dominion Securities Inc.

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"We build our business on integrity and service. The highest compliment we can receive is the referral of friends, family and business associates. Thank you for your Trust."

The Flight of the Loonie

Three cheers for the Canadian economy! It had been the underdog among developed economies since oil prices peaked in 2014. Growth expectations were reduced based on the downturn in energy prices, and then reduced some more after the US election when President Trump barged in on the international scene with his declaration to tear up NAFTA. Yet the Canadian economy has turned out to be the "little engine that could." Canada, with a growth potential estimated at 1.4%, grew 3.6% in the first quarter and 4.5% in the second. Jobs have been added at an average rate of 32,000 in the 12 months ending July, a much faster pace than the 13,900 jobs added in 2016 and the 9,500 in 2015. Export volumes have risen in multiple sectors, Canada's housing market withstood a slew of macro prudential measures aimed at cooling it down, but with mortgage rates still low, household debts remain affordable.

The positive developments fell onto the parched ground of expectations, which at the end of May were very low. The Bank of Canada took advantage of this opportunity to undo the interest-rate cuts taken as insurance in 2015. The reversal of the market's short positioning helped fuel the loonie's appreciation. Between early May and end of July, the Canadian dollar rose 10%. It was only the fourth move of such a magnitude in the past decade.

So we ask ourselves, knowing what drove the currency's gain, is it wise to buy the loonie now? Is a "hawkish" Bank of Canada a good enough reason?

What we should ask is: What's ahead given that economic data surprises have ratcheted up, the currency has strengthened and the Trump administration has disappointed? How likely is it that current expectations can be further exceeded?

While acknowledging a likely slowdown in consumer spending, the BOC is counting on increased exports and corporate investment to take over as drivers of the economy. That would be a large dose of luck in the face of severe headwinds to Canadian competitiveness evident over the next year:

Protectionism – NAFTA objectives for the US include revising the rules of origin, potentially increasing minimum US content required.

Tax changes – While taxes in the US are likely to fall over the next year, Canadian personal taxes have been increasing.

Tougher provincial labour laws – Alberta and Ontario are gradually increasing their minimum wages.

Stricter environmental standards – The US has withdrawn from it environmental obligation, while Canada moves forward

Electricity prices skyrocket – Prices in Ontario climbed so high earlier this year that the Liberal government had to come up with a relief plan

Oil prices – The rise of US shale production, which gives producers the ability to turn wells on and off with ease, is just the beginning of Canada's energy challenges.

The current backdrop leads us (RBC Global Asset Management) to believe that the Canadian dollar will fall back to levels that compensate for Canada's lack of competitiveness, and that the currency will have to remain weak for some time. Our 12 month currency forecast for the loonie is C$1.37.

Five Common Signs of Elder Abuse

Financial abuse of seniors is one of the dark realities of aging. It's a crime that's often not seen by the victim, and sadly often perpetrated by family members, close acquaintances or other people in a position of trust.

It's important for seniors, as well as their close friends and family members, to be aware of the warning signs of abuse and what they can do to prevent it.

The following looks at five common signs of financial elder abuse:

1. Missing valuables
It may be easy to assume misplaced jewelry or cash is just the result of an aging mind, but experts say this is one of the most common signs of possible abuse. Often, seniors will notice this themselves, and may mention it to a family member.

2. Unusual banking activity
Banking activities tend to follow normal patterns, so a sudden change can be a red flag. Unfamiliar bill payments through an account, requests to make payments on someone else's credit card, or even a sudden increase in withdrawals could all hint at something.

3. Unexplained property transfers
Transferring property or bank account ownership should be seen as a major red flag. An elderly person could be convinced to sign over the title of their house or perhaps make it joint with someone, meaning that someone would assume full ownership on the person's death.

4. Unexplained changes to a Will or power of attorney
Financial power of attorney allows a designated person to act on behalf of the client in legal and financial affairs. It's a very significant designation and any changes to it, particularly when the transfer is not to a family member or long-standing friend, could be a red flag.

5. Sudden new companion
A challenge in spotting abuse is that often occurs in a grey area – such as the appearance of a new friend or romantic interest and whether the relationship is legitimate. In cases such as these, it can be helpful to watch closely for the other red flags discussed and whether they appear along with the new relationship.

For more information on financial elder abuse, please visit www.canada.ca/en/employment-social-development/corporate/seniors/forum/financial-abuse.html

UPCOMING EVENTS

Victory Lap Retirement
September 21st
7:00PM – 9:00PM
Oshawa Golf & Curling Club
160 Alexandra Street
Oshawa, Ontario

Maximize Your Retirement Income
October 4th
7:00PM – 9:00PM
Oshawa Golf & Curling Club
160 Alexandra Street
Oshawa, Ontario

Wills & POA: Are Your Documents Ready?
October 19th
7:00PM – 9:00PM
Oshawa Golf & Curling Club
160 Alexandra Street
Oshawa, Ontario

Understanding Your Pension Options
November 2
7:00PM – 9:00PM
RBC Dominion Securities
17 King Street West, 3rd Floor
Oshawa, Ontario

Please RSVP to Paula Austin at paula.austin@rbc.com or 905-434-6611.

Seating is limited and we encourage you to respond early.

Geopolitical wake-up call

Please see some highlights from a focus article included in this month's Global Insight. If you would like to read the full article, please feel free to contact us for a copy or access it through our team website (www.michiewealth.com) under the "Client Resources" section.

After a multiyear hiatus, geopolitical risks are back on the table amid aggressive rhetoric between North Korea and the US. Factoring this or any credible geopolitical threat into investment decisions can be challenging given the wide range of potential outcomes, some with high stakes.

The North Korea situation comes at a time when equity markets are sitting just beneath all-time highs and the global economy and corporate earnings continue to show signs of buoyancy. In other words, markets have good reason to look past the geopolitical risks, as long as they don't escalate to a dangerous level.

Tension and release

Historically, equity markets have reacted to military clashes in a more muted manner than one may think. The S&P 500 fell 6.3%, on average, in 17 post-WWII military conflicts. The market's reaction lasted an average of only 30 days. At times equities weakened during the run-up to the conflict as tensions were mounting, and recovered soon after it began.

But like any small sample size, there were notable deviations. Markets were not immune from volatility and losses. Some events sparked 10%+ corrections and negatively impacted the economy.

For example, the S&P 500 dropped 15% when the US bombed Cambodia during the Vietnam War, and it declined 16% when Iraq invaded Kuwait. The 9/11 terrorist attacks brought about a decline of almost 12% Each of these events occurred during recessions and likely extended or exacerbated the periods of economic weakness.

The lesson seems to be that when military aggression or wars are significant on a geopolitical scale, it does not necessarily mean equity markets will automatically sell off sharply. Numerous circumstances shape market performance at any given time.

Stress tests

The canaries in the coal mine of any forthcoming stress on the Korean Peninsula would likely be golf, South Korea's government bond market, and select currencies.

Gold is typically the go-to safe haven when trouble hits. Bullion bounced 5% when North Korea recently tested longer-range missiles and the related rhetoric escalated. If tensions re-emerge gold would likely benefit, but otherwise faces some near-term headwinds.

South Korea's bond market is on guard, as the 10 year government yield now trades at a modest yield premium to the comparable US treasury yield, erasing a long standing discount. We think the premium would increase if risks of a military conflict flare up again, as South Korea bond yields would likely rise while Treasury yields could fall (and bond prices would do the opposite).

What's your comfort level?

The difficulty in budgeting for geopolitical risks is that they are often unquantifiable and include multiple, complex scenarios that can be outside of the market's ability to recognize or grasp. Geopolitical events can occur unexpectedly. At other time, global markets may overreact like they did when Iraq invaded Kuwait.

In determining equity allocations, investors would be prudent to assume that significant geopolitical risks can crop up from time to time that could push the equity market into a temporary 5%-10% pullback or even a longer-lasting correction of greater magnitude.

If an investor's current allocation to equities can not be sustained through these types of declines then there may be a mismatch between the equity weighting and liquidity needs, risk tolerance, or time horizon that should be addressed. Funds earmarked for equities should be long-term allocations given the steep swings the equity market can (and usually does) have.

Maintenance Check

The North Korean flare-up is a reminder that it's always the right time for investors to assess whether their equity exposure is appropriate given their full financial profile and if equity allocations are properly calibrated.

MARKET WATCH

Equity Indices	YTD (%)	52 Week (%)
S&P/TSX	(0.7)	5.0
S&P 500	11.7	16.9
Dow Jones	12.7	22.9
Euro Stoxx 50	3.0	9.6
FTSE 100	1.0	7.2
DAX	9.0	20.0
NASDAQ	19.8	23.0
Nikkei 225	4.2	20.5
Shanghai Stock Exchange	8.1	11.7
Hang Seng	26.4	19.2
MCSI World	13.3	16.3

**Performance as of Sept 18, 2017*

US Residency – Canadians travelling to the US beware

If you are a Canadian resident who spends extended time in the US, you may be required to file a US tax return and may have other US filing obligations. There is a popular misconception that Canadians can spend up to 182 days per year in the US without being considered a resident for income tax purposes. In reality, the US Internal Revenue Service (IRS) applies a formula known as the "substantial presence test" to determine if you are a US resident for tax purposes. This formula looks at your time in the US over a three year period.

Canadians who meet the substantial presence test have options under the US tax rules or under Canada US Income Tax Treaty to qualify for various forms of relief from the obligations of US residency status. However, if you choose to claim relief under the Treaty, you may still have to file US forms generally required by US citizens and residents.

It is important to monitor your presence in the US for both US immigration and tax laws. For US income tax purposes, you should consult with your qualified tax advisor familiar with Canada-US income tax laws to determine your US residency status. They can help you determine if your situation qualifies for relief under the closer connection exception or the treaty exemption and provide you with assistance in completing the necessary US filings.

Formula:

Add all the days you spent in the US in the current calendar year;

Plus, 1/3 of the days you spent in the US in previous calendar year;

Plus, 1/6 of the days you spent in the US in the calendar year before the previous year.

If the total number of days using this formula amounts to 183 days or more, you meet the substantial presence test. As a rule of thumb, if you spend more than 122 days every year in the US, you will meet the substantial presence test after the third year and annually thereafter.

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THANK YOU FOR YOUR SUPPORT!

We are pleased to announce that the Michie Wealth Management Group has been nominated in the 2017 Oshawa/Whitby Readers' Choice Awards.

We would appreciate your support by placing a vote for **Geoff Michie** under the Financial Planner category **(Category 41)** before voting ends on September 24th. Please don't hesitate to pass on to friends and family members that may wish to vote as well. Go to www.durhamregion.com and click on the Readers' Choice button on the top right to cast your vote.

As always, we stride to provide our client's with the highest degree of wealth management service. We thank you for your on-going support and trust in our team!

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