Portfolio Advisor

Wealth Management
Dominion Securities

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The Michie Wealth Management Group
RBC Dominion Securities
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Market commentary

Following a strong rebound at the beginning of the year, equity markets have shifted attention to slowing growth in the big three economies of the U.S., Europe and China, and the related downdraft in interest rates that was accompanied by an inversion of the Treasury yield curve – a cautionary signal. Markets are also contending with earnings growth and trade/tariff uncertainties.

These risks are balanced out by dovish central bank policies and signs U.S. economic growth should hold, while trends in Europe and China should stabilize/improve later this year. In our view, equity market valuations remain reasonable, with most trading near or slightly below their long-term averages. Consensus earnings estimates are also realistic. While we would maintain overall equity exposure at the "market weight" (benchmark) level in portfolios, vigilance is warranted.

Fixed income

The U.S. Federal Reserve's (the Fed's) significant policy shift in March to no fed fund rate hikes (from two) in 2019 set a new path for global central banks. Global economic weakness is driving the broad move to "easy street" and concerns are mounting as benchmark yield curves invert. The Fed projects one rate hike in 2020, but implied probabilities indicate an 80% likelihood of a rate cut by January, and market expectations predict one rate cut per year from 2019-2021.

There is the distinct possibility that rates could move lower, and we believe this makes "reinvestment risk" a potential issue for investors attracted by short-term rates equal to or exceeding long-term rates. As such, we maintain our "market weight" in fixed income, and recommend investors add duration with a focus on high-quality assets.

To learn more, please ask us for the latest issue of Global Insight.

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A new horizon: planning for 100

Longer lives leading Canadians to rethink their investment plans

Have you ever asked yourself how long you will live? Call it superstition or just plain fear of death, many of us avoid the topic like the plague. When we are young, we imagine we'll live forever; as we age, the end seems all too possible.

Interestingly, more than 50% of Canadian adults don't have a Will, with one of the most pervasive reasons being that they don't like thinking about death. But to consider the question rationally – with all its implications – is more important than ever. That's because Canadians are living longer lives, driven by scientific, environmental, medical and lifestyle improvements.

A mixed blessing

While it's a blessing for most of us, a longer life also presents challenges. Outliving retirement savings is one – and it's the greatest fear of pre-retirees, according to a recent RBC poll[1]. Health problems are another: out-of-pocket medical costs after age 65 are estimated at $5,400 annually[2] – and are likely to keep rising. This means that aging Canadians require their investment portfolios to support longer lifespans while generating cash-flow to cover potentially increasingly higher living costs.

Rethinking investment time horizons

For many years, a key investment planning question was "When do you plan on retiring?" That timeframe – from today to the assumed year of retirement – became the standard investment time horizon for an investment portfolio. It largely determined the degree of risk you could prudently take: the longer your time horizon, the more risk you could take to ride out the ups and down of the markets and realize potentially higher growth over time.

Towards the end of your time horizon, you would gradually ratchet down risk, eventually transferring to assets with little to no risk, such as GICs and bonds. The presumption being, once you hit retirement, you couldn't afford to take any risk, as you would need your savings to fund your retirement.

This strategy made more sense when the average Canadian retired at 65 and was only likely to live for another 5-8 years. But a new approach is required with Canadians today retiring on average at 63[3] and living into their 80s and 90s (and an increasing number to 100 and beyond).

Planning to – and through – retirement

Today, your retirement portfolio should ideally focus on two things:

1. tax-efficient cash flow for a well-funded retirement lifestyle

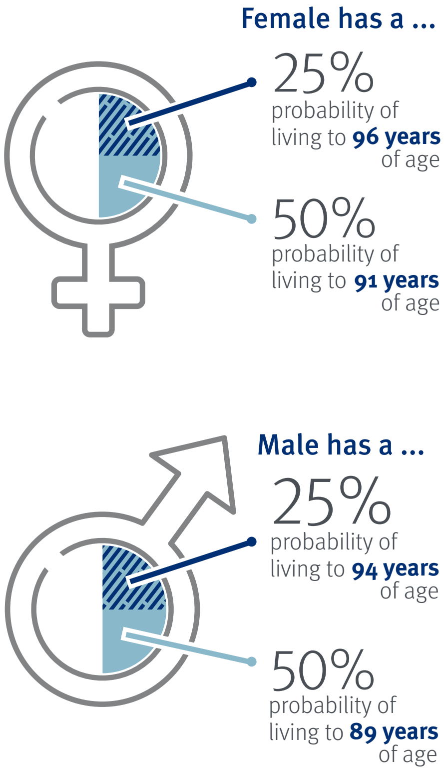
2. a prudent combination of capital preservation and growth to maintain the long-term value of your portfolio through your golden years, while also offsetting the ravages of inflation.

Time is on your side

Fortunately, longer life spans mean longer investment time horizons, allowing today's retirees to take advantage of the long-term growth of equities to meet their preservation and income needs. Whether or not you live to 100, considering the odds and planning ahead can help ensure that your golden years are just that.

To learn more, please contact us today.

Today, a 60-year-old Canadian ...



Source: Financial Planning Standards Council (FPSC), Projection Assumption Guidelines (2018).

[1] RBC 2017 Financial Independence in Retirement poll.

[2] Anna Sharratt, Hidden health care costs can be a shock for retirees, The Globe and Mail, Nov. 18, 2015.

[3] Statistics Canada. 2015.

The right assets in the right accounts

What to put in your RRSP, TFSA and non-registered accounts

You wouldn't put regular gas in a BMW 7 series, so why are you filling your TFSA with inferior fuel? Certain accounts seem tailor-made for particular assets. Get the combination right, and you can have your account running at peak tax-efficiency.

	Consider:	Generally, avoid:
Registered Retirement Savings Plan (RRSP)	**Canadian or U.S. interest** – bonds, GICs, T-bills, etc. that pay interest income (fully taxable outside a registered account). The U.S. generally does not withhold tax on interest payments to Canada. **U.S. corporate dividends** – U.S. dividends received into an RRSP from U.S. corporations are exempt from U.S. withholding tax under the tax treaty between the U.S. and Canada. U.S. dividends are fully taxed like interest when held outside a registered account.	**Foreign interest** – there is likely withholding tax on interest received from countries other than Canada or the U.S. **Canadian corporate dividends** – Canadian dividend tax credit can't be used resulting in additional tax if these are earned in an RRSP as the dividends are fully taxable when withdrawn from the RRSP. **Foreign (non-U.S.) corporate dividends** – there will be withholding tax on dividends which cannot be recovered through the foreign tax credit mechanism. **Capital gains** – capital gains are taxed at a preferential tax rate in a non-registered account, which is an advantage lost inside an RRSP. There is generally no withholding tax on capital gains from foreign countries.
Tax-Free Savings Account (TFSA)	**Canadian or U.S. interest** – bonds, GICs, T-bills, etc. that pay interest income (fully taxable outside a registered account). There is no withholding tax on interest paid from U.S. to Canada on most investments. **Capital Gains, domestic and foreign** – no capital gains tax when realized or when withdrawn, but also no capital loss deduction. **Canadian corporate dividends** – tax-free dividends in the TFSA vs. preferential tax in a non-registered account. While you pay less tax on Canadian dividends in a non-registered account, you would pay no tax in the TFSA.	**U.S. and foreign dividend stocks** – dividends are subject to withholding taxes, which can't be recovered with the foreign tax credit. **Foreign interest** – there could be foreign withholding taxes that cannot be recovered.
Corporate (non-registered) **account**	**Canadian dividend stocks** – preferential dividend tax treatment resulting in lower effective tax rates. **Capital growth stocks, domestic and foreign** – preferential capital gains tax when realized, capital losses can be deducted from capital gains.	**Foreign corporate stocks** – a mismatch in the corporate foreign tax credit and Canadian corporate tax regime causes foreign dividends to be taxed at much higher tax rates when they are withdrawn from the corporation than if earned personally.
Personal (non-registered) **account**	**Capital gains, domestic and foreign** – preferential capital gains tax when realized, capital losses can be deducted from capital gains. **Canadian corporate dividends** – preferential dividend tax treatment resulting in lower effective tax rates. **U.S. and foreign corporate dividends** – although foreign dividends are fully taxed like interest, foreign taxes withheld can qualify for the foreign tax credit.	**Interest** – bonds, GICs, T-bills, etc. that pay fully taxable income.

In most cases, your granny's tender words of encouragement still ring true: "It's what's inside that counts." But, so do the words she omitted: "There are exceptions to every rule." Tax-efficiency can be a consideration when selecting suitable investments for each account, but it should never be at the risk of an unbalanced portfolio. For more information, please contact us today.

* If a specific investment is not listed here, contact a qualified professional.

Happily ever after

In families, there's often a division of labour between spouses to run the household. While that often makes sense for certain tasks, when it comes to household finances, there are good reasons to consider working together.

Maintain marital bliss

It's no secret that money is a leading cause of marital discord, but it doesn't have to be. Being upfront about your finances and sharing financial responsibilities can help keep a couple on the same page.

Money also often goes in hand in hand with life's big goals. Early in your marriage, you may have shared these goals. But things change, and it may be different now. It's important to keep the conversation going, and ensure you're both agreed, where possible, on major financial priorities as you go through life's changes.

Prepare for one of you to live longer

It is very common for women, especially, to outlive their spouses. According to Statistics Canada, there are nearly two women for every man aged 85+. Regardless of which spouse outlives the other, it's important for both of you to be prepared to handle the household finances on your own at some point.

Prepare to take care of each other

With better health care, people today are generally living longer, and often with health issues that need extra care. It's important that both spouses are prepared in the event that one of you is unexpectedly unable to earn an income or care for themselves.

Getting started on a plan – together

Sharing financial responsibilities doesn't have to mean making every decision together, or even splitting responsibilities equally, but it does mean building and evolving your plan together.

Take your "Family Inventory"

A Family Inventory is a comprehensive listing of information pertaining to your family's current financial status including: personal information, professional advisors, banking, investments, assets, debt, pensions, insurance and legal documents, such as Wills and Powers of Attorney. Assembling your inventory is an easy way to help ensure you and your spouse are aware of all elements of your family finances, and an important step in building a financial plan.

Get educated

Knowing what's in your Family Inventory is step one – step two is building a sound understanding of each component. Both partners can often benefit from financial education, whether it's through reading or family discussions, or via trusted advisors, who can provide education on everything from investing and banking basics to retirement, estate and tax planning strategies.

Build a plan

With a sound understanding of the components of your family finances, a comprehensive financial plan is the next step in helping secure your financial future – and perhaps even your marital bliss. Your plan should pull everything from your Family Inventory together, enable both of you to define and prioritize your family's needs and goals, and ultimately provide a flexible roadmap for your family's financial security and peace of mind.

Marriage can be complicated – and even more so when you add money to the mix. We can help, with wealth planning that includes both you and your spouse. To learn more, please contact us today.

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