PATRICK O'BRIEN'S 2016
Spring Client Note

For the clients and friends of
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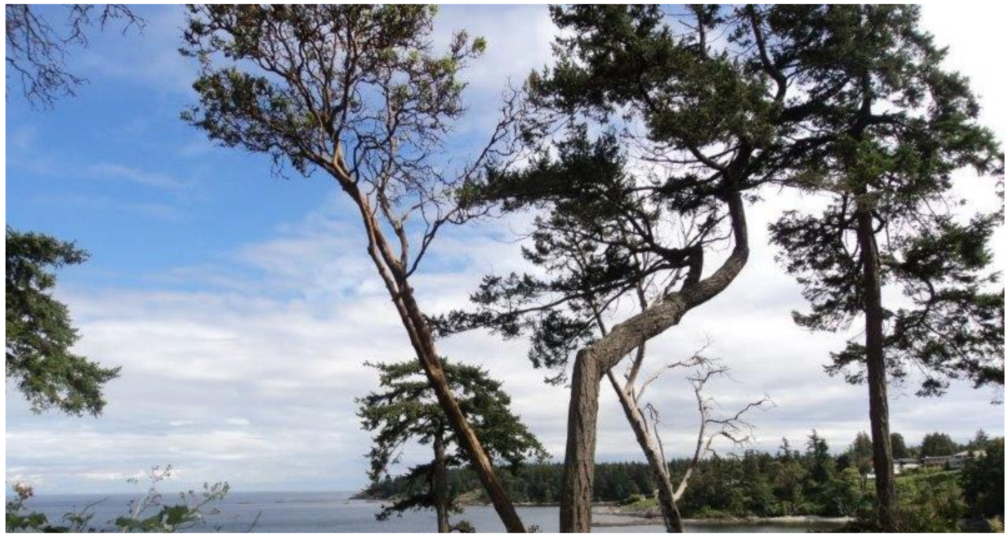

April 2016 Client Note - A Nod to Benjamin Franklin

I hope this note finds you enjoying an early and warm spring. Please join me in welcoming Kari Etchart to the team along with Celine and Cameron on a full time basis. Kari has been with us part time so many of you will know her already. She brings over 10 years of experience to her administrative position including a term as a branch administrator.

I am pleased with the results of the last 12 months given the especially tumultuous times in the market. Ongoing concerns about Chinese growth, European stagnation, lower prices for oil and other commodities have all contributed to a reduced return relative to other years, but still significantly better than the Toronto Stock Exchange composite 12 month return of -9.5%.

"Well done is better than well said" Benjamin Franklin

One of the reasons I am inclined toward owning companies that assure their income by meeting basic human needs is the protection they provide against largely unpredictable market downturns. Market darlings they are not (the "Well Said" group), versus companies who raise their dividends year after year, are definitely in the "Well done" camp. Companies that can maintain and enlarge their incomes and the dividends they pay have resilient share prices during economic slides. In a significant downturn like the last 12 months, they are truly "Well Done-ers". We have collected our dividends and the share price declines have been modest. By comparison, the composite of the Toronto market is
- 9.45% during the time period.

RBC Wealth Management
Dominion Securities

Client Education: Three Basic Kinds of Tax on Income

April is personal tax season here in Canada, and most of us feel some anxiety until our returns are properly filed. This is a friendly reminder that Celine and Kari are ready to help you get all your slips together as part of the complete service we offer. If you have any concerns about missing slips, they will go over your package with you to ensure completeness.

We do everything we can on a day to day basis to limit tax liabilities, because it is the money in your pocket after all obligations that you can spend. We want the after tax income from your portfolio to be as large as possible. The last two years have resulted in generally higher than usual taxes as portfolios have been massaged away from Alberta and pipelines generally. This has resulted in significant outperformance and portfolio stability, but some unusual capital gains tax has resulted.

Different kinds of income are also taxed at different rates. This discussion applies to non-registered accounts. Registered accounts such as RSPs, RIFs, LIRAs, and TFSAs have different rules (more on them at the end). Please consult with your tax advisor before taking any action based on this client note.

Highest tax as a percentage:

The highest tax is paid on rental, interest, foreign, and earned income. It is one of the reasons why I prefer to own real estate via a trust because the tax is much more favourable as is the expected total return.

Middle:

Canadian eligible dividends are taxed at a lower rate because the corporations have already paid tax on their profits before dividends are paid. It is about ½ the highest tax rate.

Lowest:

Capital gains tax is, for most of us, the lowest rate and has the added advantage of deferral into the future. A capital gain crystallizes when you buy at price X and subsequently sell at price X +Y. The gain is only taxable when the sale is complete, which might not be for many years after the purchase, deferring the payment of tax. This helps tremendously as the appreciating asset keeps getting bigger in your hands each year, but you don't have to pay the accrued tax each year-until the year you sell. In this case, you will have a tax bill, but you are far better off than if you had to calculate the gain each year and find the cash somewhere to pay the tax on that gain. I think of the deferral like a chicken barn where the number of chickens keeps increasing along with egg production. The people of Canada, via the tax system, have a claim on that increase, but do not collect those "owed" chickens or charge interest until you sell some or all. By selling only as required with very good reasons, those chickens stay in your barn laying eggs for you as opposed to going to the "Government's Barn."

A quick word about registered account rules:

The TFSA is the shining star here as there is no tax on any income of any type earned in this vehicle (apart from the potential of a foreign withholding tax). It is also a great way to transfer assets to spouses, children, or other beneficiaries tax free, probate free, and privately at life's end.

The RSP has the advantage of tax deferral of all income until withdrawn. This is a great tool for wage earners to save for retirement. It should be noted that all income withdrawn comes out as earned income even if it was received as a preferentially taxed dividend or capital gain inside the RSP.

Regards,

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