

Patrick O'Brien's January 2020 Client Note



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Dear Clients and Friends,

Looking Back at 2019...

I am very happy with the performance both relative and absolute for the year just past, I hope you are too. On each of your portfolio reviews I have marked some important data points for particular attention. One does, however, have to remember that the previous year, 2018, was lackluster and so it makes more sense to take a longer term view. You will see this in your report in the table called Time-Weighted Annualized Returns for the Reporting Period on page 2 in the lower right.

Looking Forward...

So what about 2020? The academic research has shown that the January predictions that are so prevalent in the news are of no value. The future market directions are constantly changing with the daily chatter from the media, individuals, institutions, et al all overlaid by economic announcements and geopolitical events.

If the market is so unpredictable, what foundation can we use as the starting point for portfolio construction?

All humans have a common physiology and deep emotional needs. These uniquely human attributes don't bounce around like fashionable clothes or the market. Everyone wants to keep warm or cool, use electricity, have a place to live, and have cell phone service. This is the defining difference between my portfolios and the wider investing world.

I build portfolios with layers of protection around the center where our capital resides—safety first. The first layer is staying in jurisdictions within the rule of law, effective courts, regulators, and accounting standards. The second layer is security by having valuable tangible assets (like a hydro dam) owned by our companies.

The third layer is a preponderance of companies that send monthly bills for necessities such as electricity to their customers. These bills are paid in priority. Questions? Discussion? I am always pleased to receive you in person or email/phone.

TFSAs:

January is the month when we receive \$6,000 of new Tax Free Savings Account (TFSA) room. If you were 18 or older in 2009, then you have room for \$69,500 if you have not contributed before. It is important not to over contribute, as CRA will fine you. We can help you stay compliant.

RESPs:

Registered education savings plans (RESP) are ready for the 2020 deposit. This is a great way for parents and grandparents to save for a child's education and receive grant money.

RSPs:

Registered Savings Plan (RSP) deposits can be made for 2019. I make mine in May each year when I receive my notice of assessment from the CRA. Please talk to me or Cameron if you are wondering if it is a good idea for you to contribute to an RSP. The deadline for 2019 is March 2, 2020.

Tax packages and follow up tax slips will begin to arrive in February for clients with taxable accounts (not registered accounts like RSPs, RESPs, and TFSAs). Call us if you would like to ensure that you have all your slips (usually by early April).

Financial Planning Note from Cameron: Drawing down your RRSP or RRIF early to save on taxes, a common topic worth exploring

From time to time we get requests to draw down an RRSP early or take more than the RRIF minimum to save from large future taxes.

Assuming that you are earning a positive return in your registered account, it is generally better to delay any withdrawal unless:

- 1) You need the income
- 2) You'll be in a higher tax bracket in the future, which is uncommon

The benefit to delaying/minimizing your withdrawals is that such accounts enjoy the deferment of taxes (capital gains, dividends, and interest) while they grow.

In the end, your account will be worth much more on an after tax basis by utilizing the deferment of taxes. It is the after tax money that is available for spending either for you or for the beneficiaries of your estate. For example, I would rather have an RIF in my estate worth \$1 million and pay \$500,000 in tax way in the future (I hope) than have a \$500,000 RIF and leave my beneficiaries \$250,000. Should your beneficiaries not need the money at all, (teaser alert!) we have some very interesting ideas to share with you.

Please contact us if you would like more information. We'd be happy to discuss this in greater detail.

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