RBC Dominion Securities Inc.

Cooper Wealth Management

Wealth Management
Dominion Securities

Winter 2019

Our team

Trevor C. Cooper, CIM, FCSI
Vice-President & Director,
Wealth Advisor
905-546-5832

W. Frank Cooper, CIM, FCSI
Vice-President
& Associate Portfolio Manager
St. Catharines Branch
905-988-5883

Walter Harmidarow, CIM, CFP, FCSI
Vice-President & Portfolio Manager
Hamilton Branch
905-546-5866

Christopher E. O'Connor, BBA
Associate Advisor
St. Catharines Branch
905-988-5301

Karen Charlesworth
Associate
St. Catharines Branch
905-988-5882

Hamilton Administrative Team
905-546-5252

Maddy Bodden
905-546-5252

Rachel Cooper
905-546-5996

"Difficulties mastered are opportunities won."
– Winston Churchill

Difficulties and opportunities

When you lose a battle, as investors did in the final quarter of 2018, it is important to quickly assess the difficulties you faced and take the necessary steps to forge on to win the war. As Churchill said, "We cannot dwell on our defeats but must look to the future." Our look to the future begins with a review of the difficulties of the recent quarter and the opportunities that now present themselves for a better outcome for 2019.

The market's fear of the U.S. Federal Reserve's interest rate hikes were a main cause of the recent market decline. This rate rising cycle appears to be near its end. Despite raising short-term rates 225 basis points, the rate on the 10 year U.S. Treasury bond has only risen 23 basis points to 2.66%, flattening and slightly inverting the yield curve between the two and five-year maturities. Any more pressure on short-term rates from the Fed and the yield curve will fully invert, meaning investors can earn more on shorter-term bonds than longer-terms, which usually leads to recession. With rate increases largely on hold, the market will get back to focusing on the economy and corporate earnings, both of which have been strong. After the sell-off of the last quarter, equity valuations are the best they have been for some time. This presents investors with a number of opportunities.

Currently, U.S. corporations have announced stock buybacks totaling over $1 trillion for 2019. We expect most companies, particularly Apple after its recent sell-off, to take advantage and provide support for their shares by buying back stock. This should supply the backbone for a market recovery. U.S. banks should perform better as profit margin pressures ease. Value stocks, those with higher dividends and in more defensive sectors, should finally be bid higher as defensive investors look to make their portfolios more recession-proof. Also, the profit margins of U.S. multi-nationals should improve as the U.S. dollar weakens, no longer propped up by an aggressive U.S. Fed. Finally, in the fixed income market, results will likely be split. The rate reset preferreds, which represents 70% of the market and trade based on the five-year Government of Canada bond yield, will likely drift lower as the Canadian government is unlikely to raise interest rates, particularly in the face of lower oil prices. However, we could see a rally in the fixed rate perpetual preferreds market as investors move to lock in higher, guaranteed rates.

Continued on page 2

Difficulties and opportunities ...
Continued from page 1

Another difficulty for the global economy was the collapse in global oil prices. U.S. oil production expansion took the world by surprise. They now produce more than 11 million barrels per day and are set to overtake Saudi Arabia. The U.S. not only added production capacity but are building pipelines as well to get their oil to market. While this is bad news for Canadian producers without refining capacity, it represents an attractive investment opportunity in non-Canadian energy producers, as well as Canadian pipeline companies such as Enbridge, Interpipe and Pembina which now after attractive 6-8% dividend yields.

Weaker market years also lead to defensive, conservative forecasts and lowered earnings expectations historically, and this year will be no different.

Weaker market years also lead to defensive, conservative forecasts and lowered earnings expectations historically, and this year will be no different as most analysts' 2019 earnings estimates have already been reduced. The recent disappointing results from Apple have further reinforced this negative outlook. However, many other technology companies such as Mastercard, for example, finished the year +20% or higher despite the poor final quarter and have forecasted continued strong growth through next year. We must stay focused on these growing companies as their earnings will eventually result in a higher share price.

Tariffs, the China Trade war and politics matter to the markets, with negative developments leading to market weakness. The third year of most presidential terms is usually where both parties try to make a good impression to get elected the following year. It would come as no surprise to see some kind of trade deal with China within the first half of 2019 as the Trump administration cannot afford to drag the U.S. economy closer to recession just prior to an election. The ongoing government partial shutdown also needs to be resolved in order to help boost the U.S. economy. Funding for the President's proposed Mexico wall remains the issue, but Congress will likely give in once it realizes such a project would not even have time to begin during the President's remaining term in office.

With these difficulties and opportunities in mind, we will continue to position our portfolios with a strong base of quality dividend-paying companies while seeking out strong growth opportunities, particularly in the U.S. These opportunities will also provide cash flow through our covered call strategy, which allows us to monetize the recent volatility. Given the steady North American economy, low and stable interest rates, strong corporate earnings and stock buy backs, the investment opportunities look quite promising for the coming year.

As always, if you would like to review your portfolio, or to set up a review of your financial plan, please give us a call.

Yours truly,

Walter Harmidarow
& the Cooper Wealth Management Team
of RBC Dominion Securities

Oh, CRA-p!

You lift open the mailbox only to spot that dreaded brown envelope – your Notice of Assessment has arrived. As you unseal the envelope, your hands begin to tremble. Your math differs from the Canada Revenue Agency's – it's significant, and not a refund. How could this have happened?

Three common reasons for a surprise tax bill

1. **Income not taxed at source**
   If you receive income for more than one year in which an insufficient amount of tax is withheld, or none at all, the Canada Revenue Agency (CRA) could request that you start paying tax in instalments. It's most common if you receive regular rental, interest or dividend income, capital gains or self-employment income. Even Registered Retirement Income Fund (RRIF) withdrawals and certain pension payments may trigger quarterly installment payments, since tax is generally not withheld on these types of income.

You'll have three options for calculating instalment payments:

1. No-calculation (pay what the CRA asks)
2. Prior-year (your return is similar to last year but different from two years ago)
3. Current-year (your return is very different from past two years)

Determining the optimum amount requires an analysis of your cash flow situation and income forecast for the year ahead.

Consider paying what the CRA asks for in their notice to avoid possible interest and penalties from underestimating the amount of tax you will owe next year.

2. **Human error**
   The late Stephen Hawking cautioned "that Artificial Intelligence (AI) may replace humans altogether." It's a frightening thought, though if AI were to take over the burden of filing our taxes, it may not be such a bad thing. Until then, April will continue to be "tax month" and our tax returns will be prone to human error.

Here are a few common administrative mistakes that lead to reassessment:

- Missing slips (e.g. T5s and other income slips)
- Filing too early (i.e. sometimes slips haven't arrived, or other material changes come to head after you've filed that then require amendments)
- Mathematical or calculation errors

3. **Putting information on the wrong line**
   Tax filing has grown more complex over the years. A common mistake by DIY'ers is to claim an item on one line of their tax return when it should be on another. For example, when you sell real estate, you won't always realize a capital gain – sometimes it is fully taxable income, or not taxed at all. Each type of income gets reported on a different line. Deductions can be equally confusing. Take the case of an eligible severance contributed to an RRSP. If claimed properly, it will not use RRSP room. Claim the deduction on the line for a regular RRSP contribution, and you could be over contributed to your RRSP. Mistakes like this are usually simple to correct or avoid but increasingly require experienced advice to eliminate in the first place.

For more information, please contact us today.

Dividends by the numbers

Portfolios focused on dividend-paying equities are often looked at as purely defensive. However, over the last three decades, Canadian dividend-paying equities have offered investors a lot more than just defence.

9.2% annualized returns

Over the past 30 years, dividend payers on the S&P/TSX Composite Index (TSX) delivered an impressive 9.2% annualized rate of return, soundly outperforming the TSX itself, which delivered 6.3% annually. On the other hand, companies not paying dividends only managed annual returns of 0.3%.

20% lower volatility

When it comes to stocks, volatility can be hard to avoid. However, over the last three decades, dividend payers have shown 20% less volatility than the TSX and 45% less volatility than non-dividend payers, providing many investors with measurable relief from the ups and downs of markets.

5.3% income growth

Dividend growth on the TSX has averaged 5.3% annually since 1986, helping many income investors mitigate inflation, which averaged just 2.3% annually over the same period.

50% less tax

Death and taxes may be unavoidable, but dividend income may provide a break (from taxes). For Canadians earning a total annual income of $50,000, Canadian eligible dividends are taxed at about one-third the rate of interest or employment income. At an income of $100,000, they are taxed by about half as much.

Please contact us

For assistance in planning or acting on any of the ideas shared in this article, please reach out to us and we will have our team arrange a meeting to discuss how we can best serve your family's needs. Once again, thank you for your support and we look forward to serving your future investment needs at Cooper Wealth Management of RBC Dominion Securities.