RBC Dominion Securities Inc.

# Cooper Wealth Management

Wealth Management Dominion Securities

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"Water, water everywhere, and not a drop to drink."
– The Rime of The Ancient Mariner

## The liquidity problem

When we are short of money, the course of action is very simple: cut expenses and try to raise income. The current global liquidity problem is much more complex: how do decision-makers (individuals, corporations, institutions and governments) invest their funds when traditional fixed-income investments offer no real return, especially after taxes and inflation?

Different governments are trying different approaches to raise interest rates. Japan and the European Union have opted to buy back billions of dollars of bonds in order to provide even more liquidity in the hope of stimulating business and consumer spending. This has not proven effective as GDP in both areas has increased only slightly, and substantial economic growth remains elusive. It has also served to push bond yields lower in these regions, making investments even less attractive. On the other hand, since December 2014, the U.S. government has been trying to increase interest rates from the historic lows of 2008. In that time, they have managed two rate increases for a total of 0.50%. The result: U.S. personal savings have increased dramatically adding to the liquidity problem, U.S. GDP has remained largely unaffected and yield on the U.S. 10-year Treasury Bond has fallen from 2.43% in November of 2014 to approximately 2.18% today. With the U.S. at basically full employment, we had expected more inflation and pressure for interest rates to move higher before now.

The U.S. government effort to date has largely failed due to the global liquidity problem. As global yields have fallen, money has poured into U.S. Treasuries, keeping rates at low levels and sending the U.S. dollar higher. We believe that as long as U.S. interest rates remain above global rates, available international capital will continue to keep coming in.

Some governments, particularly the U.S. and Canada, have plans to boost infrastructure spending to try to use up some of these funds, particularly the U.S. with the $1 trillion, 10-year plan. However, we believe this is far too little to have a national impact on the overall U.S. economy.

Rates could move higher in the short term, due to the potential of other global concerns, whether political or terrorist, but increases will be difficult to sustain until the liquidity problem is solved. The solution over the long term will require increased spending by both governments and consumers, as well as increased population growth, through either birth rate or immigration. All these alternatives will take years to achieve.

**Continued on page 2**

The liquidity problem ...
Continued from page 1

As investors, we need to adapt. For fixed-income investors, substituting the majority of your bond holdings for preferred shares is a good way to increase income with a fairly low level of increased risk. However, for the best guidance, we look to how large institutions such the Canada Pension Plan are investing their funds. The answer is not surprising: they have shifted a large percentage of their investments away from fixed income and towards equities, either private or public.

At Cooper Wealth Management, we believe in the equity approach to investing. With our covered call program we create portfolio cash flows that match historical bond cash flows and also reduces overall portfolio risk.

Given our view, it is appropriate to look at global equity markets. The European Union is beginning to show signs of recovery, giving us a reason to begin evaluating European equities for investment.

However, given the coming Brexit negotiations, and further election uncertainty, we are in no rush to invest. In the U.S., the political water is getting muddier, amid allegations of Trump's connections to Russia prior to the election. This could delay the President's ambitious financial stimulus plans and cause a temporary slowdown in U.S. markets. However, given the strength of our U.S. equity positions and the U.S. dollar, we are maintaining our current 30% U.S. portfolio weighting and may look to add positions if the U.S. market begins to weaken.

In Canada, concerns over the future of Home Capital have again raised concerns about Canadian real estate values and, as a result, the Big 6 Canadian banks had a weak performance this quarter, despite strong earnings reports. We expect either an orderly wind down of Home Capital or a sale, allowing the banks to continue to grow. Canadian equities have seen pockets of strong growth in companies such as portfolio holdings CN Rail and Dollarama. However, the commodities group particularly have disappointed. Despite OPEC production cuts remaining in place, global oil overcapacity remains as lower-cost U.S. shale producers have brought more production online. The road to recovery for the sector looks longer than expected but the pipeline and major oil producers continue to offer long-term value.

As we enter the summer, we will continue to monitor global developments and adjust portfolios accordingly. It is also a great time to review your portfolio and contact us for a review to answer any questions. We look forward to hearing from you.

Yours Truly,

Walter Harmidarow & the Cooper Wealth Management team at RBC Dominion Securities

# Nine key aspects to consider as part of successful planning

Over the coming decades, it is anticipated that upwards of US$4 trillion in wealth will change hands from one generation to the next throughout North America and the UK — among Canadians this translates to approximately C$400 billion. With a shift in wealth that carries such an incredible scope and magnitude of impact, now more than ever it is crucial individuals and families turn an active focus to wealth transfer planning and detailed conversations about it. While many individuals have the best of intentions when it comes to passing down their wealth, the reality is that only approximately one-quarter of individuals actually have a full strategy in place.

## 1. Using a comprehensive financial plan as a starting point

For many individuals, looking ahead to the future often brings with it a number of questions relating to retirement, passing down wealth and their estate. Some common concerns include:

- Will I be able to maintain my desired lifestyle in retirement?
- How can I ensure I don't outlive my money?
- What might my unexpected costs be and how will I be able to handle them?
- If I pass away unexpectedly, will my family be taken care of?

These are all important questions to ask and address, and a comprehensive financial plan may be very effective in this regard. While the scope of these plans is much broader than just estate and wealth transfer, the development of a comprehensive plan provides a clearer direction to strategically plan for certain scenarios, which in turn better equips individuals to make informed and strategic decisions about timing, appropriate amounts and the best methods for passing down wealth.

### 2. Developing and maintaining an up-to-date Will, and recognizing that estate planning is not static

When it comes to wealth transfer, having a valid Will is central, as it functions as the guiding document in the administration of the estate as well as a tool for the transfer of assets and funds. If an individual passes away without a valid Will in place (which is called dying "intestate"), the reality is that provincial laws will determine how the estate will be settled. Simply put, this means an individual loses all control over fundamental choices like who will administer the estate and who the beneficiaries will be.

In addition to creating a properly documented Will, it is equally important to regularly review decisions and details within the Will to ensure they remain current. This is because throughout an individual's lifetime, there are countless changes and events, including marriage, re-marriage, a relationship breakdown, birth of a child or grandchild, significant health issue, death of a family member, change in an heir's personal situation or relationship status, changes in wealth status or legislative changes, that may have a large impact on overall plans.

### 3. Understanding that a range of strategies and options exist to meet varying situations and needs

When it comes to wealth transfer planning, uncertainty around handling unique needs or complex family dynamics may be perceived as a large roadblock among some. To overcome these worries, it is important to recognize there are a vast array of approaches and strategies which can help to navigate every specific circumstance.

Part of comprehensive planning should include a thorough examination of the pros and cons of passing down wealth during your lifetime versus upon death, and then within that, what specific approaches will be most beneficial, whether that's simpler methods such as outright gifts and inheritances,

beneficiary designations or joint tenancy with right of survivorship, or more complex ones including inter vivos and testamentary trusts. Regardless of the challenges or situations from a family or individual standpoint, there are structures that can be customized and aligned to suit needs and goals.

### 4. Appropriately weighing personal preference with potential tax strategies

It is understandable that for many individuals, personal preference and strong feelings about helping younger family members now often carries a fair amount of weight in the decision-making process. While these personal aspects are very important to address as part of wealth planning, the main focus should be on striking the right balance of acknowledging those preferences while at the same time considering potential tax benefits or implications. For example, there may be tax advantages to changing the ownership of investible assets to a child if they are in a lower tax bracket, as the investment income will be taxed at their lower rate. (Note: Tax savings will vary based on an individual's province of residence.) For strategies such as this, it's important to work with a qualified tax professional, as the regulations regarding the types of assets and whether the child is a minor or adult are often complex to navigate.

### 5. Discussing family values

The centrality of this aspect in planning is unfortunately one that many individuals underestimate. When looking at wealth transfer as a whole, main underlying purposes include creating a lasting legacy (either family or business), ensuring family is taken care of, and providing financial health for younger generations to succeed and pursue endeavours. Taking the time to discuss and identify key values within the family, whether that is education, professional life, community, athletics, philanthropy or otherwise, often serves as a very powerful uniting factor for families. For the receiving generation, it also helps to clarify reasoning behind the decision-making process, and provides inheritors with a greater sense of direction and purpose for how their received wealth is meant to be used.

### 6. Promoting open dialogue and ongoing communication

Regardless of family circumstances and dynamics, building an environment that supports conversation around wealth planning is so beneficial for both the giving and receiving generations. Understandably, this area of planning is often an emotionally challenging one, but the upside to open communication is that it removes any element of surprise or shock down the road, which can be incredibly negative and detrimental to the wealth transfer process, not to mention family harmony. One of the most effective approaches to consider is annual or semi-annual family meetings (in person or via phone or video conferencing), as these meetings present a productive forum for givers to share their intentions, reasoning behind decisions, and the structures that are being put in place, as well as gain perspective from other family members. For the receiving generation, the meetings may provide a better understanding of the methods and approaches used, offer context as to why certain decisions are being made, ensure they remain updated, and provide the opportunity for them to share their own interests, questions or concerns. Through these focused discussions, the idea is for each generation to gain better insight and input to help facilitate decision-making and promote ongoing family harmony.

In addition to family members, another critical individual who requires a full understanding and awareness of your objectives and decisions through ongoing information is the executor of the Will. Executors play an active role in the wealth transfer process, as they are tasked with preparing an inventory of assets and liabilities, paying off liabilities, and distributing remaining assets as required under the terms of the Will.

### 7. Finding the right balance with information sharing

Much like every individual is different, so too are comfort levels with transparency in planning. Many individuals in the giving generation are often concerned about sharing too much information with the next generation too early. Specifically, the worries often centre around whether disclosing amounts may have a negative impact on intended heirs, potentially creating a sense of entitlement or decrease in motivation to achieve their own goals. On the flipside, however, sharing details offers heirs the ability to proactively and accurately plan ahead for the wealth they are intended to receive. In weighing this decision, individuals should factor in both the potential benefits and risks, taking into account individual circumstances and family dynamics.

### 8. Separating the concepts of fair and equal, and recognizing various methods for equalization

When determining what is fair and what is equal in wealth transfer, issues may arise because definitions will vary among individuals. For example, what's interpreted as being fair by the giver may not be aligned with the children's or other beneficiaries' point of view or expectations. As such, it's important to differentiate between fair and equal as it relates to your particular situation, and then structure decisions in a fashion that promotes equality to limit the likelihood of any future resentment among heirs. Some key factors of potential inequality to account for include non-taxable assets, blended family situation, lifetime gifts versus inheritances, and varying financial situations among children.

### 9. Using financial literacy education

The concept of financial literacy extends well beyond just wealth transfer, but its application is so vital for any individual who will be inheriting wealth or assets. Those in the giving generation may play a key role as educators in this sense, and this is another reason that involving family members in wealth transfer discussions is so imperative, as it builds exposure to aspects of the processes and approaches that are used. From an age standpoint, it's never too early to start educating younger family members and have discussions around the basics of financial management. In fact, there's a variety of research indicating that the earlier youth gain strong financial literacy skills, the more confident they are with financial management and decisions as they gain financial independence. Beyond family support or formal educational programs, including inheritors in introductory meetings with your team of qualified advisors may be another beneficial means to boost financial literacy.

## 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, including our in-house financial planner Anne McDougall, CFP, 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.

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