RBC Dominion Securities Inc.

Cooper
Wealth Management

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Dominion Securities

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"Pay no attention to the man behind the curtain!"
– The Wizard of Oz

It's fine to be in Kansas

In the Wizard of Oz, Dorothy and her friends seek the great and powerful Wizard for help. When they finally meet him, they discover that behind all the sound and fury he was just an ordinary man. While they are initially disappointed, they discover the truth – that they had everything they needed all along. The same is true for the U.S. economy; no Wizard required. Gross Domestic Product (GDP) is growing at 3% in the third quarter of 2018, while unemployment is at an over 40-year low of 3.8%. High business confidence readings and corporate profits continuing to exceed expectations are even further signs that the U.S. economy is in high gear, while interest rates and inflation remain low.

Despite the positive contributions of deregulation and corporate tax cuts, the Republicans can't take all the credit for America's recent success. The U.S. business community has been carefully rebuilding, reinvesting and streamlining since the financial crisis of 2008. All these efforts are definitely now bearing fruit.

The inner workings of the Trump White House were recently brought to light in an op-ed piece in the New York Times by a senior Trump staff member, as well as a new book by Bob Woodward of Watergate fame, one of Washington's most respected journalists.

In order to eliminate worrying over the Trump factor, we must ask ourselves as investors: What can the president really do and what is just noise? A review of the president's trade and tariff policies can provide answers. The president does have the power to break trade deals but he cannot make any new deals without the approval of both the House of Representatives and the Senate. While the new USMCA trade deal replacing NAFTA still has to be approved, it does show the balance of the U.S. political system.

The president also has the power to impose tariffs, his chief weapon in his trade battle with China. This issue is more serious as it acts as a drag on the global economy immediately, while also having the effect of delaying long-term capital allocation decisions. We believe this dispute will also be resolved, most likely by China agreeing to honour intellectual property laws. Political pressure to resolve this issue is growing in the U.S. and could result in lost seats for the Republicans if it continues. Imagine how U.S. voters would feel if they walk into Walmart next year and everything costs 25% more because of tariffs. We again expect cooler heads to prevail eventually, but the timing does remain uncertain.

According to recent polls, the Democrats have a three out of

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four chance to gain control of the House of Representatives and break the Republican's total control in the mid-term elections on November 6. This would pour cold water over the President's political agenda and likely bring political gridlock, which was good for markets over the previous eight years of the Obama Administration and allowed us to focus on business, not political distractions.

Despite the noise, the U.S. market has performed well to the end of September with the Dow up 10.7%, the S&P 500 up 12.4% and the technology-heavy NASDAQ up 19.2%, all in Canadian dollars, while the TSX had posted a zero rate of return. The advance was narrow, lead only by three growth sectors: technology, consumer discretionary and health care. While the temptation is to invest 100% in the U.S. based on these numbers, there are enough warning signs on the near-term horizon to keep us at our 35-40% U.S. allocation. The same U.S. sectors that performed as well earlier in the year have corrected sharply in October, led by technology, on profit taking and the fear of rising U.S. interest rates.

Imagine how U.S. voters would feel if they walk into Walmart next year and everything costs 25% more because of tariffs.

We first want to wait out the November elections. If the Democrats do win the House, the political climate is likely to change. Also, with the U.S. dollar costing $1.30 at present, it acts as a deterrent to add more than initial positions at current levels. Until Canadian energy producers can start realizing more than $30 per barrel on much of their production, the Canadian dollar has no real catalyst to move higher. Our longer term U.S. investment thesis remains intact. With strong corporate earnings and a supportive economy, the U.S. remains a sound place to invest.

A major reason that value type stocks have underperformed over the last couple of years has been the continuous pressure of the U.S. Federal Reserve to raise interest rates. The benchmark 10-year U.S. Treasury recently jumped to a yield over 3.20%, an increase of over 0.30% in just a month. Part of this move higher in yield has been a reaction to perceived inflation pressures and the potential negative effects of tariffs. Another part of the move can be attributed to the lack of pension fund buying, since most U.S. companies completed their pension deposits by the September 15 deadline, allowing them a 35% tax deduction under the old tax rules, versus 21% going forward. We will watch to see if this trend begins to reverse itself in January, once pension contributions start to flow again. In any case, we believe the Federal Reserve is much closer to the end of its tightening cycle than the beginning, since interest rates are not rising anywhere near as fast in the other G7 countries.

In structuring our portfolio, we have added a variety of dividend stocks such as the Canadian banks, as well as selectively writing calls against our U.S. growth holdings, in order to increase cash flow and reduce overall portfolio risk. While we still have confidence in the growth section of the portfolio, we want to be safely diversified to withstand a potential market correction.

In conclusion, Dorothy and her friends were successful because they stuck to their plan and were not put off by the distractions they faced. Their determination and teamwork helped them succeed. We look forward to helping you along your own yellow brick road towards your financial goals.

As always, if you have any questions or would like to review your investments or financial plan, please give us a call.

Yours truly,

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

No asset in your estate can be as emotionally charged as the family cottage

By Leanne Kaufman

As a cottage owner, open dialogue with the next generation is critical for avoiding potential conflict for those you leave behind.

Cherished tradition is deeply steeped in every aspect of our family cottage, largely because my children are the fifth generation making the annual trek north. Up to this point, both our island and the original family cottage (now owned by cousins) have remained in the hands of descendants. But in many instances, rising ownership costs, geographic inconvenience, and general practicality mean not every family member can or wants to own property generation after generation.

Anyone who currently owns a cottage has undoubtedly given careful consideration to if, when and how to pass it on to the next generation. Ideally, conversations should begin early and be held frequently with both family members and professional advisors. But if you haven't started yet, here are some considerations to help with future conversations.

Managing family relationships

Cottages are often one of the most emotionally charged assets in any estate. While affordability can become a major point of stress, normal family dynamics and grievances can also become a factor in co-owner conflicts. In instances where all members of the next generation want to continue as owners, governance should be put in place to ensure a common agreement around things like allocation of expenses, shared versus exclusive use, and avoiding sale of an interest to someone outside of the family.

Several structures can be used to establish governance with co-ownership agreements, trusts and corporations being the most common. But even with best efforts to ensure equality and governance around ownership, things can go awry. I recently heard a story about a fifth-generation group of family cottage owners who had thoughtfully structured a corporate entity with share ownership, a board of directors that met regularly, and carefully defined share ownership rights. Even with all of the vigilant planning and careful consideration, family conflicts ended with them cross-examining each other in court and the legacy land being put up for sale.

Ensuring affordability

If you've considered passing your cottage on, then you've likely thought not only of who wants it, but also of who can afford it. The truth is that property values continue to skyrocket, impacting carrying and tax/capital gains costs for you and your spouse, and for your estate after you pass away. Future expenses, such as major capital repairs (a new roof or dock, for example) and escalating property taxes and utility bills, make cottage ownership a financial stretch for many.

One way to help ease this burden is to establish an estate-funded maintenance trust, or other fund, from your estate, assuming it is sufficiently large for this purpose. There may also be planning opportunities, such as use of the Principle Residence Exemption, setting up a structure that gifts any future growth in the value of the property to the next generation or changing the ownership of the cottage generally. But, note, there are complex rules associated with this kind of tax and probate planning that require the knowledge and advice of a competent legal and tax professional.

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The family cottage ...
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The consequences of doing nothing

If you do absolutely nothing with respect to your cottage in your estate planning, then it falls into the general assets of your estate and may leave your executor with more discretion to deal with it than you intend. It may become the executor's job to have the conversations about which beneficiaries want or can afford to keep the cottage, or to make the decision to sell – which may place your executor in an awkward position.

You should also think about your future plans should you lose mental capacity (due to age-related dementia, as an example). Without proper planning, your named power of attorney (or court-appointed decision maker) may be in a position of having to sell your family's beloved cottage in order to fund your long-term care needs. These considerations should also be part of your broader planning conversations with your professionals.

No matter your circumstances, as a cottage owner, open dialogue with your next generation is critical, otherwise, it may be a recipe for conflict for those you leave behind. As a colleague recently advised me, despite the best of intentions, "be careful because you may end up having to choose between the cottage and your family relationships."

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.

Retire with a boom

Thank you to those who joined us on September 5 to hear Ellis Katsof, author of MyProtirement 3.0, speak about the new retirement "Protirement." Baby Boomers clearly want to spend their retirement years as active individuals, and want to be respected and appreciated as people who have something to offer to others, no matter what their age. Ellis spoke a lot about the unknown/non-financial issues and how those looking at retirement may be able to answer some questions for themselves. Ellis's book explains in detail his methods, and we have copies at our office for our clients to enjoy. Please reach out if you'd like to have a read or have any follow up from our seminars.