RBC Dominion Securities Inc.

COOPER | WEALTH MANAGEMENT

WINTER 2016

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

Mira Bucciarelli
Associate Advisor | Hamilton Branch
905-546-5853

Kathy Krulikoski, CIM
Associate Advisor | Hamilton Branch
905-546-5824

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

Pamela Townsend
Associate | Hamilton Branch
905-546-5535

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

Tricia Nickerson
Associate | Hamilton Branch
905-546-5521

Amanda Perkins
Administrative Assistant | Hamilton Branch
905-546-5252

Anne McDougall, CFP
Financial Planner | Hamilton Branch
905-546-5805

Irene MacIntyre
Group Administration Manager | Hamilton Branch
905-546-5885

Market Outlook & Commentary

The new year is the time for resolutions and predictions for the days ahead. After a 2015 that had many negatives, such as the TSX down 11%, the S&P down 2%, a rising U.S. Federal Reserve rate, slower manufacturing in China, a weak Canadian dollar and even weaker commodity prices, there seems to be a lot to worry about, especially with 2016 off to a negative start. However, there are a number of positive signs appearing which point to a better year ahead. Time to put away the crystal ball and get out our calculators and stock market history books.

Here are some positive facts to give us perspective:

1) The Federal Reserve is only raising interest rates because they believe in the strength of the U.S. economy. This means they are forecasting further growth on the back of strong growth in employment, which has reached the best levels in many years. They are very aware of the overall lackluster global economy and the strength of the U.S. dollar, and will not take actions that will damage what has been a long and only gradual recovery.

2) With those factors in mind, we should start to see the profits of many U.S. corporations begin to improve in the mid to second half of 2016 as the U.S. dollar ceases to be such an impediment to growth. As profits, and more importantly, forecasts of future profits begin to expand, so will share prices.

3) Oil prices and, as a result, the Canadian dollar, are now at multi-year lows. Why are these things positive? Because history has taught us asset prices will return to their long-term averages over time. This principal is illustrated by the Bell Curve, which teaches us that 94% of the time, all things occur within a normal, measurable range, with 3% on either side reserved for exceptionally good or bad outcomes. Oil and the Canadian dollar are now in that negative 3% range. Oil will gradually rise as production cuts continue and new projects are delayed, but we don't likely expect meaningful improvement before 2017 as production cuts from sovereign producers such as OPEC have not yet occurred. So for 2016, we will largely be on the sidelines regarding oil.

4) Global liquidity remains supportive for equity markets. U.S. banks are overcapitalized by an estimated $2.7 trillion and they are still more likely to put those funds into corporate mergers and acquisitions than they are to collect an extra 0.25% from the Federal Reserve. The European situation is ever more accommodating. Approximately 40% of all European debts, some $3.2 trillion, are at negative interest

continued on page 2

Market Outlook & Commentary

Continued from page 1

rates, meaning bond buyers are actually paying to lose only a small amount of money. Also, the EU expects to keep running about $60 billion per month in liquidity through 2016 through its Quantitative Easing program. With this global backdrop, interest rates around the world will remain low until global liquidity begins to get used up, which hasn't occurred since 2008 and keeps the outlook for stocks much more constructive than for fixed income going into 2016.

5) Interest rates remain low in Canada and may actually move lower. As the oil price stays low this year, our government may be forced to cut interest rates again. This would increase prices of our fixed income investments. The preferred share market sold off last year due to sales by exchange traded funds because of their exposure to rate reset preferreds. Currently, the investment-grade fixed rate perpetuals that we buy are attractively priced now and we will be adding to positions for those with a fixed income portion to their portfolios.

Over 2015, we posted better than market returns via exposure to the U.S. dollar, careful stock selection, underweighting the weakest sections of the market and through the cash flow generated by our covered call program. For 2016, we intend to follow a similar course.

Overall, we expect volatility to continue, eventually returning to more normal levels as we progress through 2016. We will continue to own high quality companies and take advantage of market conditions as they present themselves. As always, if you have any questions, or would like to review your portfolio, please give us a call.

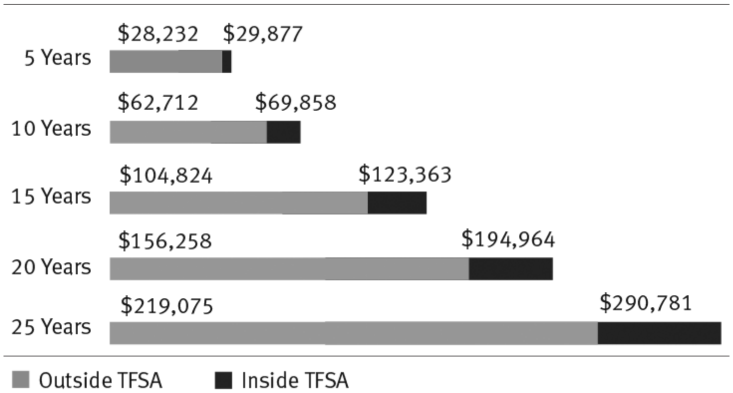
TFSA & RRSP Quick Tips

Starting on January 1, 2016, you can contribute an additional $5,500 to your Tax-Free Savings Account (TFSA) to benefit from tax-free growth. With the contribution room from 2009 through 2015, you will be able to contribute up to $46,500.

Contribute Early to Maximize Your RRSP

You have until Monday, February 29, 2016 to make your 2015 Registered Retirement Savings Plan (RRSP) contribution. But remember to contribute early to avoid the last minute rush.

Tax-free compound growth



This chart shows how $5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to a taxable investment account.

Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

Contributing early can also boost your RRSP's growth over time, as your RRSP assets will have more time to benefit from tax-deferred compound growth.

You can start making RRSP contributions for the 2016 tax year as early as January 1, 2016 (March 1, 2017 is the deadline). The contribution limit is rising to $25,370 for 2016.

Maximize the Tax Advantages with Tax-Deductible Contributions

You can claim your 2015 RRSP contribution as a deduction on your 2015 Income Tax Return to reduce your taxable income and potentially receive a tax refund. It may make sense to wait to claim the deduction if you expect your taxable income to be higher in a future year, as you may receive greater tax savings. You can also claim deductions for contributions made in any previous year since 1991 if you have not claimed them previously.

Consider Insurance to Cover Taxes

If you designate anyone other than your spouse or financially dependent child or grandchild as the beneficiary of your RRSP, your RRSP will be deregistered on your death and the value of your RRSP at death may be included in your terminal tax return. As the amount will be taxed all at once at your marginal tax rate, many people take out an insurance policy to cover the taxes. We can arrange to speak with our insurance team member to determine whether this approach makes sense for you.

Reduce Costs When Trading U.S. Securities

You can contribute, buy, hold and settle in U.S. or Canadian dollars in your RRSP. This gives you greater control over when you convert between U.S. and Canadian currencies, so you may be able to reduce the impact of unfavourable exchange rates and save on currency conversion costs.

Remember the Final Contributions

You can contribute to your own RRSP until December 31 of the year you turn 71, at which time your RRSP must be converted into a retirement income source such as a RRIF. If you have a younger spouse and are still earning income, you can continue contributing to their spousal RRSP until they turn 71.

Time to Lock in Low Rates

Lock in prescribed rate loans at 1%, and potentially save on overall family taxes.

You can save on your overall family taxes by splitting income with lower-income family members. One way to do this is by making loans to your lower-income family members for investment purposes at the Canada Revenue Agency's (CRA) prescribed rate.

Currently, the CRA prescribed rate is at a low of 1%. The rate in effect at the time the loan is established remains the same for the lifetime of the loan, even if the prescribed loan subsequently rises, making now the time to consider locking in a new loan at the low rate of 1%.

(Please note that in this article, "spouse" includes those who are married and who satisfy the definition of "common law partners" under federal income tax rules, including same-sex couples.)

Income Splitting Basics

By taking advantage of Canada's graduated tax system, in which lower-income individuals pay less tax on their income and capital gains, you can legitimately reduce your family's overall tax bill.

Here's an example of an income-splitting strategy in action: A higher-income family member or spouse loans investment capital to a lower-income family member or spouse. Next, the lower-income family member invests the amount of the loan at a rate of return that is sufficient to cover the interest on the loan.

Once established, the interest rate is maintained for the life of the loan, regardless of any increases that may occur to the prescribed interest rate. Because the "borrowing" family member has a lower marginal tax rate, they can earn more income, after-tax, than a higher-income family member, reducing the impact of the 1% prescribed rate. (Marginal tax rates vary by province. Ask your tax professional to confirm your rate.)

The Spousal Loan Strategy

With the Spousal Loan Strategy, you make a loan to your spouse, who then invests the entire loan in his or her own name. When properly structured, the investment income is taxed at your spouse's lower marginal rate – reducing your family's overall taxes.

To ensure the income is taxed in your lower-income spouse's hands – and not your own – your spouse must pay you interest at the CRA-prescribed interest rate by January 30 of the following year (and by January 30 following the end of every subsequent year that the arrangement continues).

The Family Trust Strategy

With this strategy, you first establish a family trust for your lower-income family members, then loan money to the trust at the CRA-prescribed interest rate. The monies are then invested in the trust and the investment income (less 1% paid to you by January 30 of the following year) can be taxed in the hands of your children or grandchildren, who can earn approximately $10,000 of interest income, $20,000 of capital gains or up to $50,000 of Canadian public company eligible dividend income (depending on their province of residence) tax-free every year if they have no other income.

By loaning the money instead of gifting it, you retain access to the capital loaned, and the investment income can be used to benefit your children and grandchildren by, for example, paying for private school tuition, camp fees, lessons or gifts.

The Strategy in Action

The table on the following page illustrates the potential tax savings you can achieve by making a prescribed rate loan to a properly structured family trust, compared to investing the portfolio directly or making an interest-free loan to a family trust.

The family's net tax benefit of having a prescribed rate loan at 1% is $4,380 in one year alone. If this loan remains in place for 10 years with similar returns, the savings become $46,787 at 1%. These savings are further compounded if

continued on page 4

Time to Lock in Low Rates

Continued from page 3

there is more than one low-income beneficiary to whom trust investment income is distributed or the returns on the investment increases.

The additional tax savings are the result of interest and dividends being taxed in the hands of the beneficiary, whereas when the funds are loaned interest-free, the interest and dividends are taxed in the hands of the parent at their higher marginal rate.

	Portfolio held directly by parent	Interest-free loan to family trust	Prescribed rate loan to family trust at 1%
Investment income	$16,500	$16,500	$16,500
Tax payable by parent	$5,540	$3,655	$1,160
Tax payable by child	0	0	0
Tax savings over 1 year	0	$1,885	$4,380
Tax savings over 10 years	0	$19,871	$46,787

Assumes a $250,000 portfolio with an annual rate of return of 6.6% (2.8% interest, 0.55% Canadian dividends, 3.25% realized capital gains). The higher-income parent is taxed at a marginal rate of 46.41%. The lower-income child's tax rate is 20.05%, with zero tax payable if the child's taxable income is below the basic personal exemption (varies by province). The child's annual expenses are assumed at $14,000.

Don't Miss Your Window

The CRA-prescribed rate may not stay at 1% forever, so consider locking in at this advantageous rate while you can. Completing the required forms and transferring funds may take several days, so be sure to leave enough time before the rate changes.

Hello & Best Wishes

Irene MacIntyre, Group Administration Manager

After a short retirement of six weeks, Cooper Wealth Management of RBC Dominion Securities would like to officially welcome Irene back to the business as our Group Administration Manager. Irene has been with RBC Dominion Securities since 1997 in various roles. She previously served the Hamilton office as Branch Administrator since 2002. She enjoys spending time with her grandchildren, family gatherings and fundraising for several charities.

Furthermore, Cooper Wealth Management of RBC Dominion Securities would like to extend best wishes and a safe journey to Kevin Chambers, an associate with the team, as he ventures to South East Asia and South America over several months to explore the unknown and see the world. Bon voyage!

Thank You!

It has been our pleasure to help you with your investment needs over the years, and we'd like to take this opportunity to personally thank you for your support.

We especially want to thank those of you who have been kind enough to refer your friends and family to us. Our business is still growing and we continue to welcome the opportunity to meet new people.

Once again, thank you for your support and we look forward to serving your future investment needs.