“Your Monthly Morning RBC Coffee”

"Buddy the Elf, what's your favorite color?" - Will Ferrell, from ‘ELF’

Your last notice….!!!

On Saturday, December 16th, Maria & I will be hosting our annual Client Appreciation event at the magical ‘Fox Theatre’ @ 11:00 am located at 2236 Queen St East here in Toronto. This year’s film being featured will be ‘Elf’, starring Will Ferrell (a personal favourite!), and both your admission as well as any drinks & snacks from the concession stands will be entirely complimentary.

All we ask is that you bring a non-perishable food item to help our Food Drive in support of the Daily Bread Food Bank.

By now, many of you will have received a pair of tickets for this event through the mail. If you find yourself needing more, please contact Maria at maria.firmino@rbc.com or 416-699-4076.

Happy holidays, and we’ll see you at ‘The Fox’!

What Happens To My RSP After…?!

A morbid topic so close to the holidays, but quite relevant and within the financial planning conversation for those of you looking out for your children…

As most of you are aware, a RRIF or RRSP will typically go directly to your spouse as a tax-free roll-over upon your passing (if they have been appointed beneficiary). However, on the second passing, the funds from such an account will be taxed as 'income' during that tax year. This means that the value of the registered plan will typically be about 50% of the portfolio's original value for the next generation.

Here's an example…. If Mr. Smith, a retired doctor, was to wish to leave the proceeds of his $500k RRIF to his adult daughter, there may be an unpleasant surprise from the tax man. This total amount will be marked as 'income' during Mr. Smith's final tax return, as CCRA considers the registered account to be fully redeemed or withdrawn. As a result of the $500k entering into Mr. Smith's last tax return as straight income at his marginal tax rate, Revenue Canada will take approximately $250k while having $250k left over for his benefactor.

For those clients who have no desire to leave anything to the next generation, my advice is to spend as much as you can as quickly as you can.

For those of you looking to leave a 'nest egg' to the next generation, this might be an issue you want to consider. I will also tell you that there are estate planning strategies you can use to protect this 'nest egg' from the tax man.

Please feel free to give me a call.

RBC's Investment Outlook For 2018

Each year, the group of portfolio strategists here at RBC offer up a collection of unique perspectives on the issues that affect both the markets as well as your portfolio, as well as opportunities that could help to define the year ahead.

Here is a (condensed!) summary of the key points that I will be using for the purpose of assessing the personal 'well-being' of accounts I oversee, as well as for devising strategies going forward into 2018:

1. A moderate 'Overweight' position in global equities is warranted given the durable upswing occurring in most major economies accompanied by low recession risks and relatively tame monetary policies.
2. We recommend a 'Market Weight' allocation to Canadian equities, as valuations appear attractive relative to the U.S. but are elevated on an absolute basis.
3. We are constructive on Canadian banks in light of reasonable valuations and conservative earnings expectations. We expect crude prices to remain range-bound as support from OPEC-led production curtailments is tempered by short-cycle U.S. production.
4. In fixed income, major central banks will be in focus in 2018 as they gradually follow the US Federal Reserve in deliberately normalizing monetary policy.
5. Despite an improving economic backdrop, credit spreads in Canada are at the tightest levels in nearly a decade, which keeps us wary of taking on too much credit risk.
6. Our favorite recession indicators are not yet flashing red or even yellow. U.S. recessions have always been preceded by the arrival of restrictive credit conditions. The yield curve, while flatter, is not within that range and is still pointing to attractive equity returns.

7. There is a myriad of other indicators signaling that the economic expansion and, by proxy, the equity bull market can persist, including employment trends, the Leading Economic Index, GDP growth versus fed funds, and an important manufacturing index.
8. Rising interest rates increase the vulnerability of all global debt hot spots, but the problematic debt situations in the world are mostly manageable.
9. Cryptocurrencies are unlikely to replace traditional money in the short and medium term. The underlying technology, block-chain, seems to hold considerable promise and could redefine several industries' rules of operation, especially in the banking industry where it will transform the way money is moved and stored.
10. The health care industry stands to gain as technology will play a greater role in transforming patient care and speeding up medical advances. We are seeing cutting-edge innovations in big data, artificial intelligence, and robotics impact health care. The potential for additional productive advances seems open-ended to us and should provide investment opportunities.

Stocks to Watch – Cineplex (CGX)

With the onslaught of 'disruptors' in this space like Netflix, I've spoken to a number of clients concerned over the future growth prospects of Cineplex, a dividend-payer that I have owned for years.

I am still a proponent of this firm and continue to hold it for its 4.5% dividend, but the company has disappointed in the last two quarterly earnings reports, and I intend to watch the earnings closely over the upcoming holiday season. I am still standing by this story, as I feel that the recent decline in box office revenues is a 'tail' and not a 'cliff'. I personally expect to see better figures from big box office releases this season (i.e. 'Star Wars') as well as a more diverse revenue stream over the next few quarters.

That being said, if the current holiday season does not go well, I will likely be forced to make a tough decision regarding holding shares of CGX in client accounts, despite the very attractive dividend.

(I currently hold this position in my Canadian Dividend model)

Stocks to Watch – Cenovus (CVE)

In keeping with stocks that have given me headaches this past year, RBC's inaugural meeting with Cenovus Energy's new CEO was very instructive, and pointed towards a balanced approach to refocusing the company for sustainable operating and financial performance.

Our thoughts: Cenovus remains a transition story with above-average leverage. Sales to date have raised $3.7bn with further plans to bring another $350-450M. The oil sands portfolio holds a number of attractive capital projects that could be exploited in the current oil price environment but the balance sheet remains the near-term priority.

I am staying with this name for now, but as an alternative for Canadian energy exposure, I would also consider looking at Suncor and/or Canadian Natural Exploration (CNQ), and also suggest shares of Vermillion (VET) for more yield-oriented investors.

‘Of Sound Mind & Body’

How Do I Avoid Over-Eating at Parties…?

Just like a game of golf, it is based on your plan of attack. Try and think ahead & decide what you intend to eat & drink. Better yet, try a little protein and light fibre in advance. Grab a Greek yogurt or cheese stick before going.

Here’s another tip: talk to people standing strategically away from the buffet…if words are coming out, food is not going in!

(c/o Men’s Health Magazine)

Holiday Memories

As a child, my tiny yet very lovable English mother would always pull two raggedy X-Mas elves out of a musty dilapidated cardboard box from the attic around this time of year, and place them sequentially on the steps just inside the front door. This was done each year despite my dad’s perpetual plea that they were a ‘fire hazard’, his favourite comment around the holidays (that, and ‘Hold onto the receipt!’)

These elves were each about the size of a shoe box and were absolutely adored by my mom. They also endured decades of physical abuse from my brother and myself, as we used them on an annual basis for our legendary couch football games in the living room, something else my mom loved…not!

Since the passing of my parents, there has been a significant change in my regular routine of jumping onto Hwy 401 around the 23rd or 24th of December and trekking back to the Ottawa Valley. Strangely enough, I go through waves of nostalgia at times, and actually miss being greeted by those elves as they were often my first confirmation that I was home…

…in a funny way, those ugly handwoven scraps of burlap tend to remind me of my mom and what an amazing lady she was…

Please enjoy the season safely, wherever it might take you, and take the time to reach out to someone you may be thinking of to let them know that they are in your hearts.

Finally…

This will be my very last 'Coffee' report I launch at you this year. There will be no newsletter report in January, but will return in February.

This is also a short note to let you know of an upcoming future vacation (a belated honeymoon actually) where I will be away from the office from December 1st to December 11th. In my absence, please feel free to call Maria for any issues you might have at 416-699-4076.

Going forward into January, clients can expect to receive my semi-annual reviews (please make sure we have up-to-date email addresses). If you have questions or you would like to schedule a 'pre-emptive' meeting regarding your account during that period, please contact Maria directly.

I wanted to take this opportunity to thank you for your trust, loyalty and friendship over the year.

That's it from me….

- Ian

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