Westside Viewpoints

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Wealth Management
Dominion Securities

Winter 2017

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Services we provide:

- Fee-based portfolio management
- Estate planning, financial planning
- Tax-exempt investment strategies
- Life, long-term care and critical illness insurance

Wishing you a very happy, healthy and prosperous New Year

From all of us here at the Westside Wealth Management Group of RBC Dominion Securities

Looking back at the surprising and dramatic events of 2016, namely Brexit and the U.S. presidential election, some may be surprised that the markets did so well, especially in Canada. The S&P/TSX Composite Index gained 17.5% in 2016, largely outstripping the Dow Jones return of 13.4%.

The big news was the rate hike in the U.S., now what?

For those who have been watching monetary policy closely over the last several years, the U.S. Federal Reserve's (Fed's) decision to hike the fed funds rate by 0.25% on December 14, 2016 might feel like a déjà vu. In a move that was widely predicted, this hike brings the fed funds rate into a range of 0.5%-0.75%

The surprising part of the announcement was the Fed's updated expectations around future rate hikes, which pointed to three anticipated rate hikes in 2017 (versus the two hikes previously anticipated). This rate hike is hardly written in stone given the Fed's past track record of excessive optimism, but it is certainly plausible and it's the reason markets have reacted to an announcement that was already universally expected.

Animal spirits

In his book, *The General Theory of Employment, Interest and Money,* John Maynard Keynes coined the term "animal spirits" to encapsulate how emotions and confidence can drive consumer and investor behaviour. While a 25-basis-point hike received significant coverage, some government bond yields

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experienced a much larger jump. We believe it is largely these animal spirits that have been behind the recent surge in yields. The primary catalyst moving bond yields higher has been the outcome of the U.S. elections. Financial markets are expecting a combination of tax cuts and a meaningful spend on infrastructure from the President-elect and Congress that will lift the U.S. growth and put upward pressure on inflation.

What does this mean for the economy and markets?

Perhaps most notable is the outcome of the U.S. election. A Trump victory was certainly a surprise and creates the potential for a significant shift in U.S. public policy. On the positive side, tax cuts and infrastructure spending constitute important sources of fiscal stimulus and should add to short-term growth. In addition, the promise of fewer government regulations could also enhance economic growth, although such changes may come with less desirable side effects for the environment and financial stability. On the other hand, greater trade barriers could do material lasting damage if implemented and limiting immigration could also constrain growth. Markets have responded to the election with surging stock prices, but also through higher interest rates and a stronger U.S. dollar, which could offset some of the potential positives highlighted above.

On balance, we believe the U.S. economy will end up slightly ahead as opposed to behind when weighing potential fiscal and stimulus against higher inflation and debt.

Deferring your property taxes is too good a deal to pass up

It's a program designed to help struggling B.C. homeowners, but apparently even those who are not struggling are taking advantage of it.

It's called the Tax Deferral Program, established in 1974 by the NDP government, to allow persons with disabilities, seniors over 55 and families with children under the age of 18 to apply to defer their annual property tax on a principal residence.

Back when it was first introduced, the program wasn't very popular, mostly due to the lower real estate values and people's aversion to taking on more debt against their equity. But with the recent soaring real estate market and attendant property tax surge, more and more people are attracted to the program.

For seniors, the interest rate charged is less than 1 percent and the loan is only repaid when the home is sold. It seems like a no-brainer, seeing as how one can easily make more than 1 percent on the invested savings. In the past year, in Vancouver alone, the number of people taking advantage of the program went up by 31 percent, the biggest jump since the 2008 financial meltdown.

For more information, please refer to the following website. http://www2.gov.bc.ca/gov/content/taxes/property-taxes/annual-property-tax/pay/defer-taxes

Early 2017 RRSP and TFSA tax tips

The deadline for you to make a contribution to a Registered Retirement Savings Plan (RRSP) that can be claimed as a 2016 RRSP tax deduction is Wednesday, March 1, 2017. If you do not have sufficient cash on hand to make an RRSP contribution, you can consider making an in-kind contribution of eligible securities from your non-registered account to your RRSP or a spousal RRSP.

Be aware that you should avoid contributing a security in-kind that is in a loss position as your ability to claim that loss will be denied.

2017 contribution room

It is generally a good idea to contribute the maximum to your RRSP as soon as possible in order to maximize the tax-deferred growth in your plan and to avoid the stress of trying to meet a last-minute deadline. January 1 is the earliest day you can make a 2017 RRSP contribution using the new room that was created from your prior year's earned income. Bear in mind that you won't receive your 2016 notice of assessment (NOA) until later, so if you want to make an early contribution you will have to estimate your 2017 deduction limit.

To estimate your 2017 deduction, take 18% of your 2016 earned income up to the RRSP dollar limit ($26,010 for 2017), and subtract any 2016 pension adjustment.

Maximizing your Tax-Free Savings Account (TFSA)

Consider making the maximum contribution to your TFSA early in the 2017 calendar year to maximize the tax-free growth in your plan.

The TFSA contribution limit was $5,000 per year from 2009 to 2012, $5,500 for 2013 and 2014, $10,000 for 2015 and $5,500 for 2016 and 2017. If you have been eligible to open a TFSA since 2009 and have not done so yet, your contribution limit would be $52,000 as of January 1, 2017.

If you did not use your contribution room in a previous year, the unused room is carried forward indefinitely. In addition, if you withdrew an amount from your TFSA in 2016 or prior years, you can re-contribute this amount to your TFSA as of January 1, 2017.

Be extra careful to calculate your room properly when re-contribution to your TFSA as there are penalties for over-contributions.

Please call us if you have any questions about these strategies or how they may apply to you.

What's new at the Westside Wealth Management Group of RBC Dominion Securities

All grown up. Here is a Christmas photo of Mike and Charlotte and their three children, Amy (17), Katie (14) and Aidan (10).

Paul and Kate triumphantly survived the Escape Room with their family over the holidays.

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