The Financial Corner with Joanne Vesprini

Himalayas

A quarterly newsletter filled with practical wealth management advice to help understand various aspects of financial well-being.

Summer 2017

- Market Update
- China stocks hit the mainstream
- Tax Planning Basics
- Ready, Set, Retire – Stage 4

My thoughts,

In March I had the privilege of volunteering for two weeks in India with Developing World Connections, a Canadian non-profit organization located in Kamloops. The two weeks were spent moving bricks, staining railings and shoveling cement as nine of us worked to put the finishing touches on a house that was built as a shelter for women and children.

The two weeks were physically demanding, the scenery was amazing, the view of the Himalayas was spectacular and the people were very hospitable. I am happy to say that the house is finished and awaiting government approval to open. I feel very grateful to have had the opportunity to be involved in this project.

I came back to nothing too new… Trump was still the President … US markets continuing to climb … threats of tariffs … chaos in the UK election … noise in the markets … oil prices up and then down … house prices increasing … interest rates possibly rising in the US and Canada …

This was a good reminder to continue to focus on the long term and ignore the short term noise.

Hope you all had a great Canada Day!

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China stocks hit the mainstream

Yufei Yang – Hong Kong

MSCI announced that it will include a limited number of mainland Chinese shares, known as A-shares, in its Emerging Markets Index; this was the fourth straight year MSCI considered adding mainland-traded stocks. Initially, 222 China A large-cap stocks will be included, giving mainland China a weighting of 0.73% in the index. Among these, the Financials sector is the largest chunk with 50 stocks accounting for a total weight of 36%, followed by the Industrials sector with a 16% weighting.

MSCI plans to add the shares in a two-step process during next year's index review in May and August, but doesn't rule out implementing in a single phase should the daily limit on Hong Kong Stock Connect trading be abolished or raised meaningfully.

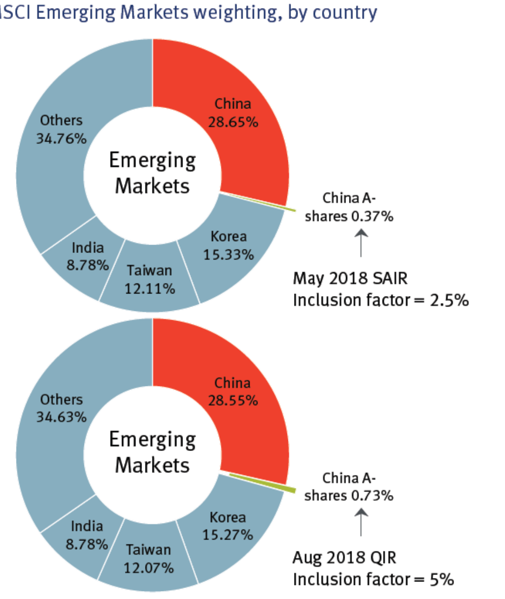
In the short term, the inclusion should be positive for sentiment, but the impact on funds flow will likely be quite limited. With a 5% inclusion factor, MSCI estimates about $17–$18B should flow into A-shares initially. That compares to the A-share market's daily turnover of $55B and total market cap over $7T. Market reaction was muted following the announcement. The Shanghai Composite Index closed only 0.5% higher.

However, over the longer term, the inclusion represents a milestone in China's capital market development.

Despite being the world's second-largest equity market, A-shares have often been missing from global investors' portfolios. Prior to the inclusion, China was already the largest component in the MSCI Emerging Markets Index at nearly 30%, but the index currently only includes Hong Kong stocks and U.S.-listed Chinese ADRs. Due to limited access to the mainland equity market, foreign investors own less than 1.5% of that market, according to MSCI, and the inclusion is likely to attract increasing attention from global investors. Under a full inclusion scenario, MSCI expects a $340B inflow, although the process may take 7–10 years per the experience seen from other countries.

More importantly, the inclusion should compel Chinese policymakers to further improve the regulatory environment. Over the past few years, China has made positive changes that played a key role in MSCI's consideration, such as the launch of the Stock Connect program linking the mainland and Hong Kong and the loosening of preapproval requirements for A-share-linked products.

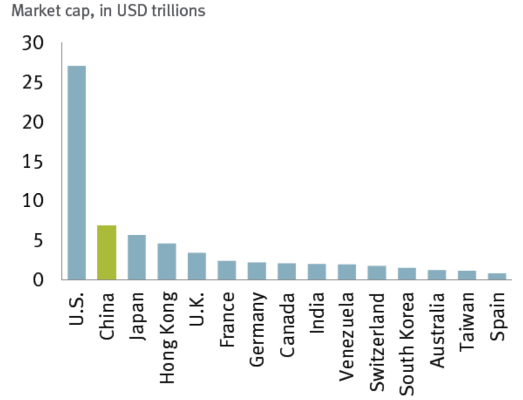
MSCI Emerging Markets weighting, by country



Source - MSCI, data as of 6/19/17

China is the world's second-largest equity market

Market cap, in USD trillions



Source - RBC Wealth Management, Bloomberg; data as of 12:28 pm GMT 6/22/17

Tax Planning Basics

Investment income earned in non-registered accounts

A non-registered account is a type of account that is not registered with the CRA. The Income Tax Act (the Act) does not impose restrictions on this type of account and as a result, these accounts do not benefit from tax-deferred or tax-free treatment like RRSPs or Tax-Free Savings Accounts (TFSAs).

Inside a non-registered account, you can invest in many different types of products. These may include: bonds, stocks or mutual funds (which are pools of investments that have a manager(s) guiding the investment choices). The income you earn in a non-registered account is taxable according to the type of income generated.

It is important to recognize that different types of investment income are taxed in different ways in a non-registered account. For example, you will usually pay less tax on capital gains and Canadian dividends than you will on interest. The less tax you pay, the more of the investment's return you keep. In general, the tax on dividends and capital gains is lower but the investments that generate this type of income can carry more risk. Although it is a good idea to consider the after-tax return when making investment choices, don't forget to consider the amount of investable assets you own, your cash flow, the risk associated with the particular investment, the opportunity for capital appreciation, the liquidity of the investment and you personal investment objectives.

Interest income

Interest is an amount that a borrower pays a lender in return for the use of their money for a set period of time. There are a number of investment products available for purchase whereby you act as a lender and the seller of the investment pays you interest and repays the original principal of the investment to you after a set period of time. The interest you receive is fully taxable as income at your marginal tax bracket and does not benefit from tax-preferred treatment.

Dividend income from Canadian corporations

Dividends are payments that a corporation makes to its shareholders, usually as a way of distributing profits to those who invested in the company. Companies may have Dividend Reinvestment Programs (DRIPs) that allow you to automatically have any dividends payable to you, reinvested in shares of the same company. Regardless of whether you receive the dividends or you reinvest the dividends, they are taxable to you.

Eligible dividends

Eligible dividends are subject to an enhanced dividend "gross-up". Individuals who earn eligible dividends can claim a federal dividend tax credit against the grossed-up dividends. A provincial dividend tax credit is also available, which differs for each province. The federal gross-up for eligible dividends is 38% and the federal dividend tax credit is 15.02% of the grossed-up dividend. In effect, the tax you pay on eligible dividends is lower than the tax you pay on interest income. The tax credit is applied to recognition of the fact that the Canadian corporation has already paid tax on its earnings, which are now being distributed to its investors.

Taxable capital gains/net capital losses

You will realize a capital gain when you sell an asset and the proceeds exceed the cost base of the asset. A capital gain can be further reduced by any fees you incur to sell the asset (e.g. transaction fees or commissions).

To be continued……

Ready, Set, Retire- Stage 4: You're Enjoying Your Retirement and Thinking About Your Legacy

You're in the midst of your retirement, and want to make sure that your assets are set to transfer to your family members without delays or undue taxation. At this stage, some of the following estate planning and wealth transfer strategies may be appropriate.

Review your Will and Power of Attorney. Any changes in your personal circumstances, such as marriage or remarriage, a new child or grandchild or the sale of purchase of property, should be reflected in your Will and Power of Attorney documents.

Review and update your beneficiary designations. If your province permits you to name a beneficiary directly on the RRSP or other registered plan, you should ensure that the designation is consistent with any designation you have made in your Will to avoid any conflict or delay.

Ask your legal or tax advisor for advice if you wish to name a disabled child as the direct beneficiary of your RRIF or RRSP assets, as receiving RSP or RRIF assets directly may disentitle the child to provincial disability benefits.

Review you insurance policies. If you're concerned about estate taxes on death, speak to us about whether insurance can be a low-cost solution to your tax bill.

Consider an insured annuity. If you are over age 60 and would like a steady stream of retirement income, and also want to leave an estate to your beneficiaries, speak to us about whether an insured annuity may be appropriate.

Discuss trust options with your legal and tax advisors. A family trust can help you pass assets to your beneficiaries and reduce your total family tax obligations through income splitting with lower-income family members. If you are in a second marriage or have disabled children, you may also wish to include a testamentary trust provision in your will. Speak to your legal and tax advisors to ensure that a trust is appropriate for you.

Make arrangements for surplus assets. If you have significant non-registered assets that you'd like to be passed on to the next generation, consider an insurance-based solution for tax-free investment growth and for maximizing your estate value.

Talk to us today, and as your retirement plans evolve, to learn more about tailoring a retirement strategy appropriate for you.

DID YOU KNOW:

"The twentieth century bequeathed us a fabulous gift: thirty more years of life on average. Supersized life spans are going to radically alter society, and present an unprecedented opportunity to change our approach not only to old age but to all of life's stages." ~Laura Carstensen- 'A long Bright Future'

***Please let us know if there are any topics of interest that you would like us to discuss in future Newsletters.**