

# The Investor's Advantage



Wealth Management  
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Goacher Wealth Management  
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## All systems go

I recently attended the annual RBC Dominion Securities Equity Conference, where our analysts and economists presented their best ideas and outlooks for the coming year. The message this year is “all systems go” for the year ahead although some vigilance is warranted. Let’s look at this in more detail.

### United States of America

Isn't it crazy to watch the Dow Jones Industrial Average (DJIA) drop 1,000 points in a day? With the DJIA off its high of 26,000 such declines represent small percentage drops despite the seemingly large numerical decline. At the time of writing, the markets are off 2,600 points or 10%, which in reality is not unusual for a normal market correction. I expect that this correction will settle in at 10-15% market decline as a normal course of the markets. We have seen a tremendous run in the markets without a decline and it was bound to happen sooner or later.

Not to worry as I see this as a buying opportunity and not a situation where it is game over. The drop in the markets is related to the potential for inflation in the world economy. The global economy is doing really well and inflation would be an expected outcome. In this situation I see the market reaction as a bit overdone as inflation isn't running rampant. It remains moderate and global central banks are managing it quite well so far.

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In addition, the decline has also been exacerbated by computer trading programs that have triggered selling based on computer algorithms, which is not grounded in reality but in mathematical formulas.

The U.S. economy is firing on all cylinders with full employment, continued low inflation despite a recent uptick in wages, a Federal Reserve that is appropriately navigating interest rate increases, and companies that are flat out making money. Stock valuations go up based on corporate earnings and those earnings have been moving sharply higher.

U.S. corporate earnings are expected to move even higher in 2018 with the Trump tax cuts where corporate tax rates have been cut from 35% to 21%. The significance of this cannot be understated. Corporate profits could expand 14% to 16%! Concern in the stock markets is that valuations are high and getting stretched. As profitability increases due to the recent tax cuts however, valuations fall back to reasonable levels and in fact have room to expand again. In addition, corporations are likely to deploy their extra cash in the form of stock buybacks, dividend increases, and mergers and acquisitions, which are all good for investors.

Corporations are also likely to spend some of those extra dollars on capital investment by investing in new equipment and facilities, and expanding operations. U.S. GDP is expected to increase from 2.5% to 3% in 2018 as a result.

It is my opinion that the tax cuts are going to have a bigger impact than most investors expect. A one-third cut in tax rates is huge and we will likely see the cut go right to the bottom line for corporations. As profitability increases, so do equity valuations. Of note, there was a consensus at the conference that analysts have yet to factor in the tax cuts in their estimates and upward revisions are coming.

In a nutshell, it looks like we could conceivably have another great year in the U.S. stock markets despite the recent sell off. In light of this I will be looking to add to equity positions when the day looks darkest so that I am fully invested for the next leg up.

What about after this year? Tax cuts will inevitably lead to a need to increase national debt by a trillion dollars in the coming years, a potentially unwanted outcome. Investors also need to keep an eye out for a U.S. recession as equity markets do not do well in recessions. Thankfully there are no signs of this at this time with all indicators showing green.

### Canada

The Canadian economy should do well this year in light of stronger crude prices and of course a much stronger U.S. economy. The U.S. is critical to our economy as we export so much to our partners south of the border. Its economic expansion will result in our economic expansion.

One factor that keeps me up at night is the renegotiation of NAFTA, which by all expectations will likely result in a

worse deal for Canada than what exists now. The results of a rewrite of the deal are a huge unknown. A withdrawal from the deal by the U.S. could be a big problem for Canada. Negotiations will take a while to unfold as will a new agreement. We will have to watch how this one plays out and therefore I remain cautious on the Canadian economy and stock market.

### International

It has been quite a while since we have seen the global economy working in sync across the globe. What is unfolding in North America is also unfolding in Europe, Asia, and the Far East. Europe (excluding the United Kingdom due to its withdrawal from the Eurozone) is growing well with improvements in economic growth, employment, low inflation, etc. Chinese growth is also reemerging albeit at a slower pace than in the past. Both European and Chinese equity markets look fairly valued and present an interesting opportunity for growth in the coming year.

Overall, it is “all systems go” this year with the view that we should see some decent growth in the global economy and in turn decent growth in stock market valuations. The recent downturn in the markets is a buying opportunity in my opinion and not something to fear at this time.

# Football and stocks have a lot in common

By the very title of this article, I am sure that many of our readers have checked out on this one due to the reference to football.

Actually, the only ones watching sports anymore are 51-year-old males (on average) and therefore I suspect that only my 51-year-old male readers are still with me. And as I sit watching the NFL football playoffs I realized, I am that guy! It also occurs to me that I pay a lot of money to the cable company monthly for a luxury that I watch less and less each year. Live sports of course are only available on network television, otherwise why bother with television at all? Like so many people in growing numbers, I look to Netflix or Facebook or Twitter or YouTube (Google) for my news and entertainment.

In that same vein, I started to think about where I shop. I would have to say that I have moved more and more to the internet for online shopping with Apple iStore and Amazon being my preferred choice. I still like going to Winners, Loblaws, Home Depot and Canadian Tire for specific goods that I want to see and hold, but I haven't been to a mall in a long time. I believe those of a younger generation are moving online in greater numbers, which is reshaping retail in general.

I also now read my newspaper online, buy all my music online, listen to satellite radio exclusively, use Apple Pay for my purchases and if I could get cash from my phone instead of a bank machine, I wouldn't need to go into a bank for anything. What has happened to my world?! If this is starting to sound like you then you and I are now part of the new world order and I guess we had better get used to it.

What does this mean for investing? There is a new world order that is being dominated by Facebook, Amazon, Apple, Netflix, Google ("FAANG"), Alibaba, and Microsoft (for its cloud computing) that cannot be ignored. These are companies that are changing our world and everyone needs to be invested in them. Old world companies like newspapers, retailers, cable companies and movie theatres are all at risk in the future.

I noted that half of the presentations at the latest equity conference were focused on the new world order and new technological advances that might be expected in the future. It was all quite surreal to see what companies are inventing and developing for our lives that extend to all aspects of finance, lifestyle, personal assistants, health and beyond (imagine that being said in Buzz Lightyear's voice). At the forefront of these advances are the companies mentioned above.

A huge area of growth is artificial intelligence (AI). Don't worry ... no one is creating a robot that is going to think faster than a human and take over the world. AI is essentially using extremely powerful computers to analyze a massive amount of data for applications across all industries, from health care, to commerce, to retail, to marketing. As an example, AI is being used to consider multiple mutations of the genome system for predicting human disease where the mapping of a single mutation has only been possible so far. AI is going to be a game changer now and into the future and a competitive advantage to those who own the data,



which Amazon, Google and Facebook just so happen to own.

So what does football have to do with all this stuff? As I watch Tom Brady lead the Patriots into the playoffs for the ninth straight time, I realize that sometimes you just have to bet on the winners and stick with them. They might get knocked down sometimes and they might not always win every year but they will consistently be winners over time. I would argue the FAANG stocks are the Tom Brady of the equity markets and all investors need exposure to them now and in the future.

# Blocks, chains, and bitcoins ... What is all this about?

Bitcoin has been in the news lately so I thought I would give our readers a primer on cryptocurrencies and block chain. To understand cryptocurrency (e.g. Bitcoin), one needs to comprehend blockchain, which is a ledger of all cryptocurrency transactions.

Similar to a bank's ledger, a cryptocurrency blockchain maintains records of balances of individuals who hold cryptocurrencies. Unlike a bank, a blockchain can record transactions between two parties efficiently and in a verifiable way without the need for a central authority. The chain, or network, forms a public database that keeps permanent, digital records of all cryptocurrency transactions through computers spread across the globe.

## There are two defining characteristics of a blockchain.

The first is that it is a "decentralized" ledger. This simply means that no single entity has control over all the processing of transactions. This differs from a traditional centralized ledger, where operational control is maintained from a single location and transactions are verified by a central authority such as a bank or government institution. This independent verification leads to increased efficiency in processing transactions compared to traditional forms.

The second is that it is a "distributed" ledger. Simply put, this type of ledger is a type of shared, public or private database. This database is held and updated independently by each computer in a blockchain network. This increases the transparency of the database and in turn helps to maintain the integrity and accuracy of the database.

## How does a transaction work?

A blockchain transaction is first encrypted, validated by a network of computers, and then added as a new "block" in the database's record. Each transaction recorded on the blockchain refers to the transactions proceeding it, and this linked record is copied to all computers on the network. This makes manipulation of data and hacking significantly more difficult. If a hacker wanted to edit a transaction, they would have to also edit all related transactions on every computer on the blockchain network. This contributes to the blockchain being a highly reliable and secure ledger.

Bitcoin is one of many cryptocurrencies that run on a blockchain network. Bitcoin protocol dictates that there can only be 21 million coins in existence, however each coin can be divided into fractional amounts with the smallest amount being a hundred millionth of a Bitcoin.

Each time an individual wants to transfer ownership of digital currency to someone else, the transfer requires validation by "miners" who are individuals or organizations who have access to significant amounts of computing power that allow them to process massive amounts of data. Miners have to solve complex mathematical problems for the given block and validate the transaction. For their work, miners receive a fee based on a percentage of the transaction for each block they successfully solve.



In order to send or receive Bitcoin, an investor requires a "public address" and a "private key." When a Bitcoin owner wants to use their Bitcoin, a public address consisting of a sequence of letters and numbers is generated. The owner uses the private key to sign off on transactions and send the Bitcoin from their "wallet" to the blockchain where it can be traded for other assets.

Bitcoin can be used for commerce and the purchase of goods, they can be accumulated as a store of value similar to gold, and they can be traded for speculative investment.

# Team developments

A big part of my personal development in 2017 was to ask for help with my health, fitness and business.



To my surprise there are other people out there that actually know more than I do! I hired a personal trainer and have never been stronger. I have also hired a chiropractor, acupuncturist and naturopath and have never felt healthier. Finally, I engaged my firm in a review of my business and have undertaken measures to increase staffing, increase service levels and realign what everyone does on the team. This has helped my team take on more tasks that I previously covered, so I can concentrate on client acquisition, servicing existing clients, working in the community, being the “Chief Business Architect,” “Chief Investment Officer,” and overall “Grand Poobah.”

I have expanded the our team to six in the office with three additional professionals providing financial planning, insurance and estate planning advice as needed.

In addition to my new role, the roles on the team can be described as follows:

Nancy Andrews continues in her role as Associate Wealth Advisor and will be assuming more responsibilities as it relates to contacting and meeting with clients, overall team management and insurance planning.

Krista Deacon has assumed the duties of Executive Assistant and Associate Wealth Advisor to me, Miles, and will be assisting me with client contact and requests, overseeing our wealth management process, assisting with the preparation of financial plans, and marketing.

Tiffany Wallis will be assuming all administrative duties to support me and Krista, as well as responsibility for cash management, social media, our website, and booking my client appointments.

Fiona Dinoo is a welcome addition back to our team after her maternity leave. She will be assuming all administrative duties in support of Nancy as well as working on special projects and marketing for the team.

Jennifer Snoddon is also a welcome addition back to our team after her maternity leave. Jennifer is responsible for all trading on the team and assists me in our portfolio management services.

Our team continues to be supported by specialists at RBC Wealth Management: Kari Ross continues to provide financial planning services to our team. Tracey Goldie provides expertise in insurance and estate planning. Finally, Ariel Guigui is our wealth management specialist providing Will and Estate reviews to select clients.

We trust that these changes will provide the highest level of expertise and service to our clients now and in the future. We have also built capacity into our business in order to grow our practice through referrals from our community partners and clients. Your referrals to your friends and family are always appreciated. We are simply looking to have conversations with people like yourselves to see if we can help others with their wealth planning.

# Staying on course with your health and fitness

Courtesy of Mike Finigan, Pursuit Training, Whitby



New Year's resolutions almost inevitably include a renewed commitment to health and fitness. Try these four tips that will help increase the odds of success.

## **Schedule time for self-care**

This means making time for the gym and fitness, but it also means getting regular sleep and nourishing your soul with a little down-time, when you can. Put these dates with yourself in your calendar and treat them like you would an important meeting with a client or friend.

## **Ditch your excuses and replace them with positive vibes**

Do you tend to point fingers and have a hundred reasons why you're

not living your best, fittest life? When you find yourself making an excuse, stop! Instead, say the benefit of accomplishing the thing you're avoiding out loud. For example, instead of saying "I don't have the time to work out," try saying, "When I make the time to work out, I feel awesome."

## **Add one sustainable habit to your day**

Build some confidence by picking one change that you will focus on and achieve throughout the month. For example: eat a high-protein breakfast every morning or drink 12 glasses of water every day. Log your success and take some time to notice how your positive change

has impacted your body and mind. Once you've mastered this new habit, tackle another and build on your success.

## **Create a MONSTER playlist that will pump you up at the gym**

A great app to find exciting playlists and new music is 8Tracks. Users generate playlists for motivation, gym-going, running and any other activity you can imagine. Or you can make your own playlist with your top 10 favourite tunes. Whatever works for you, but some new jams will give you the beats you need to sweat it out and get in that last rep.

# Handy financial planning facts for 2018

Below you'll find some helpful information for this year's financial planning. All values are for 2018 unless stated otherwise.

Retirement	
Maximum CPP/QPP benefit at age 65	\$1,134.17 per month
Early CPP/QPP maximum benefit at age 60	\$725.87 per month (36% max reduction or 0.6% per month)
Deferred CPP/QPP maximum benefit at age 70	\$1,610.52 per month (42% max increase or 0.7% per month)
Maximum CPP/QPP contributions employer and employee	CPP \$2,593.80 each annually QPP \$2,829.60 each annually
Maximum CPP/QPP contributions self-employed	CPP \$5,187.60 annually QPP \$5,659.20 annually
YMPE – Yearly Maximum Pensionable Earnings	\$55,900
Maximum OAS benefit for Q1 at age 65	\$586.66 per month
Deferred OAS maximum benefit for Q1 at age 70	\$797.86 per month (36% max increase or 0.6% per month)
OAS clawback rate	\$0.15 for every \$1 of net income above \$75,910; the full OAS is eliminated at a net income of \$122,843
CANSIM rate	2.16%
RRSP – maximum annual deduction limit	\$26,010 for 2017 \$26,230 for 2018
RRSP – withholding tax on withdrawals	10% (20% in Quebec) for amounts up to \$5,000 20% (25% in Quebec) for amounts over \$5,000 up to and including \$15,000 30% (30% in Quebec) for amounts over \$15,000
Annual TFSA contribution limits	\$5,000 each year 2009 - 2012 \$5,500 each year 2013 - 2014 \$10,000 for 2015 \$5,500 for 2016 - 2018
Maximum TFSA contribution limit since inception	\$57,500 from 2009 – 2018

Education – RESP	
Maximum annual RESP contribution	Unlimited annual contribution up to lifetime maximum of \$50,000 per beneficiary
Maximum annual RESP contribution for maximum CESG	CESG of 20% on first \$2,500 of contributions per beneficiary up to a maximum of \$500 Maximum annual CESG of \$1,000 if there is unused grant room from a previous year Lifetime CESG limit of \$7,200 per beneficiary
Additional CESG on the first \$500 contributed to an RESP	CESG of 20% if net income is under \$46,605 CESG of 10% if net income is between \$46,605 and \$93,208

Government Links	
Canada Revenue Agency website	<a href="http://www.cra-arc.gc.ca/">http://www.cra-arc.gc.ca/</a>
Canada Revenue Agency General Help Line for Individuals	1-800-959-8281
Phone number and website for CPP and OAS queries	1-800-277-9914 <a href="https://www.canada.ca/en/employment-social-development/corporate/contact/index.html">https://www.canada.ca/en/employment-social-development/corporate/contact/index.html</a>
Phone number and website for QPP queries	1-800-463-5185 <a href="http://www.rrq.gouv.qc.ca/en/services/nous_joinre/Pages/nous_joinre.aspx">http://www.rrq.gouv.qc.ca/en/services/nous_joinre/Pages/nous_joinre.aspx</a>

## Working in our community

Two years ago, our team built our community into our business plan by committing to lend our time and expertise to a number of organizations, as well as providing personal funding where we could.

I, Miles, have just completed two terms on the Board of the Whitby Chamber of Commerce and was President and acting CEO during the hiring process for a new CEO. In addition, I have also completed two terms on the Board of Governors at the University of Ontario Institute of Technology (UOIT) and was Chair of Audit and Finance, and Vice-Chair of the Board.

Nancy is currently volunteering at Ontario Shores Centre for Mental Health Sciences and sits on the Women's Connect committee at the Whitby Chamber of Commerce. Krista is assisting at the Greater Oshawa Chamber of Commerce as well. Both are participants in 100WomenWhoCare in both Whitby and Oshawa.

Over the last couple of years, I have supported a number of organizations through donation, including Their Opportunity, Girls Inc. and UOIT. In particular, my support of UOIT will help advance their new Software and Information Research Centre (SIRC) building.

Thanks to a number of our clients, a small team of community leaders and I were able to raise \$116,500 in six weeks in the fall of 2017 for Their Opportunity, which puts underprivileged children in Durham Region in sports programs, for which these children “pay it forward” with at least one hour (averaging three) of volunteer service in our community.



Thank you for your ongoing loyalty to Goacher Wealth Management of RBC Dominion Securities. We would be pleased to provide a complimentary wealth management assessment or financial plan to any friend, family member or colleague you refer to us.



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