

The Thompson Letter



Wealth Management
Dominion Securities

Winter 2019

Greg Thompson, CIM

Vice-President & Portfolio Manager
204-982-3459
greg.thompson@rbc.com

Meredith Milne

Administrative Assistant
204-982-3932
meredith.milne@rbc.com

David Fisher

Administrative Assistant
204-318-1805
david.fisher@rbc.com

RBC Dominion Securities
3100-201 Portage Ave.
Winnipeg, MB R3B 3K6

Toll-free: 1-800-463-9775
Fax: 204-982-2649
www.thompsonwealthgmt.ca

Wealth management solutions
Private Investment Management
Retirement planning
Estate and insurance planning



A confluence of events

Equity markets around the world were sent into a tail spin over the last quarter of the year as a series of events shook investor confidence and sent them scurrying for the exit. It began with the continued war of words between the United States and China over trade and intellectual property rights, and the threat of increasing tariffs this March.

Global macro-economic concerns were then compounded by continued worries over the state of Europe. The European Union is dealing with Britain and having a plan that will lead to an orderly Brexit, as well as a confrontational new government in Italy that is trying to spend more than the EU would like.

The U.S. also has its own internal problems. The White House was not happy with the Federal Reserve Board Chair, Jerome Powell, whom they just recently appointed. The White House and investors are concerned that Mr. Powell may be raising rates too fast given the recent weakness in U.S. data points. They are concerned that further rate increases could be an error in policy that could tip the U.S. into recession.

The White House began musing aloud that Mr. Powell may be asked to resign because the present administration was not agreeing with his decisions to continue on the path of fiscal tightening. This was the final nail in the coffin. Equity and credit markets swooned. Global markets had their worst month since the Great Recession a decade ago and memories of that period likely extended the sell-off.

Of all the noise over the past month, trade talks with China are likely the most important issue. But it is my belief that the early morning twitter posts from the White House about Fed Chairman Powell's job security were the most damaging. One of the pillars of the free market system is an independent Central Bank that is unbiased by political partisanship and acts in the best interests of the citizens of

What happens in a minute

A confluence of events
Continued from page 1

that country. The thought that this core tenet may be under attack from the Oval Office shook the market to its core and the sell-off was on.

Through all of this, a steady head and hand is required to navigate through the noise. The market is telling us that longer-term economic growth projections are likely too high and may need to be ratcheted back. Investors may need to begin to consider tactical changes. For clients, I strongly advise that you read the direction letter I have included in your year-end review package where we discuss in detail the options that are under consideration for your portfolios.

As 2019 begins, Chairman Powell has become more dovish on his rate hikes and the White House has backed away from their talk of replacing him. More importantly, the early news from the U.S. has continued to show an economy that is strong. Over 300,000 jobs were created last month. This has steadied investors and markets have rebounded through the early weeks of 2019.

I do not make predictions on direction that the markets may go in the short term, but given the continued economic strength in the U.S., coupled with solid dividend and earnings growth, I (along with RBC Capital Markets) am one cautious bull. As always, time will tell.

The pie chart below essentially illustrates “an Internet minute” in 2018, and in many ways underscores our collective growing dependence on the Internet. The way with which the it (and technology in general) has come to dominate our attention with tentacles reaching into many aspects of our lives was one of the key narratives that emerged in 2018 (e.g., the growing digital detox trend). Underscoring the scope of activity and the Internet’s vast scale, the chart below comes from the World Economic Forum’s post of “The story of 2018, in 10 charts” and breaks down what takes place in an Internet minute across different platforms.

It is crazy to think all of that just happened while you were reading and perusing the last article. This chart is one of the reasons that, despite the recent weakness in the technology sector, I am a big believer that, longer-term, you need to have exposure to this ever-evolving sector.



Source: The World Economic Forum, “The story of 2018, in 10 charts”

Not even for my best friends

RBC Financial Services has recently partnered with David Chilton, author of the *Wealthy Barber*, to provide ideas and articles for our firm. One of the first things that David has produced is a short article on why he will not act as an executor for friends or family.

For many years, being named as the executor of a loved one's estate was deemed an honour. You had been bestowed from the grave the trust of the recently deceased. The reality is that being an executor can be fraught with long hours and uncomfortable decisions.

As David said in his article, "Trust me, dealing with all this is a job. A stressful job. A thankless job. A time-consuming job."

So what is the role of an executor? Acting as an executor means being responsible for an often lengthy, intensely detailed task list that bears with it not only the burden of ensuring a loved one's last wishes are carried out, but legal liability as well. Your overall responsibility as an executor is to administer the estate according to the deceased's final wishes as expressed in the Will and according to the law.

It may take about 18 months to settle even a simple estate, and the executor has to complete as many as 70 different tasks and duties. These

include finding and, if necessary, probating the Will, protecting and distributing assets, and paying outstanding debts and taxes. You will also have to prepare a final accounting for the beneficiaries of the estate.

This does not even account for the possible fall out from family members unhappy with the division of the assets or the time it takes for them to receive their share of the inheritance. It could also mean that you have a further ongoing role of a trustee if there are assets left to an underage child or spendthrift heir whom the recently deceased did not trust to handle their inheritance.

Remember also that you are a fiduciary, meaning that you will be held to the highest level of trust and integrity. You must always act in the best interests of the beneficiaries of the estate, and, if things go wrong, you, not they, are personally liable. It can be a thankless task.

We strongly advise that when planning or updating your Will that you either consider using a trust company to fully execute your last wishes or at least have the option where your named executor can turn to specialists as "Agent for Executor" to help deal with the thornier issues of probating the Will and disbursing the assets.

There will never be a perfect Will, but, with proper planning and ongoing updates of your estate documentation, you can help ensure that your final wishes are granted and that the family left behind remains a cohesive unit with fond memories of the dearly departed.

One last note on the role of the executor. If you have discussed the role with a close relative or friend and they have agreed to step in as an executor, allow them to charge for their time and services. It is a significant role and there should be remuneration for their efforts.

As David provides in his summation; "Plain and simply, I do not want to saddle my kids with the stress and workload of having to serve as my Will's executor. Especially when they're in the midst of dealing with the heartbreak of losing the greatest influence of their lives (okay, that's a stretch)."

If you would like to learn more about Executor Services, please do not hesitate to call us at 204-982-3459.

Final notes and quotes

Costco has sold out of Chef's Banquet Mac & Cheese. The 27-pound bucket has a 20-year shelf life and contains 180 servings. This tidbit has me wondering, what were the New Year's resolutions in the households who bought the Mac & Cheese ... The U.S. job market added 2.64 million jobs in 2018, making last year the third highest year for job creation since the financial crisis. Non-farm payroll data released on Friday, January 4 showed that there were 312,000 new jobs added in December 2018, which is the greatest hiring pace since February. That brought the total new jobs added in 2018 to 2.64 million, which makes 2018 the third-highest year for job creation since 2008 and 2000. It is only behind 2014 and 2015, which saw 3.005 million and 2.712 million new jobs added, respectively. Wages grew 3.2% year-over-year, the highest annual wage growth to end off the year since 2008. December unemployment came in above 2018 lows, but remained the lowest year-end reading since 2000. We continue to watch wage growth quite closely as stronger wages should be a positive sign for the U.S. economy ... **Well if this is January, I can take it. Despite a few cold days to allow the trails to be opened on the Red**

and Assiniboine Rivers, it has been a pretty warm winter so far. January passes a lot quicker when you aren't spending 30 minutes warming up the car ... For the first time in 10 years, the S&P 500 posted a negative calendar year return. Due to the long stretch of time in-between, it may be easy to forget that down years are pretty normal. Since 1950, the stock market has fallen in 14 different periods, representing 20% of the time ... **Did you know that the Tax-Free Savings Account limit this year has been increased from \$5,500 to \$6,000 bringing the total lifetime contribution limit to \$63,500? Tax bracket thresholds for 2019 have also been released. The federal 33% tax bracket will begin at \$210,371 in 2019, up from \$205,842 in 2018. On the low end, the basic personal amount for 2019 is \$12,069, up from \$11,809 in 2018 ...** For Canadian employees outside Québec, you currently contribute 4.95% of your earnings (up to the earnings limit) to Canada Pension Plan (CPP) via automatic payroll deductions. In return, the CPP provides a pension to you at age 65 that aims to replace 25% of your earnings up to the earnings limit. Effective January 1, 2019, your payroll deduction will increase from

4.95% to 5.10% if you contribute to CPP. Your CPP contributions will continue to increase gradually at the beginning of every year until 2025, in accordance with the transition schedule established by the government of Canada. The additional increased contributions are fully tax deductible ... **2018 was a tough year for investors and we are here to discuss your needs whether you are a client or not. The most important piece of equipment for successful investing is the 12 inches between the ears. If last year's market is causing you discomfort or distress then we want to talk to you. Markets are going to have down years and it is how you react that will make the difference to your longer-term investment returns. So again, if you need to talk, we are here ...** I hope everyone has had a great holiday season. Let's hope that cooler heads prevail and we can come back to discussing job growth and earnings announcements as opposed to walls and late night tweets. I hope 2019 brings you and your family many happy shared memories and of course a Stanley Cup for the Jets...

Happy New Year

Greg Thompson