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INVESTMENT & WEALTH MANAGEMENT
Today and for the Next Generation

With Nick Foglietta | March 27, 2017

Asset Prices Continue to Show Exhaustion

Stock markets around the world decided to take Spring Break too.

Trading volumes are quiet and price movements are muted.

As the title states, my interpretation of this example of quiet markets is the onset of "exhaustion".

All of the valuation metrics I follow are at their highest readings or second highest readings in history. Global real estate is clearly expensive versus income levels too.

Has the sentiment around investing in assets reached Sir John Templeton's "euphoria" stage…that remains to be seen until when the epilogue to this BULL market is written.

For now, my models remain Neutral on stock markets.

"Bull markets are born in pessimism, grow on skepticism, mature on optimism, and die on euphoria."

- Sir John Templeton

Tactical Equity Income Model Portfolio Record

Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 50% stocks 50% cash
S&P/TSX 60 Closing Value: 15,442
TSX 200 Day Moving Ave: 14,897

% Above/Below 200 Day Moving Ave: **3.66% Above**

Levels for change: to 100% stocks - **TSX 15,642** and 100% cash at **14,152**

In This Issue

US Interest Rates are Higher…Who Pays the Most?

As interest rates continue to work their way higher in the US we need to consider where the extra money comes from to pay for the higher mortgage rates.

Mark Hanson of Hanson Advisors published the chart below. The title gives away the answer to the question posed in the headline for this editorial section, but it is still worth working through the graphic line-by-line to see how it makes sense.

Note, the graphic assumes a 20% down payment for both scenarios.

It is my opinion that Canada will not see the same magnitude of interest rate increases as the US. Our economy is simply not as well balanced and our policies are not as pro-growth.

If I am wrong on this assumption and our interest rates begin to increase lock-step with the US…this could get interesting very quickly!

End-User, Mortgage-Needing, Shelter-Buyers Can Purchase 11% Less House This Spring vs Last Summer.
Q: Where Does the 11% Come From? A: Likely the Seller.

	July '16	March '17	CHANGE	
MORTGAGE RATE	**3.50%**	**4.750%**	**RESULT**	**RESULT %**
HOUSE AFFORDABLITY	**$302,000**	**$268,000**	**-$34,000**	**-11.26%**
Down Payment / Equity	**20%**	**20%**		
MORTGAGE LOAN AMOUNT	$241,600	$214,400	**-$27,200**	**-11.26%**
Rate	**3.500%**	**4.75%**		
Mo Payment	$1,085	$1,118		
Mo Tax & Ins	$315	$279		
Mo Pymnt w/Tax&Ins	$1,400	$1,397		
Other Mo Debt	$475	$475		
Total Mo Payments	$1,875	$1,872		
Mo Income Req'd	$4,375	$4,375		
Ann Income Req'd	$52,500	$52,500		
Allowable DTI	43%	43%		
Mo House Pymt *12	$16,795	$16,766		
All Payments *12	$22,495	$22,466		
DTI (this deal)	43%	43%		

Mark Hanson, Hanson Advisors, www.Mhanson.com

Using Individual Pension Plans to Increase Retirement Income

An Individual Pension Plan (IPP) is a defined benefit pension plan that must conform to the Income Tax Act (ITA) as well as the requirements of the Canada Revenue Agency, and is typically established by a company for a single person. By providing the maximum benefits permitted under the ITA, an IPP generally allows higher tax-deductible contribution amounts than those permitted under an RRSP. For individuals who wish to maintain their pre-retirement lifestyle when retired, IPPs are an effective way to accumulate tax-sheltered funds.

Who can open an IPP?

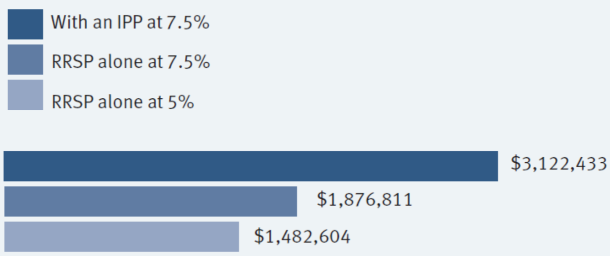
IPPs are designed for incorporated business owners and incorporated professionals, deemed to be “connected” members who directly or indirectly (through a spouse or family member) owns 10% or more of the company shares.

Ideally, the candidate will be between the ages of 40 and 71, will have been incorporated since 1991 and has earned T4 income since the date of incorporation. This will create eligible years of past service, beginning in 1991, allowing individuals approaching retirement to compensate for the years when corporate revenue was largely reinvested in the establishment and growth of the business.

Sample IPP Illustration

Contributions to an IPP assume a prescribed 7.5% rate of return. In this example, a 60-year-old business owner, who has 24 years of service with his sponsor company and a salary of $141,000, is saving until age 71. He can compare his projected income from an IPP versus an RRSP at the same or lower rate of return.

Past service with the company can be recognized as long as you transfer a portion of your RRSP into the IPP. If your IPP investment returns fall short of the prescribed rate, your sponsoring company makes an additional tax-deductible contribution to “bridge” the difference.



Required RRSP transfer to recognize past service in the IPP:	$535,600
Tax-deductible corporate contribution relating to past service:	$359,512

Source: Buck Consultants. For Illustrative Purpose. Results are not guaranteed

Beyond RRSPs: The benefits of an IPP

The key benefits of an IPP versus a RRSP are:

- **Greater accumulation of capital**
  IPP contributions for individuals 40 and older will be greater than the maximum allowable RRSP contributions

- **Tax efficiency**
  All IPP contributions, actuarial and investment management fees paid on a member’s behalf are fully tax-deductible corporately.

- **Greater control of investment returns**
  CRA assumes that assets in and IPP will grow at a net annual rate of 7.5%. To the extent the fund does not attain this benchmark in a given period of time, based on the participant’s risk profile and portfolio structure, the sponsoring company can make a tax-deductible contribution to “bridge the gap” between the prescribed rate and actual performance. In this manner the individual can accumulate a predictable pool of capital reflecting a net rate of return of 7.5%, on a tax-assisted basis.

- **Security**
  The assets held in an IPP may offer potential protection from creditors. It is essential that you speak with a qualified legal advisor regarding any asset protection options available to you.

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Nick has been managing money since 1988.

Contact Us

Give us a call for more information about our services and products

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