

# The Dream Achiever



MARCH 31, 2017

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What is in a title? Hopefully certification.

*"When investing,  
pessimism is your friend,  
euphoria the enemy."*

~ Warren Buffett



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## Federal Budget 2017

On March 22, 2017 the Liberal Government read their second federal budget. There were no changes to the 2017 personal income tax rates and the brackets were again indexed to inflation.

For individual tax payers, there was a consolidation of caregiver credits (merged 3 programs into one), the elimination of Canada Savings Bonds, elimination of the Public Transit Tax Credit and home relocation loan deduction, and the expansion of the tuition tax credit for occupational skills courses that are not at the post-secondary level. Employers will now be allowed to distribute T4 information slips electronically to current employees without having to obtain express consent from them beforehand.

On the corporate side, there was a change for certain professionals to compute their income on a "Work In progress" basis and a review of some tax planning strategies involving private corporations. (eg. Holding passive investments inside of a holdco, or sprinkling income over family members with lower tax brackets)



## Will a spring fling lead to a summer sting?

Spring is all about new growth and hope. As we look outside the last bits of winter are melting away and we will soon see flowers blooming in the gardens. Unlike last year which had one of the worst starts in recent memory, 2017 has started off strong. Almost all global equity markets have continued their upward trend riding the sometimes inexplicable "Trump Bump". Investors have remained optimistic that the changes promised during his campaign will continue to be a tailwind for both the economy and the stock market. Global economic data has looked better and emerging market equities were particularly strong.

In the first quarter of 2017 the Canadian TSX composite finished up 2.41% but was dragged down by the energy sector which represents more than one fifth of the market capitalization of the index, the American S&P 500 was up 5.48% (in CAD\$), MSCI World was up 5.79% (in CAD\$), and FTSE TMX CAN Univ Bond index was up 1.24%. \* The CAD\$ rose 0.88% in the quarter versus the USD\$ (rate on March 31<sup>st</sup> was \$0.75 CAD/USD). This relative strength of the CAD\$ decoupled from the price of oil as rising North American energy stockpiles helped drive prices lower as did perceptions of OPEC's commitment to curtail production.

In the US, equity markets advanced to all-time highs supported by positive economic data and President Trump's plans to cut taxes and regulations. However, the failure at the end of the period to pass revisions to the healthcare legislation did plant doubts about the administration's ability to implement some of its policies. The Federal Reserve raised rates by a further 0.25% at the March meeting reflecting the improving outlook for growth and inflation. The market still forecasts two more rate increases for 2017. When looking at the valuations of US stocks via the S&P500 forward P/E ratio we see that it is now well above the 25 year average, so the market is not considered cheap by this measure. Many managers are now looking outside of the US market when looking for stocks with more reasonable valuations. One large variable yet to be defined is the Trump protectionist trade policy which may factor into global stock valuations over time.

In the bond markets, high yield corporate bonds performed particularly well, while government bonds were more mixed. Data showed real economic activity continued to pick up with further evidence of synchronized global inflation underway. The shift towards monetary policy normalization continues with the Fed raising rates and the ECB signaling that it sees less need for accommodative policy going forward.

On March 22 there was the release of the 2017 Federal Budget. There were not many drastic changes, but some of the main points can be found highlighted in the left margin of this page. Probably the biggest news was what wasn't in the budget. There had been lots of speculation that there would be a change to the capital gains inclusion rate which never came to be. Quebec delivered a balanced budget on March 28 and a few key items affecting most would be the 2017 increase of the zero-tax threshold to \$14,890 (this equates to a \$55 income tax cut) and the elimination of the health tax retroactive to 2016 for people making less than \$134,095. If you had already filed and paid that tax for your 2016 taxes, you should receive a new notice of assessment by June 30<sup>th</sup>.

## Market Overview Continued

This brings me to a question that we've been asking ourselves and our clients a lot lately: ***“Does the market currently have more of an upside risk or downside risk?”*** Our answer to that question is, even though this market may continue upwards for some time, that there is more downside risk. With the extended length of this bull market (now over 8 years old – second longest since 1926), higher stock valuations, geopolitical risks, and the fact that most prices reflect all of the U.S. government “promises” working perfectly, we feel that it is just prudent to protect the portfolios on the downside right now. So does that mean you should be shorting the market or moving everything to cash? Definitely not, as it reminds me of an old market saying, ***“The market can remain irrational longer than you can remain solvent.”***

Our core positions are conservatively positioned knowing fully well that this may result in leaving some of the irrational upside on the table, but knowing that true wealth is also built by protecting your assets when the market does eventually move in the other direction. As always, we are here to answer any questions or concerns that you may have with regards to your situation.

## Planning items

- **Tax Return deadline:** May 1, 2017
- **RRSP Contribution Room for 2017:** Please provide us your room for the 2017 tax year when you receive your 2016 Federal Notice of Assessment. The maximum limit for 2017 is \$26,010. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2017 room now available.
- **Tax Free Savings Account (TFSA):** A new \$5500 of room available since January 1, 2017. Total room since 2009 is \$52,000.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2017 (born in 1946) will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done if you haven't done so already.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.



## The Planning Corner – What is in a title? Hopefully certification

In late March the CBC ran a story covering a reality that I have always found to be a little crooked in the financial services industry with regards to the use of titles. In their report they mention that many banks are using titles for employees in a deceptive manner. It explained that some are using the title of Financial Advisor rather than Financial Adviser. It turns out “Advisor” spelt with an “o” is an **unregulated title** that anyone can use whereas the title “Adviser” spelt with an “e” can only be used if the employee has a fiduciary responsibility to the client.

The report mentions how a client was referred to a “Vice President” to deal with his account after he threatened to leave the bank only to find out the V.P. was registered solely as a “dealing representative” – a salesperson often only selling what the banks want.

In order to call yourself a Financial Planner in Quebec you need to be recognized by the Institut Québécois de Planification Financière (IQPF) and **in the rest of Canada anyone can use the title** but the equivalent is the CFP title managed by the Financial Planners Standards Council. Then you know that you are working with a professional who can explore the 7 aspects of financial planning: Integrated financial plan, Legal aspects and Estates, Insurance & Risk Management, Finance, Taxation, Investments, and Retirement.

In Quebec, titles are regulated by the AMF via the “Act respecting the distribution of financial products and services” but in the rest of Canada there are fewer restrictions. You could use “Financial Wizard” as a title on your business card. No wonder there is confusion for investors when there is no consistency. Educate yourself to make sure that you are deal with a certified financial professional with education, experience, accreditations, and your best interests at heart.

**DD Humes news:** We are excited to announce that **Danielle Mills** attained her Financial Planning designation in February. She is our 4<sup>th</sup> planner on staff. Our long standing employee **Frances Legault** has taken her retirement. We thank her for her years of loyal service.



### Disclaimer:

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call **David Humes, Matthew Humes, Chantal Massicotte, or Danielle Mills** to discuss your particular circumstances.

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\*Source: Morningstar Canada