ELAINE'S NEWS & VIEWS

DEC 2015

New Local Telephone # and a Ton of Free Parking!

In my last 2 newsletters I told you that my former branch manager, Brendan Enright, and my older son, Jordan Royds, are both working with me and Magda. Unfortunately there isn't enough room at our King St office for us all. So, we move Dec 14 to a bigger office halfway between our present King St W location and my former office in Dundas. The new place has a ton of parking, no steps and a 5 yr lease. The new office is on Main St W between McMaster University and the town of Dundas, in a low rise office tower opposite the old CNIB, attached to a plaza with the HMESCU (credit union) office, a World Gym, the Futon Shop, Baskin Robbins etc, and where Crabby Joe's was before it burned down. The toll free number stays the same. The new contact information is as follows:

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You should also know that in addition to our normal Manulife Securities Incorporated financial planning business, we will continue to do some insurance business out of the same office space – me for Manulife Securities Insurance Inc. and Brendan for National Financial Insurance Agency Inc.

And don't forget that when I am out of the office, like I will be during the week of Jan 18, 2016, Brendan will handle any emergencies you may have.

Do You Make Over $200,000?

Time is running out to do tax planning with your accountant to take advantage of the lower tax rates of 2015 compared to 2016. The new federal government said they would increase the tax rate of those who earn over $200,000 by 4%. In early 2016 if you expect to withdraw money from your corporation, plan to trigger capital gains or take out RRSP/RRIF income, you may want to trigger this taxable income in 2015 to save the higher tax rate of 2016. Remember that sales of securities must occur by Dec 24 to settle in time to count as a 2015 transaction or to be withdrawn to count as 2015 income.

Wait for All Your Tax Slips

If you don't wait till you receive all your tax slips, you could end up having to file a tax amendment or pay a fee for late payment. One thing you can do to help determine if you have received all your tax slips is to check the end of year statements for all your unregistered accounts (ones ending in the letter A that aren't RRSPs, TFSAs etc) that each fund company will send you in January. Look at them carefully and they will tell you if any fund company has paid a dividend that will need to be declared on your taxes, or if you have sold any units through the year which could require the reporting of capital gains.

Ethical Investing

Everyone has a different definition of what constitutes ethical investing. Some people don't want to invest in "sin" stocks, like tobacco or alcohol producers. For some there could be no acceptable investment in oil companies because of the associated pollution, and for others it would be okay to invest in the least polluting of the oil companies. Ethical investors often focus on fair labour practices, especially in developing countries. If you share these concerns, we do have a selection of investments which try to invest more ethically. Let me know of your interest and I shall be glad to show them to you.

Economic and Market Tidbits

Going into December, the S&P/TSX 300 Canadian stock market index was down 9% for the year. Canadian banks were way more reasonably priced than last year and oil, gas and mining companies had caused most of the loss. Thank goodness we have over-weighted foreign investments.

RBC just became the first Canadian company ever to have more than $10 Billion profit in a single year. Still there is concern about the increase in loan defaults in Western Canada and about the possibility of greater loan losses for banks, especially since the government is pulling back on its CMHC mortgage insurance protection for financial institutions. U.S. banks are still more reasonably priced and don't appear to have potential bad debt problems.

Emerging Markets have only traded at such cheap prices as today, in terms of the Price compared to the Book Value, 5% of the time in the last 20 years. At these valuations, Emerging Market stocks are 30% cheaper than stocks in developed countries. The last time prices in Emerging Markets were so inexpensive, the companies were not so profitable nor so deserving of higher valuations. Sooner or later I expect prices to rise to reflect the underlying value. *Source: RBC Global Asset Management*

The average length of a recession between 1948 and 2007 has been 11.1 months. The average length of an expansion between 1948 and 2009 was 58.5 months. So for our investments in stock markets, which reflect economic strength or weakness of the economy in general, if we just outwait any recession (not that one appears imminent), we can enjoy the longer growth period that has always followed. *Source: Manulife Asset Management Oct 15/15*

American stock markets have not had negative returns for a calendar year for 7 consecutive years. The U.S. missed the 2011 correction that Canada had. This is the first time in history for American markets that this has ever happened. So, don't be surprised if U.S. markets take a hit sooner than later, but that won't necessarily mean that the economy is slipping into a recession or that markets will stay down. Markets always take breathers and temporary steps back, and it is important not to panic or change your investment strategy when they do. *Source: NEI Investments*

The S&P 500 (a major U.S. stock index) has averaged intra-year declines of 14.4% between 1980 and 2014 even though the annual returns were positive in 26 of those 34 years. So, we should not panic every time the market falls over 10%. We are going to see lots of falls like that and most will be short-lived. Just look at them as buying opportunities. *Source: Manulife Asset Management Oct 15/15*

Putting incomes in perspective in Canada: 2013 average FAMILY incomes (all types of families including singles and retirees)

Lowest 20% of incomes were $13,100 or less
Next 20% were $13,100- $37,000
Middle 20% were $37,000 to $66,500
2nd highest 20% were $66,500 to $111,600
Highest 20% were $111,600 or above

"One of the prevailing myths of the middle class is that your kids will do better than you. If a university degree (or two) is no guarantee of full-time work, if houses cost more, if starting salaries are lower, if retirement won't be cushioned by traditional defined-benefit pensions, then passing on the same – or an improved – standard of living becomes that much harder. … And if middle-income Canadians can't afford homes, then perhaps the definition of middle-class will morph to reflect this. …Canadians in their late 20s and early 30s will have to save, on average, five years longer to produce a down payment, and work one month a year more than their peers in 1976 to cover their mortgage. And according to a June report from the Canadian Centre for Policy Alternatives, thirty-somethings are the only age group with a lower over-all net worth in 2012 than they had in 1999." *Source: Globe & Mail Sept 19, 2015* Frankly, I don't see it getting easier for the generation after that either. Now that there is global competition and people in other countries are willing to work more cheaply than Canadians are, I think there will be continued downward pressure on Canadian incomes and "cheap goods" made by people getting paid pennies a day will disappear and poverty may lessen in developing countries as wages improve.

"When the S&P 500 index fell by 5.3 per cent at its lowest point, some index ETFs, which are designed to follow that pool of stocks, exhibited far worse losses. The iShares Core S&P 500 ETF, for example, fell by as much as 26 per cent in morning trading. *Source: Globe & Mail Sept 5, 2015* So, all those who are following the trend of buying the index through ETFs, rather than having active managers seek out well-priced stocks to buy, may have some surprises in store. Holders of bond ETFs may have the roughest ride since the bigger bond issues held inside ETFs are considered over-priced to begin with (as a result of the extra demand for them caused by the creation of ETFs).

Was there a recession or not in Canada in 2015? Technically a recession is when the GDP (Gross Domestic Product) of a country is lower for two quarters in a row, as Canada's GDP was. However, there are lots of reasons why economists said that Canada was only in a "technical" recession, namely: there was an increase in jobs in Canada, average hourly earnings were up and grew at a faster rate than in the last 3 years, and corporate Canada is increasing full-time employment over part-time. *Source: Globe and*

Mail Sept 5, 2015 As usual there are two sides to Canada. The industrial part that is doing better with the weaker dollar, and the mining and resource sector that is suffering from excess supply in the world and low commodity prices. In the third quarter of 2015 Canada had GDP growth which means the technical recession is over.

Final Notes

I am working over the Christmas holidays and taking time off to go skiing with my sons and future daughter-in-law in mid-January instead. So I am available for phone calls and appointments over the holidays.

I would like to thank you for all your votes of confidence. I have never had so many new clients referred to me as in this year. I met some really lovely and interesting people. That extra busy-ness and the increased paperwork due to more industry regulations are part of the reason I hired lots of new help. For office meetings I try to have Brendan and/or Jordan present, so one of them can focus on the paperwork, while I focus on the planning and investment recommendations. I think everyone is happier when the paperwork takes less time in the meeting. And then later, if I am in a meeting or away listening to a fund manager or doing other training, Brendan should be familiar enough with your account and objectives to help you with any emergencies in my absence.

Happy Holidays to you all and stay safe.

Elaine

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