Manulife Securities

ELAINE’S NEWS & VIEWS

OCT 2015

WHAT HAPPENED TO MARKETS LAST QUARTER AND WHAT IS NEXT?

In the first 3 months of the year we got pretty strong gains, almost enough for a full year’s worth of gains. In my Apr newsletter I wrote a reminder to you, underlined and bolded, in my newsletter that we were overdue for a correction (a significant down market) even though the economies of the rest of the world still seemed to be improving. Right after that, resources, especially oil, got hurt in the market and the Canadian stock index tumbled. In general my clients’ portfolios were barely touched because we are so heavily weighted in foreign investments and our value strategies are more defensive than the market. In fact, right through August our portfolios stayed pretty stable even though markets were tumbling and many Canadian bank stocks were down about 18% for the year. Then Sept happened. The Canadian S&P TSX stock index registered a loss of almost 10% year-to-date and the U.S. S&P 500 stock index was down almost 7% for the year, dropping 10.7% just in Sept. So while our portfolios with their tiny Canadian exposure were hardly hurt through till August, we did drop in Sept when the U.S. market tanked. Our fund managers did their job in giving us some downside protection and less volatility than the market as a whole.

In the last 2 weeks I have been going to a lot of industry seminars. Yesterday I got to hear the economist whom I most trust in the world. What he predicts usually happens. This fall he said he expects continued high volatility till mid-Dec, but that this market pullback does not signal a weakening of the U.S. economy. China will take a while to adjust to the slower growth it has been experiencing. Canadian banks may no longer be overvalued, but Canadian resource stocks will have to wait a long time for a full recovery. If oil has a nice rebound, he recommends taking the opportunity to sell one’s resource holdings. He doesn’t see oil above $65 or $70 for a decade.

So, there doesn’t seem to be any reason to stray from the strategy we have been following and this down market doesn’t appear to indicate an end to improving economies and long term growth in the stock market.

WHAT IS AVERAGE FOR CANADIANS AND OTHER INTERESTING STATISTICS

- In 2012 the median net worth for Canadian families was $243,800, with most of that worth tied up in their homes
- People in their thirties are the only people with lower average net worth in 2012 than the same age group had in 1999

- People in their late twenties and early thirties will need to work and save for 5 yrs more to accumulate a down payment and work one more month a year to make their mortgage payments than people that age had to back in 1976
- We can not necessarily expect our kids to do better than we did. Today a university degree (or more than one) does not guarantee a full-time job. Houses cost more and starting salaries are lower. Today's young people cannot expect a defined benefit pension like some of the 30% of people retiring with a pension are getting these days. Our children's standard of living may never equal ours. [My opinion is that this is because of global competition. In the old days North Americans had good standards of living because of cheap imports from continents where people made next to nothing. Now those people on other continents are better educated and are able willing to do jobs North Americans have, or used to have, for way less money. We either compete by working for cheaper wages to keep those jobs in North America (thus accepting a lower standard of living) or the jobs go elsewhere and our unemployment rate increases (reducing our standard of living even more). Teaching our kids how to successfully compete against the rest of the world for jobs and/or to urging them to take jobs that cannot be done from elsewhere in the world – like in construction- may be the best gift we can give to the next generation.]
- In 2013 the 20 % of lowest income earning families made $13,100 or less. The next highest 20% of families earned up to $37,000. Middle income families made between $37,000 and $66,500. The second highest 20% of families earned between $66,500 and $111,600. The top 20% of families made more than that.

The Globe and Mail on Sept 19, 2015

FINANCIALLY COMFORTABLE FINAL YEARS

According to The Globe and Mail on Sept 30, 2015 by 2036 40% of Canadians will live to at least 90 yrs of age. That means people will have a lot of years to support themselves in retirement. And, 57% of Canadians over age 84 have limitations to their functional capacity and need assistance, which often means an increased cost of living. With people living longer, financial planning is more important than ever to ensure that people don't live their final years in poverty while they are already coping with deteriorated health.

TRUSTEE FEES

On your June statement was the notice that the annual registered account trustee fee would be charged in Sept. ($150 plus HST for nominee registered accounts, charged once per SIN rather than per account. The fee is for a TFSA alone is only $50 plus HST) You will see that the fee did come out this past month, except for those who held enough Manulife Asset Management Funds before a certain date and who are exempted from the fee for that reason.
It is tax efficient to let the annual trustee fee be paid out of your account, so I don't recommend the option of paying by cheque in future years.
Just so you know, one of the other brokerages charges $250 plus HST per registered account. So someone with a TFSA, RRIF, spousal RRSP and Locked In account could be paying $1130yr. Another Canadian brokerage charges $250 plus HST per account with a minimum $625 charge.

TAX LOSS SELLING

If you have an investment in an unregistered account (typically with an account number ending in the letter A), and you have a security which is down from the amount you paid for it, you may be able to sell the investment before noon on Dec 24 (which may be the last time to trade for settlement in 2015) to trigger a tax loss. You could use this loss to reduce 2015 taxes if you have any capital gains in 2015 to offset the loss. If you think this may apply to you, please call me to discuss it.

TESTAMENTARY TRUSTS AND REVIEWING YOUR WILLS

Before the last federal budget, it was possible to leave your estate to your heirs as a testamentary trust established by your will. There were tax and other advantages to leaving monies to your heirs this way from larger estates. The last budget took away the tax advantage and made taxation more onerous on trusts older than 3 yrs old. So, if you have a testamentary trust account at MSI, I will be contacting you to unwind it. If your will is designed to create a trust or trusts on your death, you may want to review your will with your lawyer. Unfortunately for minor children who are inheriting, I know of no way around taxation at the top rate for anything they inherit while it is held in trust for them.

CHANGING FACE OF FINANCIAL SERVICES

In Canada our regulators are looking at emulating changes made in other countries like the U.K., Australia and Holland. One of the things the regulators are doing is making sure that clients get full details on fees and charges. That is good. Then clients can determine if they are getting more service or better advice from any advice channel which charges premium fees or if they are paying reduced fees where they are getting negligible or less well informed advice. Some of the proof that clients need better disclosure is that in Britain before the reforms were made 87%, of bank clients thought the advice they were getting was free. They did not know of the existence of the embedded fees that actually pay the banks for the time their employees spend with clients. I have heard the same comment from Canadians: that there is no cost to invest through the banks. And yet, the Management Expense Ratios (MERs) charged on mutual funds issued by banks and sold through the banks are virtually identical (and sometimes higher) than the MERs on the same bank issued funds if bought through independent advisors.

The unfortunate side effects of the changes regulators made in Britain (which are being considered here) were that many advisors left the industry (more than double the percentage of bank advisors left than independent advisors) creating a shortage of advisors. This resulted in increased revenue for the average advisor who remained, but some firms and advisors started to refuse to open accounts for less profitable smaller clients, and 60,000 people were told their accounts were no longer eligible for service by advisors. In Canada we have already seen two major bank owned brokerages increase their ongoing fees (changing 1% trailer fees on accounts under $500,000 to 1.5% annual fees in fee based accounts) and minimum account sizes are now often in the $250,000 range. These increases may be happening to protect dealer profitability in anticipation of changes by the regulators. (I know of no such move being planned by Manulife.) It is great that fees are being made more explicit. But if some dealers are increasing the fees paid at the same time, is this two steps forward and one step back?

Even though it has become more expensive to manage accounts for clients, I hope to still be able to help those with quite small nest eggs, and help the children of clients who are just getting started, by sharing the work on such accounts with others on my staff as they become qualified – specifically with my new team members described below.

THE TEAM GREW AGAIN

In Aug, my former branch manager, a CFP named Brendan Enright, left Manulife Securities Head Office to come work as a financial advisor with me. If I am on vacation or tied up in meetings, he will be able to help you with anything that my admin assistant, Magda, cannot take care of. He and I have agreed to a 5 yr training program so I can teach him what I learned through experience and help him to learn my investing style.

In Sept, my older son, Jordan, left his previous profession to come work with me too. He is starting his formal studies and beginning a 5 year training program with me. It seems he already learned a fair bit about investing and planning just growing up under my roof. I am glad he now sees what a fascinating job I have and hope he will love it as much as I do.

Between the 4 of us, I hope we can service all your financial needs even as the paperwork burden caused by new regulations continues to increase.

Elaine

L. Elaine Royds, MBA, CFP *Senior Financial Advisor, Certified Financial Planner*

Manulife Securities Incorporated, Manulife Securities Insurance Inc., 288 King St. W., Hamilton, ON L8P 1B1

(905) 575-7222 or 1-855-640-1857 Fax: (905) 575-7679 E-mail: elaine.royds@manulifesecurities.ca

Assistant: Magda Jara extn 26 magda.jara@manulifesecurities.ca