ELAINE'S NEWS & VIEWS

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ECONOMIC OUTLOOK AND THE MARKETS

As of Sept 30, the return for the S&P TSX stock market including dividends is only 1.3% for 2018. Emerging Markets have had a bad year, but are still considered undervalued and full of potential. The German, Hong Kong, and British markets are all down, and the Canadian dollar is down relative to the US dollar so far this year. World markets are up a very moderate amount and the US markets are up nicely, in part thanks to major corporate tax cuts, but also because American corporate profit is up about 15% in 2018. World market declines occurred right after each world trade shocks, which didn't hurt the US market. Usually it was the US causing the trade shock (like announcing the cancelling of NAFTA).

Oil is up significantly, as measured by the West Texas Crude price per barrel. However, the price for Albertan oil, which used to sell for about $9 to $15 per barrel less than West Texas Crude is selling for a $38 per barrel discount. The severe increase in the discount for Canadian oil is related to our lack of pipelines. We cannot get Canadian oil to refineries, so there is a glut of it in Canada. So the rise in the price of oil in the US has not brought great profits to Canadian resource companies. Some analysts say Canadian resources are undervalued now and represent an opportunity, but other analysts see no reason why Canadian resources should do well. And the massive resources the government is using to improve infrastructure to transport oil will take years to help Canadian oil prices.

Similarly, liquid natural gas has even had negative pricing (they couldn't even give it away for free?), because there was no way to transport it from Alberta to B.C. to ship to Asia. Almost $50 Billion in infrastructure spending by global players was just announced to address the issue in Canada, but again it will take years to bear fruit.

Interest rates rose in the US again in September and are expected to rise again in Dec. Canadian interest rates are expected to rise in Oct. The rise in interest rates means the interest rates paid on Guaranteed Income Certificates (GICs) have gone up making them a slightly less undesirable option to equities (stock based investments). As a result, the price of equities has fallen or is expected to fall about 10%. So while increasing profits have an upward pressure of 15% on stock prices, interest rates have a downward pressure of 10%, for a net expected gain of 5%. With dividend yields around 2%, returns going forward are estimated to be about 7%, or less than long-term historical returns. And indeed that is what our fund managers have been predicting for quite some time.

There are still no signs of an impending recession or market crash. The big Canadian banks' economists are no longer calling for a recession in 2019, but perhaps in 2020 or later. Most analysts and managers agree that late 2020 should be the earliest we could see a US recession, and maybe not till many years later. The Canadian economy could be in a different situation. So much of our economy is dependent on resources, which aren't in short supply around the world. And our manufacturing still hasn't recovered from the days of a Canadian dollar trading for more than $1 US. Luckily almost all of my clients are underweight Canadian equities and have benefited from the drop in the Canadian dollar and the stronger global and U.S. markets.

Of course a major policy error could throw things off-side. But even Trump's assault on global free trade will take a while to put the brakes on the U.S economy. As tariff's increase the cost of inputs for manufacturing, the sale price of products will increase and cause inflation. With higher prices for goods, other countries will import less from the U.S. and eventually U.S. profits will fall, production and employment will fall too. Inflation and rising unemployment like that usually precede a recession.

There are many leading indicators that change before the coming of a recession. Right now most of the signs are far from pointing to a recession. There is one that is hovering near a condition that usually precedes a recession by about 10-24 months. The current yield curve is getting close to inverting. If you want to learn more about inverted yield curves, there is a wonderful explanation on this website: www.visualcapitalist.com/explainer-markets-worried-yield-curve/. The yield curve actually has to invert, which is where 2 yr Treasury Bills have a higher yield than 10 yr Treasury Bills, for 9 months before it I considered a precursor of a recession. So the very short period we have when the yield curve inverted and then returned to normal, is not considered a warning sign.

You may read in the paper that someone or other is predicting a market crash. Let' me remind you of some past calls for a crash from very credible organizations or media sites. MarketWatch said in Aug 2012 that we should be prepared for a correction or worse. In May 2012 Pimco, the largest bond manager in the world at the time, advised selling all risk assets, meaning stocks. Barrons, a premiere financial publication for those in the industry, called for a 20% correction back in Dec 2013. Societe Generale, one of the world's largest banks, called for the US stock market to drop 75% back in Jan 2016. I could go on, but you get the picture. There have been many calls for disaster and no such disaster happened. Someday someone will call for a correction and it will actually happen. And if we haven't listened to them and are still in the market, we should still be fine. Our portfolios will go down and we'll wait for a recovery. For those taking an income from their savings, per the income matching strategy we should have set up, there should be lower volatility holdings in place that we can withdraw from, until the assets that dropped the most recover. And using mostly a value strategy, like Growth At a Reasonable Price, should also help us fall less than the market, making it easier to recover later.

Source: S&P Dow Jones

Looking at the long-term, say 25 yrs, it's interesting that Andrew Coyne, a columnist in the Globe and Mail predicted on Sept 29/18 that we will see at least 1 of Newfoundland, Manitoba and Nova Scotia go bankrupt. The Parliamentary Budget Officer's "Fiscal Sustainability" report says the trend of those provinces is to just about triple their debt in 25 yrs to over 100% of GDP (Gross Domestic Product) which is totally unsustainable. Manitoba had trouble in the 90s with debt only at 60% of GDP.

So Jordan and I still believe in overweighting global and U.S. equities (stocks) and remaining fully invested. Our value style investments might underperform some high flying momentum funds (although they haven't seemed to be underperforming yet), but it will be worth it when eventually a correction does come (recessions bring market corrections), because value style investments generally don't drop nearly as much. And softer landings in a fall are much easier to bear and to recover from.

DO YOU HAVE ENOUGH SAVED FOR RETIREMENT?

J.P. Morgan put together a chart of how much people should have saved by a certain age to have an 80% chance of their savings lasting 30 yrs after retirement. The chart assumes that your savings earn 6% annually and that you *continue* to save 10% of your yearly income until you retire at age 65. It also assumes that you need the same income in retirement as you make when you are working. This isn't usually the case in my experience. Most people who are 40 still have mortgages to pay and perhaps kids to raise, but they won't have these expenses in retirement. I assume the chart was meant for people with no employer pension either. Even though I think the numbers assume far too much or skip too many steps, I thought you would be interested in what one of the largest financial institutions in the world published for people to check their progress. I'd be glad to calculate with you whether you are on track to have enough for retirement, based on your specific situation. Just call me to set up a discussion time.

	At this Income:					
	$50,000	**$75,000**	**$100,000**	**$150,000**	**$200,000**	**$250,000**
At this age:	You'd need this multiplier of your income					
35	0.9	1.6	2	2.6	3	3.4
40	1.6	2.4	2.9	3.6	4.2	4.6
45	2.5	3.4	4	4.8	5.5	6
50	3.5	4.6	5.3	6.3	7.1	7.7
55	4.7	6	6.9	8.1	9.1	9.7
60	6.2	7.7	8.8	10.2	11.4	12.2
65	8.1	10	11.3	13	14.5	15.5

RECEIVING SECURE EMAILS FROM US – A CHANGE

Recently I got an email from someone in the US asking me to confirm the amounts shown on a statement that bore one of my clients' names. Of course I would never make such a confirmation without the client's direction to do so and I wouldn't even confirm that the person was a client. The person who sent me the email was trying to confirm that my client had agreed to guarantee funds for a Nigerian student's tuition. In looking at the statement I could tell it was an old Manulife Securities Incorporated statement that was doctored up to appear that if was for this person. What was most disturbing was that some of the information was correct or had been correct a few years ago. The university employee asking for the confirmation also claimed to have a copy of my client's passport.

Did someone steal a discarded statement from a garbage can or a mailbox? How did they get passport info? We'll never know. But I hope this incident will make you vigilant about shredding even old statements or anything with your banking or investment information, or with your SIN or signature on it. And remember, only financial institutions that might have to report information to CRA (formerly Revenue Canada) should be asking for your SIN. While I'm on the subject of SINs, don't carry your SIN card with you. If your wallet is stolen, even more could be stolen from you later, if the thief got his/her hands on your SIN as well as your driver's license and possibly a credit card.

The best way for my office to send you copies of any documents you signed (after my branch manager has approved the forms), is through the website where you can see your account on-line. That is an encrypted website and we can send your document copies there. You just get a notification that you have something waiting for you on the website. You have to log-in to seen the copies. You can print them, delete them or ignore them. If you didn't choose this option when your on-line viewing was set up, it isn't too late to change it. You can change it on-line. By the way, all Manulife storage servers are located in Canada, so subject to Canadian data security regulations.

Not all of you have or want on-line account access. There is another way we can send you secure copies of your signed documents, and we will be starting to use that way in October. We will be sending you encrypted e-mails that use 128 bit TLS encryption. You will get an email from Proofpoint that says you have received a secure encrypted email. That will mean you got something encrypted from my office. There will be a weblink in the email that takes you to a secure web portal. The first time you go there, you will need to create a user ID, a password and a security question and answer. Please use a strong password that won't be hacked!

After that, you'll be able to see your secure email. You can upload attachments and reply using the secure encryption service.

So don't be surprised when you get an email from Proofpoint asking you to click on a link. It's a legitimate e-mail from us. (We will send regular e-mails about appointments and with non-confidential information in them the regular way, unencrypted.)

AN OFF TOPIC TIDBIT

The Globe and Mail reported (on Sept 24/18) that a number of studies have shown the Uber and Lyft have increased the number of vehicles by 180% in cities. This may be because once the costs of car-for-hire transportation drop, more car-rides are purchased. This is causing municipalities to contemplate making public streets pay-for-use.

Self-driving cars have been found by actual drivers to be annoyingly slow, missing opportunities to merge, and therefore increasing the time a car is on the road to make the same journey as a car with a driver. This could necessitate streets being reconfigured which would be costly. The one saving grace might be that self-driving trucks might travel in the middle of the night and relieve traffic that way.

CHANGES TO CANADA PENSION PLAN (CPP)

Starting in 2019, CPP objectives for income replacement and costs have changed. Because so many Canadians have not done a good job of saving for their own retirement, the government is taking control of more of our income to do the saving for us. Today both the employee and the employer pay 4.95% of the employee's income as CPP premiums. The goal is for CPP to provide some income to the employee in retirement. Someone who contributes for 40 yrs, could have 25% of their employment income (up to a maximum of $55,900 of their income) replaced for life starting at age 65. The new goal is for 33% of a person's employment income (up to $55,900) to be replaced for life starting at age 65. So instead of CPP paying a maximum of just over $13,000/yr, CPP will eventually pay up to just under $19,000 maximum. However, it would be 40 yrs from now before anyone could have contributed at the new rates to earn the full amount of the increased pension. Anyone who is already paying CPP would get a pro-rated pension increase based on how many years they have paid the higher premiums.

RESP DEADLINE

People often confuse the deadline for making contributions to Registered Education Savings Plans (RESPs) with the deadline for Registered Retirement Savings Plans (RRSPs). For RRSPs one can contribute up until Mar 1, 2019 and still have the contribution count on 2018's tax return to reduce taxable income. For RESP contributions, one has to contribute by Dec 27, 2018 in order to get 20% free grant money from the government credited for 2018.

Here's a simplified refresher to explain what I just said above (there are lots more complications and rules, but I'm not writing 6 pages on RESPs today. We'll just look at contribution limits and deadlines for now):

For every year your child (grandchild, niece, nephew) is alive and has started the year under the age of 17, you can contribute up to $2,500 into an RESP for him or her (until you reach a cumulative contribution of $36,000), and the government will match 20% of your contribution (more if you are a lower income family). You can contribute $50,000 for your child in a single year, but the government won't add 20% grant money on all of it, or on more than $5,000 in any single year ($2,500/yr if you aren't catching up for past years).

If you miss contributing for a year of your child's life, you can catch it up later by contributing up to $5,000 in a single year. The government would then match 20% of that contribution, so up to $1,000 for the year as a Canada Education Savings Grant (CESG). For people with limited incomes, the government may also put extra money into the RESP in the form of a Canada Learning Bond.

The contribution only gets credited to your account after you have purchased a fund offered by the plan administrator you have registered with (like Mackenzie Financial, Fidelity Investments etc) and the purchase of the fund is settled. Settlement happens 2 business days after the purchase date. (This is the settlement date for any mutual fund purchase, not just RESP purchases.) So in order to have your purchase settle in 2018, you must contribute 3 business days before the end of the year. And don't forget that we need your signature on a form to make the RESP purchase. It's best to call us in advance to get the form and mail it in or to make an appointment to come in.

Remember that contributions from all relatives cannot exceed the limit, so be sure to know what others have contributed in the year. Since a SIN number is required to open an RESP for a child, parents are in a good position to know if another relative has opened an RESP for their child.

COST OF OWNERSHIP

Royal Bank's economist calculated that Canadians would need to spend about 54% of their income to cover ownership costs of a house. In Toronto that figure is over 75% and in Vancouver it is almost 90%. For a single detached dwelling in Vancouver, the cost of ownership is about 120% of household income.

Owning a condo is becoming a luxury. Toronto got a small reprieve earlier this year when markets softened, but that didn't last. If interest rates keep rising, as expected, affordability will become harder, although income increases may ease the strain some. In contrast, home ownership in Edmonton, Ottawa and Calgary only ranged from 28-44% of household income. This explains why the Union Bank of Switzerland just announced Toronto and Vancouver have some of the world's biggest housing bubbles, and that buying a home in those cities was as unaffordable as buying a home in Hong Kong or London, England. One big difference though is that middle class people in Hong Kong and London don't expect to ever own their own homes.

Source: Globe and Mail Sept 29, 2018

UNIVERSITY STUDENTS OR NEW GRADS AT RISK?

Is your child living away from home? They are probably a tenant somewhere. Many people think that those students don't need tenant insurance, because their possessions aren't worth insuring. But what would happen if an appliance in their room or carelessness on their part caused a fire and the whole building they were in burned down? It's unlikely your child would be covered under your home liability insurance. You might want to check with your home insurance agent to see what the risks are for your child and what the cost of tenant insurance is.

And you might ask your car insurance provider what the savings could be of taking your student off your auto insurance policy compared to what the costs could be for your child once they have to get car insurance on their own. A child who has had continuous coverage, even on their parents' policy, might get significantly better rates than a child who had 4 yrs of no coverage while they were away at school.

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