Fall 2017

Financial focus

R HUNTER | WEALTH MANAGEMENT GROUP

National Bank Financial
Suite 700-737 Yates Street
Telephone: (250) 953-8415
Toll-Free: 1-800-799-1175
Fax: (250) 953-8470
www.rhunterwealth.ca

Rob Hunter
Senior Investment Advisor
Vice President
Phone: 250-953-8415
rob.hunter@nbc.ca

Leslie Vieites
Investment Advisor
Phone: 250-953-8447
leslie.vieites@nbc.ca

Maureen Peters
Investment Associate
Phone: 250-953-8415
maureen.peters@nbc.ca

Stephanie Hunter
Associate
Phone: 250-953-8442
stephanie.hunter@nbc.ca

Boost investment returns — by being tax-efficient

As Canadians, we are fortunate to have access to Registered Retirement Savings Plans (RRSPs), Registered Education Savings Plans (RESPs), and Tax-Free Savings Accounts (TFSAs) to help us reach our financial goals. And one of the smartest investment decisions you can make is to take full advantage of these tax-advantaged vehicles.

INVESTOR BEHAVIOUR

But the scorecard for Canadian investors is mixed. We are saving more for our kids' post-secondary education in RESPs.[1] That's good news, especially since RESPs are linked to higher post-secondary enrolment.[2]

However, the latest data from Statistics Canada show that less than 25% of tax filers are contributing to an RRSP.[3] It's hard to understand why. Not only do RRSP contributions reduce taxable income, but the investment gains in the plan grow tax-deferred — a one-two savings punch that's hard to beat.

A MATTER OF PRIORITIES

Of course, where you are in life will play a role in how you allocate investment contributions across these plans. If you have a pre-teen, you may want to focus on an RESP. If you plan on early retirement, you might want to maximize RRSP contributions. And since it can be used for any purpose, a TFSA is one of the most flexible savings tools available.

NEXT STEP: We can review your priorities in light of your overall life plan and help you choose the right investments for the right account, whether an RESP, RRSP, or TFSA.

1 Employment and Social Development Canada, 2015 Canada Education Savings Program Annual Statistical Review.
2 Statistics Canada, "Which families invest in Registered Education Savings Plans and does it matter for postsecondary enrolment?" April 2017.
3 Statistics Canada, Registered Retirement Savings Plan contributions, 2015, released February 2017.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Corporate earnings expected to support equity markets

Global equity markets, as represented by the Morgan Stanley Capital International All Countries index, climbed to new highs in April 2017. Despite ongoing geopolitical concerns, global equities continue to draw support from an improving cyclical backdrop that is favourable to corporate earnings growth.

The National Bank Financial Economic & Strategy Group believes that the improving global economy and higher trade volumes could continue to support corporate profit expansion. As profits are probably the biggest factor influencing stock prices, we remain overweight on equities, relative to fixed income. However, we have a higher cash position at present in light of risks such as trade protectionism, elevated debt levels, and political uncertainties.

As always, what's right for your portfolio will depend on your risk tolerance and investment objectives.

EARNINGS ON THE UPSWING

Corporate earnings have been on the upside in the United States, with profits up 15% from the first quarter of 2016. And although U.S. equity valuations are not cheap, the pace of earnings growth means that they're not excessive. Indeed, higher earnings could help boost business investment and employment growth, and set the stage for future profit growth.

Stronger global growth is supporting the profit picture. The global economy is on track to grow by 3.3% in 2017, with emerging economies leading the way. An uptick in Eurozone economic activity is also a welcome development, as are stronger trading volumes. With monetary policy still accommodative around the world and tax cuts expected in the United States, the global economy could continue to grow at a strong pace.

As a result, corporate earnings outlooks are being revised higher in many world regions. The National Bank Financial Economic & Strategy Group believes that world stock markets will continue to take their cues from corporate profits rather than valuations.

However, the picture is not as bright in Canada. In the all-important energy sector, earnings took a downward turn early in the year, as oil prices fell below $50 U.S.

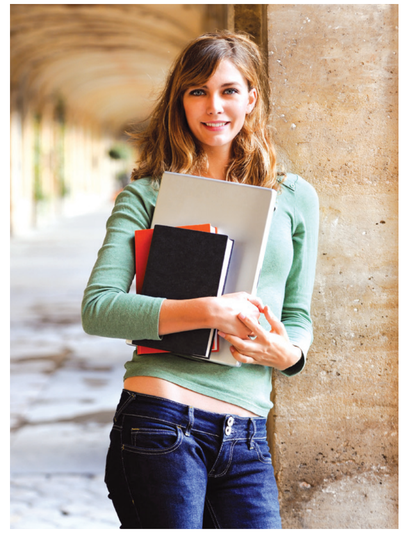
PROTECTIONISM A RISK

The rise of protectionism is a risk to our overall positive scenario. In 2016, discriminatory measures vastly outnumbered measures aiming to liberalize trade. Export-oriented economies, such as those of emerging markets, are the most vulnerable to the global shock that would result from protectionism emanating from the U.S. Not only would emerging markets suffer from reduced external demand, but financial conditions would deteriorate as a result of capital outflows.

NEXT STEP: We can help you review your global equity exposure in light of current conditions, as well as your risk tolerance and investment objectives. Please give us a call today if you would like to go over your investment strategy.

RESPs linked to higher post-secondary enrolment

With their combination of tax-free growth and government grants, Registered Education Savings Plans (RESPs) are an important savings vehicle for many Canadian families. And a recent study[1] shows that children of families who had invested in an RESP were more likely to pursue a post-secondary education than youth from families that were non-contributors.



% attending post-secondary studies			
With RESP	75.4%	Without RESP	59.7%

Other factors come into play as well, including students' academic performance and their parents' levels of education. Even after accounting for these variables, however, the likelihood of attending post-secondary school was six percentage points higher for those with an RESP.

NEXT STEP: If you'd like to open an RESP for a child in your life, give us a call.

1 Statistics Canada, "Which families invest in Registered Education Savings Plans and does it matter for postsecondary enrolment?" April 2017.

The education premium

There's no question that post-secondary education is expensive. But is it really worth it? In terms of higher lifetime wages, the answer is a resounding yes. Here are the top professional undergrad degrees that offer an earnings premium over a high-school diploma.

Professional degrees	Earnings premium[2]
Engineering	117%
Computer science	86%
Commerce	74%
Nursing	71%
Architecture	65%
Occupational or physical therapist	60%
Pharmacist	58%
Education Teacher	53%

2 Monster.ca, "Highest Paying University Degrees in Canada."

Entrepreneurs face unique financial planning challenges

A record number of Canadians were self-employed in 2016 — almost 2.8 million.[3] This number has been rising steadily for the past 20 years, and it's easy to understand why. Working for yourself can bring many rewards — freedom, flexibility, and the chance to follow your dreams. But it can also create challenges, especially when it comes to saving for retirement and investing.

Many entrepreneurs reinvest their earnings in their business year after year to maximize growth, relying on the proceeds of its eventual sale to fund their retirement. Assuming the sale will go as hoped is dangerous however. What if you have trouble finding a buyer or getting the price you want? Or, what if the sector you're in suffers a downturn just when you're planning to retire?

A more reliable approach is to contribute as much as you can every year to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). Setting up regular monthly or quarterly contributions is an easy and convenient way to make sure these tax-advantaged accounts get the priority they deserve.

It's also important to diversify away from your business when you invest. If your business is in technology services, for example, you would invest in companies or mutual funds outside of technology.

NEXT STEP: As professionals ourselves, we're familiar with the special needs of business owners. We can help you allocate your savings and choose investments as part of a plan designed for the long-term benefit of you, your family and your business.

3 Statistics Canada, Self-employment, historical summary, January 2017.

Investing

Risk-tolerance redux

Volatility seems to have become the new norm for equity markets, and ongoing political events around the globe have added even more uncertainty to the mix. If market ups and downs are making you anxious, it may be time to revisit your tolerance for risk.

THE RISK/RETURN RELATIONSHIP

Every type of investment carries some kind of risk. Even not investing involves risk — opportunity risk, which is the risk that you could have made more money by investing than by staying on the sidelines.

Lower-risk or guaranteed investments protect capital, but you may trade off any chance of significant potential for growth. Over time, this could mean falling short of goals. To stay on track, you may need to save more, spend less, generate more income, or delay the achievement of your objective (for example, retiring at 65 instead of 60).

KEEP RISK IN PERSPECTIVE

It's human nature to overestimate our ability to handle risk when times are good — and to be exceedingly fearful after a big loss. That's why it's essential to focus on the long term and keep your goals in mind. Remember, too, that holding a portfolio of diversified investments helps to reduce the impact of a temporary downturn in any one.

NEXT STEP: At the end of the day, you should take enough investment risk to help generate the returns needed to meet your long-term objectives — but not so much to make you uncomfortable. If you're ever feeling uneasy, give us a call.

Tax Planning

Year-end tax planning

With the end of the year in sight, it's time to review your portfolio to uncover any opportunities for tax-loss selling. This strategy involves selling underperforming holdings in order to realize a capital loss, which can be used to offset capital gains. It's an approach that could significantly reduce your tax bill for 2017 — and even generate a refund from previous years' returns.

HOW IT WORKS

Tax-loss selling is applicable only to non-registered accounts. In registered accounts, such as Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), and Tax-Free Savings Accounts (TFSAs), there are no tax implications to selling.

In addition, a number of rules apply. Current-year losses must first be used to reduce capital gains realized in the same year. Excess losses, however, can be applied against previous capital gains — up to three years from the current tax year. They can also be held indefinitely to offset future capital gains.

To claim a loss for 2017, the trade must settle before the end of the year. Settlement typically takes three business days, so, to play it safe, you may want to sell before Christmas.

Finally, it's important to be aware of what's known as the "superficial loss" rule. This rule exists to prevent an investor from taking advantage of the loss while also benefiting from future increases in the investment's value. If you sell the investment, claim the loss, and then buy the same stock within 30 days, the loss will be denied. The loss will also be denied if you purchase the stock in the 30 days preceding the tax-loss sale.

CALCULATING THE LOSS

Calculating the size of your capital loss may not be as straightforward as you think. Essentially, it's the difference between your adjusted cost base (purchase price) and your selling price.

The calculation can get complicated when you have made multiple purchases within a range of prices, or reinvested mutual fund distributions or stock dividends at the current market price. These purchases may not be at the same price as your original purchase, and therefore may increase or decrease your adjusted cost base.

The situation is complicated further if you hold income trusts or mutual funds that make return of capital (ROC) distributions. These payments are not taxable in the year of receipt. Instead, they reduce your adjusted cost base, resulting in a larger capital gain (or smaller capital loss) when you eventually sell or redeem the underlying investment.

NEXT STEP: We encourage you to make an appointment with us to review your portfolio for tax-loss-selling opportunities. We can help you find appropriate candidates and calculate your adjusted cost base. We can also help you maintain a healthy perspective. While it's important to recognize income tax implications, they should never be the driver of your investment decisions.

Vol. 25, No. 2. © 2017.

CIPF
Canadian Investor Protection Fund
MEMBER

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT