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Tom Richards, CFP®, CIM
Investment Advisor
780-970-5304
tom.richards@cibc.ca

Happy New Year! Keeping expectations on an even keel is not an easy task. But times like these should remind us that building wealth doesn't always follow a steady course.

Keep time on your side by continuing to invest and position your assets for the future. Market volatility can present opportunity. Start the year off right by contributing to tax-advantaged accounts such as your TFSA and RRSP.

If this newsletter provides you with useful perspectives on wealth management, please feel free to forward it to friends or family, or contact the office and I would be happy to pass one along.

Here's to a wonderful year ahead!

In This Issue:

SKIPPING PREDICTION SEASON

The year that has passed will be remembered as a challenging one for the Canadian equity market. As we look forward, many investors are asking, what will 2019 bring?

The start of the year is one filled with many predictions. But why not skip prediction season altogether? Many predictions echoed by the media may be biased to prey on our negative emotions. Consider, too, that predictions may be wrong. An exercise two decades ago facetiously illustrated how it was possible to incorrectly predict future market movements by extrapolating trends. A complex regression analysis correlated non-financial data with equity market performance and determined that three variables could account for 99% of the S&P 500 Index's performance over a 10-year period: Bangladeshi butter production, U.S. cheese production and the sheep population in both countries.[1] The absurdity of the output showed that by examining enough data, one can eventually come up with associations.

This isn't to say that we should ignore the work of the analysts, economists or researchers, but we should be careful about making hasty personal decisions based on any worries that may be echoed by the media.

Indeed, we face various challenges at home. Despite coming to resolution after lengthy North American Free Trade Agreement negotiations, Canada's competitive position continues to be challenged. Foreign direct investment into Canada fell to its lowest level in eight years, gross domestic product (GDP) growth slowed and our energy sector, a significant component of the Canadian equity market, continued to face headwinds. The price differential between Western Canada Select (WCS) oil produced here at home and the benchmark U.S. West Texas Intermediate (WTI) oil widened significantly, highlighting the problems faced in getting Canadian oil to broader markets. On a positive note, the federal government acknowledged these challenges in late November 2018 by proposing certain measures to help support business competitiveness.

Given the difficulty in predicting the direction of the markets in the short term, portfolios should be positioned for the longer term, with the expectation that economic and financial markets will experience both ups and downs. Many techniques help to manage risk, including rebalancing to a certain asset mix, limiting the size of any one holding, maintaining quality criteria for assets, and others. For each investor, these depend on a variety of factors, such as your investment objectives, personal needs, stage of life and risk tolerance. These help to weather the inevitable storms.

So consider skipping prediction season and continue to have a longer-term view. May the turn of the year bring much health and happiness to you and your loved ones.

Notes: 1. "Stupid Data Miner Tricks: Overfitting the S&P 500", David Leinweber, 1995.

KIDS & THE LONGEVITY OF YOUR WEALTH

There is a saying, "from shirtsleeves to shirtsleeves in three generations," which suggests that wealth gained by one generation is often lost in just three generations. As such, many wealthy families are focusing on teaching children how to manage money to try and encourage its longevity. Instilling sound financial values at a young age can be relevant for any family to improve financial success. Here are some ideas to get children started on the right path:

1. Start with Your Money Message

Cultivating a healthy relationship with wealth begins by sending a message that may appear counterintuitive: It's not about the money. Too much focus on wealth can remove a child's sense of purpose and drive. Instead, define other family values to deemphasize family wealth. Questions about wealth can create meaningful discussions. For example, if a child asks: "are we rich?", it may provide an opportunity to discuss the realities of the world. Over 40% of the world lives on less than US$2/day, and there are different families: i) those who don't have enough; ii) those with just enough; and iii) those who have more than enough. Being in the latter group means that a family has enough to meet needs and wants, while still having funds to share.

2. Put Children to Work

Developing independence and a strong work ethic at a young age can prepare children for the real world. Children should have the opportunity to fail. This can start early, such as not taking a child's homework to school when they forget it, or not bringing forgotten hockey equipment on game day. Kids learn valuable lessons from consequences; you don't want to disable behaviours that can be carried into the future. Learning the value of a hard-earned dollar is also important, even if a child comes from a family that doesn't need the money. First jobs can foster solid work habits and help to develop money management skills like saving and budgeting.

3. Teach Kids Ways to Manage Money

Children should be taught the difference between needs and wants, as well as the value of saving. If a child is given only a set amount of funds, they can learn to prioritize. When money is earned or received as a gift, consider putting a portion into savings. You can then work with the child to define the purpose for these savings. Older children can be taught about compounding and investing to grow funds into the future.

4. Determine Your Family Strategy

Family meetings can be used to identify collective goals and create a sense of purpose. Some experts suggest that family members, including young children, develop a financial, intellectual and social capital goal for the year, documenting and tracking these goals.[1] The family can then review their progress and celebrate their accomplishments.

5. Give Back

Consider involving all family members in the process of giving back, such as making charitable contributions a family activity by volunteering together or donating in lieu of holiday gifts.

WE ARE HERE TO HELP

These are just a handful of ideas, intended as a starting point. We can provide tools and resources for your situation. By starting early, the rewards can be great: better communication, healthier family dynamics and the potential for your hard-earned wealth to continue well into the future.

1. cnbc.com/2018/06/21/what-the-1-percent-are-teaching-their-children-about-money.html

FACT OR FANTASY: WHAT IS YOUR RETIREMENT PLAN?

Last October, the U.S. Mega Millions lottery made history when it became the largest jackpot of all time at US$1.6 billion. Reportedly, at one point before the record draw, lottery tickets were selling at a rate of 550 tickets per second!

While the odds of winning a lottery are very low, surprisingly, some Canadians believe that this may be a way to fund their retirement. Putting this into perspective, we have a much better chance of being struck by lightning.

Estimated odds of selecting the winning lottery combination:

U.S. Mega Millions:	1 in 302,575,350[1]
Lotto Max (Canada):	1 in 28,633,528[2]
Being hit by lightning:	1 in 300,000[3]

A MORE VIABLE OPTION?

In reality, the path towards having enough money to fund retirement may be well within reach for disciplined investors who have the luxury of time. Consider the use of the Tax-Free Savings Account (TFSA). A TFSA that was started at the TFSA's inception by a 25-year

old and is fully contributed to each year could yield around $1 million just after he or she turns age 70, assuming a compounded annual rate of return of 5% and a continued TFSA contribution limit of $6,000 per year.

The 2019 TFSA annual dollar limit is $6,000. If you were at least 18 years of age and a resident in Canada since 2009, you may contribute $63,500 in 2019 if you have not previously contributed to a TFSA.

Source:. 1,.cnbc.com/2018/10/19/the-rules-were-changed-making-odds-of-winning-mega-millions-so-slim.html; 2. lotto.bclc.com/lotto-max-and-extra/prizes-and-odds.html; 3. canada.ca/en/environment-climate-change/services/lightning/safety/fatalities-injury-statistics.html. This article is intended to provide general information and should not be construed as specific tax or legal advice. Please consult your legal and tax advisors to understand the implications for your situation.

RRSP TIME: CONSIDER THE BENEFITS OF A SPOUSAL RRSP

Over the years, the government has eliminated many income-splitting opportunities available to investors. However, if you have a spouse (common-law partner), a spousal Registered Retirement Savings Plan (RRSP) may be a good income-splitting opportunity for a situation in which you would earn a higher level of income in retirement, while your spouse will have little or no source of retirement income.

A TAX BREAK NOW…A TAX BREAK LATER

A spousal RRSP is a plan to which you contribute and for which you receive tax deductions based on your available contribution room, similar to a traditional RRSP. However, the difference is that with a spousal RRSP, your spouse is the annuitant, so any funds withdrawn are considered that spouse's income and must be included in his/her income tax return (except for funds to correct an over-contribution). As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you.

Be aware that income attribution rules may apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands. To potentially avoid these rules, you could instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP will be made.

While pension income-splitting rules allow you to allocate income drawn from a RRIF to your spouse for tax purposes, consider that this can only be done after reaching the age of 65. Pension income-splitting is also limited to 50% of eligible pension income, which

includes RRIF withdrawals once you are at least age 65. A spousal RRSP can provide income splitting at any age and can enhance the opportunity, since the full amount of the RRSP income may be included in the tax return of your spouse, who may have a lower tax rate than you. If you are over age 71 and have a younger spouse, it can delay the taxation of retirement income as the spousal RRSP can continue, without any minimum withdrawals being required, until a spouse reaches the age of 71.

RRSP REMINDERS:

- **Deadline for 2018 contributions: Friday March 1, 2019.**
- **Update beneficiaries:** Ensure beneficiaries are up-to-date to avoid issues when settling your estate.
- **Turning 71 this year?** Your RRSP will mature and proceeds must be included in income unless converted or transferred to an annuity or RRIF by Dec. 31.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. As always, we recommend consulting your personal legal and tax advisors to understand the implications for your particular situation.

NAFTA VERSION 2.0: USMCA — A RECAP

After more than 14 months of negotiations, a trade agreement between Canada, USA and Mexico was formed to salvage the North American Free Trade Agreement (NAFTA). Here are some highlights from the negotiation outcome, for what is now known as the United States-Mexico-Canada Agreement (USMCA).* *Note: at the time of this newsletter's publication, member countries have signed the deal but have not yet ratified it by passing legislation and making regulatory changes to bring into law the terms of the agreement.*

Automobiles — The North American content requirement for automobile production rises to 70% from the current 62.5%. A new rule requires at least 40% of content be made by workers earning US$16/hour or more. Canada will be able to export 2.6 million passenger vehicles tariff free, exceeding current export levels.

Dairy — U.S. dairy farmers will now have access to what has been estimated at around 3.6% of Canada's dairy market on a tariff-free basis. Canada has also agreed to eliminate a recently developed "Class 7 pricing system" rule that allowed Canadian producers to sell non-fat milk solids at lower prices domestically and abroad. Exports of certain products, such as milk protein concentrates, have been capped with excess amounts subject to export taxes. This has disappointed many dairy industry participants, as the Canadian government continues to allow greater industry access through the Trans-Pacific trade pact and Canada-European agreement.

Steel & Aluminum — The 25% tariff on steel shipments to the U.S. and 10% on aluminum, imposed last year by the U.S. did not form part of USMCA discussions. While there has been discussion to potentially resolve this before USMCA is signed, at the time of writing there has been no resolution and this, along with Canada's retaliatory tariffs, remain in place.

Dispute Resolution — Perhaps one of the more important points for Canadian negotiators, NAFTA's "Chapter 19 dispute resolution" was preserved. This gives a nation the ability to appeal to an expert panel if it believes another country is not behaving fairly.

Online Shopping — Canadian consumers will be able to order $150 of goods from U.S. retailers without duties; $40 without paying provincial sales taxes /GST. The current limit is $20.

WHAT DOES THIS MEAN FOR INVESTORS?

A negotiated agreement has helped to remove the uncertainty that existed throughout negotiations and may have partly allowed the Bank of Canada to move forward with a rate hike last October. Yet, it remains to be seen whether it will help to improve foreign investment into Canada, given the many challenges we face. It should be noted that while NAFTA had no expiration, the USMCA will expire in 16 years, with a review in six years.

*Although the deal has also been referred to as CUSMA, MUSCA and T-MEC.

ESTATE PLANNING: IS YOUR WILL VALID?

Over the years the statistics about wills haven't changed significantly — around half of Canadians still don't have a will in place.[1] When we speak to new clients about their estate plans, we often find that this basic step for future planning has been neglected; or, if a will does exist, it is often badly out of date.

If you die "intestate", meaning no valid will has been put in place, the assets will be divided according to rules laid out by your province of residence. Provincial laws may vary significantly, such as different rules for the amount of preferential share of an estate that will be received by the spouse, to differences in recognizing common-law spouse status under intestacy rules. This division may not be what you had intended. There may also be costs to the estate — perhaps a huge tax bill that, with some forethought, could have been decreased or deferred. The process may also create delays in the settlement process.

Creating an effective will can be a complex legal task. Are you certain that your will contains no errors in form, such as in witnessing, that could invalidate it? Does it comply with current provincial laws? Are you certain that your instructions are not missing important circumstances, such as setting up trusts for minors, taking into account blended families or passing along a business? If you have assets located outside of Canada, have you properly accounted for them? Have potential tax consequences been considered, as there may be techniques that can be used to reduce these taxes? Remember, if any of the text in your will is ambiguous or can be interpreted in a different way, your estate may not be distributed according to your intent.

As such, there may be value in spending some time and money to create an effective will. You may save money by preparing your will on your own by using a preprinted kit, by means of an online service, or, in some provinces, by writing it by hand (a hand-written "holographic will" is only legal in certain provinces). However, for many estates, the old English proverb comes to mind: "penny-wise, pound foolish". The money you save now may seem insignificant if your estate incurs legal fees in order to complete its settlement.

It is time well spent to take the necessary steps to make a valid will, and to make sure it reflects your current circumstances. It may also be a good time to review and update any beneficiary designations for the assets that may not pass through your estate, such as insurance or registered accounts (may not be applicable in Quebec). If you require support with this, or would like an introduction to an estate planning lawyer, please call.

https://www.cibc.com/content/dam/personal_banking/advice_centre/protect-whats-important/estate-planning-cibc-en.pdf

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WITH THE COMPLIMENTS OF...

Richards Advisory Group

Tom Richards, CFP®, CIM
Investment Advisor
780-970-5304
tom.richards@cibc.ca

CIBC Wood Gundy
10180-101 Street
Suite 1800
Edmonton, Alberta T5J 3S4

Toll Free: 1-800-232-7296
Fax: 780-429-8999

www.cibcwg.com/web/therichardsadvisorygroup