



Third Quarter 2019



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Volatility has returned to the markets. The breakdown of U.S./China trade talks and global trade tensions put significant pressure on equity markets in the spring. But keep in mind that volatility plays a common role in the equity markets. Since 1970, almost 60% of annual returns on the S&P/TSX Composite Index have been year-over-year changes (gains or losses) greater than 10%. Almost 30% of these returns have been year-over-year changes of greater than 20%.<sup>1</sup>

Worth repeating: corrections are a normal part of the markets and staying invested is important. Stick to your plan. Take time to enjoy the summer; before we know it, autumn will be here!

1. S&P/TSX Composite Index annual returns 31/12/70 to 31/12/18.

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## MAJOR LEAGUE LESSONS

Baseball Hall of Famer Yogi Berra was known not just for being one of the greatest catchers in baseball history, but also for his straight-talking witticisms, which were often as astute as they were funny.

Known for the famed, "It's not over till it's over..." this Major League legend's observations about the game of baseball may have considerable relevance when looking at the state of the equity markets today. Often called the "most unloved bull market in history", the extended gains have continued despite many market commentators frequently announcing that the top had been reached in recent years.

These are unprecedented times. Never before have central banks held rates at such low levels for such lengthy periods. While the role of a central bank is not to stabilize the markets, equity markets have been calmed by recent decisions to hold interest rates steady. Along with low interest rates, bright spots in the labour market have provided support to an otherwise sluggish Canadian economy. In the spring, job gains spanned industries, geographies and demographics; and even wage rates posted increases. This mirrored the positive labour market news in the U.S. Unemployment rates are at 50-year lows, and job creation rates, as well as wage rates, have been trending upwards, and inflation has remained low — something many economists didn't think possible.

Will the markets continue their climb? As Berra once said: "It's tough to make predictions, especially about the future." It's true that a bull run can't last forever, and we should not lose sight of the fact that low rates have led to a significant amount of indebtedness, which will eventually need to be repaid. But, there is little value in trying to predict the markets — after all, your plan's financial success is not dependent on calling the top of the cycle.

Instead, a key determinant in the success of many investors is the ability to not fall prey to emotions. As Berra aptly put it, "baseball is 90% mental; the other half is physical". Questionable math aside, investing can also benefit by maintaining a strong mental focus. Our challenge as investors is to ignore the noise. When times are difficult, it can hinder positive action: "it's not a good time to buy now because..." Or when the market progresses, there may be cause for anxiety: "how high can it go?" And, when there may be temptation to chase the markets, Berra's words offer sage advice: "Don't always follow the crowd, because nobody goes there anymore. It's too crowded." For many of us, this involves a longer-term commitment to, and confidence in, the plan that has been constructed to achieve our goals.

The road ahead is a long one, filled with ups and downs. Building wealth is not about "swinging for the fences." Success is likely to be reaped by investors who have a plan in place and maintain their discipline in good times and in bad, regardless of whatever pitches may be thrown.

# GIFTING MONEY TO CHILDREN: 3 THINGS TO REMEMBER

Do kids today really have it harder? Economically speaking, life may have been easier 35 years ago. Back then, the average cost of a home was around 1.6 times the annual family income; today, it has climbed to around eight times the average income. Tuition costs have also risen faster than inflation. One thing in today's favour? A mortgage today comes with lower interest rates, if you can afford it! Given the financial challenges, we are often asked about gifting money to children.

## The Difference 35 Years Can Make: Estimated Costs in 1984 vs. 2019

Average Cost	1984 <sup>A</sup>	1984 figures in 2019 terms <sup>F</sup>	2019
Canadian home <sup>B</sup>	\$76,214	\$171,132	\$480,000
Tuition <sup>C</sup>	\$1,058	\$2,376	\$6,838
Family income <sup>D</sup>	\$48,500	\$108,902	\$71,000
5-yr. mortgage rate <sup>E</sup>	13.6%	N/A	4.4%

A: 1984 figures; Globe & Mail "2012 vs 1984: Young Adults Really Do Have It Harder Today"; R. Carrick, 12/18/12; B: cbc.ca/news/business/crea-house-price-march-15098120; C: Statistics Canada Table 37-10-003-01; D: Statistics Canada (after-tax) figures; E: Bank of Canada v122497, CANSIM 027-0015; F: Adjusted for inflation using Bank of Canada inflation calculator; [www.bankofcanada.ca/rates/related/inflation-calculator/](http://www.bankofcanada.ca/rates/related/inflation-calculator/)

There are many reasons to gift money, including:

- It can be fulfilling to see the funds put to work while you are alive;
- Helping adult children today may be more rewarding than in the future when funds may not be as needed;
- Gifting assets to family members during your lifetime may reduce the overall family income tax bill;\*
- It may be an opportunity to teach adult children how to invest.

Unlike the U.S., Canada doesn't have a gift tax. However, if you were to gift money to minor children, most income (including interest and dividends, but not including capital gains) earned on the capital would be attributed back to you and taxed in your hands. This is not the only consideration when contemplating gifting funds. Here are three things to keep in mind:

**1. Plan Ahead with Care.** Before you consider gifting, it is important to ensure that you will have sufficient funds for your own retirement. It isn't unheard of to have a situation in which parents have suffered financial difficulties down the line because too much was gifted to



children. Planning sufficiently for longevity and its associated costs is something we can assist with. As life expectancies rise, this becomes more important than ever.

**2. Let it Go.** If funds are truly a gift, they should have no strings attached. One of the major concerns with married/common-law children is what happens in the event the couple splits? If there is a desire to try and protect funds in the family, this should be planned from the onset. Various arrangements, if executed properly, may be viable alternatives to a gift. For instance, if funds are to be used by a child to purchase a home, they may instead be gifted to a trust to purchase the home. Or, a loan may be chosen over a gift. As family law varies by province, seek legal assistance in the province where the child resides.

**3. Clarify to Avoid Future Discrepancies.** It may be beneficial to create and retain documentation to avoid future disputes. If the intention is to eventually equalize your estate between multiple beneficiaries, the gift could be structured as an advance of a beneficiary's future inheritance. Either way, this should be clearly communicated or documented. There have been situations in which family members question past gifts when settling an estate.

For a deeper discussion, we would be happy to provide an introduction to someone who can assist.

\*e.g., if family members pay taxes at lower marginal tax rates than you, there may be income splitting opportunities. The tax rules for attribution of income and tax on split income should be considered before implementing income-splitting measures. This article is intended to provide general information only and should not be construed as specific tax or legal advice. Consult legal and tax advisors to understand the implications for your situation.

# THE SLEEP HABITS OF THE HIGHLY SUCCESSFUL

Are you looking to catch up on your sleep this summer vacation?

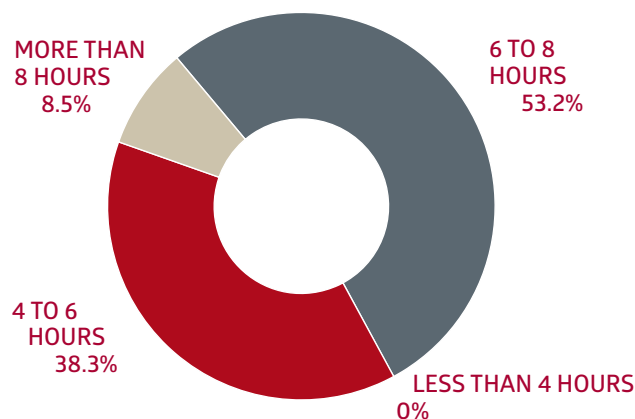
When revealing the long hours spent at the office, business magnate Elon Musk claimed that sleep is not an option, implying that big success is difficult to achieve unless you give up sleep.

But the stats may suggest otherwise. The graph (right) shows the sleeping habits of 50 billionaires, based on a poll conducted by Forbes magazine. Bill Gates and Tim Cook are both reported to spend around seven hours sleeping each night.<sup>1</sup>

While Canadians get around seven hours of sleep on average,<sup>2</sup> according to one ranking, we are the third most sleep-deprived nation in the world.<sup>3</sup> How much sleep do you get?

1. [forbes.com/sites/alicegwalton/2015/11/13/the-sleep-habits-of-highly-successful-people-infographic/#22d708c6d7fb](http://forbes.com/sites/alicegwalton/2015/11/13/the-sleep-habits-of-highly-successful-people-infographic/#22d708c6d7fb); 2. [150.statcan.gc.ca/n1/pub/82-003-x/2017009/article/54857-eng.htm](http://150.statcan.gc.ca/n1/pub/82-003-x/2017009/article/54857-eng.htm); 3. [ctvnews.ca/health/most-sleep-deprived-nation-study-ranks-canada-third-out-of-13-13136333](http://ctvnews.ca/health/most-sleep-deprived-nation-study-ranks-canada-third-out-of-13-13136333)  
\*Based on an anonymous poll of 50 members of the Forbes' Billionaires List.

## 50 Billionaires: How Many Hours Do They Sleep Each Night?\*



# FEDERAL BUDGET: HIGHLIGHTS FOR THE YOUNG & OLD

In late March, the Feds tabled their final budget prior to the election in October. While it was a collection of many different initiatives, here are some changes worth noting that may impact you or your loved ones. Specifically, these proposals target the young and the old.

## The Young: Housing Affordability

While many children may be hoping for support from parents or grandparents when purchasing a home, if this isn't part of your financial plan, the budget may offer some relief in two initiatives:

**First-Time Home Buyer Incentive** — A qualifying first-time home buyer with household income under \$120,000 per year could receive incentives of up to 10% of shared equity on a newly constructed home (5% on an existing home). No monthly ongoing payments are required but the buyer would repay the shared equity mortgage upon re-sale of the home. The participant's insured mortgage and the shared equity amount cannot be greater than four times annual household income. This program is expected to be operational in September.

**Home Buyers' Plan (HBP)** — As of March 20, 2019, the available withdrawal limit under the current HBP is proposed to increase to \$35,000. Under current rules, a first-time home buyer can withdraw \$25,000 from their Registered Retirement Savings Plan (RRSP) on a tax-free basis. Access will be extended to those who experience a breakdown of marriage or common-law partnership, even if they do not meet the first-time home buyer requirement.

## Seniors: Retirement Support

There was also some good news to help seniors in retirement:

**Automatic CPP Enrollment** — Starting in 2020, Canada Pension Plan (CPP) contributors who are age 70 or over will be automatically enrolled to ensure they are receiving their benefits. Currently, an



application must be launched in order to receive benefits and some have missed out because they apply late or not at all.

**Advanced Life Deferred Annuity (ALDA)** — Currently, an annuity purchased with registered funds must commence annuity payments by the end of the year that the holder reaches age 71. The budget proposes to allow up to 25% of a registered holding\* to be used to purchase an annuity that begins payments at latest by the end of the year in which the holder turns 85, for a lifetime dollar limit of \$150,000 (indexed to inflation). This may present a tax-deferral opportunity, allowing retirees to keep more money in registered plans for longer, and may support those worried about outliving their retirement income. *Note: this initiative was not passed in the spring Budget Implementation Act and will likely not be considered until after the fall Federal election.*

**Improved GIS** — For low-income seniors, basic earnings exemptions for Guaranteed Income Supplement (GIS) benefit eligibility will increase to \$5,000 per year (from \$3,500) beginning with the July 2020-21 benefit year. Earnings between \$5,000 and \$15,000 per year will receive a partial exemption.

For greater detail on Budget 2019, please call.

\*Including RRSP, RRIF, Deferred Profit Sharing Plan (DPSP), Pooled Registered Pension Plan (PRPP), defined contribution Registered Pension Plan (RPP). This article is intended to provide general information only and should not be construed as specific tax or legal advice. Consult legal and tax advisors to understand the implications for your situation.

# THE DEBT-TO-INCOME RATIO: REASON FOR CONCERN?

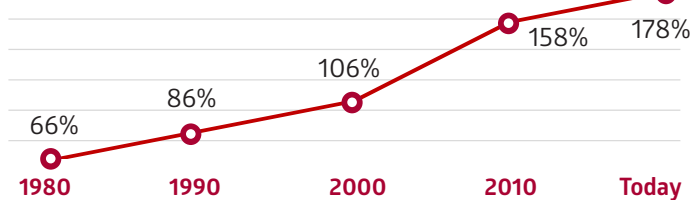
The debt-to-income ratio is a metric that the media often uses to show how indebted Canadians are. Recent figures indicate that it hovers around 178% (Q3 2018).<sup>1</sup>

**What does this mean?** Canadians owe \$1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income (after taxes).

**Why is this important?** On a personal level, if you are thinking of buying a home or refinancing a loan, a bank will use this metric to determine whether your debt load is financially sound. To calculate your own ratio, add up your total debt (including mortgages, loans, amount borrowed on a line of credit, credit card debt) and determine what percentage of your annual after-tax income the debt represents.

More generally, the ratio is used by economists to provide a big-picture view on debt. In Canada, the ratio has risen over the decades. We place 8<sup>th</sup> in the developed world for high indebtedness.<sup>2</sup> In the U.S., this ratio peaked at 116% prior to the credit crisis of 2008, but is now under 90%. Some have called Canada's rising debt figures disturbing, while others argue that this assessment might be overly harsh since the ratio lumps in those with significantly high mortgages (in cities like

## Growth of Canadians Personal Debt-to-Income Ratio<sup>3</sup>



Toronto or Vancouver) and doesn't factor in a household's assets or the ability to pay off that debt load.

Regardless, Canadians — individuals, corporations and even the government — have never been so indebted and we face longer-term consequences as our debt will eventually need to be repaid. When interest rates rise, these debt obligations will become more costly. However, one reason why central banks have kept rates low is to encourage spending and stimulate sluggish economies. The paradox? Low rates make borrowing more affordable, and have pushed up housing prices, making us more indebted.

1. <https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036>; 2. OECD ranking 2018; 3. Source: Statistics Canada.



# THE RISE OF THE PROFESSIONAL EXECUTOR

Some people consider it an honour to be asked to be an executor.\* After all, it often indicates trust in that person to settle affairs with good judgment after a person's death.

You don't have to accept the role of the executor, and not surprisingly, there have been instances where someone may have said they would take on the role, but then renounce the job when the time actually comes.



This is understandable. It isn't uncommon for many nominated individuals to realize the job is more than they expected: it's not just about dividing assets. There are many responsibilities that will need to be taken care of as executor, often during a time of deep grief that may make it difficult for many to function. This can be further complicated by sensitive issues, challenging personalities and difficult family dynamics that can often emerge when settling an estate.

Another complicating factor is that we have become an increasingly transient society. Appointing an executor who resides in (or moves to) a different province, or even a different country, can create issues for the estate or even that individual.

For these reasons, there may be value in using a professional executor for this role to help address these circumstances or benefit from the following:

**Impartiality** — Where assets are involved, there is often emotion; an executor must be able to act as a mediator for any conflicts. A professional executor can provide true impartiality. Even in a seemingly simple family situation, lifelong relationships can be destroyed. Add in additional conflicts, such as an estate with potential creditors, and the situation may become even more challenging.

**Ease of settlement** — Being an executor is a role that can add significant demands to an already busy lifestyle, especially if the executor isn't familiar with the process. Professional executors have dedicated time, expertise and the resources to settle an estate in an efficient manner.

**Deep understanding** — An executor is legally liable for errors in decisions that are made during the settlement process. For complex estates, such as where a business needs to be managed or wound up, there may be value in having an expert take control to ensure that the estate is settled in the best possible way.

## But what about the cost?

One of the main concerns in using a professional executor is the perceived cost. However, an executor (regardless of whether or not they are appointed or hired) is entitled to be paid for their efforts. Many professional executors offer graduated pricing in which the rate declines as the value of the estate increases.

Taking into consideration the time, emotion and complexities associated with settling an estate, it may be money well spent to consider a professional executor to manage the process.

\*Sometimes called estate representative, estate trustee, administrator or liquidator, depending on province of residence.

This article is intended to provide general information 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.

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