CIBC Wood Gundy

Perspective

Personal Newsletter from the Rabinowitz-Voronoff Financial Group

First Quarter 2016

The Economic Power of Positive Thinking

It's the new year — a time when many of us look forward with optimism to the year ahead. As we start another year, we often make self-improvement resolutions or promise to do things better than in the past. It's a time when positive thinking is at its highest.

However, from an investment perspective, optimism has been in short supply for many investors, especially after what was a rough 2015 for North American equities markets. As we look forward to 2016, Canada is likely to continue to face slower growth prospects, largely in part to persistently low oil and commodity prices.

Despite continuing economic challenges, there may be reason to be more optimistic. Former World Bank economist Charles Kenny believes that optimism can drive success in far-reaching ways, including from a collective economic perspective. He looked at various studies which show that optimism encourages higher levels of risk acceptance, experimentation, hard work and overall happiness. And in turn, this has been associated with more rapid productivity growth and even stronger economic performance when comparing certain nations.*

In contrast, a pessimistic attitude has the potential to be self-fulfilling. Even if our pessimism is grounded in reality, studies show that we would have a better chance of improving our economic fortunes if we pretended to be optimistic.

Looking positively at the Canadian market may seem difficult after last year, but let's remember that these are temporary times. Periods of downward volatility have been shown to smooth out over time. Since 1956, the S&P/TSX Composite Index (with dividends reinvested) has only had 16 annual periods with total negative returns. The majority of periods (or 73%) have been positive. As the time period increases, the number of negative periods decreases. For three-year periods, the number of negative periods reduces to eight. And, there has never been a 5-, 10- or 20-year period with a negative return.**

History has also shown that market declines have always been followed by greater recoveries. Stock market gains can be swift and unpredictable. Investors who choose to stay out of the market, even for short periods, may miss out on great opportunities.

As we have said in the past, portfolios built on a solid foundation that start with a financial plan incorporating securities selected with quality, diversification and individual needs in mind — along with some positive thinking — may help to weather the inevitable rough periods that continue to be present from time to time.

*"How Optimism Strengthens Economies", 01/08/15, Bloomberg. **S&P/TSX Total Return Index, 01/01/1956 to 12/31/2014.

Rabinowitz-Voronoff Financial Group

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Speaking Personally: The start of another year is a good reminder of how quickly time passes us by. With time, it is important to continue positioning your investment portfolio to account for new developments. Even the simple fact of getting older may change your financial responsibilities and alter the goals for your investment portfolio.

Please call if you feel a personal review would be timely. Wishing you the best for the year ahead.

In This Issue:

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The Importance of Planning Ahead

Power of Attorney Checklist

❑ **Do you have a valid power of attorney?** For the first time in Canada's history, seniors outnumber children under 15 years of age, making up over 16% of the population.* Even if you are not part of our senior population, you should plan ahead for a time when you may need help managing your affairs. It is important to consider whether powers of attorney are right for you, and, if you have them, whether they still meet your needs.

❑ **Have you prepared separate documents based on your requirements?** Generally, there are two main types of powers of attorney. The names and availability vary by province. A power of attorney for property allows a named entity(s) (called the "attorney(s)") to conduct financial transactions for you. A power of attorney for personal care allows your attorney(s) to make decisions for your health care in the event of incapacity.

❑ **Is/are the attorney(s) who was/were named still the best choice to manage your situation?** Time changes many things. Perhaps a named attorney has passed away or no longer lives in close vicinity. A periodic review can ensure that the most suitable attorney continues to be named.

❑ **Have you specified certain limitations in your powers of attorney based on your situation?** Depending on your particular circumstances, you may wish to provide specific instructions for managing your assets, such as for a limited task like selling a house, or for a specific time period. Remember that unless limitations are set for the attorney, they will have full discretionary power over the management of your finances/property.

❑ **Have your power of attorney documents taken into account different jurisdictions if you regularly travel, or have assets, outside of your province/territory of residence?** Since powers of attorney are legislated differently across provinces, it is important to understand the laws governing powers of attorney if you travel across provincial borders or own property outside of your province, particularly in the potential situation of mental incapacity.

Please seek legal advice when creating or signing any legal document. A regular review can help identify if powers of attorney are right for you and if your power of attorney documents continue to meet your needs.

Source: *"Seniors in Canada Outnumber Kids Under 15 for First Time Ever", Financial Post, Economy. Page 1, Sept. 29, 2015.

Prevent Identity Theft & Predict Love?

What Your Credit Score Says

We often consider our credit score to be important when it comes to applying for a credit card or securing a mortgage. But how about when it comes to… love? A study published by the U.S. Federal Reserve shows that credit scores may be a good predictor of the success of your love life.*

According to the study, people with higher credit scores are more likely to be in a committed relationship. There is also a correlation between couples who have mismatched credit scores and breaking up. The economists who conducted the study hypothesize that "credit scores matter for committed relationships because they reveal information about general trustworthiness," which may be one reason that couples with differing credit scores may be in a relationship less likely to succeed.

Prevent Identity Theft: Check Your Credit Record

Regardless of whether a credit score can predict the success of a relationship, it is always worthwhile to check your credit report periodically, especially to help guard against identity theft and financial fraud. Generally, a credit report will show information about your credit history, which may include loans taken out in the past six years, whether you regularly pay debts on time, your credit limit and other account information from each creditor.

Two companies that compile data on the creditworthiness of individual Canadians are TransUnion and Equifax. You can request a free credit report to be mailed to you at transunion.ca or equifax.ca. Alternatively, you can pay a fee to receive immediate online access to your credit report and/or credit score.

If you do spot an error, contact the reporting agency and file a dispute to resolve the potential issue. If you see entries that don't relate to you, you may be a victim of identity theft and you should notify the agency immediately.

Source: *"Credit Scores and Committed Relationships". Federal Reserve, August 2015.

Thinking Longer Term: Patience in Investing

It's Time, Not Timing...

Given the volatility of recent times, it is worth repeating that staying invested is important. Why? Because most investors cannot consistently and accurately time the markets to buy at the low point and sell at the high point.

Here is one perspective. Investors who sell during times of downward volatility may miss out on periods with significant gains, as market declines are often followed by greater recoveries. A look back over time shows the potential advantage that can come with holding on. An investor who stays fully invested is better off than one who misses out on the best performing months. If an investor invested $1,000 on Jan. 1, 1975 on the S&P/TSX Composite Total Index (dividends reinvested), the returns on Sept. 30, 2015 are shown in the chart below.

Return if $1,000 is Fully Invested	Missed 3 Best Months	Missed 5 Best Months	Missed 10 Best Months
$54,539	$36,444	$29,114	$17,439
Difference	***-33.2%***	***-46.6%***	***-68.0%***

Source: S&P/TSX Composite Total Index Returns, based on monthly close data.

Keep in mind that past performance is never a guarantee of future results. This also doesn't mean that periodic changes to a portfolio aren't warranted, but it does show that having patience has, in the past, paid off over time.

Keeping Track of Your Assets

Transitioning Your Pension

Are you transitioning from a job at one company and going to another, or perhaps leaving to enter the golden years of retirement? During this busy time, one of the things you shouldn't overlook is deciding what to do with your pension plan from your previous employer. Understanding the type of plan in which you were participating is the first step when determining your options:

Group Registered Retirement Savings Plan (RRSP) — This is a non-locked-in RRSP established by an employer for a group of employees. In general, group RRSP assets can be transferred to a personal non-locked-in RRSP or Registered Retirement Income Fund (RRIF) on a tax-deferred basis without impacting your unused RRSP contribution room.

Defined Contribution (DC) Pension Plan — This is a registered pension plan where, generally, the funds in the plan are locked in under applicable federal or provincial pension legislation. A vested DC could be dealt with as follows: i) transfer the eligible amount of funds to a personal locked-in RRSP/Locked-in Retirement Account (LIRA), Life Income Fund (LIF) or Locked-in Retirement Income Fund (LRIF) account (as a tax-deferred rollover); ii) leave the assets in the former employer's plan; iii) transfer the funds to your new employer's plan (assuming they permit the transfer); or iv) purchase a life annuity.

Defined Benefit (DB) Pension Plan — This is a registered pension plan where assets are also generally locked-in under federal or provincial legislation. During a transition, you can: i) transfer the "commuted value" (defined in the next section) to a personal locked-in RRSP/LIRA, LIF or LRIF account; ii) receive your DB pension payments starting as soon as your plan's specified early retirement date; iii) transfer the commuted value to your new employer's plan (assuming they allow for this); or iv) use the commuted value to purchase a life annuity.

Commuted value, in general, is the present value of all future annual payments that would be made if the pension was left in place, as determined by an actuary. If you take the commuted value into a LIRA or LIF, you are responsible for the investment decisions or hiring someone to manage it.

Keep in Mind

Consider that there may be benefits to consolidating the assets from your previous employer to a personal plan to help improve the efficiency and effectiveness of how your assets are managed. Consolidation may also prevent multiple plans from being forgotten over time.

Pension legislation varies based on province/territory of employment. The benefits and security under the plan will need to be weighed against the investment freedom and responsibility of a commuted value. Your former employer's plan may have specific provisions that may restrict you from leaving the plan, so please consult with your former employer's pension administrator before you consider moving any assets. If you would like assistance in helping to understand some of the issues to consider when making this important decision, please don't hesitate to call.

Note that the comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

Federal Tax Changes Are Expected

With a new federal government in power, here are some of the proposed changes that may impact taxpayers.

The newly elected federal Liberal government has indicated noteworthy changes that may affect taxpayers. Note that these changes are not certain to be implemented and, at the time of publishing this newsletter, the timing of any tax changes remains in question.

Changes to the Federal Personal Income Tax Rate — The Liberals have pledged to introduce a new high-income federal tax bracket for taxable income above $200,000, to be taxed at a federal tax rate of 33%. Currently this level of income is taxed at a rate of 29%. At the same time, they have promised to lower federal rates from 22% to 20.5% on taxable income between $44,702 and $89,401 (2015 amounts).

Reduction of the TFSA Annual Contribution Limit — The Liberals have stated that they will roll back the 2015 Tax-Free Savings Account (TFSA) annual contribution limit of $10,000 to $5,500.

Changes to the Employee Stock Option Benefit Deduction — Individuals who exercise employee stock options are generally taxed on the difference between the exercise price and fair market value of the stock as employment income, and under current rules may be entitled to a stock option deduction equal to 50% of the income if certain criteria are met. It is anticipated that limits will be set on the amount of the deduction that can be claimed for employees with over $100,000 in annual stock option gains.

Changes to Existing Child Tax Benefits — Three existing benefits – the Universal Child Care Benefit, Canada Child Tax Benefit and National Child Benefit Supplement – are anticipated to be replaced with one single benefit termed the "Canada Child Benefit". The maximum amount of this tax-free benefit is expected to be $6,400 per year per child under the age of six ($5,400 per child between six to 17 years old) and will be gradually reduced based on family income. Families with one or two children and household income of $200,000 or more will not be eligible for this benefit.

Elimination of the "Family Tax Cut" — This federal non-refundable tax credit that allows for income splitting for couples with dependent children under the age of 18 (to a maximum benefit of $2,000) is expected to be eliminated.

Tax Minimization Opportunities

If you may be affected by the newly proposed 33% federal tax rate, here are some ideas to take advantage of potential tax minimization opportunities:

Timing Withdrawals from an RRSP/RRIF — If you are considering withdrawing from a Registered Retirement Savings Plan (RRSP) or withdrawing more than the required minimum from a Registered Retirement Income Fund (RRIF) and do not need the funds currently, there may be an advantage to continuing to hold these funds in the RRSP/RRIF to benefit from tax deferral. Generally, this has the potential to defer paying the additional 4% in taxes and may allow your funds to continue to grow on a tax-deferred basis. You may also wish to make withdrawals in years when your total taxable income, including the amount withdrawn from the RRSP/RRIF, is expected to be below $200,000.

Income Splitting — A variety of income-splitting opportunities can be explored to shift taxable income from high-income to low-income spouses, common-law partners (CLPs) and even children, including using a spousal loan, creating a family trust, pension income splitting between older spouses/CLPs or using a spousal RRSP.

Seek Assistance

If you would like more information on how to best plan for the potential upcoming tax changes, please seek the advice of a professional tax advisor.

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