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Many of us are welcoming spring after a cold and long winter. With the year already into its second quarter, this may serve as a wake-up call that time — one of our most valuable assets — continues to tick away.

Have you been procrastinating on certain financial decisions that can benefit your future? Is it time for a spring clean of your finances? This may be as simple as updating your account beneficiaries or contributing to fully maximize your TFSA. Whatever the case, let us be your resource.

Enjoy the warmer and longer days ahead.

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A RETURN TO "NORMAL"?

A decade after global economies descended into crisis, the world is a very different place. For many years, central banks have been using monetary policy to help support recovery. Today, every major world economy is expanding in a synchronous wave of growth. Are things finally returning to "normal"?

INTEREST RATES ARE RISING

In Canada and the U.S., our economies are no longer in need of emergency-level interest rates. Central banks have been gradually raising target rates to bring things back to what many perceive as "normal" levels (from a long-term perspective). While it may be argued that there is no normal, the monetary policies that have suppressed rates for so long were unprecedented. Long-term average 10-year Canadian and U.S. bond rates hover around 6%. Today, the 10-year Government of Canada Benchmark bond yield is currently around 2.23% (at 3/8/18).

What does a rising interest rate environment mean for investors? Most investors understand the inverse relationship between interest rates and bond values. As interest rates rise, the value of existing bonds goes down. We manage this change in different ways. For fixed income investments, it is important to keep maturities of bonds relatively short to protect capital. As bonds mature, the capital can be reinvested in new bonds with higher interest rates. Diversification across different fixed income classes can also provide protection.

Conventional belief holds that a rising interest rate environment can put pressure on equity markets. But this shouldn't be cause for alarm. Interest rates typically rise in a strong or strengthening economy, which can offset any softness in equity values over the longer term.

VOLATILITY HAS RETURNED

The start of the year has also witnessed a return to volatility in the equity markets. For most of 2017, volatility was almost non-existent — but this wasn't normal. Take, for example, the VIX — the Chicago Board Options Exchange Volatility Index — known as the stock market's collective "fear gauge". Since 2000, the VIX has traded at an average level of around 20 points. During 2017, it traded at an average of only 11 points, and touched an all-time low of 9.14 in November 2017 (as of 3/8/18, Yahoo finance).

Instead of creating worry, investors should remember that volatility is an inherent part of the equity markets and should be expected, especially after almost nine years of a bull run. For those looking to build their portfolios, downward movements may also provide opportunity.

FOCUS ON THE POSITIVES

Despite recent volatility, remember that the overall outlook hasn't changed. We are better off today than we have been in many years. Every major global economy is expanding. At home, unemployment rates remain low and corporate earnings continue to be strong.

Nobody can predict the course of short-term markets and fluctuations in both directions should always be expected. Our focus has always been on the longer term, and a solid case can be made that things continue to look positive.

RESP: WHAT'S YOUR WITHDRAWAL STRATEGY?

Spring may be an exciting time if you have a student waiting to receive post-secondary school acceptances. If you have opened a Registered Education Savings Plan (RESP), it may also be a good time to think about withdrawal strategies.

There are three components to the RESP: i) original contributions; ii) grants and bonds paid by the government, such as Canada Education Savings Grants (CESGs) and Canada Learning Bonds (CLBs); and iii) accumulated income payments (AIPs), which are payments of income or gains on contributions, as well as on grants and bonds. Grants, bonds and AIPs may be paid out to the beneficiary in the form of an Education Assistance Payment (EAP), which is taxable in the student's hands. Original contributions can be withdrawn, tax free, at any time.

WHY HAVE A WITHDRAWAL STRATEGY?

If RESP funds are not used, there may be financial consequences. Any unused grants and bonds must be repaid and there may be a 20% penalty tax (or 12% in Quebec) on top of the regular income tax due on any AIPs. As such, consider giving some forethought to your RESP withdrawal strategy:

WHEN A CHILD QUALIFIES FOR THE EAP

Structure withdrawals early and minimize taxes. EAPs are taxable in the hands of the beneficiary. Once a beneficiary has started a qualified program, begin drawing EAPs to, at a minimum, use the child's "basic personal amount" (tax credit) each year. Since this is a non-refundable tax credit, any unused amounts cannot be carried forward. Plan ahead to minimize taxes. Consider that the tuition tax credit can offset EAP income and can be carried forward indefinitely, but other sources of income, such as a summer job, may impact the student's marginal tax rate.

Exhaust EAPs first. When withdrawing funds, you must specify the amount considered to be the EAP versus a refund of contributions. Remember to exhaust EAPs first as contributions can be paid tax free at any time.

Draw down EAP funds within six months after the child ceases enrolment. There is no requirement regarding the type of expenditures for which EAP monies are to be used. EAPs may be taken once the child is enrolled in a qualifying post-secondary program. (There is an initial limit of $5,000 for the first 13-weeks of full-time enrolment and $2,500 for the first 13-weeks of part-time enrolment.) EAPs can only be made until six months after the student ceases enrollment, so if (s)he drops out it may be beneficial to withdraw as much as possible to avoid tax penalties on unused funds.

WHEN A CHILD DOES NOT QUALIFY FOR THE EAP

Keep in mind that the RESP can generally remain open until the end of the calendar year that includes the 35th anniversary of the plan opening (or the 40th anniversary for some specified plans). If all beneficiaries are at least 21 years of age and ineligible for EAPs, AIPs may generally be made to the RESP plan holder starting in the 10th year following the year that the plan was opened. To avoid the 20% penalty tax on AIPs, consider these options:

Transfer AIPs to a parent's RRSP account. This can be done if a parent has Registered Retirement Savings Plan (RRSP) contribution room available. If no RRSP room is available, one option may be to delay collapsing the RESP for a few years (if permissible) to build up the parent's RRSP contribution room. With this transfer, any grants and bonds must be repaid.

Transfer AIPs to an RESP beneficiary's RDSP account. A rollover can be made to a Registered Disability Savings Plan (RDSP) for a Canadian-resident beneficiary who is under the age of 60 and qualifies for the Disability Tax Credit (DTC). This option is also available if the beneficiary has a severe disability that would prevent the beneficiary from pursuing post-secondary education or the RESP has existed for more than 35 years, even if there are other beneficiaries who are under 21 years of age and are eligible for EAPs.

Note that the articles and 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 or legal position should be obtained in respect of any person's specific circumstances.

FRESH PERSPECTIVES

Our advisory practice is built on the satisfaction of clients like you. We continue to accept new clients and welcome introductions to family, friends and business colleagues who could benefit from our experience and advice.

We would be grateful for any such referrals and will, of course, deal with them in the strictest of confidence, as you would expect. Whether it is a fresh opinion on an existing portfolio or advice relating to a new situation, we are here to help. Please have them contact us, or call the office, and we would be happy to follow up with them.

STARTING A DIALOGUE: ESTATE PLANNING & AGING PARENTS

Last year, the Economist magazine published an interesting study on end-of-life wishes, which showed that what is most important to people varies based on where they live.[1] In the U.S. and Japan, the highest ranking priority was not burdening families with the costs of care. In Brazil, it was being at peace spiritually; in Italy, it was having loved ones around.

An area that transcended borders was that most individuals have not had a serious conversation about end-of-life care with loved ones. In fact, death is a subject that people generally avoid (see chart): the taboo of talking about death is still alive and well.

In Your Country, Is Death a Subject People Feel Free to Talk About?

All too often, adult children and their parents avoid the subject of estate planning, perhaps because it is a reminder of their own mortality or it involves the private topic of finances. Yet, having a dialogue is important to ensure that aging parents will be well cared for. Experts suggest starting with casual conversations to establish whether a basic estate plan is in place or if support is needed. Here are some questions that may lead to more meaningful discussions:

Who do you wish to make decisions for you, if you are unable? This can uncover whether the necessary preparations have been made in the event of illness or incapacity (i.e., power of attorney documents, in provinces where applicable). It is important for parents to identify people that they trust to act on their behalf while they are still able, which can help to prevent elder abuse. This may also generate a discussion about how parents wish to be cared for into the future.

Have you spoken to a lawyer about an estate plan? This may help to determine whether a will exists. If not, it may be time to encourage its creation. Parents may also be reminded that estate planning goes beyond a will. It can involve a plan to maintain control of their money until they are no longer able, or use strategies to maximize wealth.

How do you wish to be remembered? Many adult children have never asked their parents how they would like to be remembered. It's not just about finances. This may start a discussion about funeral arrangements or philanthropy. What is important? Are there ways to leave a lasting legacy?

These are just a few questions to help start a dialogue and are by no means meant to be comprehensive. If you would like to be connected to an estate planning specialist for further guidance, please call.

1. https://www.economist.com/blogs/graphicdetail/2017/04/daily-chart-20

TFSA TRIVIA: WHEN THE TFSA IS NOT ALWAYS "TAX FREE"

When is the Tax-Free Savings Account (TFSA) not always "tax free"? Test your knowledge with the following "true or false" questions:

True or False: All investments held within a TFSA are tax free. **Answer: False.** Foreign withholding taxes may apply to investments in foreign securities. For example, the U.S. imposes a 15% withholding tax on the dividends paid to Canadians by U.S. stocks. Under the Canada-U.S. Tax Treaty, Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) accounts are exempt from this tax, but TFSAs are not. For non-registered accounts, foreign withholding taxes can generally be recovered by claiming a foreign tax credit; however you can't claim a foreign tax credit for withholding taxes paid on investments within a TFSA.

True or False: A beneficiary may be subject to tax on an inherited TFSA. **Answer: True.** A TFSA beneficiary will not have to pay tax on payments made out of the TFSA as long as they do not exceed the fair market value at the time of the holder's death. If there are income or capital gains in the account after the holder's death, these will be subject to tax. A beneficiary who is a spouse/partner may be designated as a "successor holder". A successor holder becomes the new holder of the TFSA, without paying tax on any income or gains earned in the TFSA, after the original holder's death.

True or False: Unlike the RRSP, when you withdraw funds from the TFSA, you don't lose your TFSA contribution room. **Answer: Somewhat true.** When you make TFSA withdrawals, an equal amount of TFSA contribution room is generally reinstated, but only in the following calendar year. If funds were recontributed in the same year, this may be considered an over-contribution if insufficient contribution room exists. A good formula to remember is:

Current TFSA contribution room = Unused contribution room at year end + withdrawals in prior year — withdrawals this year + TFSA dollar limit this year

Over-contributions are subject to a penalty tax of 1% per month for the period that the over-contribution remains in the account.

With the lifetime contribution limit for eligible holders now at $57,500, have you fully contributed?

CANNABIS: THE NEW KID ON THE BLOCK

With the federal government's target of July to pass legislation on cannabis, Canada will join Uruguay to become only the second country in the world to legalize its recreational consumption and sale.[1] Since Canada announced its intent to legalize marijuana, the market has rapidly grown. According to Bloomberg, there were 84 cannabis companies trading on Canadian exchanges at the start of the year, collectively worth $37 billion.[2] With equity prices skyrocketing over recent months, many investors may be curious about the sector. Here are some thoughts:

Companies are in their infancy. Few cannabis companies trading on the Canadian markets have positive earnings and many have modest sales. The total 2017 revenue for the four largest publicly-traded firms was only $119 million, which is very small.[3] Of course, this is expected to rise once legalization occurs.

Valuations are high. A considerable amount of euphoria has surrounded the industry since the end of last year, with valuations becoming extremely high. As an example, the top three firms by market capitalization all have price to sales ratios (P/S) of over 80. Compare this to the top five tech giants, which have P/S ratios that range from 3.77 to 13.23.[4]

There are many market players. There are over 80 publicly traded companies and at least another 20 privately held firms.[5] To put this in perspective, the Toronto Stock Exchange (TSX) consists of only 251 publicly traded companies.[6] Given relatively low barriers to entry, it has been easy for start-ups to enter the cannabis market.

There are concerns about reporting. Accounting rules have allowed for variability in how cannabis companies assess a value on their plants, which may overstate profitability.[7] In some instances, inventory may have been given higher values relative to future pricing and demand, which remain unknown.

THE BOTTOM LINE: THESE ARE EARLY DAYS

There is no doubt about the industry's growth potential, and it will be interesting to see how the industry evolves once legalization occurs. Some reports have estimated that recreational cannabis sales will reach $6B by 2021, with a potential market of up to $22B.[8]

As the sector continues to generate excitement, the prospect of rapidly growing equity prices may be tempting. But you should always remain mindful of the risks associated with investing in this sector today: as is often the case, the potential for high returns comes with high risks. While there will be winners in this sector, there will also be many losers, and investors should remember that these are early days.

1. https://globalnews.ca/news/3867467/marijuana-legalization-canada-progress/; 2. http://www.cbc.ca/news/business/canada-pot-investing-1.4505353; 3. https://www.thestar.com/business/wealth/2018/01/12/what-you-need-to-know-before-investing-in-pot-stocks.html; 4. As of February 26, 2018, Yahoo Finance for top five Tech companies on NASDAQ versus top 3 cannabis companies on TSX; 5. [https://www.thestar.com/business/2017/11/17/6-reasons-an-investment-in-the-pot-industry-will-likely-go-up-in-smoke-olive.html; 6. factsheet as of 1/31/18 https://ca.spindices.com/indices/equity/sp-tsx-composite-index; 7. http://www.macleans.ca/economy/canadian-weed-stocks-have-a-serious-accounting-problem/; 8. https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/Analytics/ca-en-analytics-DELOITTE%20Recreational%20Marijuana%20POV%20-%20ENGLISH%20FINAL_AODA.pdf

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