



Fourth Quarter 2017



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Speaking Personally:

This is the final issue of Perspective for the year; a good reminder that the end of year is quickly approaching. Take advantage of available opportunities to help minimize 2017 taxes or meet year-end deadlines: donations (including the first-time donor super credit that expires in 2017), RESP contributions and tax-loss selling, to mention a few.

If you know of someone who could benefit from our support, or if you require assistance, please let us know as we are always here to help. We hope that you have taken time to enjoy the Thanksgiving season with friends and family. Have a great autumn!

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THE WINDS OF ECONOMIC CHANGE

The winds of change are ever-present in the investing world. It wasn't too long ago that economists were raising concerns over the negative impact of continued low oil prices on Canada's economic growth prospects. Fast forward to today and that tone has changed significantly. In July, the Bank of Canada expressed its confidence in the Canadian economy by raising the overnight target interest rate for the first time in seven years. This key rate was increased again in September. Despite lower resource prices, Canada's gross domestic product (GDP) figures have exceeded expectations; so much so that the International Monetary Fund (IMF) now expects that Canada will have the fastest GDP growth of the G7 countries.

Investors have, once again, faced a changing investing landscape. This has included rising interest rates and a strengthening Canadian dollar, due in part to improved economic performance and higher interest rates that have made Canadian dollar deposits more attractive. If interest rates continue to increase, however, it will likely be at a gradual pace.

The winds, too, continue to shift in the world around us. Confronted by the U.S.'s protectionist rhetoric, many Canadian businesses have been watching closely as North American Free Trade Agreement (NAFTA) renegotiations take place. More recently, the media has been preoccupied with escalating geopolitical tensions between the U.S. and North Korea and the after effects of the hurricanes.

These changes should remind us that we are often at the mercy of current events when we invest. Interest rates, economic trends, commodity prices, even threats of war, can affect the markets. Sometimes the news is good; sometimes it is not (and, often, history has a way of repeating itself).

While we cannot control these developments, we can protect our portfolios through discipline and diversification. Maintaining discipline means staying focused on your investment plan during times of change. In rising markets, this includes not getting caught up in the momentum by chasing higher returns and abandoning your investment objectives and risk tolerance levels. In more difficult times, it involves having confidence in your plan. Your portfolio has been carefully created with your personal objectives in mind, to help meet your needs over the longer term.

Savvy investors should also remember that a well-constructed portfolio has been designed with the elements of diversification and asset allocation to help minimize downside risks throughout the changing times. Also worth a reminder: change can often bring short-term periods of volatility. But volatility is a normal part of the markets and should be expected.

Despite the many changes, some things remain the same. For investors, the basic principles of investing haven't changed: managing risk and maintaining value through quality, diversification, appropriate asset allocation and minimizing taxes. Likewise, the fundamentals that lead to successful long-term, financial independence remain the same: save wisely by "paying yourself first" and invest sagely.

MISTAKES CAN HAPPEN: TFSA OVER-CONTRIBUTIONS

The contribution rules for Tax-Free Savings Accounts (TFSA) have, without a doubt, been a source of great confusion. As the Canada Revenue Agency (CRA) continues to audit TFSA accounts, there have been cases in which clients have received notices indicating that penalty taxes are due for unknowingly over-contributing funds.

As such, this may be a good time to review the TFSA rules. Much of the misunderstanding relates to the recontribution of TFSA withdrawals, and here are two common mistakes that are made:

Funds are withdrawn from a TFSA and then recontributed within the same year. TFSA rules state that any withdrawals do not create contribution room until the following calendar year. As such, if you do not have available contribution room, the recontributed funds would be considered as an over-contribution for that year.

Funds are withdrawn from one TFSA to transfer them to another TFSA at a different financial institution. If this is not done correctly — through a direct transfer completed by the financial institution — over-contribution penalties may apply. If funds are withdrawn from one TFSA as cash and moved to the other TFSA, this is considered to be a withdrawal followed by a contribution. Contribution room for the withdrawal will not be reinstated until the next calendar year.

A Reminder: TFSA Contribution Room Limits¹

YEAR	TFSA ANNUAL LIMIT	CUMULATIVE ROOM ²
2009 to 2012	\$5,000	\$20,000
2013 & 2014	\$5,500	\$31,000
2015	\$10,000	\$41,000
2016 & 2017	\$5,500	\$52,000

Be aware that CRA penalties can quickly add up. A TFSA penalty is assessed at 1% of the over-contributed amount per month until

the excess amount has been removed from the TFSA (or more contribution room becomes available). In one case, an indirect transfer of \$5,000 made in 2015 from one TFSA to another was considered to be an over-contribution. The penalty was calculated at \$50 per month for 24 months, totaling \$1,200.

THE BOTTOM LINE

Even with an understanding of the rules, over-contribution mistakes can easily be made. One of the problems has been that TFSA contribution room, unlike Registered Retirement Savings Plan (RRSP) contribution room, is not explicitly reported on the annual CRA Notice of Assessment. Here are two ways to help prevent mistakes from happening:

Keep good records. Information on TFSA contribution room is available online via the CRA's "My Account". You can contact the CRA to request a *TFSA Room Statement* or *TFSA Transaction Summary* that shows contribution and withdrawal information.

Consolidate accounts. If you have multiple TFSA accounts at different financial institutions, consolidation may help to simplify their administration and avoid any contribution confusion. This may also improve visibility and management of your asset allocation and eventually make settlement of your estate easier. Remember to ask your financial institution to transfer TFSA funds directly.

Finally, if you have received a penalty notice, be aware that there have been instances in which the CRA has provided relief to those who mistakenly over-contributed. As the CRA reviews each situation on a case-by-case basis, you may wish to contact them to discuss your situation.

Notes: 1. TFSA contribution room subject to eligibility rules. 2. As of 2009, TFSA room accumulates for each year in which you are at least 18 years old and resident of Canada.

DIGESTING EXCHANGE RATE CHANGES: THE BIG MAC INDEX

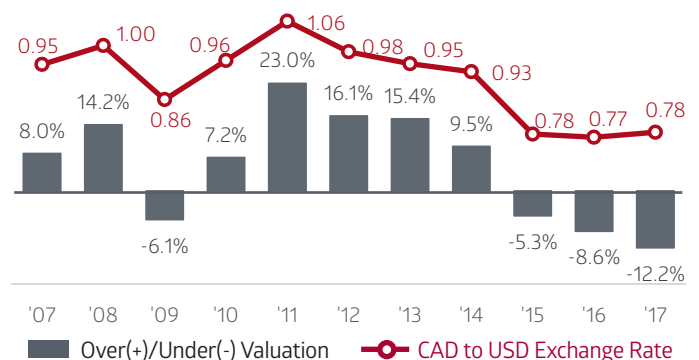
Given its recent rapid appreciation, the Canadian dollar (CAD) has been in the spotlight once again. Will it continue its path upward? Is the CAD fairly valued? Here is some food for thought:

The "Big Mac Index" has been published by the Economist magazine for the past 32 years and is meant to be a fun tool to make exchange rate theory more "digestible". It compares the purchasing-power parity (PPP) of certain global currencies. PPP is the theory that over the long run, exchange rates should adjust so that an identical basket of goods and services costs the same in each country. Instead of using a basket of goods, the index uses the Big Mac hamburger. It creates an exchange rate by comparing the cost of a Big Mac in a nation's local currency to its cost in the U.S. Comparing the actual U.S. dollar (USD) exchange rate with this exchange rate determines whether a currency is considered to be under or overvalued.

The bar chart to the right shows the under/over valuation of the CAD versus the USD according to the Big Mac Index over the past 10 years. The actual exchange rate is shown in red. Some parting thoughts:

currency fluctuations are a normal part of the financial markets. For longer-term investors with a well-diversified portfolio, the impact of currency changes on investment returns has the tendency to even out over time.

Big Mac Over/Under Valuation: Canadian vs. U.S. Dollar (July)



Source: economist.com/content/big-mac-index; June/July 2007 to 2017 data.

STUDENT IN THE FAMILY?

If you have a student in the family who has left town to attend university, the house is, no doubt, strangely quiet. While constant chatter on mobile phones or compulsive texting can be forgotten for a while, don't forget to take advantage of the available tax benefits to soften the cost of higher education.

RESP — Hopefully you already have a Registered Education Savings Plan (RESP) in place. We mention the RESP on a regular basis because we feel it is important for families. There are several meaningful benefits. Only through the RESP can you benefit from the federal government's Canada Education Savings Grant (CESG). Worth up to \$500 per year per student beneficiary (to a maximum of \$7,200 over a beneficiary's lifetime), these CESGs are granted to the plan when certain conditions are met. RESPs can encourage disciplined savings and provide the opportunity for compounded growth over time while deferring taxes. If you don't have an RESP for members of your family, please get in touch.

Beyond the importance of saving to support a child's education, students should keep good records to take advantage of tax benefits:

Tuition Tax Credit — The federal government provides this non-refundable credit worth 15% of the amount of tuition fees, with no maximum. Provincial credits are also available. If a student doesn't have sufficient income to use the credits in the year of attendance, the credit for up to \$5,000 of tuition fees can be transferred to a spouse/common-law partner, or to parents or grandparents. Any



remaining tuition amount can be carried forward for use by the student in a future year.

Moving Expenses — Moving costs may be deductible. If a student attends a post-secondary program at least 40 km from home, but returns in the summer months for a job, these expenses may be deductible to the student.

Education and textbook tax credits that were previously available have been eliminated as of Jan. 1, 2017.

Enjoy the peace and quiet now; before we know it, the school year will be over!

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.

THE ROLE OF THE EXECUTOR: A LARGE ONE

Have you been named as an executor/estate representative/liquidator/estate trustee of someone's estate? If so, you have been entrusted with a very important role. Being an executor can be a very large responsibility so here are a few things to keep in mind:

It is time consuming. Settling an estate generally takes about 18 months on average, but can take several years depending on its complexity. Duties of an executor can include arranging the funeral, finding, itemizing or even managing the estate's assets, applying for probate (in provinces where applicable), calling financial institutions to notify them of the death, filing income tax returns, liquidating or distributing assets as directed by the will, and more. The role may also involve visits to various financial institutions, as well as meetings with accountants, lawyers and perhaps even creditors and beneficiaries.

There are legal implications. As an executor, you may be held personally liable for any losses that are caused as you settle the estate. As an example, if the estate's assets were distributed prior to the estate's taxes being paid to the Canada Revenue Agency (CRA), the executor could be held personally

liable for the balance of taxes due.

You may be required to manage conflict. Even within the most harmonious of families, conflicts can emerge as an estate is settled. Decisions will need to be made and parties may not agree, even if the executor acts without bias.

Your place of residence may have consequences. There may be complications to the estate if you, as the executor, and the estate are in different jurisdictions. For example, if you were appointed as the executor of the estate of a person living in Canada, but you decided to become a non-resident of Canada, the estate may also become a non-resident of Canada. This could trigger negative tax consequences. Executors residing in a different province than the jurisdiction of the estate may also face challenges such as being required to post an estate administration bond.

SEEK ADVICE

If you have been appointed as an executor and want to learn more, or if you would like an introduction to an estate planning specialist to discuss your situation, please call.

KEEP PERSPECTIVE: CURRENCY MOVEMENTS

At the beginning of the year, it appeared that the Canadian dollar would experience continued weakness, largely due to persistently low oil prices. However, since May, the Canadian dollar has reversed its course and strengthened despite lower oil prices. Why?

The Canadian economy has been performing well, with strong job market, retail sales and GDP figures released during the summer. With the Bank of Canada increasing its benchmark interest rate in both July and September, Canadian dollar deposits also became more attractive and put upward pressure on the dollar. The loonie has also received a boost from weakness in the U.S. dollar.

A stronger Canadian dollar is good news for Canadians who spend periods of time vacationing in the U.S. However, it may be met with less enthusiasm by those investors who are carefully watching their U.S. dollar-denominated securities reduce in value relative to the Canadian dollar.

As such, this may be a good time to remind ourselves that, as investors, we shouldn't make investment decisions based on expectations of future foreign currency movements. Here are some perspectives:

The impact of currency movements tends to diminish over time. Currencies are always in transition. While exchange rates fluctuate from year to year, the impact of currency changes on investment returns has the tendency to decline over time, especially for longer-term investors.

Your portfolio uses the element of diversification to smooth out the effects of currency movements (and other market changes). Within a well-diversified portfolio that has exposure across different geographies, the effect of currency movements tends to even out. Often a rise in one currency is offset by a decline in another. Diversification is meant to reduce the risk of market fluctuations on portfolio returns.

There is little reward for betting on currency movements over the long term. Remember your portfolio and financial plan have been put in place with the longer-term in mind. Currency movements can vary significantly and are unpredictable, sometimes quickly changing their course. But, similar to timing the stock market to try and buy at market lows and sell at market highs, betting on currency changes is most likely going to be difficult, if not impossible.

It may provide buying opportunities. If there is an opportunity to purchase foreign-denominated securities (or, for snow birds, other assets such as U.S. real estate) taking into account your own personal requirements, such as risk profile, asset allocation and quality, a stronger Canadian dollar may provide for some buying opportunities. Keep in mind that the exchange rate prevailing at the time of the purchase and sale of an asset will impact the capital gain/loss realized for tax purposes when foreign-denominated assets are converted to Canadian dollars.

WHERE WILL THE DOLLAR STABILIZE?

As with any forecasting, there is no certainty on where the Canadian dollar will stabilize. The only certainty? Global currencies will continue to be in transition. Instead, focus on your investment plan's goals and try and enjoy one of the more positive effects of a rising Canadian dollar: that cross-border vacation may just have become a bit more affordable!

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