CIBC Wood Gundy

Perspective

Personal Newsletter from The Boychuk Knoblauch Financial Group

Second Quarter 2016

A Marathon, Not a Sprint

It was a winter of considerable discontent in the financial markets. The start of the year brought continued volatility in the equity market and the expectation that Canada's economy may face ongoing challenges for the foreseeable future.

These times should remind us that investing is a marathon, not a sprint. Success doesn't come overnight and it is not without its challenges. It involves stamina, dedication to a plan and a view to the longer term.

Volatility in the markets should also be a reminder that portfolio growth does not occur at a steady rate and, just as the markets experience upturns, so, too, are there downturns. During these times, here are some things to remember that may help to maintain perspective:

Volatility is a normal part of the markets. Over the past 30 years, the TSX Composite Index (with dividends reinvested) has gained over 953%, but the most substantial gains of 5% or more were made in just 11% of the 360 months. In fact, the index actually fell in over 39% of the months, demonstrating just how common downward market movements are.*

Markets are cyclical in nature. During times when negative sentiment may prevail, keep in mind that the economy and the financial markets are cyclical in nature. Have faith that the course will eventually change. In the past, the equity markets have turned when least expected or during times when pessimism has been at a high. Consider that 4 of the top 10 months of equity market gains over the past 30 years occurred when Canada was in recession.*

Down times can bring opportunity. Periods of downward volatility may offer investors a chance to buy quality shares at lower prices. These periods may also provide good opportunities to make adjustments to a portfolio or rebalance, where necessary.

Remember that the investing path is a marathon, not a sprint. It involves endurance to get through the inevitable low periods by having a proper plan in place, maintaining discipline and focusing on the longer-term goals that are set out within that plan. At the same time, keep in mind that we are always here to provide the support you may need during more difficult times.

In This Issue: Page

BOYCHUK KNOBLAUCH
FINANCIAL GROUP

Source: *TSX Composite Total Return Index monthly close – from 01/31/86 to 01/29/16.

Speaking Personally: It's worth repeating that being invested can play an important role in reaching your financial goals. Over the long term, holding significant amounts of cash may not be a viable option as even with moderate inflation, the value of a dollar will be significantly less in the future. Standing on the sidelines also risks missing any gains.

Stay focused on the long term and let us know how we can help. Enjoy the spring weather.

Tax Season: A Look Back in Time

These Are Taxing Times...

These are taxing times. Just 10 years ago, Canadians with income that fell within the highest marginal tax bracket were paying lower tax rates than today in all provinces except one — Newfoundland & Labrador.

But, if it is relative, Canadians today don't have it quite as bad as many others. Aruba's top marginal tax rate is 59.0%, Sweden's is 57.0% and Denmark's is 55.4%.* Surprisingly, in 1971, Canada's highest marginal tax rate was 80%, which by today's standards seems preposterous.**

The chart shows the top marginal individual tax rates for the 10 provinces (combined federal/provincial) for 2006 and 2016. In 2016, the federal government has created a new tax bracket for taxable income over $200,000. Provinces with tax brackets for income above this amount have rates denoted by "/". Tax rates associated with capital gains and eligible dividends are also shown — consider the tax advantages of receiving income in these forms.

Source: *Global individual marginal tax rates, KPMG. **Canadian Tax Journal, 1995, Vol. 43, No. 5, page 1062.

Combined Federal/Provincial Top Marginal Personal Tax Rates

	2006	2016**		
Province	Interest & Regular Income	Interest & Regular Income	Capital Gains	Eligible Dividends
BC	43.70	47.70	23.85	31.30
AB*	39.00	47.00/48.00	23.50/24.00	30.33/31.71
SK	44.00	48.00	24.00	30.33
MB	46.40	50.40	25.20	37.78
ON*	46.41	51.97/53.53	25.98/26.76	37.19/39.34
QC	48.22	53.31	26.65	39.83
NB***	46.84	53.30	26.65	36.27
NS	48.25	54.00	27.00	41.58
PEI	47.37	51.37	25.69	34.22
NL	48.64	48.30	24.15	38.47

Notes: *Denoted by "/" are tax rates for provinces with tax brackets higher than the top federal tax bracket: $220,000 in ON and $300,000 in AB. Source: 2006 data, BDO (Dunwoody); 2016 data, KPMG **As of Dec. 31, 2015 ***except for NB updated as of Feb. 2016.

Estate Planning: Thinking Ahead

What if Your Beneficiary Predeceases You?

You may have named beneficiaries in a will, on a registered plan (Registered Retirement Savings Plan, Registered Retirement Income Fund, Tax-Free Savings Account) or within a life insurance policy and may forget to revisit these choices as time passes. In the situation where a named beneficiary predeceases you, this may result in unintended consequences.

Where assets may pass outside of the estate and there is a named beneficiary, such as in registered plans outside of Quebec or life insurance*, if the named beneficiary has predeceased you, the assets will become part of your estate. But what if you didn't intend these assets to pass through your estate to the residuary beneficiaries named in the will or, in Quebec, through representation, or on intestacy if you left no will? In provinces/territories where estates are subject to probate tax, the assets will also likely be subject to additional fees or potential delay in their transfer due to the probate process.

Even in a will, if a named beneficiary is no longer alive and the will terms do not specifically direct the distribution of these assets, they also may not pass along as intended.

To avoid potential complications, here are three things to consider:

Use the Right Language/Terms — When reviewing your will and beneficiary designations, is there specific language that directs the distribution of assets in the event that a beneficiary predeceases you? Do you want assets to go to the deceased beneficiary's children or descendants, or to others?

Designate a Secondary Beneficiary — In some situations, you may wish to consider designating a secondary beneficiary. This is sometimes called a contingent beneficiary (or subrogated beneficiary in Quebec) because the secondary beneficiary only becomes entitled if the contingency arises where the primary beneficiary does not survive you.

Keep Updated — A regular review of your beneficiary designations and your will can help to keep up to date on who will be entitled to certain assets upon your death. Key events can be births, deaths, as well as new or ending marriages and common-law partnerships.

Please consult a legal advisor before making any decisions.

*Note: In Québec, if there is a beneficiary to an insurance policy, this will generally pass outside of the estate, but in some circumstances may pass within the estate.

Planning Ahead for Your Retirement

Retirement Planning: Age Milestones

As we get older, certain milestones are important when preparing for retirement. If you are nearing the following ages, take note of these considerations as you look to maximize your retirement savings. Don't leave money on the table. If you need help, please call. A tax advisor should be consulted to assist with any tax-planning-related matters.

60 Years Old:

Consider early Canada Pension Plan (CPP) payments. Although the standard age for starting CPP payments is 65, you have the option to collect your CPP retirement pension as early as age 60. Payments will be permanently reduced if you begin early. You may wish instead to defer CPP payments to receive an increased benefit by starting payments between the ages of 65 and 70.

65 Years Old:

Don't forget the federal Pension Income Tax Credit. The Pension Income Tax Credit allows you to claim a tax credit equal to the lesser of your pension income or $2,000. Since this is a non-refundable tax credit, it cannot be carried forward.

Note that there are certain exceptions in which the Pension Income Tax Credit can be used before the age of 65, including for those individuals 55 years of age or older who have certain qualifying types of pension income, or widow(er)s, so seek advice on your particular situation. In Quebec, the pension recipient must be 65 years old to split all types of pension income.

If you don't have a pension, you can generate qualifying pension income at age 65 by opening a Registered Retirement Income Fund (RRIF), for example. We are available to assist with this option.

Consider pension income splitting. If your spouse/common-law partner has a lower marginal tax rate and/or available tax credits to provide tax savings, consider pension income splitting. An individual can allocate up to 50% of their eligible pension income to a spouse for tax purposes. (Individuals as young as age 55 may have qualifying pension income in certain circumstances.)

71 Years Old:

Convert your RRSP before year end. You must convert your Registered Retirement Savings Plan (RRSP) before the end of the calendar year in which you turn 71 years of age. The most common choice is to open an RRIF, but there are other options to consider including purchasing an annuity or distributing funds which will be taxed as income.

Make final payments to an RRSP before year end. Consider catching up on unused contribution room from previous years before year end. You won't be able to contribute until the usual RRSP deadline (which is 60 days after the end of the calendar year) as your plan will need to be collapsed before year end.

Consider contributing to a spousal RRSP. If you have reached the age of 71 but have a younger spouse and have unused RRSP contribution room (or are generating RRSP contribution room if you still have earned income), consider contributing to a spousal RRSP.

You Asked: What Are Negative Interest Rates?

With interest rates at near zero levels, the question of "how low can they go" has taken on new meaning following the introduction of negative interest rate policies across the globe.

A negative interest rate means that an investment will return less in the future. Consider the situation in which you purchased a bond for $100 that pays a -0.5% interest rate. After one year, you would have $99.50. At first, this concept may seem counterintuitive. Why would anyone want to invest an amount to get less in return?

In Europe, where various central banks have adopted negative interest rate policies since 2014, contrary to what was expected, some investors have accepted negative rates in the absence of better options. Investments with small negative returns have provided security or liquidity during uncertain times.

However, the objective of the central banks in using a negative interest rate policy is to stimulate the economy through spending and investment. How does this translate into practice? Financial institutions that deposit funds with the central bank would now be paying for the ability to do so. This is meant to discourage the stockpiling of cash and instead encourage activities like lending to consumers or businesses (thereby generating a positive return on those assets) and spending which may stimulate the economy.

Will This Come to Canada?

Although the Bank of Canada (BofC) has mentioned the possibility of a negative interest rate policy, the approach would likely not be taken unless the economic situation significantly worsens.

Even if the BofC implements a negative interest rate strategy, it is not expected to have a significant impact on investors since rates have been held at such low levels for many years. As well, the banks are not likely to impose negative interest rates on their customers for savings. A potential rise in borrowing and spending may help to provide a boost to the economy, although some economists are concerned with Canada's already high debt levels.

During Difficult Times: Words from the Wise

Words of wisdom from some of the most successful investors of our time may serve as good reminders during more volatile periods.

During volatile times in the markets, it may be challenging to maintain perspective. Keep in mind, however, that volatility in the markets is both normal and unavoidable and being a savvy investor means being able to navigate through both good and bad times.

Some words of wisdom from the some of the most successful investors can serve as a reminder of what makes a great investor, especially when it comes to persevering through difficult times.

"To be an investor, you must be a believer in a better tomorrow." – **Benjamin Graham**

Financial markets are inherently cyclical. In challenging markets, don't forget that better days are on the horizon. History has shown us that the markets can quickly change direction, often without any notice. Having the discipline to stick to the objectives set out in your financial plan, especially during the down times, is one of the hallmarks of successful investing.

"The four most dangerous words in investing are 'this time it's different.'" – **John Templeton**

Declining markets have always been experienced through time and solutions for the prevailing, and seemingly unique, causes have always been found. Consider the significant drop in the markets during the most recent financial crisis. After the failure of various financial institutions following the U.S. housing bubble burst, many investors were convinced into believing that 'this time it's different'. After a massive market sell-off, the markets still rebounded. In fact, the TSX Composite Index gained around 57% in the nine months following the market lows of March 2009. Similar scenarios have played out many times throughout history.

"Be fearful when others are greedy. Be greedy when others are fearful." – **Warren Buffett**

What is the mindset of a great investor when stock markets are declining? Instead of running in fear, savvy investors welcome these periods as opportunities to buy quality investments at good prices. After all, it is often more difficult to find great opportunities when buying into a high market or selling in a falling market.

"More money has been lost trying to anticipate and protect from corrections than actually in them." – **Peter Lynch**

During times of downward volatility, many investors may feel the pressure to sell their investments due to fear that the markets will continue to fall. However, most investors are unable to accurately time the markets. Successfully 'buying low and selling high,' often means having the confidence to make decisions independently and not based on what everyone else may be saying or doing.

"When we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever." – **Warren Buffett**

The principles of your investment program have been put in place to help weather the inevitable storms. This includes holding quality investments in your portfolio, as the fundamental value of these investments is likely to remain unchanged during volatile periods. Other key investing tenets – having appropriate diversification, asset allocation and risk tolerance – will also help to endure more difficult times.

We Are Here to Help

Try not to be discouraged during more challenging investing environments. Remember that these periods will pass. As always, we are just a phone call away should you require assistance.

Sources: Graham, Benjamin. "The Intelligent Investor", pg. 535. Any material that is copyrighted has been used with permission of the authors or their representatives.

With the Compliments of:

The Boychuk Knoblauch Financial Group

Tyson C. Boychuk, CIM
First Vice-President, Portfolio Manager
Investment Advisor
604.641.4394
tyson.boychuk@cibc.ca
Tyson Boychuk

Dean R. Knoblauch, CFA
First Vice-President, Portfolio Manager
Investment Advisor
604.641.4386
dean.knoblauch@cibc.ca
Dean Knoblauch

CIBC Wood Gundy
400 - 1285 West Pender Street
Vancouver, BC V6E 4B1
Toll Free: 800.661.9442
Edmonton: 780.491.0113
Whitehorse: 867.667.7402
www.BoychukKnoblauch.com