CIBC Wood Gundy

Perspective

Personal Newsletter from The BKE Financial Team

First Quarter 2015

Happy New Year

Over the course of 2014, North American markets continued to set new record highs. Yet, the year will be remembered as one in which investors found it difficult to fully embrace the ongoing bull markets. Periods of volatility, especially those experienced in September and October, led pessimists to doubt the positive performance of the markets.

This cautionary sentiment is understandable. We are living through challenging times. Economic growth continues to be slow. Over the past few years, commodity prices have dropped from their highs, including the more recent drop in oil prices, which will continue to affect Canada's resource-based economy.

Despite these challenges, there are still plenty of positive indicators that give us cause for optimism.

Many corporations continue to post strong earnings. A lower Canadian dollar has also helped to stimulate Canadian exports. For energy companies, this may help to offset lower oil and gas prices.

In both Canada and the U.S., gross domestic product (GDP), which is a good measure of economic growth, has been improving since the lows experienced in 2008 and 2009. Unemployment rates have reached their lowest level since their peak in 2009. These indicators demonstrate that economic recovery continues to show progress.

Other parts of the world aren't faring as well. Japan has fallen into recession and various European countries are at similar risk.

What will the coming years bring?

Canadian and U.S. economies appear to be in much better shape than many others globally. Global deflationary pressures are expected to prevent a sharp rise in U.S. interest rates, which should help to support continued growth closer to home.

There are still many challenges ahead, but if we reflect on how far we've come, we should be reminded to have patience in the present and confidence in the future.

Let's greet the New Year with optimism and hope.

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THE BKE FINANCIAL TEAM
LIFESTYLE STRATEGIES FOR TOMORROW

Speaking Personally:

The start of the year is an ideal time to refocus your financial priorities. It may be as simple as rebalancing your portfolio. Or, it may mean the end to procrastinating over making investment decisions.

Will you benefit from the market opportunities this year? Keep focus, maintain perspective and let us know where we can assist. Wishing you and your loved ones good health, wealth and happiness for the year ahead!

A Healthy Reminder

Volatility and Opportunity

The temporary periods of greater volatility experienced in 2014 had many investors on edge. During these turbulent times, it is sometimes difficult to remember that volatility in the marketplace is, in fact, the norm. Seasoned investors accept it as a reality of the markets and embrace volatility for the opportunity it offers.

Volatile markets are characterized by wide price fluctuations and heavy trading. Various underlying factors cause an imbalance of trading pressure in one direction, either selling or buying.

The volatility experienced when the markets dropped in September and October of last year can be attributed to a variety of reasons, including investor reactions to disappointing economic news and continuing geopolitical friction, as well as nervous investors who may have been prompted by the sell-off after experiencing a lengthy bull market.

Consider this historical perspective on volatility. Since 1970, over 68 percent of the annual returns of the S&P/TSX Composite Index* (with dividends reinvested) have been year-over-year changes (either gains or losses) of greater than 10 percent. Over one-third of the annual returns have been year-over-year changes of greater than 20 percent. Yet, over this period the index has had an annualized return of 9.4 percent.

As uncomfortable as the ups and downs may be, volatility provides opportunity for the investor. Historically, equity markets have provided some of the best returns to investors and in today's world of low interest rates this still has been the case. However, with the rewards offered by the equity markets come the volatility associated with the ability to buy and sell the shares of a company.

During temporary periods of downward volatility, the resulting price movements of most company shares are not usually related to their long-term operational performance. Since the fundamentals of quality stocks often haven't changed during these times, such volatility can provide a short-term opportunity to purchase good investments at a lower price.

At the same time, remember that the decision to sell shares should not be an emotional reaction to volatile markets, as this may mean selling at a lower price. Over the longer term, a portfolio that emphasizes quality and diversification is often largely unaffected by these short-term periods of volatility.

As difficult as it may be in practice, embrace volatility for its opportunity because, at the end of the day, just like death and taxes, volatility remains one of life's certainties.

*S&P/TSX Composite Total Return Index annual returns,1970 to 2013, using Dec. 31 closing data (or relevant last day of trading for calendar year).

How Hard Are You Working?

Billionaires: Working Hours

Do you aspire to be a billionaire? Perhaps you aren't working hard enough! The old saying "time is money" certainly rings true when it comes to how hard the world's richest are working.

Forbes Magazine recently asked some of the world's billionaires how many hours per week they worked. About 30 percent of the billionaires surveyed said that they worked more than 60 hours per week. Another 30 percent said that they worked around 60 hours per week.

The majority of the individuals who made the Forbes billionaires list — around 66 percent — were self-made, so it shouldn't be surprising to see that many of those surveyed work very long hours.

How do these working hours compare to those of the average Canadian? According to the OECD, the average Canadian works 1,706 hours per year, which equates to only about 34 hours per week (assuming a 50-week work year). And, the average Canadian's working hours have generally been decreasing over the past 25 years. In 1990, we worked an average of 1,796 hours per year, so we're working five percent less than we used to!

How hard are you working?

Source: Forbes Magazine, "Desk Set", 8/18/14. Survey of 50 billionaires. OECD, "Average annual hours worked per worker", 2013 year. www.stats.oecd.org.

Reminders: TFSAs & RRSPs

Tax-Free Savings Account (TFSA) —
As of January 1, 2015, eligible Canadian residents may contribute an additional $5,500 to a TFSA. The total contribution room available (for those eligible who have not made contributions since the program was established in 2009) is $36,500.

Registered Retirement Savings Plan (RRSP) —
The deadline for 2014 tax year RRSP contributions is Monday, March 2, 2015.

If you need assistance with either of these accounts, please don't hesitate to call.

Upcoming Tax Changes

Tax Relief for Families with Children

In the last quarter of 2014, the federal government announced new tax relief and benefits for families with children under the age of 18.

Here are some of the more notable changes that may impact your financial situation:

New "Family Tax Cut": Income Splitting — The Family Tax Cut will provide a maximum benefit of up to $2,000 for couples in which one spouse is in a different marginal tax bracket than the other. Couples will be allowed to income-split up to $50,000 of household income for the purposes of determining their federal taxes owed.

This tax cut will provide the greatest benefit to those two-spouse families in which one spouse has a significantly lower income than the other. This benefit will apply for the 2014 and subsequent taxation years.

Enhanced Universal Child Care Benefit (UCCB) — The current UCCB provides a taxable payment of $100 per month (up to $1,200 per year) for each child under the age of six. As of January 1, 2015, the federal government proposes to increase this benefit to $160 per month, resulting in a taxable benefit in the form of a monthly cheque that could total up to $1,920 per year for each child under the age of six. In addition, the federal government proposes a benefit of $60 per month for children ages six through 17, amounting to up to $720 per year.

The government expects that the new payments will be reflected retroactively to recipients in July 2015. The enhanced UCCB would replace the current Canada Child Tax Credit for the 2015 and subsequent taxation years.

Increase in the Child Care Expense Deduction — The Child Care Expense Deduction allows a parent to deduct eligible child care expenses from employment or business income (or if the parent is pursuing eligible education or research activities).

Effective for the 2015 and following taxation years, the government proposes to increase the maximum amount that can be claimed by $1,000. For each child under the age of seven, the maximum amount increases to $8,000 and for each child ages seven through 16, the maximum amount increases to $5,000. The amount also increases by $1,000 for children who are eligible for the Disability Tax Credit.

For a parent claiming the deduction who is in the highest tax bracket, the additional federal tax savings will amount to $290 per child.

Higher Children's Fitness Tax Credit — The Children's Fitness Tax Credit, which is a tax credit that was introduced in 2007 for prescribed programs of physical activity for children, will be doubled in value. The maximum expense that will be able to be claimed will increase from $500 to $1,000, effective for the 2014 taxation year. As of January 1, 2015, it will become a refundable credit for lower-income families.

More Information

For further details on these and other proposed tax changes, please see the Government of Canada's budget website: www.budget.gc.ca.

More Tax Relief

Small Business Tax Changes

For small business owners, there's good news in the form of a tax credit to start the year.

As of January 1, 2015, the Employment Insurance (EI) premium rate for small businesses will be reduced from $1.88 to $1.60 per $100 of a worker's insurable earnings.

The change in the EI premium rate will be applicable to those businesses who pay employer EI premiums of $15,000 or less in 2015 or 2016 and will be reflected as a tax credit, known as the "Small Business Job Credit". This credit will be automatically administered by the Canada Revenue Agency (CRA). There will be no change in the EI premium rate paid by workers; it remains at $1.88 per $100 of insurable earnings.

The government projects that this tax credit will save small businesses more than $550 million over the next two years and the government believes that it will help to stimulate hiring.

It is expected that the federal government will implement a new EI rate-setting process starting in the 2017 year.

Investment Resolutions for 2015

Happy New Year! It's a time of resolutions and here are some that relate to your financial habits.

As part of your New Year's resolutions, are you taking care of the financial health of you and your loved ones? The following ideas may seem basic, but they are a good starting point to help many investors maintain strong financial habits.

1. Review your investment plan. For most investors, this doesn't necessarily mean that major changes are needed. Sometimes, there may be value in rebalancing a portfolio to return its asset allocation to the desired level. If your personal circumstances have changed, adjustments may also be needed.

At the end of the day, remember to have confidence in your plan. Resolve to keep your emotions in check to help overcome the periods of volatility that may be encountered in the year ahead.

2. Maximize savings plans. Contribute as much as you can to a Registered Retirement Savings Plan (RRSP) to defer taxes or a Tax-Free Savings Account (TFSA) to take advantage of tax-free growth. Remember that as of January 1, 2015, TFSA contribution room increases by an additional $5,500.

3. Update your will and representatives/power of attorney. We recommend revisiting your will every three to five years, or more often if a major event has taken place in your life. Beyond these basics, in-depth estate planning can help achieve a variety of benefits, such as helping to minimize the cost of transferring property or assets to beneficiaries, simplifying the administration of your estate to ease the strain on your family and preserving assets such as a family cottage/cabin.

4. Look for ways to minimize your 2015 taxes. Remember that saving tax is a year-round exercise. This may include planning with your spouse or common-law partner to take advantage of income-splitting opportunities or revisiting the way your investment and income assets are structured across different accounts. Recent announcements by the federal government may help to reduce your taxes (see page 3 of the newsletter). Starting early and planning ahead can help when it comes to reducing your tax bill for 2015.

5. Consider insurance. Insurance today is as much about life as death. Critical illness insurance or disability insurance may play an important role in your financial planning. For estate planning, insurance may be a helpful tool to offset capital gains taxes that may arise upon death on certain investments that you hold or to leave a legacy by providing a tax-effective bequest to your favourite charity.

6. Contribute to an education fund. Education costs continue to rise and if you have children or grandchildren who are looking to engage in post-secondary studies, consider supporting them in this endeavour. Don't forget the opportunity to take advantage of the grants that are provided by the Canadian government which have the potential to contribute up to an additional $7,200 towards your child's/grandchild's post-secondary education fund.

7. "Pay it forward." If you have disciplined financial habits, why not pass along some of this wisdom to the next generation? Teach kids about the pitfalls of debt and the value of time and compounding when saving for the future. Instilling good financial values in the younger generation early can help to make a difference for them in the long run.

As always, if you would like to discuss these, or other ways to improve your financial health, please don't hesitate to call.

Here's to a safe, healthy and prosperous year ahead!

With the Compliments of:

The BKE Financial Team

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.bkefinancialteam.com