CIBC Wood Gundy

Perspective

Personal Newsletter from The BKE Financial Team

Second Quarter 2015

Expecting the Unexpected

The old saying 'expect the unexpected' certainly applies to the current state of the Canadian financial markets. Just a year ago, if one were to predict that oil prices would be where they are today, most analysts would have scoffed. The drop in prices has put significant pressure on the Canadian economy and many growth forecasts have been revised. Even the Bank of Canada made the surprise move of lowering interest rates in January. For almost all of last year, the question on most economists' minds was when interest rates would rise, not fall.

Perspective Is Important…

The media has been busy reporting on and often hyping the recent economic challenges. But stepping back from the headlines, it is worthwhile to remember that there are many longer-term factors that may support future growth. A lower Canadian dollar should help to stimulate trade. Investment spending has begun to pick up. Stronger economic growth in the U.S., our largest trading partner, should benefit Canada. Lower oil prices may also have a positive impact and on page 2 we highlight some considerations.

…So Is Diversification

At the same time, oil's importance in our economy cannot be overlooked. The energy sector makes up about 22 percent of the S&P/TSX Composite Index, compared to only 8 percent of the U.S. S&P 500 Index. The sector's dominance, second only to the financial sector, which accounts for just over 30 percent, also highlights the fact that the Canadian stock market isn't highly diversified by sector.* But, that doesn't mean your portfolio shouldn't be.

One of the reasons why savvy investors should rest easier is that a well-constructed portfolio uses diversification to help mitigate risk in times like these. Another reason? Being invested. When equity markets seem more volatile, it may be tempting to take money off the table. But sitting on the sidelines has never been a prescription for growth and participating through the inevitable market cycles is often a key to generating returns over the longer term.

There is certainly no unanimous outlook on the future and only time will tell what it has in store. Expect the unexpected, remembering to focus attention on your personal objectives and your longer-term plan, not on any short-term fluctuations.

*By market capitalization. S&P/TSX Composite, 02/06/15. S&P 500 Index, 01/30/15.

In This Issue:

THE BKE FINANCIAL TEAM
LIFESTYLE STRATEGIES FOR TOMORROW

Speaking Personally:

For many, it has been another long Canadian winter. But spring is finally here!

It is also personal tax season. Did your income tax liability increase in 2014? Since tax planning is a year-round exercise, now may be a good time to start thinking about ways to impact your 2015 tax position.

If you have yet to complete your returns and have any investment-related questions, please don't hesitate to let us know.

Challenging Times

The Upside to Oil's Price Slump

Since the decline in the price of oil that started last summer, there has been no shortage of negative news when it comes to the topic of oil. It's no surprise since the oil industry plays such a significant role in our economy.

Why have prices dramatically fallen? An oversupply of oil globally has been driven by higher prices and new drilling and extraction technology. At the same time, the Organization of the Petroleum Exporting Countries (OPEC) has refused to cut output, sending prices downward. The 12 countries that form OPEC control over 80 percent of the world's proven oil reserves.*

The recent drop in oil prices has been noteworthy for its magnitude and sharpness. Concerns over the near-term effects on the Canadian economy resulted in the Bank of Canada cutting interest rates earlier this year.

But it's nothing that hasn't been seen before. Between November 1985 and March 1986, the price of oil plunged 67 percent and largely remained between $20 and $50 per barrel until 2004. Although Canada's commitment to the oil sands has increased since this period, the industry is familiar with operating during times of lower oil prices.

There's no denying that lower prices present a challenge for our economy. But there are positive elements to also consider.

Many industries will benefit. Oil is a significant input cost for many companies across industries such as manufacturing and transportation. Deep discounts on energy costs, alongside a weaker Canadian dollar, are expected to help improve profits.

Lower oil prices are good for consumers. According to Bloomberg, Canadians spend an average of 2.89 percent of their annual income on gasoline, the sixth highest in the world. When it comes to global gas consumption, we are second only to the U.S.!** With a drop in gas prices, consumers will have more disposable income, either to increase spending, which can help to boost the economy, or to pay down household debt.

Even the oil sector may benefit over the longer term. Oil companies are now being pressured to reduce their costs, something that hasn't been a priority for many years. The drop in 1986 prompted many major oil companies to cut capital expenditures and operating costs. Not only did this improve profit margins but some companies were also able to keep free cash flow constant.***

Sources: *OPEC, www.opec.org, based on 2013 data. **www.bloomberg.com/visual-data/gas-prices/, Q4 2014 data.***"Big Oil's dividends look safe - for now", Globe & Mail, 01/21/15, B11.

Comparing the Cost of Oil

At US$50 a barrel, the price of WTI crude oil translates to about C$0.31 per litre. Let's compare the price of oil to the cost per litre of some other liquids:

- Starbucks Espresso — $73.67
- Corn Oil — $6.61
- 2% Milk — $1.87
- WTI Crude Oil — $0.31

Source: Based on Bloomberg Businessweek estimates, Jan. 12-18, 2015, p17. USD/CAD exchange rate 1.2449.(02/13/15).

Tax Season Reminder

Don't Forget: Pension Income Tax Credit

For taxpayers who are currently receiving eligible pension income, don't forget about the pension income tax credit. The federal government offers a tax credit that amounts to 15 percent of eligible pension income, for up to $2,000 of pension income for the year. In Quebec, a provincial tax credit is also available.

For taxpayers who are 65 years of age or older, eligible pension income may include life annuity payments from a pension or superannuation plan, payments from a Registered Retirement Income Fund (RRIF), annuity payments from a Registered Retirement Savings Plan (RRSP) (or deferred profit sharing plan or pooled registered pension plan), regular annuities and periodic payments from a defined contribution pension plan.

Eligible pension income does not include Canada or Quebec Pension Plan (CPP/QPP), Old Age Security (OAS) or Guaranteed Income Supplement (GIS) payments.

If you are under the age of 65, you may still be able to make a claim on life annuity payments from a pension or superannuation plan, or on eligible pension income as a result of the death of a spouse/common-law partner.

This is a non-refundable tax credit, so you can't carry the credit forward if not used within a particular tax year. However, unused amounts can be transferred to a spouse or common-law partner.

Please note that 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.

Estate Planning

Carefully Select Who Will Administer Your Estate

Have you named the person who will administer your estate? If so, perhaps enough time has passed and circumstances have changed that a review may be in order.

Consider that not everyone is suited for the role of an "executor" — known as an "estate trustee" in Ontario and a "liquidator" in Quebec. Many people name a spouse or close relative as the executor. This is often appropriate, but having a full understanding of the role can be helpful when deciding on the best choice for your estate.

It is a large responsibility. Often, a broad range of tasks is required. Duties of an executor may include making funeral arrangements, gathering/ inventorying the deceased's assets, notifying financial institutions, dealing with any debts or liabilities, looking after assets until distribution (including securities or real estate) and distributing the estate according to the will. As well, under certain circumstances, the executor may be held personally liable for items such as the estate's taxes if tax obligations are not properly looked after before other distributions are made.

It is time consuming. The administrative duties of an executor are often ongoing and can last anywhere from many months to several years, depending on the estate's complexity.

It often involves exercising business judgement/knowledge. The executor is often called upon to make decisions on behalf of the estate, including those related to the realization of estate assets, estate investments and estate tax returns. In many cases, professional assistance will be required; however, the executor has the ultimate responsibility of monitoring and approving the actions of those hired.

It may require dealing with emotions or mediating conflict. It is not uncommon for conflicts to arise, even in the most seemingly harmonious family units. During these times, the executor will need to act objectively as a mediator or diplomat, dealing with competing interests, while ensuring that the terms of the will are carried out.

Make sure to have a conversation with the individual to ensure that (s)he is aware of the responsibility and is willing to take it on. It isn't unheard of for an executor to be named without their knowledge! Also remember that time can change things. If the chosen individual is no longer in a position to act as the executor, your family could be put in the challenging position of finding a suitable replacement during a difficult time.

By planning ahead, you can rest easier knowing that you have chosen the best person to carry out your final wishes.

Choosing the Best Executor

Here are additional considerations for choosing an executor:

- **Trust** — Do you trust the person to act in your best interest?
- **Age** — Will the person predecease you? If they are older, consider naming an alternate individual who is closer to your age or younger.
- **Location** — Does the person live close to you? If the individual lives thousands of miles away, it may create logistical problems for the individual and result in additional expenses for the estate.
- **Specialized Skillset** — Will the estate require specialized skills to administer? For complex estates, it may be useful to appoint an executor who understands finance or tax. A business owner may need someone with the skillset to run the business for a period of time after death.
- **Multiple Executors** — In the case of multiple executors, can they work well together? Having more than one executor may complicate the situation.
- **Professional Assistance** — If no reliable executor can be found, a professional executor may be a viable alternative.

Perspectives on the Canadian Equity Market

The Case for Dividends

Here's an interesting perspective on the Canadian equity markets, and more specifically on Canadian dividend-paying stocks.

The current dividend yield of the Canadian equity market is now higher than certain interest yields in the traditional bond market, which hasn't been the case through most of history. The S&P/TSX Composite Index has a dividend yield that is sitting just over 2.8 percent. Ten-year Government of Canada bonds are currently yielding around 1.5 percent and 30-year bonds are hovering around 2.0 percent.

Another surprise? The Canadian index's dividend yield is higher than the dividend yield of the U.S. S&P 500 Index, which currently sits at around 1.9 percent.

Sources: Government of Canada 10-year bond yield: 1.5%; 30-year: 2.1% at 03/06/15, Bank of Canada. Dividend yields as at 03/04/15, Bloomberg.

Beneficiary Designations & Registered Plans

Here are some reasons why it's important to pay attention to how you name your registered plan beneficiaries.

Giving thought to how you name the beneficiaries of registered plans can make a difference. Beneficiaries can be designated for certain registered plans, including: Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs) and Tax-Free Savings Accounts (TFSAs).*

Why Name a Beneficiary?

1. Assets or the value of plan assets can be quickly and easily transferred to the beneficiary upon the holder's death as assets will not be subject to the probate process, which often results in delays in distribution.
2. Estate-related fees may not be imposed (where applicable).
3. Beneficiaries can be different from those individuals named in a will.

As well, giving thought to who you name as a beneficiary for your RRSP or RRIF can make a difference from a tax perspective, by helping to either defer or minimize taxes on the plan. (For the TFSA, no taxes will be due on the value of the assets held in the account at the time of the TFSA holder's death.)

- **Tax Deferral** — Tax can generally be deferred if the RRSP/RRIF beneficiary is the deceased annuitant's i) spouse/common-law partner; ii) financially dependent child/grandchild under the age of 18; or iii) financially dependent mentally or physically infirm child/grandchild of any age.
- **Tax Minimization** — If an eligible charity is named as the beneficiary, a charitable tax credit generated by the gift should generally offset any tax payable on the plan.

The "Successor" Designation

If you intend on making a spouse/common-law partner the beneficiary of an RRIF or TFSA, you may choose to name them as a successor which allows for the survivor to continue operating the plan as is.

- **Successor Annuitant (RRIF)** — The surviving spouse can continue operating the RRIF and will receive the remaining payments as the new annuitant. The minimum annual payment will be the same as what was established for the deceased annuitant. If the successor chooses, they may transfer the RRIF to another RRIF in their own name (or RRSP if they are not yet 71 years old).
- **Successor Holder (TFSA)** — Any income earned in the TFSA continues to be sheltered from tax for the new successor holder (provided no excess TFSA amount exists) and the new successor holder can continue to operate the account into the future. (Any new contributions are subject to their own unused TFSA contribution room). The successor holder can transfer the TFSA to another TFSA that they hold.

As always, it is recommended that you seek professional advice regarding your personal situation. Please let us know if we can help.

*Note: In Quebec, beneficiary designations are generally not recognized on these plans and any related assets are distributed through the individual's will or marriage contract.

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