CIBC Wood Gundy

Perspective

Personal Newsletter from The BKE Financial Team

Fourth Quarter 2015

Staying the Course

"Successful investing," Warren Buffett has said, "takes time, discipline and patience." Indeed, in times like these, the importance of staying the course when investing should not be forgotten.

Over the summer of 2015, the economy and the Canadian markets continued to be challenged by persistently low oil and commodity prices. Many corporate earnings were affected by the slower-growth environment, including the manufacturing sector which didn't experience the expected uplift from a lower Canadian dollar. As a result, the Bank of Canada lowered its key interest rate in July, fuelling concerns that the Canadian economy was edging into a recession. Adding to the volatility was the reaction to international events, including China's currency devaluation and slower growth concerns.

Given the many challenges, it may be difficult to think positively. But here are some reasons to keep perspective. Although we cannot underestimate the pressure that lower oil and commodity prices put on the economy, don't forget that challenges like this aren't new and that economies typically adjust and adapt. For most of the period between 1996 and 2004, oil prices remained at $20 to $50/barrel. Strong commodity prices have been a relatively 'new' situation, peaking from 2000 to 2009.

Certain factors may also work to increase oil prices. According to the International Energy Agency, global demand for oil is at its highest in five years.

There are other positive signs. Canada's export market experienced a significant lift over the summer. Despite overall poor national economic growth, provinces including British Columbia, Ontario and Manitoba have had relatively good year-over-year growth. South of the border, the U.S., our largest trading partner, continues to experience an economic expansion.

As you consider your own situation, don't lose sight of your longer-term financial goals. If your holdings are in line with the objectives that you have set out in your investment plan, you likely have few serious concerns. Remember that a portfolio built with an emphasis on quality, diversification and proper asset allocation is meant to help get through more volatile times.

Disciplined investment means staying focused on your goals and not being swayed by short-term volatility or pessimistic economic news. Having patience to stay the course can be one of your greatest allies.

Speaking Personally:

The beginning of the quarter marks Canada's 42nd federal election. After a summer of election promises by all candidates, there may be upcoming changes that will impact us from a financial perspective. We'll keep you apprised in upcoming newsletter issues.

Despite these slower-growth times, we have a lot to be grateful for living in Canada. We wish you the best this Thanksgiving season.

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You Asked...

What is Crowdfunding?

Over recent years, crowdfunding — the act of raising funds from a large number of people typically via the internet — has become popular for smaller companies looking to fund their operations.

There are four basic crowdfunding models: i) Lending — investors loan funds to a company; ii) Equity-based — investors obtain a form of equity stake in a company; iii) Reward-based — investors give funds to get a reward in return (such as a product or discount); and iv) Donation — people donate funds.

Crowdfunding has been beneficial for companies that have otherwise faced challenges in finding traditional sources of equity financing. Until recently, equity-based crowdfunding was prohibited in Canada but legislation has been rapidly changing and certain provinces now permit equity-based crowdfunding, based on varying conditions.

Equity-based crowdfunding may also provide the average investor with investment opportunities that were previously only available to the venture capital community. However, caution should be exercised as crowdfunding is not without risks, including:

Due diligence — The average investor may not have the skillset to effectively conduct due diligence of a company. Disclosure documents may also not provide an extensive view of the quality of a company's operations. Professional venture capitalists spend a great deal of time reviewing a potential investment's business model and management team. Finding a "home run" investment is considered to be the exception, not the norm.

Liquidity — There often is uncertainty as to how investors will get their money out of the investment. Venture capitalists typically get a return when an invested company is acquired or undergoes an initial public offering (IPO) on the stock market. For most crowdfunded start-ups, these traditional methods are not available.

Lack of regulation — There have been reported cases of misrepresentation and fraud. Some crowdfunded company owners simply absconded with funding. Rules have been put into place to protect investors, but they do not provide protection in all circumstances.

Provincial crowdfunding legislation continues to change and updates can be found on the websites for each provincial securities regulatory authority or the National Crowdfunding Association of Canada website: http://ncfacanada.org/.

Tax Planning Before Year End

Don't Forget: Gain from Your Losses

Since the 2007/08 financial crisis, both the Canadian and U.S. stock markets have experienced lengthy bull runs, which may mean that you have gains in your securities portfolio. If you expect to realize capital gains during the year, triggering capital losses may work to your benefit. Well before the end of the calendar year, consider a review of your securities portfolio to see if there are investments in a loss position that you may wish to sell in order to reduce your current taxable capital gain. This strategy is known as "tax-loss selling".

In general, when an investment is sold, the cost of the investment is subtracted from the proceeds to determine the capital gain (if positive) or the capital loss (if negative). If the total of all the capital gains realized exceeds the total of all the capital losses realized during the year, 50 percent of the total is included in income as a taxable capital gain.

However, if your total capital losses exceed your total capital gains realized during the year, 50 percent of the net amount is your "net capital loss" for the year. Net capital losses cannot be used to offset other income, such as employment or dividend income. You may, however, carry a net capital loss back to be claimed over the three prior taxation years to recover taxes previously paid on taxable capital gains in those years. Alternatively, you can carry net capital losses forward indefinitely to use against future taxable capital gains.

When undertaking tax-loss selling, don't forget about the "superficial loss rules", which have been put in place to prevent taxpayers from creating artificial transactions to generate capital losses. They will apply if: i) you, or an "affiliated person" (which includes a spouse/common-law partner or your Registered Retirement Savings Plan), acquire property identical to that which was sold for a loss in a period that is either 30 days before or after the date of the loss transaction; and, ii) 30 days after the loss transaction, you, or an affiliated person, own the identical property. As a result, you will not be able to use the capital loss in the current year to offset capital gains. Instead, the capital loss will be added to the adjusted cost base of the identical property.

Consider speaking with a professional tax advisor prior to engaging in tax-loss selling.

Proud to Be Canadian

Being Thankful: Measuring Happiness

Living in Canada, we have much to be thankful for. Canada often ranks as one of the best countries in which to live globally, and the recent United Nations (UN) ranking of the world's happiest countries is no exception. The 2015 report on the state of global happiness places Canada in the top five countries globally.

What makes a nation happy? According to the report, six variables account for most of the variation among countries: real Gross Domestic Product (GDP) per capita, healthy life expectancy, social support, perceived freedom to make life choices, perceived freedom from corruption, and generosity.

Tracking well-being and welfare as national indicators is a relatively new concept but has gained attention due to evidence that a society's well-being can impact its economic status.

Not only are we a happy nation, but Canada has recently placed at the top of many other international rankings, including:

- **Most Reputable & Admired Country, 2015** — Reputation Institute
- **Government Net Debt/GDP, G7 Countries, 2015** — OECD
- **Best Place to Live, Safe Cities Index, 2015** (Toronto, Montreal ranked #1, #2) — Economist Intelligence Unit
- **Best Country for Business, G20 Countries, 2014** — Forbes

Source: Global Happiness Report: http://worldhappiness.report/.

Split Income, Save Tax!

Are You Doing All You Can to Save Tax?

Canada has one of the higher top marginal tax rates on ordinary income of the major economies in the world.* With top marginal rates over 40 percent in every province/territory, and two provinces having rates equal to or above 50 percent, the opportunity to split income to reduce taxes payable should not be overlooked!

Here are some ways to shift taxable income from higher-income to lower-income spouses or common-law partners (CLPs), or to children. Please consult a tax advisor regarding your situation as some strategies may involve proper structuring to be effective.

- **Spousal Loan** — If the higher-income spouse/CLP makes a loan to the lower-income spouse/CLP at Canada Revenue Agency's (CRA's) prescribed rate (currently one percent), the net of any investment income earned in excess of the interest charged on the loan is taxed in the lower-income spouse/CLP's hands.
- **Family Trust** — If the higher-income spouse/CLP makes a loan at the prescribed rate to the family trust for the benefit of his/her minor children, the net of any investment income earned by the family trust in excess of the interest charged on the loan may be taxed in the lower-income children's hands.
- **Pension Splitting** — Up to 50 percent of eligible pension income may be split between eligible spouses/CLPs on their respective tax returns.
- **CPP/QPP Sharing** — Spouses/CLPs can apply to have their Canada Pension Plan/Quebec Pension Plan (CPP/QPP) pensions split between them for tax purposes.
- **Spousal RRSP** — If the higher-income spouse/CLP contributes to a Registered Retirement Savings Plan (RRSP) for the benefit of the lower-income spouse/CLP, future withdrawals may be taxed in the lower-income earner's hands.

- **Capital Gain/Loss Planning** — Sophisticated transactions could be explored to transfer unrealized capital losses from the lower-income spouse/CLP to the higher-income spouse/CLP or to transfer unrealized or future capital gains of the higher-income earner to the lower-income earner.
- **Cash Flow Allocation** — The higher-income spouse could pay for family expenses, such as living expenses and Registered Education Savings Plan (RESP) contributions. Consider giving funds to the lower-income spouse/CLP, who can then make a contribution to their own Tax-Free Savings Account (TFSA). The lower-income earner's funds could also be used for investment purposes to enable future investment income to be taxed at their lower marginal tax rate.

*Ordinary income represents salary, pension and interest income. Based on a 2014 analysis by PwC accounting firm of the top marginal tax rate for personal income taxes for G20 members.

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.

Putting Investors First: Upcoming Reporting Changes

You may be aware of the changes to client reporting requirements within the investment industry, which are intended to improve the fee and performance information available to every Canadian investor.

Over upcoming quarters, your statements will provide greater visibility on the fees and commissions paid for your investments, which is intended to help facilitate a better understanding of the costs associated with your investments.

This is a great change for the industry. Here at CIBC Wood Gundy, we've always believed in being transparent when it comes to the fees associated with the products and services that we provide, but there has never been an industry standard. We understand that investors have a choice when it comes to their advisors and their investments and that providing the best information can only help you to make informed decisions.

We are committed to delivering a high standard of service and we believe in the value of our advice. Studies have shown that investors who work with advisors have three times the net worth and four times the investable assets than those who don't work with an advisor.* Our goal is to provide the best wealth management support to help you achieve financial success.

Should you have any questions about the ongoing reporting changes or the fees you pay with us, please don't hesitate to contact us. We are here to help.

*Ipsos Reid "Value of Financial Advice" Investment Funds Institute of Canada, 2013.

Consider the Assistance of an Accountant

If you have never used an accountant to do your taxes, here are four reasons why it may make sense:

Tax rules are constantly changing. Remember that tax law can be complicated and is in a constant state of flux. Although good do-it-yourself tax software programs will automatically update to reflect these changes each year, accountants may be better positioned to determine how these apply to your specific situation.

Costly mistakes can be avoided. Accountants can help to prevent costly mistakes, such as incorrectly completing tax returns or overlooking valuable tax credits. Various tax credits available to individuals in a particular tax year may be non-refundable and cannot be carried forward if the credit is not used. An accountant may also be able to advise an unknowing client that they owe taxes. As an example, many Canadians are still unaware of Canada's tax treaty with the U.S., which potentially exposes Canadians who hold certain U.S. securities or property to U.S. estate tax after death.

Your situation may be complicated. Certain situations with potentially significant current or future tax implications may benefit from an accountant's support (e.g., divorce or the purchase of a large amount of foreign securities). For small business owners, beyond keeping a business compliant, a good accountant can also provide strategic expertise to help the business grow or navigate through difficult times.

We eventually all grow older! It's not just complicated situations that may benefit. As we grow older, accounting support may become increasingly beneficial. An accountant can provide organization and continuity through consistent record keeping from year to year. This may become exceedingly important as individuals experience health issues, incapacity or the death of a spouse. Many accountants are also well placed to assist with estate planning activities, including the tax-efficient transfer of assets after death.

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