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Investing: Never a Smooth Road

Fear and greed: the two emotions that are said to drive the equity markets. How quickly, it seems, that the sentiment can oscillate from one extreme to the other. Over recent times, Canadian and U.S. equity markets have experienced periods of remarkable advances in prices, as well as many months which seemed to forecast an Armageddon just around the corner.

It is interesting how quickly the focus of many market commentators can shift with these movements. After a volatile December for both Canadian and U.S. markets, the media was consumed with recessionary talk. Yet this was quickly muted after significant gains in the first quarter. In the U.S., the Federal Reserve took a less aggressive stance in its monetary policy, downplaying its position on the prospect of further interest rate rises. This, combined with a solid U.S. earnings season, and delayed U.S./China trade tariff deadlines, provided much relief to investors.

Here at home, the picture is less clear. Growth has slowed and the struggle continues for certain segments of the housing market, as well as the oil and gas sector. Corporate earnings results have been mixed, but the labour market is still solid, and cash levels on many corporate balance sheets remain healthy.

While certain voices of the media continue their pessimistic narrative, many investors are wondering where the markets are headed.

This is a good reminder that volatility plays a common role in the equity markets. With the ups and downs, it may be easy to fall into the trap of taking an unbalanced view — looking only to the recent past to guide investment decisions. But this is often counterproductive. When times are difficult, it constrains positive action. How many times have we heard the phrase: “it’s not a good time to buy now because...”? Or, when the market progresses, there may be cause for anxiety: “how high can it go?”

We should remember that investing in the equity markets is never a smooth road.

Our challenge as investors is to ignore the noise, be it good or bad. For many of us, this involves a longer-term commitment to and confidence in the plan that has been constructed to achieve our goals.

The road ahead is a long one filled with many ups and downs. Be guided accordingly. Don’t let the inevitable bumps along the way keep you from your drive to the future. Focus on your own goals, keep emotions under control, and keep your assets working hard for you.

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Preventing Abuse

Keeping the Elderly Safe

A recent CBC news report provided a disturbing account of an elderly man who fell prey to an online dating scam. Over an eight-month period, he communicated with someone posing as his girlfriend and lost over \$700,000 by wiring funds overseas.¹

As it turns out, stories of financial abuse of the elderly aren't as uncommon as we think. It doesn't always happen from afar and can occur at home by acquaintances or friends. If you are concerned about elderly parents or relatives, here are some warning signs to look for:

- **Unusual financial activity** — Unexplained account activity, including withdrawals or credit card charges, may indicate financial abuse.
- **Missing valuables** — Lost items may indicate abuse, but this can easily be dismissed if a person suffers from cognition problems. Helping to locate missing valuables can determine if the issue is simply confusion, or if it signals a larger problem like abuse.
- **Appearance of a new friend** — A new companion may be cause for concern if warning signs are present, such as unusual financial activity or missing personal effects.
- **Changes to important legal documents** — Unexplained changes to important documents, such as a will or power of attorney documents, may indicate that an individual is being coerced.

While there are often signs, elder abuse may be hard to uncover and can continue for long periods of time. Victims may become secretive because they feel ashamed or fear



retaliation. One way to help prevent abuse is to take steps in advance to protect the vulnerable:

Prevent isolation — Form a wide support network of family, friends and professional advisors to help identify problems and intervene where necessary. Widening an elderly person's network can provide support from trustworthy sources.

Check in — Call and visit as often as possible or find a trusted confidante to check in. This can identify warning signs that indicate abuse. Listen closely when the elderly person shares information. Ask questions and never dismiss potential red flags.

Offer support — Offer simple support to review finances, such as scanning of bank or credit card statements to make sure things are in order. Or, provide support for larger projects, helping to update financial documents or conduct a credit check.

Put safeguards in place — Plan ahead and grant a power of attorney to a trusted individual. Consider appointing a professional (such as a trust company) to work alongside a family member to help provide a safeguard.

1. <https://www.cbc.ca/news/canada/toronto/senior-wires-life-savings-through-td-bank-in-romance-scam-1.4980649>

A Global Perspective: Where Does Canada Stand?

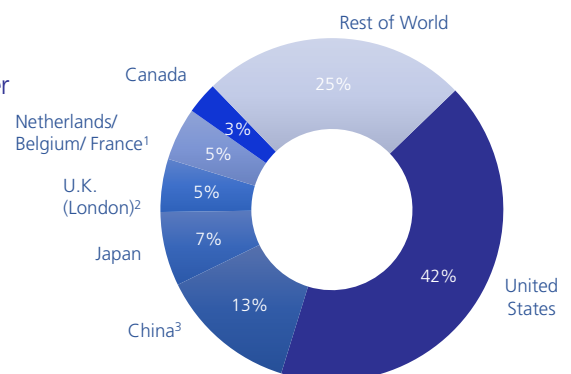
We may sometimes forget that the Canadian equity markets are small. Just how small? Canada's equity markets represent less than 3% of the world's total equity market (by market capitalization) and we rank as the 6th largest in the world.¹ The largest, our neighbour to the south — the United States — represents around 42% of the worldwide equity markets.

When it comes to investing, in the past Canadians often had a home bias. Remember that until 2005, the federal government restricted registered pension plans such as RRSPs from investing more than 30% of their portfolio in assets outside of Canada. And, the dividend tax credit on Canadian dividends held outside of registered plans may also have acted as an incentive to keep money in Canada.

But many investors benefit from exposure beyond Canada. While it is never possible to predict which market will be a top performer in any given year, a well-diversified portfolio may include looking across different geographies. In today's world of globalization, international exposure can also be achieved within Canadian markets. Some Canadian companies have multinational businesses that operate in different global markets and certain funds listed on Canadian exchanges invest internationally.

1. When comparing total market capitalization of equity markets by country of origin.

Global Market Capitalization
% by Country
As of Jan. 1, 2019



Notes: 1. Euronext; 2. LSE Group; 3. Hong Kong, Shanghai, Shenzhen exchanges. Source: World Federation of Exchanges, global market capitalization at 9/28/18.

Estate Planning

Do You Need to Revisit Beneficiary Designations?

Naming a beneficiary is a big decision that may sometimes be overlooked. At some point in your life, you may buy a life insurance policy or start a new job with a retirement plan and receive a form that includes a section for the names of your beneficiaries. Many people, unprepared, leave it blank or complete the section without much thought. If many years have gone by since completing account paperwork, perhaps a review is in order. Here are four questions to start the thinking process:

1. Have you named a child or dependent adult as a beneficiary? In certain provinces, if the proceeds are not directed to a trust set up for the minor, the courts may decide who will manage them. Similarly, if a trust has not been named for the benefit of a dependent adult, the court may potentially appoint someone to make decisions on their behalf. This could lead to delays or additional costs. Directly naming the dependent beneficiary may also unintentionally disqualify them from receiving government benefits.

2. Have you coordinated designations with the rest of the estate? If you intend to equalize your estate between multiple beneficiaries, do not forget the impact of taxes. When certain assets do not pass through an estate, it may be difficult to accurately equalize amounts for different beneficiaries. For example, suppose you have two grown children as heirs and you designate child #1 as the beneficiary of your RRSP, leaving



the rest of the estate to child #2. Upon death, any taxes due with respect to the RRSP would likely be payable by the estate, potentially reducing the amount intended for child #2. This may result in inequities between the division of assets.

3. Have you updated your beneficiary designations? It is possible that a named beneficiary is no longer alive, or perhaps a major life event, like divorce, has changed the status of an existing beneficiary. It isn't unheard of to have a former spouse erroneously named as a beneficiary because designations weren't revisited. If an intended beneficiary has passed away, proceeds are likely to pass through the estate. To avoid this situation, naming a contingent or secondary beneficiary may be useful.

4. Have you been specific in the way you have named your designations? If you have used non-specific designations, such as "my children", there may be uncertainty regarding intent. For example, in a blended family, the children of a new spouse may be unintentionally included. Or, if a child predeceases you, that child's share may go to your other children and not that child's family, which may not be what was intended.

Tax Season Strategies

Pension Income Splitting: Can It Make a Difference?

Tax season is here! If you have eligible pension income, there may be an opportunity to split income with a spouse/common-law partner. But just how much of an impact can this make?

For tax purposes, up to 50% of eligible pension income can be split with a spouse. Eligible pension income is determined by the recipient's age and the nature of the income. In general, under age 65, it includes amounts received from a registered pension plan.* Over age 65, it also includes amounts received from RRIF, LRIF or other annuity payments. While the obvious benefit of pension income splitting is the tax benefit achieved by allocating income from a spouse in a high-income tax bracket to one in a lower tax bracket, there are other potential advantages:

Age Amount Tax Credit — The 2018 federal age amount is \$7,333, available to those 65 years or older. It is reduced for income over \$36,976 and eliminated at \$85,863. A benefit may be achieved if a spouse can reduce income to access the credit.

Pension Income Amount — Allocating pension income to a spouse who wouldn't otherwise have eligible pension income could entitle the spouse to claim up to a \$2,000 tax credit.

Old Age Security — Splitting eligible pension income may

enhance the family unit's ability to receive OAS payments.

The chart below shows two scenarios for two spouses over age 65, where spouse A earns \$86,000 of eligible pension income and spouse B earns none. When they income-split, they use lower tax brackets, enhance tax credits and avoid an OAS clawback for spouse A. As always, consult with a tax advisor for your particular situation.

	No Splitting		Income Splitting	
	Spouse A	Spouse B	Spouse A	Spouse B
Eligible Pension Income	86,000		43,000	43,000
Interest Income		12,000		12,000
CPP	13,610		13,610	
OAS	7,040	7,040	7,040	7,040
Taxes Payable	-25,834	0	-11,923	-11,397
OAS Clawback	-4,611			
After Tax Income	76,205	19,040	51,727	50,643
Difference				7,125

For illustrative purposes. Note: Chart uses estimated 2018 Federal and Ontario tax rates. Assumes maximum CPP amount & Q118 annualized OAS figures. *Not in Quebec. Source: Hirasawa & Associates.

Defensive Strategies for Uncertain Times

What can you do to take a more conservative investment stance during uncertain markets? On the extreme, you could sell all your stocks and hold cash. But the associated capital gains taxes would be one reason why this would not be practical. More importantly, equity markets are largely unpredictable and can stage a turnaround at any time. The opportunity loss could be great. As the saying goes: it's time in the markets, not timing the markets.

However, adjustments to a portfolio may be a consideration and here are some thoughts.

Restoring Balance — If the value of one stock has gone up so much that it dominates your overall holdings, it may be an opportune time to consider selling to restore balance. This may also apply to your asset allocation, so you can balance the right amount of risk with expected return necessary to achieve your longer-term goals.

Changing Assets — For investors with specific income needs, such as retirees, adjustments to a fixed income strategy may help cover income needs, should the equity portion of a portfolio experience a downturn and require time to return to more stable levels. A "ladder strategy", structuring fixed income investments with maturity dates spaced over time, can help address the need for income, as well as the challenge of potentially increasing rates.

Different types of securities may perform well during volatile times. For example, convertibles may continue to give you a play on equities with the partial protection of a higher yield, or certain REITs may provide stable and predictable cash flows.

Upgrading or Switching — More established companies may offer greater stability and be better able to withstand a downturn. Companies with strong balance sheets, little debt and healthy cash flows can better fund operations



during difficult times. Many quality companies have a history of continuing, and even increasing, dividend payments during downturns. Buying into companies/industries that will be least affected by adverse economic climates may be an option, such as consumer staples or healthcare (often called "defensive" sectors) that may continue to serve consumers' basic needs throughout every market cycle.

Dollar Cost Averaging (DCA) — Instead of selling, consider continuing your buying. Down markets can be a great time for investors to put money to work for better-valued, longer-term opportunities. If volatile times make you nervous, a DCA program can help to separate emotions associated with turns in the market from investing decisions. Engaging in the practice of buying at regular intervals, regardless of market conditions, has the potential to lower the overall cost of shares purchased, turning a downturn to your advantage.

The Bottom Line

While adjustments can be made, it is important to remember that portfolios are positioned for the longer-term and are structured with the expectation that markets will experience both ups and downs. Each element has been put in place based on your personal circumstances, including risk tolerance and stage of life. Often, portfolios need time to grow over the longer-term. If you have concerns, please get in touch.

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