# The Dream Achiever

DD HUMES

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### INSIDE THIS ISSUE



*"Expect the best. Prepare for the worst. Capitalize on what comes."*

*~ Zig Ziglar*

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## Greece Lightning

The spring wasn't exactly the warmest one on record in Montreal. To be honest it's been pretty cool and wet. Most everyone I speak to have been concentrating on the negative. If we look through the other half of the glass we see green grass, colorful gardens, and lakes full of water. A much better scenario than the droughts out west! The good news is that history shows that better days are ahead.

In Q2 2015 the markets were also a little cooler than we've become used to. The Canadian TSX composite finished the quarter down -1.63% (0.91% YTD), the American S&P 500 down -1.15% (9.11% YTD) in $CAD, MSCI World down -1.12% (10.62% YTD) in $CAD, and FTSE TMX Can Universal Bond down -1.71% (2.37% YTD). The Canadian dollar rallied in the quarter up 1.4% versus the $USD which is good if you are heading to the U.S. this summer but eroded some returns from your foreign investments. Even with this little Q2 rally for the $CAD, we still feel that there will be continued downward pressure on the Canadian Dollar. Talks of a possible interest rate cut in Canada will only strengthen this theory.*

As the quarter ended everyone had Greece on their minds due to the worsening of their debt situation. They had just shut down their stock market and instituted capital controls in preparation for default. In the short run, events that push Greece towards exit may weaken the euro against the U.S. dollar, lower global equity markets, and widen sovereign spreads. However, if economic and financial contagion remains limited, the longer-run response could be more favorable, especially if Europe uses the crisis to push forward reforms that deliver a more sustainable debt for Greece and create a more resilient set of government policies in the euro zone.

The implications for investors is that they can expect a bumpy ride in the short run but stronger performance over the longer run as uncertainty related to Grexit is finally settled. The media will naturally focus their efforts in covering the uncertainty of different possible outcomes in the next few weeks after the historical referendum. Therefore the market which typically does not like uncertainty "may" become more volatile for the short term. The classic mistake, as always, is letting your emotions get in the way of rational thinking. Please consider the following fundamental facts:

1. Greece's economy represents 0.3% of the world economy
2. Greece's stock market represents 0.1% of the world stock market
3. Most of your funds have little to no direct Greek exposure
4. Since this Greek debt problem is not new, European authorities have taken control of most of the Greek bonds therefore significantly limiting the risk of contagion or the risk of a wider credit crisis (i.e. Lehman Brother effect). Currently, most of the Greek debt is owned by other European governments, government agencies or Greek banks.

**Continued on Page 2**

## Market Overview Continued

Another headline that has also been getting lots of attention in recent weeks is the Chinese stock market crash. The Index is down 30% in just a few weeks. That being said, this market had seen exponential growth, up over 60%, from February to Mid-June due to leveraged stock and may have been helped by state media reports touting the benefits of equity investing. For months analysts had been documenting the astounding rise in margin by retail investors in China, a country noted for its citizens gambling tendencies. No one can claim that this rise was a store of solid value that suddenly declined by 30%. It's clear that the climb that started 4 months ago was fueled by margin. The communist party has been trying whatever it can to try and rein in this drop. China has more linkages with Canada and global markets than the Greece so we will continue to monitor these events.

The conclusion is that Investors with a well-diversified and well-managed balanced portfolio should not lose sleep about these situations that have had little direct or lasting effect on global corporate profits, which are always more important to markets than any headline or geopolitical risk long term. Have a great summer and enjoy the sunshine ahead!

## New Year Planning items

- **RRSP Contribution Room for 2015:** Please provide us with your room for the 2015 tax year from your Federal Notice of Assessment. The maximum room for 2015 is $24,930. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%. Also of note, the Alberta Centennial program was just eliminated.
- **Tax Free Savings Account (TFSA):** $10,000 of room as per 2015 budget. (had been $5,500 before that)
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2015 (born in 1944) will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done if you haven't done so already.
- **$2K pension deduction:** Those who turn age 65 or older and not already receiving recognized pension income.

## The Planning Corner Jr. – Raising financially savvy children

I recently was reading material about raising children to be financially smart and I thought that some of the main points would make for a good planning corner topic.

**1: Walk the Walk:** Every time we take out our wallets (or not) we are telling our kids about our values. And, they are watching. Before you start talking to your kids about money, make sure your actions are in line with your values.

**2: Talk about it:** According to a recent survey by T. Rowe Price, only a 28% of parents talk to their kids about money. The main reason as to why, is that they didn't want them to worry. The irony is that when we stay silent on financial matters we may actually be teaching them that money is unspeakably dangerous or scary. There are no inappropriate questions about money, just some inappropriate moments for some questions. For example, we need them to know that "Mom, how much money do you make?" isn't a question to ask at the table during a crowded Thanksgiving dinner.

Discussing how much we make probably isn't the best starting point. Most experts suggest you discuss expenses. Comment on the price of gasoline or groceries and how they affect the family bottom line. Show them utility bills and explain the cost of running a household. Discuss how their grandparents are able to support themselves even though they are no longer working and how you put money aside to save for retirement.

**3: Give them an allowance and tell them what it's for:** Experts say that it should be for practice, not a wage or reward for chores around the house. They should be learning about spending, saving, and giving away. You and your children should discuss what expenses the allowance will cover. Over time you can transfer more of the expenses and responsibilities for tweens and teens. If they don't manage well, don't bail them out, as these mistakes are a great opportunity for kids to learn about smart financial decisions. It's never too early to start your teaching!



*Source: Morningstar Canada