The Dream Achiever

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INSIDE THIS ISSUE

"A budget is telling your money where to go instead of wondering where it went"

~ Dave Ramsey

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He loves me, loves me not

Unlike last winter, where the deep cold never seemed to end, this year was a rather mild El Niño year. While I will not complain about avoiding the bitter cold, I must admit that this winter was a lot more difficult for me to have a good ice rink in my backyard because of all the crazy temperature swings. The markets of the first quarter were sort of the same, a bit all over the place. I never knew if "Mr. Market" loved me, or loved me not.

In Q1 2016 the Canadian market finished in positive territory while most worldwide markets have finished flat or slightly negative in USD$ terms, but the significant rise of the Canadian Dollar has hurt unhedged foreign holdings. The Canadian TSX composite finished the quarter up 4.54%, the American S&P 500 down -4.87% in CAD$, MSCI World down -7.21% in CAD$, and FTSE TMX Can bond universe up 1.39%. The **Canadian dollar gained 6.62% versus the $USD** in the quarter closing at $0.77 to the USD.*

We show you the numbers from the quarter so that you know how things ended up, but this leaves out the story about how we got there. Equities followed a V-shaped trajectory over the quarter. Markets started the year off with one of their worst starts in history when the Dow Jones was down 6% in the first week and continued to fall sharply into February. This drop was due to weaker Chinese economic data and the oil price slump that was taking place. After the S&P 500's February 11 "double bottom" and into March, the markets rebounded significantly (eg. S&P 500 up 13%). One reason for the rally is the jump in crude oil (WTI) prices from $26 to over $40 per barrel, but probably the most important reason for the improved financial conditions would be when Janet Yellen told congress that volatility in financial markets could set back US Growth and how the central bank needed to "proceed cautiously" in lifting rates. This represented a sharp reversal in policy after the bank raised rates in December for the first time in 10 years.

This change in U.S. monetary policy allowed a technically overbought US Dollar to come down. Add to that an across the board oversold condition for equities, credit, and commodities, and you had the ingredients for a powerful risk–on rally.

So what happens next? No one knows for sure, but our guess is that we may stay inside of a large trading range. **A healthy bull market rests on three pillars: reasonable valuations, healthy earnings growth, and a supportive liquidity environment.** Until just recently, valuations were the only pillar supporting the market as earnings growth turned negative and liquidity conditions seized up. Now with the Fed sounding more dovish, the liquidity pillar is looking healthier than it had before. Unfortunately earnings growth remains muted. So conditions may have stabilized enough to prevent the market from falling below the recent lows but probably not enough to break through the old highs. This would mean we would be in a kind of market purgatory.

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Market Overview Continued

Markets can correct through price but they can also correct through time. It seems like the market is currently setting up to deliver the latter. We need to be patient while the market rebuilds its three pillars and realize that during the last seven years the market has been unusually friendly to investors.

When clients call us due to their worries about short term noise we often give them the advice to "do nothing". This is not because we have some sort of "crystal ball" letting us know that the markets will improve in the coming weeks but rather because we are committed to ensuring that our clients have portfolios that are constructed to meet their needs and ensure that they remain disciplined and focused on the long term. This is a leg of a marathon, not a sprint to a finish.

New Year Planning items

- **Tax return deadline:** April 30, 2016
- **RRSP Contribution Room for 2016:** Please provide us with your room for the 2016 tax year when you receive your 2015 Federal Notice of Assessment. The maximum room for 2016 is $25,370. 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 eliminated.
- **Tax Free Savings Account (TFSA):** 2016 room has been dropped back to $5,500 by the Liberal government.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2016 (born in 1945) 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: 2016 Federal Budget overview

On March 22 the Liberals tabled their first **Federal budget** of their new mandate. There were lots of changes in this budget over and above the tax bracket adjustments announced in December. The Liberals spent heavily in this budget leading to a projected $29.4 Billion shortfall this year which is almost triple the amount they had projected during the election campaign. First there was some good news for those born April 1, 1958 or later as the **OAS eligibility age** returned to 65. There was also an announced **increase of the Guaranteed Income Supplement (GIS) for low-income single seniors.**

There was an announcement of the **Canada Child Benefit** which would replace the Canada Child Tax Benefit, National Child Benefit, and the Universal Child Care Benefit. The CCB is tax-free, unlike before, and government says nine out of 10 families will receive more in child benefits than under the current system. The new program will pay up to $6,400 per child under six and up to $5,400 per child for those aged six through 17. However, the benefits begin to phase out starting at $30,000 in net family income. You can google "Canada Child Benefit Calculator" to see your approximate benefit. **The child fitness and arts tax credits** will be cut in half for 2016 and eliminated in 2017. **Education and textbook tax credits will be eliminated** as of Jan 1, 2017.

Small business owners received bad news when it was announced that promised **small business tax cut was frozen 10.5%.** The conservatives had introduced a plan to lower the rate to 9% by 2019. Holders of **corporate class mutual funds in non-registered accounts** were delivered shocking news when it was announced that **after September 2016 moving from one fund class to another will be a taxable event**. If you are planning to change funds let's make sure we do so before then. As you can see, tax changes alter the rules of the game so it is important to analyze the impact on your own financial plans!