The Dream Achiever

DD HUMES

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"An investment in knowledge pays the best interest."

~ Benjamin Franklin

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CRM 2 Update

Since our client seminar in the fall of 2013 we have been informing you of the changes that were coming due to the regulatory reform called **Client Relationship Model 2 (CRM2)**. The primary objective of these reforms is more disclosure to clients. We feel that any information that enhances disclosure for clients is a good thing.

The largest of the changes took place on **July 15, 2016** when dealers became required to provide investors an **annual summary of all charges incurred and a mandatory annual performance report**. Most dealers will be putting this on their Dec 31, 2016 statements. For the first time clients will be shown the fees that were paid to their dealers in dollars and an annualized total percentage return for their accounts.

If you have any questions about your own account please contact us.

FundEX INVESTMENTS INC.

Will the market make volatility great again?

As I look out the window at the beautiful colourful foliage, it's hard to believe that the beautiful summer of 2016 has come to an end. The children have now been back in school for over a month but September almost felt like an extended month of summer.

Much like the weather in Montreal, the markets were relatively stable and sunny in the 3rd quarter. Returns were generally positive and volatility across both equities and fixed income markets were much lower than recent quarters. It is sort of hard to believe that this was the case considering the quarter started off with the recent news of the Brexit vote. This is just another reminder to not overreact to the news of the hour. The U.S. elections and the Italian vote on senate reforms are other examples of noise making people fearful.

In Q3 the Canadian TSX composite finished the quarter up 5.45% (15.83% YTD), the American S&P 500 up 5.1% (2.03% YTD in CAD), MSCI World up 6.12% (-0.14% YTD in CAD), and FTSE TMX Can Universal Bond up 1.19% (5.28% YTD in CAD). The dollar dropped -1.27% vs. the $USD in the quarter but is still up 5.53% higher than it had been at the beginning of 2016. There are many variables at play right now that may take the dollar one way or another. On the horizon we have a probable US rate hike, the US election results, and the movement in the price of oil. Right now most of our balanced solutions are relatively neutral on the direction of the dollar.*

In this quarter **Federal Reserve again chose not to raise rates** but expectations are that they will before the end of 2016. Fed chair Janet Yellen told the annual Jackson Hole symposium of central bankers at the end of August that the argument for a hike had "strengthened". This view was again repeated in the statement following the 20-21 September meeting of the Federal Open Market Committee. In Europe the European Central Bank (ECB) left monetary Policy Unchanged and there has been no talk of any rate increases in Canada.

On July 29th the department of finance announced an **important update on Corporate Class funds** changes that had been announced in the Federal budget earlier in the year. What they had said in the budget reading was that fund switches within corporate class structures would become taxable as of October 1, 2016. The tax changes are now effective January 1, 2017. If you have a non-registered (OPEN) account with several different corporate class funds in it, you should make sure we discuss your options before the year end.

We have been mentioning the concerns with parts of the **Canadian real estate markets** for a while, specifically in Vancouver and Toronto. On October 3rd Finance minister Bill Morneau announced new measures aimed at ensuring that Canadians take on mortgages they can actually afford, via more stringent stress tests. This will make mortgages more difficult to attain. The issue they are trying to address is the fact that many Canadian homeowners cannot afford even the smallest of raises in their mortgage rate. Ottawa also closed a loophole that allowed homeowners to avoid paying capital gains tax on the sale of a home as long as they were living in it. This will now only be available to Canadian residents. This policy is aimed at slowing foreign money that has contributed to the red hot markets of Toronto and Vancouver. This move follows a move by the B.C. government adding a 15% tax on foreign buyers in an attempt to cool the overheated markets.

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Market Overview Continued

Pricing valuations on the S&P 500 are trading near 18 times earnings, which are on the high side of normal based on current inflation rates, but there are pockets that are at extreme levels on a historical basis such as bond proxy equity sectors (High dividend payers) that have been propped up by this low yield environment. Many fund managers are now holding cash values that would be more than normal. With that in mind we are suggesting that we tread carefully and manage risk through diversification and through flexible mandates that allow for strategies that allow for some tactical asset allocation and hedging.

On an administrative side, we are excited to announce that we will be **relaunching the ddhumes.com website** very shortly to be cleaner and more mobile friendly. We will also have the **new FundEX client portal** launching somewhere between the end of October to the middle of November. Enjoy the rest of 2016 and we hope that no matter what the markets send our way your portfolios will handle the ride with ease.

Planning items

- **RRSP Contribution Room for 2016:** Please provide us with your room for the 2016 tax year from 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:** Benefit from the Federal 20% education savings grant. Note that Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grants to 30%.
- **Tax Free Savings Account (TFSA):** 2016 room is $5,500. Since 2009 the cumulative room is $46,500.
- **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. All clients should have been contacted by now.
- **$2K pension deduction:** Those who turn age 65 or older and not already receiving recognized pension income.

The Planning Corner: What makes up a MER?

These days the media is concentrating a lot on fees with good reason. Much of this discussion is due to the implementation of CRM2. Recently there have been reports showing that most retail investors do not understand the fees they pay. I think it is a fair question to ask, “What am I paying to invest, and what am I getting in return?”. With that in mind, in this quarter’s planning corner is what makes up a **Management Expense Ratio (MER)** of a mutual fund so that it is clear to you.

First off there is the Management fee: The cost of having your assets professionally managed. This fee compensates the professional money managers to select securities for a fund’s portfolio and manage it based on the fund’s investment objective. It is based off a percentage of assets under management (AUM). The amount of the fee can range based off many factors such as the type of assets under management (stocks/bonds/cash), the tax structure (corporate class), active vs. passive management, and where the assets are in the world (domestic vs. international). Currently the amounts that get paid to our mutual fund dealer, of which a percentage is paid to us, as the servicing fee (financial planning and investment advice) is part of this management fee and is what will be shown in dollars in your year-end statements. There has been discussion about no longer having this part of the fee embedded. That is why in the industry you are seeing a movement towards F Class funds.

Then there are the Operating costs: These include marketing, legal, auditing, filing, and other administrative costs. These fees are not directly involved with making of investment decisions but are required to ensure the fund is run correctly within requirements.

The Taxes: The government charges taxes on the management fee and certain operating costs

If you would like more details on fees feel free to reach out and I would invite you to read an informative booklet from Mackenzie Investments:
https://www.mackenzieinvestments.com/en/assets/documents/marketingmaterials/mm-mutual-funds-the-facts-en.pdf

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