# The Dream Achiever

DECEMBER 31, 2016

**INSIDE THIS ISSUE**



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

*~ Zig Ziglar*

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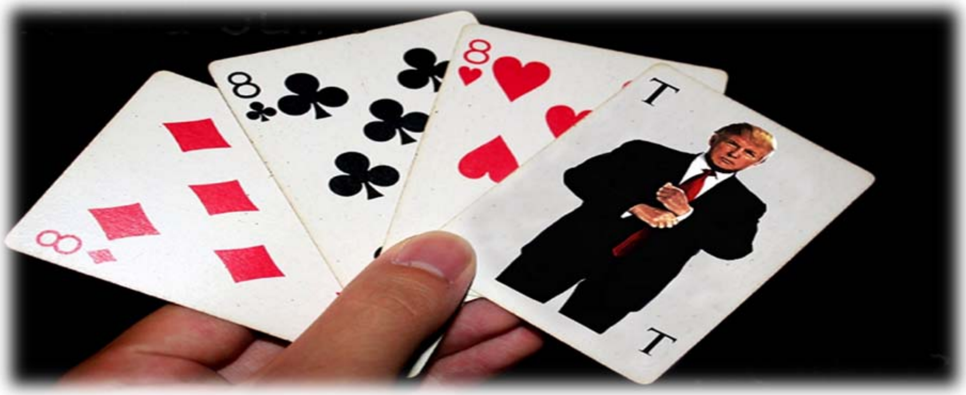
## Changes to the Principal Residence Exemption (PRE)

On October 3, 2016 the Federal government tightened the rules for the PRE with the intention of making the benefit available only to Canadian Residents. To facilitate that, the government imposed additional tax reporting and changed parts of the tax act.

The reporting obligations have now changed. For tax years that end after October 2, 2016 will require taxpayers to fill out additional reporting when they claim the PRE. This will allow the government to identify what taxpayers have claimed PREs for what years. Now they will have record of you already claiming the PRE on another property and the CRA could more easily reassess the taxpayer.

Prior to the changes many personal trusts were entitled to claim the PRE as long as the beneficiaries ordinarily inhabited the home. Under the new rules only alter ego, spousal or common law partner, joint spousal/partner, qualified disability trusts, and trusts for minor children of a deceased parent will be eligible.

Make sure you know the rules when selling your primary residence.



## Playing the Trump card

Happy New Year! To say that the last quarter of 2016 served up some surprises would be a bit of an understatement. These include the Chicago Cubs winning the World Series for the first time in 108 years and Donald Trump's victory in the U.S. Presidential election. The latter had a strong influence on capital markets. Although stocks initially sold off after the vote, investors soon turned back to equities, anticipating a pro-growth Trump agenda characterized by tax cuts, reduced regulation and increased infrastructure spending. The "Trump effect" was even more pronounced in U.S. and global bond markets, where yields rose dramatically as prices fell. Finally, there was the constitutional referendum in Italy on December 4th that resulted in the Italian Prime Minister Matteo Renzi resigning, but that vote didn't even register a blip in the global markets.

If you consider that in early January the Royal Bank of Scotland advised clients to "sell everything" fearing a deflationary crisis was near, several polls indicating different outcomes in both the Brexit vote and the US election, or Leicester City's 5000:1 odds of winning the Premier League you could argue that the art of forecasting may be 2016's biggest loser! With the rise in populist parties in Europe, what will be the results of the German and French elections this year?

In Q4 2016 the Canadian TSX composite finished the quarter strong with a 4.5% return resulting in one of the world's best performing markets in 2016 with a 21.1% return driven mostly by speculative stocks benefitting from rising prices of oil and other commodities. The American S&P 500 bounced back up 5.94% finishing the year up 8.09% (in CAD$), MSCI World was up 3.93% for an annual return of 3.79% (in CAD$), and Citi Canadian GBI bond was down -3.87% for an annual return of -0.34%.* The CAD$ fell -2.32% in the quarter versus the USD$ but over the year was up 3.07%. There are many economists calling for continued strength of the US dollar but with so many wildcards at play in 2017 it is impossible to know exactly which way things will go.

2016 was a year of extremes in stocks, bonds, commodities, and maybe most of all perception. The year started with the opening weeks recording the worst ever performance for the nearly 120 year-old Dow Jones Industrial average. Stock markets around the world plunged on fears of a major slowdown in China and the uncertainty of a rate tightening cycle in the US. By the year end, almost all markets were back in positive territory. Early in the year stocks were not the only troubled areas with the price of oil (WTI) hitting a low of $26 in January only to find itself up 100% by year's end.

Global bond markets reached new all-time highs by mid-year with a number of major markets trading down into negative yield territory, something not seen before in the history of finance. This did not last long though as bond markets sold off sharply into year end. This reversal in Q4 for bonds reflected the market's anticipation for U.S. fiscal expansion and higher inflation. Although not unexpected, the U.S. Federal Reserve announced a long-awaited 0.25% rate increase in mid-December, causing bond prices to fall further. The yield on the benchmark U.S. 10-year government bond, which had reached a record low in July, climbed 53% in Q4 finishing the year at 2.44%. Canadian bond yields also rose, but the Bank of Canada kept its overnight lending rate unchanged at 0.50%. This rising yields story should be one that continues under a Trump regime.

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## Market Overview Continued

The potential for major change comes with the outcome of the U.S. election. We can speculate about the nature of policies going forward but there is far too much we don't know to make any conclusions. We do know Trump is pro-business. Investors have been seeing signs for domestic economic growth based on a combination of new infrastructure spending, less regulation, and lower corporate taxes; but what will be the effect of trade tariffs, or the market's reaction to Trump's next ill-advised Tweet? In 2017 I do expect the markets to have some dips but I do think the bull has further to run. You must keep emotions in check and think long term.

2016 was a great year for high risk investors as materials and energy led the way. Profitable and stable sectors underperformed cyclical and volatile sectors. As we enter in the late-cycle chapter of this bull market all of the classic signs are present: higher inflation expectations, higher valuations, higher volatility, and investor greed being on the rise. Most portfolios have made tactical adjustments with a focus on prudence and capital preservation. The single biggest risk to investors remains themselves (emotional reactions, short term thinking or impatience). In closing, I would like to wish you and your family all the best for the year ahead, and to remind you that the DD Humes team is just a phone call away should you wish to discuss any aspect of your investment portfolio in greater detail.

## New Year Planning items

- **RRSP Contribution Deadline:** For the 2016 tax year you need to contribute before March 1, 2017. The maximum room for 2016 is $25,370. If you want to get started on your 2017 contributions, the maximum limit is $26,010. 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%! 2017 room now available.
- **Tax Free Savings Account (TFSA):** A new $5500 of room available since January 1, 2017.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2017 (born in 1946) 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.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.
- **$2K pension deduction:** Those who turn age 65 in 2016 or older and not already receiving recognized pension income.

## The Planning Corner – What do I get for the fee that I'm paying?

This year you will be receiving new detailed information about the money our mutual fund dealer FundEX receives for the services that are provided to you. A percentage of this money is paid to DD Humes to service your account. This money makes up part of the management fee. You will receive this information every year on your dealer statement and self-directed account statement (eg. B2B Bank). The new report indicates what you paid over the previous calendar year to the dealer. It does not include amounts paid to the fund managers.

What will you get for your fee?

The mutual fund dealer FundEX provides the computer systems for executing the trades and managing portfolio data, compliance and transaction supervision, official statements, and online access to accounts via WealthView. At DD Humes you are dealing with a team of experienced Financial Planners (CFP & IQPF) who help you formulate your lifestyle dreams and help you stay focused on your financial plan to achieve them via our Dream Achiever Process.

At DD Humes we differentiate ourselves by having a team that provides a very personalized service level because we intimately know our clients. We believe this adds value to the relationship. Our services include but are not limited to: telephone contact, understanding and reviewing your financial situation and needs, cash flow management, regular meetings, investment education (and seminars), assessment of your risk tolerance, investment selection, portfolio updates, educational savings, pension advice, insurance needs, building financial plans, tax planning, estate planning, managing life events (marriage, birth of child, buying home, losing job), performance metrics, economic updates, and keeping detailed records about your account. We believe that by providing you information, sound advice, helping you manage your emotions, and by saving you time you can focus on the things you love to do while we help you achieve your goals and dreams.


*Source: Morningstar Canada