The Dream Achiever

DD HUMES

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"When you talk, you are only repeating what you already know. But if you listen, you may learn something new."

~ Dalai Lama

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European Elections

In late September the German election results gave Angela Merkel her 4th term as Chancellor. The results did show that she did lose votes on the right end of the spectrum as the Alternative For Germany (AfD), a far-right party founded in 2013 won 13.5% of the vote. This cleared the barrier to entry to the Bundestag (set at 5% of the vote) as the 3rd largest party.

On October 1, (I know it's in Q4) the Catalonian region of Spain voted in favor of becoming an independent region/ country in their independence referendum. The Spanish government had declared the referendum illegal on Sept 7th and had issued orders to the police to try and prevent it.

Nationalist and populist sentiments continue to brew in Europe but the markets have so far digested this news without much impact.

FundEX INVESTMENTS INC.

And we have lift-off!

This year in Montreal, from June to August the summer seemed to never really arrive as it was cool and wet. Then in September, when the children had returned to school, we got some beautiful weather. The sad truth is that because of this situation, my pool reminded me of a key investing lesson. In the first weekend of September I capitulated and closed my pool earlier than usual because I figured that the scenario would never change. Then when the fantastic weather arrived my pool wasn't available. In hindsight I should have been more patient!

In Q3 the Canadian TSX composite finished the quarter up 3.68% (4.45% YTD), the American S&P 500 up 0.61% (6.54% YTD in CAD), MSCI World up 0.96% (8.19% YTD in CAD), and Barclays Global Aggregate Bond index down -2.00% (-0.91% YTD in CAD). The drop in the bond index is directly affected by the rise in rates in the quarter. Volatility in the markets remained low from a historical perspective. The CAD$ jumped up 3.85% in the quarter vs. the USD$ and was over 82 cent mark in mid-September. The CAD$ is up 7.24% vs. the USD$ for the calendar year 2017.* As mentioned in the June newsletter, these rate increases can prop up the Dollar and negatively affect the rates of return of your foreign assets when reported in Canadian Dollars. Sometimes currency works for you and sometimes against you.

Global equities posted gains in the third quarter as economic growth stayed in the "Goldilocks" zone overall with stable expansion and low inflation backed by positive earnings releases. With that being said, it is becoming increasingly difficult to justify the extreme monetary-policy measures in this environment. The Bank of Canada started its "Normalization" policy and raised interest rates by 0.25% twice (July 12 and September 6) and the overnight rate now sits at 1%. As mentioned, this was a drastic change in stance from May where the chances of rate rises in 2017 were minimal. The US Federal reserve left rates on hold but announced in late September that it will begin to unwind the stimulus by cutting its $4.5 trillion balance sheet in October by $10 billion per month. This unwinding should be gradual and predictable. The European Central Bank and Bank of Japan may also start to dial back their quantitative easing programs as their economic growth also pushes ahead. The markets may be facing an inflection point.

Last month while I was in New York meeting investment managers I heard an interesting commentary with regards to rising interest rates, and how many is too much?: "Rate hikes are like drinking beer. It starts off all good, but which one will be the one that makes you feel ill? By the time you know the answer, it's too late!"

Although global economies have been managing to produce better growth, there are risks that could pose challenges such as the weakening U.S. dollar, NAFTA changes, U.S. protectionism (eg. Tariffs on the Bombardier C Series jets), or the escalating tensions with North Korea. The last 3 months have also had their fair share of natural disasters such as the Mexican earthquakes or the hurricanes which put much of Houston under water, annihilated Caribbean islands, and slammed the Florida panhandle where some of you own your winter vacation properties.

Canadian housing remains overvalued when looking at metrics such as "cost to own vs. rent" or "debt to income" and we have seen prices dropping in certain regions.

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Market Overview Continued

As we are in the late cycle of an 8 year bull market, valuations are exhausted and going forward earnings growth will be the driving force for stock market returns. The current run in the markets can be sustained without rising valuations as long as companies continue to grow their profits, but it also means that the market can be vulnerable if earnings fail to meet expectations.

We are now one year into the Trump regime. There is still no wall, no true movement on tax regime, no end of healthcare. The NAFTA talks have started and there seems to be a progression towards revision more than a repeal. There has been more distracting news on North Korea which will rarely impact the market unless things spiral into a large-scale attack.

This is the time in the cycle when it's important to filter out the daily "information" noise, look at your screens less, and buck the trend towards short-termism. Stick to your investment philosophy and think long term. I'd rather lose half of my investors than half their money. Follow these words and you'll ensure that your pool isn't closed when the summer weather arrives.

Planning items

- **RRSP Contribution Room for 2017:** Please provide us with your room for the 2017 tax year from your 2016 Federal Notice of Assessment. The maximum room for 2017 is $26,010. 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):** 2017 room is $5,500. Since 2009 the cumulative room is $52,000.
- **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. 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: Small business = big changes?

It's no secret that the Liberal Government had a consultation period that ended on October 2nd on their proposal to the tax changes to private corporations that they had released in July. Concerns that Ottawa's proposed changes will increase the tax burden for small corporations has caused a firestorm of criticism in the past few weeks from business associations, farmers, doctors, and many others. The changes originally proposed would remove the ability to spread income among family members within corporations, tax some passive investments inside the corporation at a higher rate, and limit access to capital gains exemptions.

Ottawa is expected to make several technical changes following intense criticism from business groups. They want to facilitate venture capitalist investing, not inhibit intergenerational transfers, or hurt the ability of female entrepreneurs to save money for maternity leaves.

With regards to income sprinkling, the government said changes would be made simplify the proposal to not impact family members who make clear and meaningful contributions to the business. With regards to passive income retained in a private corporation, the original proposal could have seen it taxed at rates as high as 73%! There has been no announcement yet with regards to any adjustments to this section of the original proposal, but the government has acknowledged some concerns from the consultation process and now has a better understanding how these investments are used to manage personal income risk in the case of a downturn, sick or maternity leave, or even as a retirement tool for the owners.

On October 16, in an effort to try to make amends, the government announced that it would lower the small business rate to 10% on Jan 1, 2018 and 9% on Jan 1, 2019. This rate applies to the first $500,000 of active business income. This had been an election campaign promise that had been frozen at 10.5% in 2016. There will be more information to follow on these proposals in the coming weeks and should you have any questions feel free to reach out to us.
(** Note ** This section was completed with information available as of October 17, 2017)