The Dream Achiever

DD HUMES

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"The investor's chief problem – and even his worst enemy – is likely to be himself."

~ Ben Graham

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Synchronized Swimming

Happy New Year! With the PyeongChang Winter Olympics just around the corner, I'm guessing the Summer Olympic sport of Synchronized Swimming is probably the last Olympic event you are thinking about, but it does play well into the theme of the global markets where after nearly 9 years since the financial crisis we are seeing a synchronized global upturn with all major regions of the world contributing positively to the acceleration.

Most global equity markets registered healthy results in the fourth quarter of 2017, capping off a strong showing for the year as they responded to encouraging economic data, low interest rates, tepid inflation, and expanding corporate activity. The Canadian TSX composite finished the year strong with a 4.45% quarterly return resulting in an annual return of 9.1%. The American S&P 500 was up 6.84% finishing the year up 13.83% (in CAD$), MSCI World Index, which measures equity results in 23 developed markets around the world, was up 5.81% for an annual return of 14.99% (in CAD$), and Barclays Global Aggregate Bond Index was up 1.26% for an annual return if 0.34% (in CAD$).* The CAD$ fell -0.84% in the quarter versus the USD$ but over the year was up 6.88% which was a drag on holding foreign investments. As stated in the last newsletter it has probably been the biggest drag on a Canadian investors return over the year as the gain reduced returns of foreign assets held. Right now there is no consensus call on where the dollar is going (For that matter, a consensus call doesn't necessarily guarantee anything).

After a particularly strong showing in 2016, Canada's S&P/TSX Composite Index lagged for much of 2017, weighed down by low energy prices and underrepresentation in areas that outperformed, such as technology and health care. However, the Canadian equity benchmark staged a rebound in the final quarter of the year, buoyed by solid results in the financial services sector and a recovery in prices for oil and other commodities. The uncertainty of NAFTA's future continue to loom over the prospects for Canada and may produce some volatility in the months ahead. On that subject, 2017 was a year of very low volatility for the markets. For the first time on record the S&P 500 index delivered a positive total return in each and every month. This happened with news which could have unsettled them such as North Korea, Catalonia referendum in Spain, or a Presidential Tweet. In the U.S., there has not been a 3% pullback since the election last November which is the longest run since 1928. At some point the volatility will return so we need to be ready for that.

In the short term it seems reasonable for this global economic growth to continue due to the increasingly healthy global corporate profits and monetary policy held at nearly crisis levels. But these factors are contradictory. Global monetary policy remains too simulative given the considerable improvement in economic conditions.

While the Bank of Canada was quiet with regards to interest rate increases in Q4 following their two quarter point increases in Q3, there is talk of a further rate increase early in 2018 due to some continuing positive economic numbers. The US Federal Reserve board raised its benchmark interest rate for the 3rd time in 2017 on December 14 by a quarter-point to a range of 1.25% to 1.5%, citing a strong labour market and healthy economic activity. Central Bankers have been in Crisis fighting mode for nearly a decade. We are starting to see some positive economic results but they have been super-charged by unsustainably aggressive monetary policy. With that changing the risks to the market are growing: Will rates catch up to a global economy that continues to improve faster than expected or will the global economy weaken as the rates

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Market Overview Continued

In the US, the biggest driver aside from healthy profits was the much-anticipated tax reform enacted toward year-end. With the U.S. performing well, the tax cuts have the potential to overstimulate the economy. Never before has a tax reform occurred this late in a cycle. We expect a positive growth impact for their economy in the short term which will increase inflationary pressures and increase the need for the Fed to tighten policy. The market is also focusing on the positive outcomes of the reform while ignoring the increased debt to support it or considering how it gets paid for in the end!

Investing is never without risk. We believe that a diversified portfolio tailored to your individual investment objectives will allow you to participate in the potential for further gains while helping to protect your investments in the event of market disruptions. Elevated stock and bond valuations have reduced our long-term return expectations but we will not be increasing risk levels in speculative investments as we remain disciplined in our risk management process. Many investors are currently increasing their risk via cannabis or cryptocurrencies. Our philosophy of long term success prioritizes capital preservation on the downside. When the markets transition, new opportunities will make themselves available to us. Right now the markets synchronized swimming is looking beautiful, but at some point there will be a wobble and prudence will again prevail.

New Year Planning items

- **RRSP Contribution Deadline:** For the 2017 tax year you need to contribute before March 1, 2018. The maximum room for 2017 is $26,010. If you want to get started on your 2018 contributions, the maximum limit is $26,230. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan** (**RESP) contributions:** Bene fir from the 20% CESG. Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2018 room now available.
- **Tax Free Savings Account (TFSA):** A new $5500 of room available since January 1, 2018. Total room since 2009 is $57,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2018 (born in 1947) 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 in 2018 or older and not already receiving recognized pension income.

The Planning Corner – Registered Disability Savings Plans (RDSP)

The RDSP is a long-term savings plan, as savings are encouraged to remain in the RDSP for at least 10 years, to help Canadian with disabilities and their families save for the future. If you have an RDSP, you may also be eligible for grants and bonds to help with your long term savings. You should consider an RDSP if you are: Eligible for the Federal Disability Tax Credit, under the age of 60 (but for grant purposes under age 50), a Canadian resident with a SIN, and looking for a long term savings plan. You may contribute any amount to your RDSP each year (but the annual grants have a cap) up to a lifetime limit of $200,000.

There are quite a few rules that pertain to the RDSP plans but I do want to give you a basic overview of some of the main features that may be of interest. If you think that you or someone you know may want to open an RDSP plan, please call us for further information.

Canada Disability Savings Grant: Is a matching grant of up to 300% depending on the beneficiary's family income and contribution. The maximum grant amount is $3500/ year with a limit of with a limit of $70,000 over your lifetime. These are paid into the RDSP until the end of the year you turn 49 years of age. If the family income is less than $91,831 the first $500 contribution would qualify for $3 for every $1 contributed (up to $1,500) and for the next $1000 $2 for every $1 (up to an additional $2000).

Canada Disability Savings Bond: Is money the government contributes to the RDSP of low and modest-income Canadians. If you qualify you can receive up to $1000 a year depending on the beneficiary's family income (You would receive the full bond if income is under $30,000). Over a beneficiary's lifetime there is a $20,000 limit for the bond. They are paid until the end of the year the beneficiary turns 49 years of age. You do not need to make any contributions to your RDSP to receive the bond.

You would sign the application for the grant and bond when setting up the RDSP plan. There are provisions for catching up on past years of RDSP grants and bonds. There is an annual catch up limit of $10,500 for grants and $11,000 for bonds.

When money is withdrawn from an RDSP all or part of the grants and bonds that have been in the RDSP for fewer than 10 years must be repaid. There are some rules for liquidating for beneficiaries with shortened life expectancies.

*Source: Morningstar Canada