The Dream Achiever

DD HUMES

SEPTEMBER 30, 2019

INSIDE THIS ISSUE

"When the waters are a little choppy, that's your opportunity to show that you're a steady captain."

~ Neil Blumenthal

Follow us on Twitter
@ddhumes

The Office Renovation Phase 2

In the past few weeks we have started the renovation work on the second floor of the office. This job will involve a complete change of the heating and cooling system, an updated bathroom that will feel much roomier, lighting and electrical work, replacing some of the old windows, an updated staircase to the 2nd floor, and some new paint!

The project is moving along nicely and we'd like to apologize for any of the dust, clutter, or noise that may affect your visits at this time. We view it as short term pain for long term gain. The work is really taking shape and we look forward to welcoming you at the new and improved office very soon.

FundEX INVESTMENTS INC.

Finding direction in choppy waters

We hope that you had a great summer to recharge your batteries and have had the chance to enjoy some of the pleasant fall weather before winter chills set in. We want to bring you up to date on some key choppy market developments over the past three months and to provide some context for how your portfolio may have performed during that time.

Many of the main themes that have affected global asset markets in 2019 including U.S.-China trade tensions, geo-political uncertainty (the Brexit negotiations, the possible start of a U.S. presidential impeachment process, or the bombing of Saudi oilfields) and slowing economic activity continued in the third quarter, resulting in somewhat choppy market performance. Nevertheless, market participants ultimately found reasons for optimism in moderate inflation, generally positive corporate earnings reports and supportive business conditions. As a result, many global bond and equity markets posted gains in the quarter.

After reaching a new high in the prior quarter, the U.S. equity market fell sharply near the end of July and remained volatile over the next several weeks before climbing higher again. The S&P 500 Index, an index of the 500 largest U.S. publicly traded companies, finished the period up 3.0% and with a gain of 16.9% for the year-to-date in Canadian dollar terms. The U.S. market rally has been broad-based in 2019, with particularly strong results for companies in the information technology, utilities, and real estate sectors. The US unemployment remains historically low at 3.7% and the strong (month–to-month) August wage growth has propped up consumer confidence levels to near record highs.

In Canada, the S&P/TSX Composite Index also weakened in late July, but bounced back to reach a record high late in the quarter. This rally that was fuelled by companies in the financials and consumer staples sectors. The Canadian benchmark gained nearly 2.5% for the quarter, and was one of the best-performing equity markets globally with a year-to-date gain of 19.1%.

Performance for the MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, was more muted. The index rose slightly by 0.3% in Canadian dollars for the third quarter, bringing its year-to-date gain to 9.9%.

With global growth slowing, the expectation of rate cuts by leading central banks led government bond yields lower and prices higher through much of the three-month period. **The U.S. Federal Reserve cut its policy rate twice (once in July and then again in September) by a quarter point down to 2% in the third quarter** citing risks including trade tensions and slowing growth overseas. The European Central Bank responded to slower economic growth by taking its key lending rate into negative territory and re-starting its bond purchase program to ease credit conditions. The Bank of Canada, however, bucked the trend, pointing to a strong economy for maintaining its overnight lending rate at 1.75%. The FTSE Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, returned 1.2% for the quarter and 7.8% for the year-to-date. The US 10-year Treasury yield briefly dipped lower than the two-year yield creating a yield curve inversion. An Inversion historically precedes recessions, indicating significant economic pessimism among bond investors.

Continued on Page 2

Market Overview Continued

Looking ahead, global growth is expected to continue, albeit at a slower pace than we have seen recently, while the risks stemming from trade disputes and political upheaval could continue to affect global economies and markets. At these times, it's worth bearing in mind that markets rarely move forward without temporary corrections or bouts of volatility that can appear at any time. We continue to believe that a diversified portfolio that is suited to your time horizon and tolerance for risk remains the best strategy for helping you achieve your long term financial goals. With uncertainty come opportunity and like any good business mind we remain focused on investing for the years, not months, to come. Chasing returns or trying to "beat the market" without considering the risks involved is the wrong thing to do.

If you have any short term cash flow needs or retirement payments coming please be sure that your "Cash Wedge" has been topped up. Should you have any questions regarding your portfolio, please do not hesitate to contact the office.

Planning items

- **RRSP Contribution Room for 2019:** Please provide us your contribution room for the 2019 tax year off of your 2018 Federal Notice of Assessment. The maximum limit for 2019 is $26,500. 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%!
- **Tax Free Savings Account (TFSA):** A new $6000 of room available since January 1, 2019. Total room since 2009 is $63,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2019 (born in 1948) will need to convert their RRSPs into RRIF accounts before the end of the year. All clients should have been contacted by now.
- **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 or older in 2019 and not already receiving recognized pension income.

The Planning Corner: 2019 year-end tax planning ideas

As we head into the final quarter of the calendar year I thought I'd focus on some year-end tax planning topics that could be of interest. **Tax-loss selling**: Selling off investments with accrued losses at year end to offset capital gains realized elsewhere. Net capital losses that cannot be used in the current year can be carried back 3 years or carried forward indefinitely to offset net capital gains in other years. Note that you need to be aware of the **superficial loss rule** where if you sell a security at a loss and then buy it back within 30 days the capital loss will be denied and the benefit will only be obtained when the repurchased security is ultimately sold.

Clients who turn 71 in 2019 have until December 31 to **make a final RRSP contribution** before converting their RRSPs to RRIFs. If you have a spouse born in a later year you still have access to RRSP deductions by adding to a Spousal RRSP in your spouse's name.

You still can make 2019 contributions towards **RDSPs** and **RESPs** before the calendar year end and receive the associated grants. On the flipside you should be making **RESP withdrawals** in a tax efficient manner for children in post-secondary school with little to no income.

If you need to **withdraw from a TFSA** early in 2020 you should do so before the year-end as you will **recapture your TFSA contribution room** on January 1, 2020. If you were to wait until the new-year to withdraw you will not get the TFSA room back till Jan 1, 2021.

Any **charitable donations for the 2019** must be made before Dec 31. One of the best ways to make donations is through gifts of appreciated securities such as stocks, mutual funds and segregated funds because if you donate them to charity you get a receipt for fair market value and you pay no tax whatsoever on the accrued gain.

Another topic of interest could be small business passive investment income rules which come into effect this year. Income in the corporation between $50,000 and $150,000 reduces the Small Business Deduction down to zero. You should strategically realize gains and losses in those investments to manage the income that you would declare.