The Dream Achiever

DD HUMES

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"If everyone is moving forward together, then success takes care of itself."

~ Henry Ford

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Adding fuel to the fire

Happy New Year 2020! As we head into the new decade we want to wish you all good health and happiness. Last year our December newsletter talked about how markets had taken a severe turn downwards, but we are pleased to report that 2019 ended up being a very solid bounce back year. Markets shrugged off a stream of negative headlines and uneasy sentiment to stage a robust recovery driven by some “fuel” from the central banks. This year again reminds us that trying to consistently time a run to the sidelines due to fear of a market correction is an impossible task and may actually result in you missing out on some stellar returns.

Supported by low interest rates, slow global economic progress, and healthy corporate fundamentals, global equity markets advanced in the fourth quarter and registered solid results for 2019, with many market indexes finishing the year just off their all-time highs. The MSCI World Index rose 6.4% in Canadian dollar terms during the last three months of 2019, bringing its gain for the year to 21.9%.

Despite ongoing trade uncertainty (granted there was a “phase one” US-China trade deal announced) and the developing impeachment drama, the economic data remained stable and the S&P 500 Index, a broad measure of the U.S. equity market, was up 6.3% for the quarter and finished 2019 with an increase of 22.4%.

Canadian equities also advanced in 2019, with supportive business conditions and strong commodity prices boosting results for most sectors. The benchmark S&P/TSX Composite Index climbed 3.2% in the fourth quarter, capping off an impressive 22.9% gain for the year. The Canadian dollar vs the US Dollar climbed 2.1% in the 4th quarter and finished the year up 5.1%. A stronger CAD$ makes it cheaper to visit the USA but also reduces the returns on your unhedged foreign assets in Canadian dollar terms.

Overseas, markets showed a similar trajectory, with European developed market equities advancing amid an environment of easy monetary policy and Brexit uncertainty, and many markets in Asia posting positive results for the fourth quarter and the year as well.

After moving to raise interest rates to a more “neutral” level from their record lows in 2018, the U.S. Federal Reserve reacted to weaker global economic growth and tepid inflation in 2019 by easing monetary policy. The central bank made three 25 basis-point cuts to its target rate through the course of the year (3rd cut was October 30), while many other international peers also lowered rates based on global economic concerns. Some countries, such as Germany, still have negative 10-year yields! The Bank of Canada, however, charted a divergent course, keeping its policy interest rate steady at 1.75% throughout the year. In this environment, 10-year U.S. and Canada government bond yields drifted higher in the fourth quarter, rebounding from their yearly lows in the third quarter. The FTSE Canada Universe Bond Index, which broadly reflects results for the Canadian government and corporate bond market, registered slightly negative returns for the fourth quarter but a gain of 6.9% for the year. We feel that fixed income will need to be actively managed in this environment to try and maximize returns without taking on too much risk.

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Market Overview Continued

What's the outlook for 2020?

Looking forward, many economists and market watchers forecast slow but positive global economic growth over the coming months, while interest rates are also expected to remain low by historical standards to help spur economic growth. While this type of environment tends to be generally supportive for businesses and asset markets, experienced investors are also preparing for a lower-return environment consistent with a mature business cycle, as well as periods of increased volatility. The United States enters into an election year which should continue to provide the news networks with plenty of volatile short-term headline news. Investors can't afford to get distracted by these headlines. With valuations for many assets near record highs, a well-diversified, professionally managed investment portfolio can help to maximize returns while mitigating risks as they occur.

In closing, I would like to extend my sincere wishes for a happy new year to you and your family. I would also like to thank you for your continued trust and for the opportunity to assist you in working toward your financial goals. Should you have any questions about your financial plans, your investments, or the market outlook for the coming year, please remember that we are just a phone call away.

New Year Planning items

- **RRSP Contribution Deadline:** For the 2019 tax year you need to contribute before March 2, 2020. The maximum room for 2019 is $26,500. If you want to get started on your 2020 contributions, the maximum limit is $27,230. 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%! 2020 room now available.
- **Tax Free Savings Account (TFSA):** A new $6000 of room available since January 1, 2020. Total room since 2009 is $69,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2019 (born in 1949) will need to convert their RRSPs into RRIF accounts before calendar year end. We will be in contact to assist you on how to get that done.
- **$2K pension deduction:** Those who turn age 65 or older in 2020 and receiving recognized pension income.

The Planning Corner – Tax Efficient Cash Flow

When you reach a point in your retirement plan when you want to begin reaping the benefits of your investments, you may need to consider how to best access your non-registered (OPEN) account. Many of the fund companies have created T series or T-SWP versions of funds which offer investors the flexibility to develop customizable and sustainable solutions by generating tax-efficient cash flow, combined with the potential of tax deferred growth. You are not locked into a stream of payments in perpetuity as you can adjust the payment amounts or even turn the payments fully on or off.

The monthly cash-flow payments in these series are generally characterized as return of capital (ROC). **ROC is not taxable income** because this non-registered investment was originally purchased with after tax dollars. A ROC payment will reduce the amount of the investor's original investment and does not represent income or capital gains earned by the investment, and does not reflect, and is not the result of, the performance of the investment. **ROC does not contribute to the claw-back of income-tested government benefits such as Old Age Security (OAS).**

Investors should not confuse these tax efficient payments with the funds rate of return or yield. The investment continues to generate market returns after the payment is made. Payments characterized as ROC will reduce the adjusted cost base (ACB) of the investment. When all of the investor's original capital has been returned (eg, ACB at zero), the monthly payments become mainly capital gains, which is still tax advantaged when compared with other forms of income due the current 50% inclusion rate.

If you need tax efficient income from your non-registered accounts, let us know as we may have a custom solution just for you!

*Source: Morningstar Canada