TD Wealth

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Market Update

Important Topic: Best TED Talk Ever?

Presented in 2011, this talk foresaw the changes that are occurring in the world today. It is something everyone should see and consider. https://www.ted.com/talks/peter_diamandis_abundance_is_our_future

Important Topic: Prescribed Rate Loans

In Canada you cannot simply give a spouse or family member money to invest without having interest, dividends and capital gains generated on those funds attributed back to you. In other words, investing in your spouse's/child's name would still result in the taxable income being taxed in your hands.

The way around this is a "prescribed rate loan". In this case one makes a loan to one's spouse/child. Then the spouse/child invests the funds, and any income, dividends and capital gain generated are taxed in their hands. The spouse/child only has to pay interest on the loan and the lender has to report the interest as income.

For example, a parent lends $100,000 to a child. The child pays a permanently fixed rate of interest (set by the government) of 1% per year, or $1,000. The parent recognizes $1,000 of interest income. If the $100,000 earns 5% then the child earns $5,000, pays the parent $1,000 of interest and has $4,000 of income taxed in his or her hands, presumably at a lower marginal tax rate than that of the parent. Tax savings arise as the parent reports $1000, instead of $5000 of income. The child can pay back the loan at any time and the funds generated remain in the child's name. If the amount lent is $1,000,000, the amount of interest, dividends and capital gains taxed in your child's hands is much greater, and so would the tax savings.

The prescribed rate has remained for several years at 1% but the Government recently announced that they are going to raise the rate to 2% effective April 1, 2018. If this strategy is of interest to you, you

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should act now as you only have two more months to lock in the lower 1% for the length of the loan. In other words, if a loan is made (and properly documented) before April 1, 2018 the 1% rate of interest will be the rate for the entire life of the loan and it will not increase April 1, 2018.

Market Update: 2018 Begins with Mixed Markets

In the markets the new year began with the Canadian bond and equity markets falling while the US equity markets continued to hit new highs.

The US markets continue to rise as earnings post impressive increases. Consumer confidence is now higher than it has ever been. Price to earnings multiples are again reaching high levels and we will need earning to continue to post impressive increases to justify such levels. While such increase in earnings is expected, at some point companies will find it more difficult to keep up and a more difficult to justify their valuations.

As we, and everyone else, do not know when that will happen, we continue to "rebalance" portfolios – repositioning the portfolios so that their risk level remains on "plan". As equities outperform bonds and the US outperforms other equities we look to move funds from these outperformers and to redistribute funds into other asset allocations.

The Canadian market appears to be disliked by the international community who are quite prepared to take money out of Canadian equities and invest elsewhere. Whether this is a temporary phenomenon or a longer term comment on Canada's competitiveness and its opportunities is unknown. Believing there are opportunities we continue to reallocate to Canada when behind plan and decreasing our allocation when ahead.

Additionally, the portfolios also have exposure, to different degrees, to global markets, emerging markets, real estate, infrastructure, and preferred shares. Spreading out risk is an important component of long-term investing.

We remain invested, and looking forward, we remain optimistic for the medium and long term but still cautious for the short term as valuations are above fair value. Due to valuation levels we prefer to avoid the Indices (inexpensive exposure to an entire market) and prefer investing with active managers who are very selective. This is a time to carefully distinguish between under and overvalued investments.

For the month the bond market was down 0.9%, the Preferred market was up 1.5%, the Canadian market was down 1.3%, the US market was up 5.6%, International markets were up 5.1%, the Emerging markets were up 6.1% and the Global Real Estate market was up down 0.7% (Reuters).

Have a great month and let us know if there is anything we can do for you,

Meir