

# Return On Investment

TD Wealth Private Investment Advice

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## Coping with Volatility

The summer was one of considerable discontent for the Canadian markets. Low oil and commodity prices continued to pressure Canada’s economy and cause downward volatility within the markets. This, combined with a weaker Canadian dollar, poor manufacturing performance and disappointing earnings reports due to a slower-growth environment prompted the Bank of Canada to again lower its key interest rate in July. Adding to the volatility was the reaction to various international events, including China’s currency devaluation and concerns over its economic slowdown, which pushed markets into correction territory at the end of August.

Given the many ongoing challenges, it may be difficult to keep a positive perspective. But periods of volatility are normal and should be expected in any market. Here are six things to remember during these temporary times:

**1. Accept that markets are cyclical.** Just as we embrace the up times in the markets, savvy investors must also accept that down times are a normal part of investing. Volatility is a reminder that portfolio growth does not occur at a steady rate. Here is a positive perspective on the cyclical nature of the markets: since 1970, the average bull market of the S&P/TSX Composite Index has lasted over 59 months, whereas the average bear market has lasted only around 11 months.\*

**2. Keep focus on your plan.** Focus on your plan’s goals, not any day-to-day changes in the markets. If your plan was put in place with a longer-term focus, it was likely built to withstand temporary changes in the markets. To help stay on track, revisit your plan on a periodic basis to rebalance or make updates based on life changes.

**3. Let diversification be your ally.** The merits of diversification are even more apparent in today’s world. Canada’s resource-based economy continues to be pressured by low oil and other commodity prices, which demonstrates the risk associated with a significant reliance on any one sector. A well-diversified portfolio is meant to reduce risk during volatile times as not all sectors, asset classes or geographic markets move up and down at the same rate or time.

**4. Don’t listen to the noise.** Most people have an opinion on investing and the markets. In good times, anyone can sound like an expert. In difficult times, media headlines can often magnify economic misery or instill fear. At the end of the day, thoughtful analysis should drive decision-making — not any peripheral noise.

**5. See opportunity.** Volatility can provide opportunity. Since the fundamentals of many quality stocks often do not change during volatile times, these periods may provide a short-term window to purchase good investments at lower prices.

**6. Have confidence in the value of support.** We are here to support every stage of the investment journey to help you achieve your goals. We believe in the value of advice. Investors who work with advisors have three times the net worth and four times the investable assets of those who don’t work with an advisor, according to an independent study, and have been shown to have greater discipline through volatile times.\*\*

\* S&P/TSX Total Return Index: 1/1/70 to 7/31/15 monthly close data; \*\*Ipsos Reid “Value of Financial Advice” IFIC, 2012.

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# Upcoming Changes to Your Account Statements

You may be aware of changes to reporting within the investment industry over recent years, mandated by the Canadian Securities Administrators and called the “client relationship model”. This is intended to improve the fee and performance information available to every Canadian investor.

Over the coming quarters, your statements will provide greater visibility on fees and commissions paid for your investments, to help facilitate a better understanding of the costs associated with your investments.

This is a great change for the industry. We’ve always believed in being transparent when it comes to providing information on the fees associated with our products and services, but there has never been an industry standard. We understand that investors have a choice when

it comes to their advisors and their investments and providing the best information can only help you make informed decisions.

Our goal is to provide the best wealth management to help you achieve financial success. We are committed to delivering a high standard of service and feel strongly about the value of our advice. According to an independent study, advised households have around twice the level of financial assets of their non-advised counterparts and this advantage grows over time.\*

Should you have any questions about the reporting changes or the fees that you pay, please don’t hesitate to contact us. We are here to help.

\*Source: *An Econometric Analysis of Value of Advice in Canada*, Centre for Interuniversity Research & Analysis on Organizations, 2012.

## Estate Planning

# Will Preparation: Things to Remember

Not having a will is actually a fairly common and potentially problematic situation for many Canadians. But having a will that is not effective can also cause significant problems. If you haven’t yet prepared a will or are in the process of updating one, here are some things to consider:

**Think carefully about how the will is structured for your children.** Although most parents would rather not think that they could both pass on simultaneously, the will should carefully plan around this possibility.

Sometimes, assets are passed to children at the age of majority without any conditions. However, transferring a significant amount of money to children at the relatively young age of 18 or 19 (depending on the province of residence) may lead to problems. Setting up a trust under the terms of your will may be one way to pass along assets while specifying the age when beneficiaries will receive them. It may also place control over the assets in the hands of a more responsible trustee to help child beneficiaries look after the assets.

When appointing guardians for your children, consider the impact on the potential guardians. Is there a way that you can plan your estate to make it easier for them as they raise your children? The terms and instructions for how funds are distributed to guardians until children reach adulthood can be specified in the will. Remember also that if many years have gone by since appointing guardians, it may be helpful to ask if they are still willing to take on this role as their situation may have changed.\*

**Remember which assets your will distributes (and how).** A will may not include all of the assets that you hold at death. Assets held in registered accounts like Tax-Free Savings Accounts (TFSA), registered Retirement Savings Plans (RSPs) or registered Retirement Income Funds (RIFs), as well as certain pension plans or insurance policies, may have named beneficiaries. In most, but not all, provinces, this generally means that these assets will pass outside of the estate. In many cases, joint assets will also pass outside of the estate. This is sometimes overlooked when equalizing an estate between multiple beneficiaries. Similarly, the effect of taxes may reduce the final distribution of assets passing through a will.



**Pre-plan for cash flow issues.** Will there be enough cash or liquidity to pay for the estate’s taxes, funeral costs or probate (in provinces where this is applicable)? There may be significant tax implications for those estates that include a family property or business. This should not be overlooked, especially if their value has significantly increased over time.

**Update as things change.** Regular updates to wills are commonly forgotten in the hustle and bustle of everyday life. But this is important not only when there are life changes, but also when the status of assets changes significantly. As well, administrative updates may be necessary, for example if a person named within the will experiences a name change through marriage or divorce. This will help to make future estate settlement easier.

**Tell someone!** Finally, remember to tell a trusted friend, loved one and/or the estate administrator (executor/liquidator) about the location of your will. This may sound obvious, but if a will cannot be located, the estate will be settled through the provincial courts.

\*Note: Expressions within a will are the wishes of the parent only and a guardian must still obtain a court order.

## Fast Food for Thought

# Burgernomics: Economic Theory, Using a Burger

This year marks the 30<sup>th</sup> year that the Big Mac index has been published by *The Economist*. The index is intended to be a “light-hearted” guide to comparing the purchasing-power parity (PPP) of various currencies.

PPP is the idea that over the long run, exchange rates of two countries should adjust so that an identical basket of goods and services should cost the same in both countries. Instead of using a basket of goods, the Big Mac index uses a Big Mac hamburger — a product available in approximately 120 nations worldwide.

The index determines an exchange rate that results from comparing the cost of a Big Mac in a nation’s currency versus the cost in the United States. Comparing this to the actual exchange

**Big Mac Index — Canada from 2000 to 2015**

	2015	2010	2005	2000
Big Mac Price (CDN)	\$5.85	\$4.17	\$3.28	\$2.85
Exchange Rate (CAD/USD)	0.775	0.961	0.800	0.680
Valuation (+over / -under)	-5.3%	+7.2%	-14.2%	-22.8%

Source: *The Economist*. Data for 07/2015, 07/2010, 06/2005, 04/2000.

rate indicates whether a currency is under- or over-valued to the U.S. dollar.

Over the years, the Big Mac index has been criticized for being “junk-food for thought”. But Burgernomics was never intended to be a precise gauge of currency

misalignment — just a fun way to look at exchange-rate theory. Still, the index has garnered much attention over its life and has even been included in several economic textbooks and within various academic studies.

Is the Canadian dollar under- or over-valued? The chart above provides a look at how Canada has fared over the past 15 years, according to the index. How does Canada compare to other countries? Visit: [economist.com/content/big-mac-index](http://economist.com/content/big-mac-index)

## Tax Planning Before Year End

# Don't Forget: Match Capital Gains and Capital Losses

Since the 2007/08 financial crisis, both the Canadian and U.S. stock markets have experienced lengthy bull runs, which may mean that you have gains in your securities portfolio. When these gains are realized, also realizing offsetting capital losses may work to your benefit. Before the end of any calendar year, consider reviewing your portfolio to see if there are investments in a loss position that you may wish to sell in order to take advantage of tax-loss selling.

In general, when an investment is sold for proceeds that are less than the purchase cost, the result is a capital loss. For tax purposes, capital losses can be used to offset capital gains realized during the year to reduce your current tax liability. Capital losses cannot be used to offset employment or dividend income.

If you are unable to use all of your capital losses in the current tax year because you do not have sufficient capital gains to offset the losses, you can carry the net capital loss back to any previous three taxation years to recover taxes paid on taxable capital gains. Alternatively, you can carry the net capital losses forward indefinitely to use against future taxable capital gains.

When undertaking tax-loss selling, don't forget about the “superficial loss rules”, which have been put in place to prevent taxpayers from creating artificial transactions to generate capital losses. They will apply if: i) you, or an “affiliated person” (which includes a spouse/common-law partner or your registered Retirement Savings Plan (RSP)), acquire property identical to that which was sold for a loss in a period that is either 30 days before or after the date of the loss transaction; and, ii) 30 days after the loss transaction, you, or an affiliated person, own or



have a right to buy the identical property. As a result, you will not be able to use the capital loss in the current year to offset capital gains. Instead, the capital loss will be added to the adjusted cost base of the identical property.

Consider speaking with a professional tax advisor prior to engaging in tax-loss selling.

# Things to Remember During Difficult Economic Times

Are we in a recession? There is little doubt that we are experiencing a period of slow growth, largely due to persistently low oil prices which have put significant pressure on the Canadian economy. However, there is debate over whether we are truly in recession.

A technical recession is defined as at least two successive quarters of negative gross domestic product (GDP) growth. According to Statistics Canada, Canada's GDP contracted in both the first and second quarters of this year. However, recessionary times are often characterized by weakening employment, lower business sales and production, as well as lower interest rates. As such, many economists prefer to use broader measures of economic activity than just GDP to determine if an economy is in recession.

Some types of investments may be affected more than others during recessionary times. Consumers may reduce spending, which can affect company earnings and stock prices. Investor confidence may fall, thereby reducing investment spending. Businesses may slow their rate of investment, which may impact future cash flows. Companies with high levels of debt may also find it more challenging to cover debt payments.

Don't forget that a recession is a normal part of any economic cycle. Just as there are periods of growth and expansion, there will also be periods of decline and contraction. Here are four fundamental rules to help get a portfolio through a recession:

**Keep the emphasis on quality.** Companies with predictable growth, consistent earnings, steady cash flow and strong roots in solid industries are often well-placed to withstand slowdowns, as are companies with lower debt levels. With equities, quality dividend-paying companies often continue to pay dividends through these down periods. This dividend income can be a good way to maintain a return during down times.

**Mitigate risk.** Having a well-diversified portfolio is one of the best ways to help mitigate risk. Across different industries, some sectors may be affected more than others during a recession. For example, discretionary consumer goods or luxury goods companies may be vulnerable to decreased consumer spending, whereas healthcare and consumer staples companies may be better placed to withstand



recessionary times if they provide consumer necessities. Geographic diversification may also be beneficial because not every market is going through the same part of the economic cycle. As the Canadian economy experiences a slowdown, our neighbours to the south have been undergoing an economic expansion.

**Maintain discipline.** Keep an eye on the bigger picture and try and block out the noise. Don't lose focus on the importance of "buying low and selling high". Remember that in most cases, the best time to sell is not when other investors are selling!

**Think longer term.** Don't focus on the short term — the most prudent investors are not myopic. Your portfolio has likely been constructed with the longer term in mind and is meant to weather the ups and downs of the market. Challenging market conditions can also present opportunities for longer-term investors. The Toronto Stock Exchange's lengthy bull run has made it difficult for investors to enter the market so a pull-back in share prices may be a buying opportunity for those with cash waiting on the sidelines.

Most importantly, remember that every recession eventually comes to an end, and some more quickly than others. Our last recession (after the 2007/08 economic crisis) lasted just seven months.\*

\*According to C.D. Howe Institute. Recession – November 2008 to May 2009.

With the Compliments of:

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