Money Wise

VOLUME 11; ISSUE 4

Fall colours are starting to turn a bit grey now that Halloween has passed, the leaves are populating the ground more-so than the trees, and the sun is setting earlier and earlier. We at Trinity hope you all enjoyed your Thanksgiving and Halloween holidays!

In Trinity news, Rick has had many opportunities to meet with fund managers at various companies over the past few weeks. Specifically, Cecilia Mo, manager of the Dynamic Dynamic Dividend Advantage Fund, and Noah Blackstein, manager of Dynamic Power Global Growth. He has met with several other fund company representatives as well to keep up-to-speed on developments and new funds available to you.

Melissa is also busy working toward her CFP designation and we hope you will join us in congratulating her on finishing the first stage of the course. Congratulations Melissa!

I was invited to participate in a graduate panel discussion at Acadia University, my alma mater, a few weeks ago with second and third year business students. I was joined by two other former students, and we were thrilled to enlighten the group on life "after school" and getting the most out of their time in university.

In this edition of our quarterly newsletter Rick discusses the recent market volatility (and why the news isn't always right) along with the very recent announcement of new tax breaks for Canadian families, and finally the inclusion of alternative investments in your portfolio; I provide a brief introduction to RRSPs and their benefits; and Melissa gives reassurance on saying "No" to the things and people that try to persuade you to overspend.

As always, we welcome and encourage your feedback and input into the topics we discuss in our newsletters and on our website.

Natalie LeBlanc
Marketing Assistant

Market Watch

After a few years of relatively low volatility and steady growth, financial markets have recently become somewhat more unsettled. In September and October stock markets went through a typical mid-cycle "correction" which is a healthy and normal process that typically occurs about once a year on average.

Corrections by definition are drops of 10% or more to the broad-based market and in this case we saw declines of eight to 12% globally so it fits into the regular pattern (despite all of the "sky is falling" TV chatter.) This one was unique for only two things.

#1: That it was so long overdue. It has been approximately three years since the U.S. market went through a meaningful correction. Such a long period of stability is, in fact, highly unusual for stock markets, and we should not be surprised by higher levels of volatility. In fact, this correction was widely anticipated (as discussed in the last Market Watch) and is viewed as a positive development. This "re-pricing" process helps markets re-assess risk and provides the foundation for the next leg-up in a healthy market cycle.

#2: The speed of the decline surprised a lot of people and provided ample fodder for the news media to start up the fear factory. The specific trigger may have been unrest in Asia, Ebola, renewed terrorist fears etc. but the larger issue was concern on the slowing pace of economic growth, in China, Japan and Europe, and the winding down of the U.S. Federal Reserve's economic stimulus plan.

While no one can predict how prices will move in the short term, there are a number of circumstances that remain supportive of markets, including low interest rates, strong corporate earnings, and a strengthening North American economy. For example, the U.S. economy grew at an impressive annual rate of 4.6% in the second quarter, and the unemployment rate fell below 6% in September for the first time since July 2008. There are always reasons for concern but the global economy is operating at fairly modest levels and recessions (the primary cause of more meaningful market downturns) rarely ever happen until the economy is firing on all cylinders; including a very tight job market, high inflation and other factors that simply aren't present now.

One way to weather market volatility could be to take a longer-term view and remain invested in a diversified portfolio tailored to your individual objectives. Diversification by asset class, industry sector, and geographic region could help provide more stable returns, because not all investments respond to events in the same way. As mutual fund investors we now have access to more "tools in the toolkit" to mitigate risk than we did in the past and, following the lead of the nation's largest pension plans, we have been working to incorporate some of these strategies into your investments.

Rick Irwin, CFP, CLU
Financial Planner,
Investment Representative

New tax breaks: Income Splitting

The federal government announced on October 30th some new family-oriented tax breaks that could certainly save Canadians money each year: income splitting between spouses, higher universal child care benefits, and an increase to the childcare expense deduction.

On October 30th, the Conservative government finally delivered on its promise to introduce family-oriented tax breaks once the budget deficit was eliminated. The new tax measures include the following:

1. **Income Splitting:** The new Family Tax Cut is a non-refundable tax credit that will allow couples with children to potentially lower taxes by splitting their income. This new tax break is being made applicable to the 2014 tax year and will allow couples with children younger than 18 to transfer up to $50,000 in income from the higher earner to the lower earner for tax purposes. Much criticism had initially been levied at this idea, suggesting that it would disproportionately benefit the wealthy. To limit this outcome, the government has capped the tax benefit at $2,000 a year per couple. Potential savings are the greatest when there is a large disparity in incomes between spouses.

2. **Enhancements to the Universal Child Care Benefit:** This program was introduced by the Conservatives in the 2006 election and is now being increased prior to the upcoming election. Currently the program delivers $100/month to families for each child under the age of six. The monthly amount will now be increased to $160/month for children under the age of six and a new benefit will be paid for children ages six to 17, of $60/month. The enhanced payments will be effective January 2015, but will not be paid until July 2015.

3. **Increase to the Child Care Expense Deduction:** this deduction will increase by $1,000 annually: from $7,000 to $8,000 for children under age seven and from $4,000 to $5,000 per child aged seven to 16. The Disability Tax Credit for children will be increased similarly; from $10,000 to $11,000.

As with the advent of Pension Income Splitting, which began in the 2007 tax year, there is likely to be much discussion about who benefits from these new tax measures and who is left out in the cold, as well as what other economic benefit this lost federal tax revenue could have put towards. Whatever your view on the subject, for millions of Canadian families these changes will put more income into their pocket annually.

Rick Irwin, CFP, CLU
Financial Planner,
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Alternative Investments

When considering the asset classes available to invest in with mutual funds, stocks and bonds are certainly the first options that come to mind. However, many institutions including Canada's Pension Plan and, more recently, the Norwegian Sovereign Wealth Fund (the world's largest single investment pool) are looking at alternative assets as part of their portfolios.

Bloomberg news service reported on June 25th, 2014 that the world's largest single investment pool, the Norwegian Sovereign Wealth Fund, which is worth $890 billion is "building up its organization and preparing for a move into infrastructure and private equity". This follows in the footsteps of globally admired Canadian pension plans like Ontario Teachers and CPP which moved into these areas in meaningful ways years ago. The article states "The fund, which owns 1.3% of the world's stocks, is struggling to meet a real return (net of inflation) target of 4%."

The fact that the world's single largest pool of wealth is struggling to achieve its return objectives in today's low interest rate environment reminds investors of the difficulties in investing in a risk-controlled way in a low-yield world. It also speaks volumes to the shift to alternative assets at the institutional level, and gives clues as to where "retail" (everyday investors like us) might look to similarly diversify their portfolios. In fact, alternative investments are growing at a faster rate then ETFs.

For years the primary investment decision put before investors was the relationship between stocks, for growth through capital appreciation and income through reinvested dividends, and bonds for income and stability. Simply put, if you wanted more growth, you held investment funds with holdings invested more in stocks and less in bonds and if you wanted to be more defensive the reverse was true. In an era where interest rates are so low and where conventional bonds will be negatively affected once interest rates do finally start to turn back up, this conventional investment allocation is in some cases producing less than stellar results.

Alternative investment funds invest in a wide variety of asset types normally found in the realm of pension funds and other large institutional investors. These include: physical real estate, commercial mortgages, options, closed end funds, private equity, precious metals and option writing. Collectively many of these strategies have become more recently accessibly through "retail liquid alternative funds" and John Harris, manager of the Dynamic Alternative Yield fund that invests exclusively in many of these strategies, recently stated that $233 billion in the U.S. is now held in these types of funds. “These funds are based on many strategies previously only available to high net worth and institutional investors.” Harris said. “This represents a significant opportunity. It is expected that these funds will see inflows of $1-$1.6 trillion over the next 5-10 years.”

These alternative investment fund strategies are all very different but in most cases they have two distinct similarities: a very low reaction level to stock market events and a majority of the returns coming from income generated by these investments, not from capital appreciation. In a world of chronically low interest rates these asset types potentially offer an opportunity to diversify away from stocks in assets that have much higher income potential than bonds.

Whereas the primary investment decision used to be how much to hold in stocks vs. bonds, due to these new income-oriented investment alternatives investors might change that to instead be a decision of how much to hold in investment funds that hold stocks vs. assets that generally don’t behave like stock in periods of market volatility. This is certainly the area that pension plans have gravitated towards. In Canada for example, the top 100 pension plans (by size) currently have between 15-20% of their assets in real estate and infrastructure and many more are moving in that direction, as shown by Norway. The Ivy League endowment funds (Harvard, Yale etc) are even bigger players in alternative assets. We should take cues from these pools of well-run institutional money and look to diversify our portfolios in a similar fashion, now that many of these strategies have become available at the retail level. It is a welcome change than we can show up to the job site with as many tools in our toolkits as the world’s most sophisticated pension funds to reduce risk and help grow returns.

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Financial Planner,
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SOURCE: http://www.bloomberg.com/news/2014-06-24/norway-s-890-billion-fund-gears-up-to-expand-in-real-assets.html

Make your investment decisions wisely. Important information about mutual funds is found in the funds' simplified prospectus. You can obtain a copy of this from your investment representative. Please read this carefully before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Unit values and investment returns will fluctuate.

A Brief Intro to RRSPs

Registered Retirement Savings Plans (RRSPs) are usually one of the first methods that comes to Canadians' minds when they think of saving for retirement.

RRSPs allow you to make tax-deductible contributions (up to a certain limit based on your income) to grow the value of your savings without being taxed on the growth, and then withdraw (with applicable tax) the principle and earnings from the plan. Many Canadians, with the help of a financial planner, are able to structure their contributions and withdrawals in such a way that contributions are made in higher-taxed income years and withdrawals are made during lower income years (most often, the retirement years).

One of the most basic and important rules of RRSPs is the contribution limit. This is calculated by the Canada Revenue Agency (CRA) each year and is carried forward indefinitely from one year to the next. The amount of your limit is based on 18% of the previous year's earned income, less any pension or other adjustments, up to a limit of $24,270 (for the 2014 tax year). The CRA will allow an excess contribution of $2,000 without penalty for those 19 years of age or older, but if you contribute more than $2,000 over your limit you will be subject to a penalty tax.

If you happen to have a lower-income-than-normal year, or have other credits that have already lowered or eliminated your tax bill, you can carry forward your RRSP contribution to be deducted in a future year. However, remember that your contributions reported on your RRSP receipt still have to be reported on your tax return for that current year.

SPOUSAL RRSPS

Spousal RRSPs are also available, where one spouse (usually the higher income earner, the "contributor") builds RRSP contribution room, and then makes the contribution into a spousal RRSP in their spouse's name ("the annuitant").

WITHDRAWALS FROM AN RRSP

You can make a taxable withdrawal from your RRSP at any time. Tax is withheld by the plan administrator (Quadrus, for example) and reported to the CRA toward your total taxes and income. There are programs in place by the CRA that would allow you to withdraw from your RRSP, without tax, to pay for post-secondary education for yourself or a spouse (the Lifelong Learning Plan) or to buy a house for the first time (First-Time Home Buyers Plan). Unless otherwise requested, the applicable tax rate (in provinces other than Québec) is:

Amount of Withdrawal	Applicable Tax Rate
Up to $5,000	10%
$5,000.01 to $15,000	20%
$15,000.01 and up	30%

RRSPs certainly have many tax advantages, all while helping you create a nest egg to support yourself during your retirement years.

Natalie LeBlanc
Marketing Assistant

It's Okay to say "I Can't Afford it"

One factor that often drives families into debt is playing "Keep up with the Joneses." While it can be hard to say no to that new gadget or a vacation with the neighbours, sometimes it's necessary to keep your budget in line. And that's okay.

It amazes me how, in our circle of friends, I rarely hear people say "I cannot afford to do that!" My husband and I earn a decent living, we have two children, pay our bills on time, take a nice trip every couple of years, save for retirement and children's education so overall we are doing okay. There are plenty of extravagant things we know we cannot afford, but it seems like there are even more things we want that we simply won't get because it's not in the cards now. What's important here is that that's okay!

I believe if more people were honest and okay with saying "I cannot afford it", they'd be better off financially. I see clients in various stages of their lives and with different money habits. Some are savers and some spenders. If you strive to be financially independent down the road, you need to be honest with yourself about what you can and cannot afford as a family. Let's face it, those weekend nights out with friends, expensive dinners, golf tournaments, and frequent clothes shopping cost a lot. Not to mention the essentials like cost for sports and extracurricular activities for children, groceries, heating, and gas. Ask yourself if you really need a new car every three years? I read in a magazine that there has been tremendous growth in the automotive industry in North America over the past few years, but with that growth has come an increase to leasing and debt payments. People are on an endless lease schedule or extending car loan payments over six to seven years. Ouch!

In my case, I long for a new kitchen. Our house is only 12 years old but my kitchen is dated, but right now we cannot afford a new kitchen. After chatting with my sister in law about it, I realized our friends and family don't care that our cupboards are oak and our countertop is laminate!

To curb these trends in your own home, I recommend sitting down (with or without the help of your financial advisor) and creating your realistic bucket list. Next, be honest with friends and family about what you can and cannot afford as many people are in similar situations. There are a lot of extraordinary things you can do without money that are a lot of fun! Those who appear to be spending lots and seem to have everything (popularly referred to as "The Jones"), in some cases, are not as financially independent as you would think.

For now, our kitchen is fine the way it is. We will continue to save for our future and come retirement, we will be financially okay. Hopefully we can keep living a healthy lifestyle to enjoy retirement when the time comes.

Melissa Allan
Associate Advisor,
Investment
Representative

Financial Priority Planner

Use this planner to assess your current financial priorities. Your advisor can devise the appropriate strategies to help you balance your priorities while making progress toward your goals.
Check the priorities that apply to you; then rank them in order of importance from most important to least important.

Is it a Priority?	Ranking
☐ Paying off debts	________
☐ Owning your own home	________
☐ Savings for a child's education	________
☐ Providing financial security for dependents	________
☐ Ensuring you have enough money for retirement	________
☐ Reducing current income taxes	________
☐ Maximizing RRSP contributions	________
☐ Providing care for a dependent relative	________
☐ Acquiring vacation property or other significant asset	________
☐ Creating an estate plan	________
☐ Preserving your assets	________
☐ Achieving financial independence	________

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