

# Monthly Client Newsletter

*May 2019*



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 **Manulife Securities**

Newsletter also available at [www.adammchenry.com](http://www.adammchenry.com)

# Adam's Update

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*Friends,*

*I hope you are well!*

*I just got back from a short trip to Omaha, Nebraska to see Warren Buffett and Charlie Munger. This was my second year attending and it always amazes me how far attendees will travel to hear these two investment gurus. If you thought flying from Toronto to Omaha, Nebraska was a lot to ask, you might be surprised to hear that I spoke with attendees as far away as China, South Africa and Germany. Now that is commitment! You can find some of the better comments made at the event in the "Article of the Month" on page 7 of this newsletter.*

*The markets continued to roll in April, however in early May (at the time of writing) there seems to be some weakness surrounding the ever popular US trade talks with China. To repeat Charlie Munger's answer to a question on political noise and investing, he said "I don't have time for that!" Given, that Charlie and his partner Warren Buffett have amassed large fortunes avoiding the political noise surrounding their investments, it may be wise to pay attention!*

*Have a wonderful May and thank you for your continued support!*

## **In this month's newsletter you will find information related to:**

- Key Dates to Keep in Mind!
- Idea Corner: *How Families with Special Needs Children save on medical expenses!*
- Market Performance Review: *April 2019*
- Chart of the Month: *Canadian Personal Savings Rates*
- Article of the Month: *Five Key Comments From The 2019 Berkshire Hathaway Annual Meeting*
- Contact Information
- Disclaimers

# Key Dates to Keep in Mind!

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- TFSA contribution room available = Beginning of January
- Installment payment date deadlines = Mid March, June, September and December.
- Individual tax filing deadline = End of April.
- Self-employed individual and spouse tax filing deadline = Mid June.
- Tax Loss Selling deadline = End of December.
- RESP contributions deadline = End of December
- RRSP contribution deadline = End of February

# Idea Corner:

## ***How Families with Special Needs Children save on medical expenses!***

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Planning for your children's financial futures is very important to parents, but for families with special needs children, planning can take on more complex and emotional decisions. While there are many challenges to support a child with special needs, the financial aspect can seem daunting to the child's family. The cost of supporting a special needs child can be more than double the cost of raising a child without special needs. The cost of therapies, medical equipment, special programs along with parent's lost income due to time commitments, is a large portion of this added cost. There are tax credits, savings vehicles and government programs to support families to meet their child's needs. However, the path to creating a plan to financial support for your child can be a challenging one, where the experience and expertise of a financial professional is paramount.

One opportunity for family's to reduce the cost of treatment and therapies is through a Health Care Spending Account (HCSA). These accounts are not well understood and if available typically are underutilized due to the lack of awareness of how they can help. In short, the HCSA helps families pay for eligible medical expenses by using pre-tax money.

To elaborate, I will reflect on a real life case that I worked on in the Spring of 2019. This prospective client had a special needs son who attended a special needs program during the week. The cost of this program was approximately \$6,000 per month or \$72,000 per year. The client paid for this program by cheque every month. Adjusting the \$72,000 annual cost to a pre-tax basis results in approximately \$154,939 per year, where the math works like this:

$$\text{After-Tax Cost} = \text{Pre-Tax Cost} \times (1 - \text{Marginal Tax Rate \%})$$

$$\text{\$72,000} = \text{Pre-Tax Cost} \times (1 - 53.53\%)$$

$$\text{\$154,939} = \text{Pre-Tax Cost}$$

Previously, the client collected all his medical receipts for the program and at tax time used the receipts to receive a credit of 30% on qualifying medical expenses. This reduces the annual pre-tax cost of \$154,939 to \$108,457 or a savings of ~\$46,482 per year.

After I collected all personal and financial information from the prospective client and when I was working on the follow-up financial strategy, I realized that there was an opportunity for significant tax savings for this family. By using the prospective client's employer provided HCSA and directing the employer to deposit \$72,000 of the prospective client's earned income to the HCSA, the client's pre-tax and after-tax costs become equivalent at \$72,000. This resulted in an annual tax savings of ~\$36,000 per year and ~\$500,000 over 15 years.

*For more information on this strategy, please reach out to Adam at 416-901-6500.*

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*Written by: Adam McHenry, CFA at Manulife Securities Incorporated.*

# Market Performance Review: April 2019

**Adam's Comment:** It was another great month for stocks as Canadian, US and International equities continued to rise and add to their already eye-popping totals for 2019. Bonds and the Canadian dollar lagged despite energy prices posting strong results. Central banks in Canada and the US pushed the pause button on any further action until economic data begins to improve and/or inflation shows any signs of life.

Market	April Return %	2019 Year To Date Return %	5 year Annualized Return %	10 year Annualized Return %
<b>Canadian Equity</b> (S&P/TSX Composite Index)	3.22	16.94	5.60	9.07
<b>US Equity</b> (S&P 500 Index)	4.52	16.35	16.25	16.69
<b>International Equity</b> (MSCI EAFE Index)	3.37	11.51	7.36	9.74
<b>Canadian Fixed Income</b> (FTSE TMX Canada Universe Bond Index)	-0.10	3.80	3.65	4.39
<b>US Fixed Income</b> (Barclays Capital U.S. Bond Universe Treasury Index)	0.17	0.19	5.99	3.69
<b>Currency Exchange Rate</b> (CAD\$ in USD\$)	-0.45	1.63	-3.97	-1.17

\*Source: Total Returns in CAD\$, Bloomberg, Bank of Canada, pcbond.com, Barclays Capital, BMO CM, S&P

# Chart of the Month: *Canadian Personal Savings Rates*

**Adam's Comment:** *This is a scary chart, which to me shows a lack of planning being completed by Canadian families. Some of the drop in personal savings may be due to uncontrollable factors, such as, the cost of Canadian home prices and increasing tax rates. However, anecdotally I fear that a large proportion of the decline in savings is because of our inability to postpone spending. In this situation there is one thing these non-savers will be guaranteed to miss. Its called "compounding": the eighth wonder of the world!*



Published by: Refinitiv Eikon DataStream.

# Article of the Month: *Five Key Comments From The 2019 Berkshire Hathaway Annual Meeting*

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*Adam's Comment: The two investment gurus at the helm of Berkshire Hathaway always seem to have the ability to delineate complex financial concepts down into a few words or a short sentence. There were a couple of excellent comments at this years meeting in Omaha, Nebraska and so I thought I would share some of those comments with you.*

Warren Buffett and Charlie Munger provided many insights when they answered questions for nearly 6 hours this past Saturday during the 2019 Berkshire Hathaway Annual Meeting.

The following comments stood out as the most important for investors:

- **Charlie Munger:** *People come out of the womb with the delayed gratification skill - we can't teach it, we pick the people who have it.*
- **Charlie Munger:** *You don't need a portfolio of 50 stocks if you know what you are doing.*
- **Charlie Munger:** *Both Warren and I feel it's our moral duty to be as rational as we can possibly be. A lot of people who are brilliant in some ways tend to make these utterly asinine decisions in other ways. We both tend to collect the asinities of the world in a kind of checklist. And we try to avoid everything on the checklist.*
- **Warren Buffett:** *You can turn any investment into a bad deal by paying too much. What you can't do is turn any investment into a good deal by paying a cheap price.*
- **Warren Buffett:** *If you want to grow your investment circle of competence you want to read a lot and study a lot of businesses. It is more competitive now than it was when we started investing, but if you build your circle and have the discipline to be patient and do nothing a lot of the time you can still do well.*

# Contact Information

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