Monthly Client Newsletter

April 2019

Adam McHenry, CFA

Investment Advisor & Associate Portfolio Manager

Manulife Securities Incorporated

Manulife Securities

Newsletter also available at www.adammchenry.com

Adam’s Update

Friends,

With Easter and sports playoffs approaching for Hockey and Basketball, you might not have a lot of free time in between all your activities, but I wanted to make sure that everyone was doing okay with their tax filing before the deadline at the end of April. If you need any support or guidance please reach out to me, I would be happy to help.

Given the Toronto Maple Leafs are playing the Boston Bruins again, a lot of fans are counting them out. But really I would think that is a good situation for the Leafs as being discounted comes with less pressure so now they can go out and focus on their job and the Bruins have more to lose. As for the Toronto Raptors, they are expected to make it to the conference finals this year.

Investment markets continue to roll in 2019, making the pain felt in the later half of 2018 seem like a distant memory. I should remind you that given the rise in stock prices in Canada and the US, future expectations come down in tandem. So don’t expect your returns in the first three months of 2019 to continue in linear fashion straight up.

Have a wonderful April 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: *Private School Education: Smart Strategies to Finance the Cost*
- Market Performance Review: *March 2019*
- Chart of the Month: *US City Home Price Performance*
- Article of the Month: *Real Estate vs. the Stock Market*
- Contact Information
- Disclaimers

Key Dates to Keep in Mind!

- 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:
“*Private School Education: Smart Strategies to Finance the Cost*”

The cost to send your child or children to private school can be significant barrier for many families. What’s worse is that private school tuition does not receive any preferred tax treatment. So in many circumstances, the pre-tax cost of tuition for a family can be double the sticker price of tuition (ie. $1 of tuition after-tax is equivalent to $2 of tuition pre-tax at a 50% marginal tax rate). Private school tuition costs range by institution. If we pick one prestigious school Upper Canada College (UCC), the annual tuition is ~$31,000 (excluding the one-time enrollment fee of $8,500). So using our example, on a pre-tax basis, the tuition cost is close to $62,000.

There is no way to avoid paying the after-tax cost of private school tuition of $31,000. But there is a way to reduce the pre-tax cost of tuition to a dollar for dollar basis (ie. making the pre-tax cost equal to tuition or $31,000, in this case).

There is some initial setup and administration that needs to be considered with this strategy, but looking solely at return, the benefits can be significant. Here’s how the strategy works (for this example we will use a portfolio lump sum investment of $620,000):

- With money that is held outside of your RRSP and TFSA (ie. Non-Registered funds that could be from an inheritance, house sale, wind-fall or savings), the parent’s can loan the money to a newly established Family Trust for their children.
- Each year the Trust will pay a prescribed rate to the parent’s of ~2% (current rate) for the loan, which the parent’s would pay tax on, but would be deductible to the Trust (since the loan would be used for investment purposes).
- The Trust would then invest the loan into investments (let’s say a pool of dividend paying securities that yield 5%).
- Each year, (assuming that the investments maintain their loan value) the income distributed would be dividend income, for a total of ~$31,000 in dividend income at year end.
- The Trust would be taxed at the highest marginal tax rate each year, so the Trust would want to pay out all the dividend income (ie. $31,000) to the beneficiary each year.
- Every child or grandchild in Canada who has no other income can earn up to a certain amount of investment income tax-free each year. So in that case, since the $31,000 is all dividend income, the tax paid by the child would be $0.

Therefore, instead of having to generate $62,000 of pre-tax income to pay for private school tuition costs, parents can provide $31,000 from the Family Trust.

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

Market Performance Review: *March 2019*

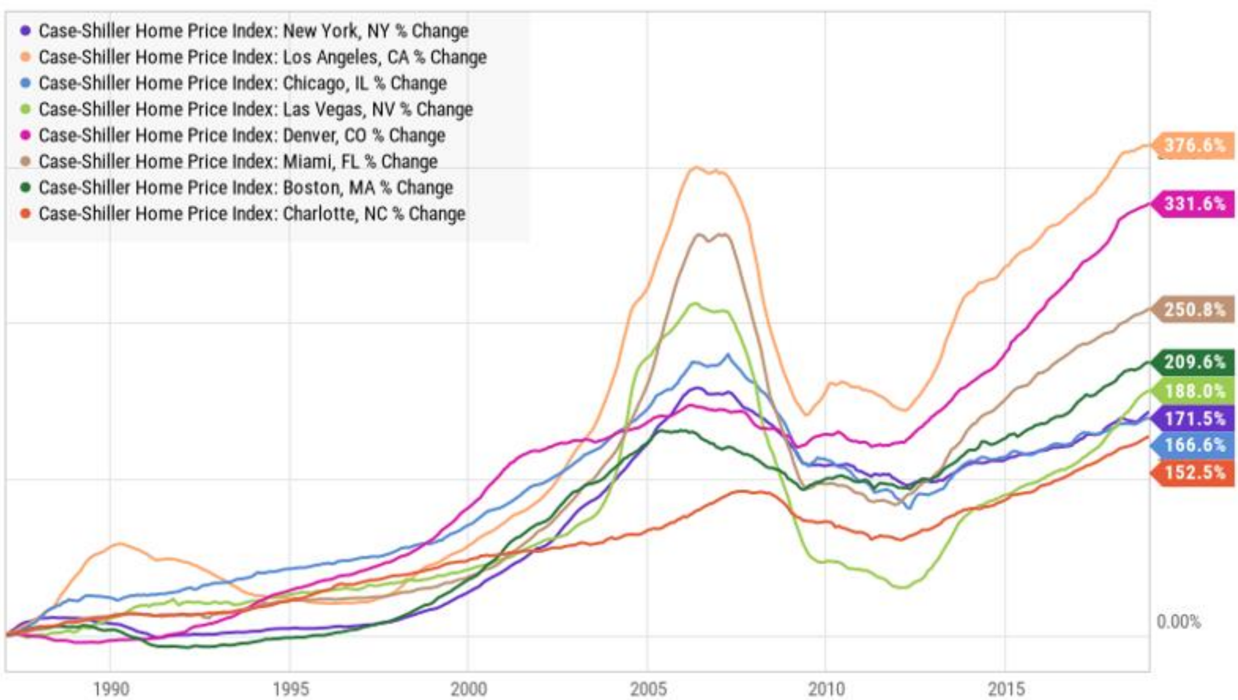
Adam's Comment: *Investment markets were positive across the board in March, continuing the strong performance seen in the first three months of 2019. US stocks and bonds were the best performing asset class, with help from a strong US dollar. On a currency adjusted basis, Canadian and US stocks are in a dead heat so far in 2019. A surprise to many investors has been the performance of the bond market, where long duration bonds have done surprisingly well as central banks in Canada and the US put their interest rate increases on hold.*

Market	March Return %	2019 Year To Date Return %	5 year Annualized Return %	10 year Annualized Return %
Canadian Equity (S&P/TSX Composite Index)	1.01	13.29	5.44	9.49
US Equity (S&P 500 Index)	3.44	11.32	15.19	16.59
International Equity (MSCI EAFE Index)	2.22	7.87	6.79	10.10
Canadian Fixed Income (FTSE TMX Canada Universe Bond Index)	2.35	3.91	3.77	4.41
US Fixed Income (Barclays Capital U.S. Bond Universe Treasury Index)	3.41	0.02	5.89	2.91
Currency Exchange Rate **(CAD$ in USD$)**	-1.45	2.09	-3.72	-0.58

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

Chart of the Month:
“US City Home Price Performance”

Adam’s Comment: *If you have ever wondered about moving south of the border, you may have pictured yourself living in a city with sunny weather year round or ski hills a short commute away. Personal utility aside, from a purely investment point of view, your returns on your home would have profited the most in Los Angeles and Denver, over the last 20 years.*



Published by: Ritholtz Wealth Management. Ben Carlson. A Wealth of Common Sense. www.awealthofcommonsense.com.

Article of the Month:
*“*Real Estate vs. The Stock Market*”*

Adam’s Comment: *Real estate has undoubtedly been a great investment for homeowners in the Greater Toronto Area over the last 20 years. But it is important when comparing real estate returns to other assets that they are on the same playing field. This article, which is based on US data, tries to correct the common misconceptions.*

Home ownership is often called both the American Dream and the biggest investment of your life. It’s debatable whether a house is truly an investment or not, especially when we’re talking about your primary residence. Whether it’s an investment or not, house prices do change over time and the equity you build can be impacted by those price movements. So it makes sense to understand what the potential price moves could be over the long haul.
A group of researchers from the San Francisco Fed put out a piece this month that found from 1870-2015, worldwide housing returns were 6.9% after inflation, versus 6.7% for the stock market. Those were global numbers. In the U.S., stocks beat real estate 8.5% to 6.1% in real terms.

The authors were comparing the entire global data set of homes in existence. To suggest their data should lead you to conclude that owning your own home is as good of a bet as investing in the overall stock market would be like looking at the overarching history of stock market returns only to conclude that buying a single company could give you a similar outcome. In no way does owning one, two, or even ten homes give you broad enough diversification in residential real estate to make an apt comparison to the overall market.

Comparing real estate to the stock market or bonds or any traditional asset class is difficult because there are so many other variables involved in real estate.

There are taxes and costs involved just like there are in the stock market, but then you have to consider the leverage involved, the cost of borrowing, the length of time in the home, the imputed rent, the psychic income from home ownership and the fact that you have to live *somewhere.* Unless you’re buying houses for the rental income, you have to either buy or rent a place to live. That means housing is a form of consumption. Investment, on the other hand, is a form of *delayed* consumption. I can understand comparing publicly-traded REITs to the stock market because it’s much more of an apples-to-apples comparison. I would even accept a comparison to rental properties or commercial real estate investments.
But comparing your home as an investment to the stock market makes little sense.

I’m not saying people shouldn’t invest in real estate. Your home should certainly play a role in your financial plan but it shouldn’t be the entire plan.

Published by: Ben Carlson, A Wealth of Common Sense at www.awealthofcommonsense.com

Contact Information

Manulife Securities

Address: 300 The East Mall Suite 306
Toronto, Ontario, Canada
M9B 6B7

Phone: 416-901-6500

Toll-Free: 1-888-220-2722

Fax: 416-901-9600

Email: Adam.McHenry@manulifesecurities.ca

Website: www.adammchenry.com

Disclaimers

Manulife Securities and the block design are registered service marks and trade marks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Securities Incorporated / Manulife Securities Insurance Inc.

Manulife Securities Incorporated is a Member of the Canadian Investor Protection Fund

The opinions expressed are those of the author and may not necessarily reflect those of Manulife Securities Incorporated and/or Manulife Securities Insurance Inc.

This publication contains opinions of the writer and may not reflect opinions of Manulife Securities Incorporated and/or Manulife Securities Insurance Inc. The information contained herein was obtained from sources believed to be reliable, but no representation, or warranty, express or implied, is made by the writer or Manulife Securities Incorporated and/or Manulife Securities Insurance Inc. or any other person as to its accuracy, completeness or correctness. This publication is not an offer to sell or a solicitation of an offer to buy any of the securities. The securities discussed in this publication may not be eligible for sale in some jurisdictions. If you are not a Canadian resident, this report should not have been delivered to you. This publication is not meant to provide legal or account advice. As each situation is different you should consult your own professional Advisors for advice based on your specific circumstances.

This material is not to be construed as an offer or solicitation. The securities mentioned may not necessarily be considered suitable investments for all clients. Contact your Investment Advisor to discuss your individual investment needs.

Manulife Securities Incorporated and/or Manulife Securities Insurance Inc. is committed to protecting your privacy and the confidentiality of your personal information. A copy of our privacy policy is available upon request. If you have any questions about this policy, please call us at 1-800-991-2121.

Manulife Securities Incorporated is registered as an Investment Dealer, or its equivalent, with the provincial securities commissions and as such our Advisors are entitled to sell mutual funds, stocks, bonds and other securities as permitted under our registration. They may also be able to provide other services or products to you through their own business. As a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), Manulife Securities Incorporated is obligated to disclose to you that you may be dealing with companies other than Manulife Securities Incorporated when purchasing services or products from your Associate (remuneration to your Associate may also come from various sources depending on the services or products purchased). For example, your Associate may offer any one or more of the following through a separate business, which would not be the responsibility of Manulife Securities Incorporated:

- ** Insurance: Life, Accident, Sickness, Disability, General.*

Please be sure that you have a clear understanding of which company you are dealing with for each of your services and products. Your Associate would be happy to provide any clarification you require.

The commentary in this publication is for general information only and should not be considered investment or tax advice to any party. Individuals should seek the advice of professionals to ensure that any action taken with respect to this information is appropriate to their specific situation. Manulife, the Block Design, the Four Cubes Design and Strong Reliable Trustworthy Forward-thinking are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

Stocks, bonds, and mutual funds are offered through Manulife Securities Incorporated. Insurance products and services are offered through Manulife Securities Insurance Inc. Banking products and services are offered through referral.

Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.