

# Monthly Client Newsletter

*June 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,*

*The summer of 2019 has started out colder and wetter than we would have liked.*

*On the vacation side of things, Katherine and I packed up and took the kids to Disney World in Orlando for a week. The kids had a great time and we will definitely have to return to the "most magical place on earth"!*

*On the business front, markets struggled in May as slowing economic growth and political posturing has slammed the breaks on a strong first half of 2019. Markets seem to be settling in nicely in the latter stages of the cycle, where emphasis should be placed more on defensive, predictable sectors and business models. That is where we have focused our portfolios and where I recommend you should as well.*

*Have a wonderful June 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: *Protecting Your Family – Beware of Bank Sold Mortgage Life Insurance*  
*Market Performance Review: May 2019*
- Chart of the Month: *Mortality - Perception versus Reality*
- Article of the Month: *How Much House Can I Afford?*
- Contact Information
- Disclaimers

# Key Dates to Keep in Mind!

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- 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
- TFSA contribution room available = Beginning of January
- Installment payment date deadlines = Mid March, June, September and December.
- Individual tax filing deadline = End of April.

## Idea Corner:

# ***Protecting Your Family – Beware of Bank Sold Mortgage Life Insurance***

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Buying a home is often the single largest purchase people make in their lifetime. With the value of an average home in the Greater Toronto Area hovering around \$1 million, families must rely on financing a large proportion of their home through the use of a mortgage. In coordination with securing mortgage financing, families will typically acquire life insurance to provide peace of mind if a loved one should pass away during the term of the mortgage. Life insurance coverage can protect a family from servicing their mortgage on one income or from forcing the sale of their home to pay off their mortgage debt. These are good reasons why mortgage life insurance protection is a smart purchase. So, what could you be missing?

Let me share with you a very troubling story about a mortgage client from Fort McMurray, Alberta who had their mortgage with one of Canada's big banks. The client unfortunately died during the tragic wildfires in 2016 and the client's home was completely destroyed in the fire. The remaining family was left with the outstanding mortgage on the home that was no longer there. The family filed an insurance claim with the bank that the mortgage and mortgage life insurance had been placed. To the family's surprise, besides providing the death certificate, the bank requested health records for the deceased family member. Why would they ask for health records for someone who has already died? The bank was completing post claim underwriting and were looking for reasons to disqualify the deceased from their insurance claim. The bank did indeed find a discrepancy in the mortgage application and denied the insurance benefit. Therefore, the family was left to pay off a mortgage on a home that no longer existed and that they could not afford, given the deceased was the main breadwinner for the family. As a result, the family had to file for bankruptcy and the bank seized the remaining land.

This type of unfortunate situation is more common than you might think. Family's pay into mortgage insurance policies for years only to find out that they were not eligible to begin with and by the time they find out, it is too late to do anything about it.

So, how can you avoid this type of situation. Well to start, I recommend not purchasing your life insurance coverage through the bank. Many families believe that they receive better terms on their mortgage because they take out mortgage insurance at the bank, but this is not the case as rates are preset based on the client's age. Also, families may believe that the no medical exam mortgage insurance is easy and convenient, but that convenience might come at a high cost to your family in the future.

Please take the time to compare the difference between a Private Insurance Policy versus Bank Sold Mortgage Insurance below: *(Continued on the next page)*

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

# Idea Corner:

## ***Protecting Your Family – Beware of Bank Sold Mortgage Life Insurance (Cont...)***

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	<b>Private Insurance Policy</b>	<b>Bank Sold Mortgage Insurance Policy</b>
<b>Policy Owner</b>	You	Bank
<b>Death Benefit Value \$</b>	Your Choice, you can take out as much or as little as you choose to meet your unique needs (fixed benefit)	No Choice, mortgage covered only and death benefit declines as mortgage principal is repaid (depreciating benefit)
<b>Term</b>	Your Choice, you can have a maturity that matches your mortgage term or differs from the term	No Choice, mortgage term matches the amortization of your mortgage
<b>Cost of Insurance (Premiums \$) (*based on average rates*)</b>	Cheaper	Expensive
<b>Underwriting</b>	Pre-Claim Underwriting, meaning you will know in advance if you have insurance coverage because medical examination is completed upfront	Post-Claim Underwriting, meaning you will NOT know in advance if you have insurance coverage. Your family will find out if you were covered when they file the insurance claim and the bank completes their investigation

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

# Market Performance Review: May 2019

**Adam's Comment:** It was a tough month of May, as equity markets suffered the first negative month of the year. As they say "Sell in May and Go Away!" would have been a wise move if you had a crystal ball. Bond markets continue to defy the odds as interest rates continue to fall. Currently the total return on a 30 Government of Canada bond in 2019 is approximately +11%!

Market	May Return %	2019 Year To Date Return %	5 year Annualized Return %	10 year Annualized Return %
<b>Canadian Equity</b> (S&P/TSX Composite Index)	-3.06	13.36	4.98	4.58
<b>US Equity</b> (S&P 500 Index)	-5.63	9.80	14.62	16.41
<b>International Equity</b> (MSCI EAFE Index)	-3.92	7.14	6.36	9.03
<b>Canadian Fixed Income</b> (FTSE TMX Canada Universe Bond Index)	1.69	5.56	3.74	4.58
<b>US Fixed Income</b> (Barclays Capital U.S. Bond Universe Treasury Index)	3.14	3.34	6.68	5.05
<b>Currency Exchange Rate</b> (CAD\$ in USD\$)	-0.77	0.85	-4.33	-2.12

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

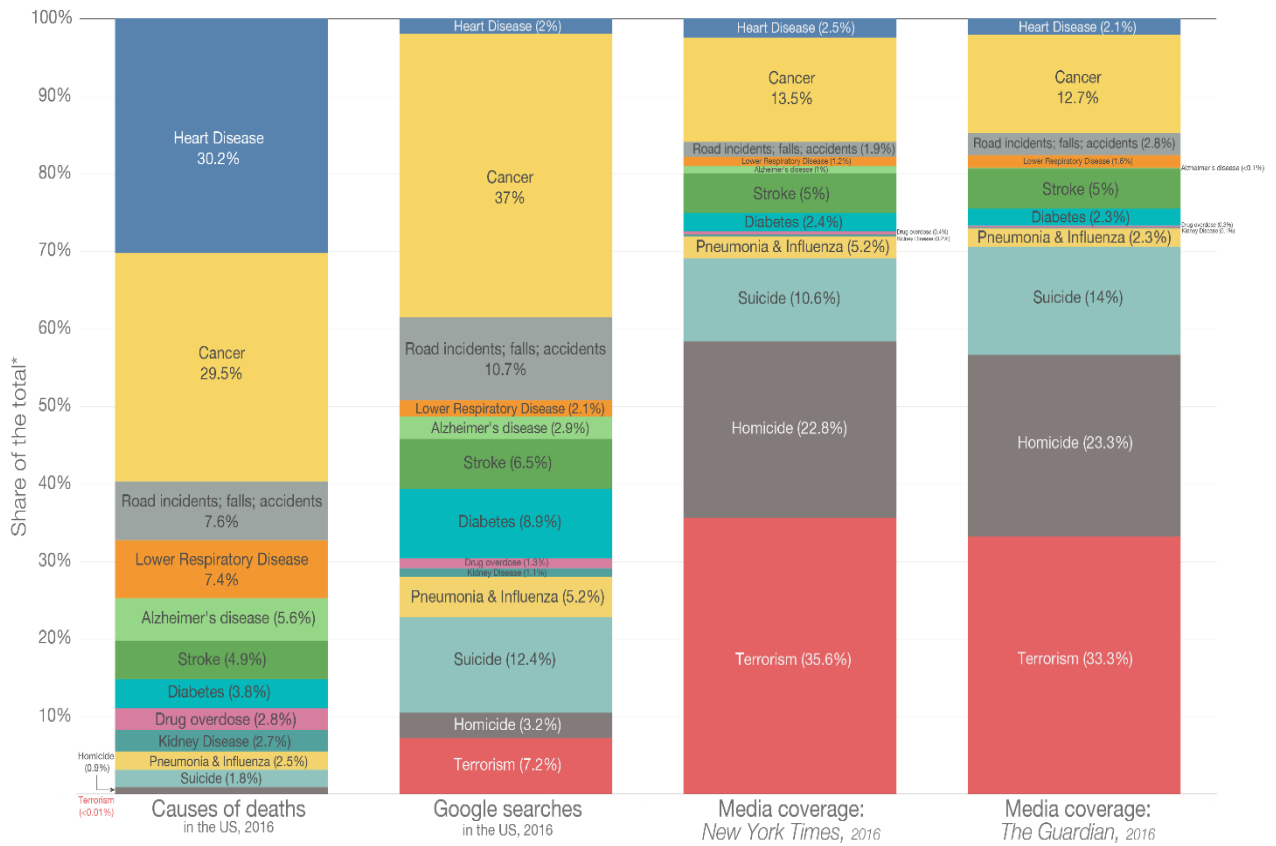
# Chart of the Month: Mortality - Perception versus Reality

**Adam's Comment:** Cancer and Heart Disease are responsible for 60% of deaths in the US, while media coverage makes it seem like 60% of deaths are from homicide and terrorism. In other words, there is such thing as "Fake News" after all!

## Causes of death in the US



What Americans die from, what they search on Google, and what the media reports on



\*This represents each causes's share of the top ten causes of death in the US plus homicides, drug overdoses and terrorism. Collectively these 13 causes accounted for approximately 88% of deaths in the US in 2016. Full breakdown of causes of death can be found at the CDC's WONDER public health database: <https://wonder.cdc.gov/>

Based on data from Shen et al (2018) - Death: reality vs. reported. All data available at: <https://owenshen24.github.io/charting-death>  
 All data refers to 2016.  
 Not all causes of death are shown: Shown is the data on the ten leading causes of death in the United States plus drug overdoses, homicides and terrorism.  
 All values are normalized to 100% so they represent their relative share of the top causes, rather than absolute counts (e.g. 'deaths' represents each causes' share of deaths within the 13 categories shown rather than total deaths). The causes of death shown here account for approximately 88% of total deaths in the United States in 2016.  
 This is a visualization from OurWorldinData.org, where you find data and research on how the world is changing. Licensed under CC-BY by the authors Hannah Ritchie and Max Roser.

# Article of the Month: *How Much House Can I Afford?*

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## **First: Determine how much house**

Using a factor of your household income, you can quickly gauge how much house you can afford. The total house value should be a maximum of 3 to 5 times your total household income, depending on how much debt you currently have. If you are completely debt free, congratulations—you can consider houses that are up to 5 times your total household income. If more than 20% of your monthly income goes to pay down existing debts in the household, dial the purchase price to 3 times.

## **Second: Save at least your annual salary before taking any action**

Keep saving until you have saved an amount equal to your annual income. This should cover your down payment and the other expenses associated with buying a house. If you purchase a home that is 4 times your annual income, 1 times your income is 25% of the value of the home, accounting for a 20% down payment and other home-buying expenses. Consider saving this amount first before taking any action.

## **The preapproval process**

Once you've saved enough for a down payment and determined your home-buying budget, it's time to check your credit before approaching a lender for a preapproval. This is an important step, because you don't want to have any unwanted surprises from the lender after you find a house you want to buy. It's always good to know whether your current credit qualifies for a good mortgage beforehand. The lender will evaluate your savings, income, and credit score to roughly determine how much you can borrow.

## **Other costs to think about**

The cost of a home is more than just a down payment and monthly mortgage payments. During the home-buying process, you'll need an appraisal to verify that the home is worth the price, and you'll be responsible for closing costs, which may amount to several thousand dollars. Ongoing costs include homeowners insurance, property taxes, and any homeowners association or condo fees.

New homeowners are often surprised by the unexpected costs that come up in the first few months. You want to make sure you have some savings set aside to take care of those expenses.



# Contact Information

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