Money Ideas

Compliments of Monteith Financial Group

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Priscilla Monteith, CPA, CFP, EPC
Financial Planner
priscilla.monteith@manulifesecurities.ca

Stephanie Piroli, BAccS, CPA, CFP, EPC
Financial Planner
spiroli@manulifesecurities.ca

Monteith Financial GROUP
PLAN TO SUCCEED

3228 South Service Rd., Unit 104
Burlington, ON L7N 3H8
Telephone: (905) 572-7526
Fax: (905) 635-2466
www.monteithfinancial.com

In the autumn, life seems to speed up as work and family life get busy again. All these plans may remind you of some financial goals as well. Maybe it's investing for the kids' education, a family cottage or an enjoyable retirement. Whatever your goals, we are here to help.

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INVESTING ISSUES

Should all the talk on trade affect your investing?

Trade, tariffs and treaties have dominated the financial news this year – and much of the political news too. Trade disputes between the U.S. and China, the Brexit negotiations between the U.K. and the E.U., and the NAFTA treaty talks all form part of this trend. But should investors be worried about what it means for them?

Investor sentiment. Sentiment is one of the quickest ways that economic and political changes can affect the markets and asset prices. Uncertainty or pessimism amongst investors can lead them to exit the market, move to "safer" or more defensive asset classes or, move away from a sector or industry that concerns them.

While trade concerns have depressed investor sentiment this year, it's important to note that investor sentiment can be fickle and turn quickly – it is the short-term noise that is best tuned out of a long-term investing view.

Investment plans. When uncertainty is present, many companies may hold off on investing in expansions, new capabilities or facilities until the future is clearer. This has been widely reported in the U.K., where many firms have indicated that plans have been put on hold until they know the shape of post-Brexit trade agreements.

Structural changes. Changes to the terms of trade between countries and trading blocs can lead to changes in the amount and patterns of economic activity in those areas. The supply chains of some industries may be reconfigured. Some sectors may prosper under new rules; others may struggle.

Structural changes can take years, even decades, to become clear. Investors should be careful about making rash investment decisions based on these long-term, unpredictable changes.

As with many items in the news, investors are best advised to tune out the short-term noise and emotion. A disciplined investment plan, based on your goals and your time horizon, remains the best guide to good investment decision making. Let's talk if you feel that it's time to review your situation.

As the year winds down, these deadlines approach

The final months of the year contain some important deadlines for investors and taxpayers. Here are some things to consider:

Charitable donations. December 31 is the deadline for making a charitable donation that can be claimed for the 2018 tax year.

Tax deductions and credits. December 31 is also the final payment date in order to receive a 2018 tax deduction or credit for expenses such as childcare, medical and tuition tax credits.

Tax-loss selling. You have until late December to sell a security that settles in 2018 – December 15 is the expected last buy or sell date for Canadian securities to settle in calendar year 2018, based on trade date plus two business days.

However, it is recommended to review your non-registered investment portfolio earlier to consider the sale of securities with accrued losses before the end of the year to offset capital gains realized in the year, or in the three previous taxation years if net capital loss was created in the current year.

RRSP conversion. If you turned or are turning 71 this year, December 27 is the deadline for collapsing your Registered Retirement Savings Plan (RRSP). However, planning for this important financial change should be done well in advance of the December deadline.

TFSA withdrawal. Strictly speaking this is not a deadline, but if you're planning a withdrawal from your Tax-Free Savings Account (TFSA), consider making the withdrawal by December 31 instead of waiting until the new year. That way, the amount withdrawn in 2018 will be added back to your available TFSA contribution room on January 1, 2019.

Let's talk about any changes you need to make to your finances before year end.

Dividend-paying investments may be worth another look

Investing for dividends has appeal for lots of different kinds of investors. Income investors appreciate the predictable flow of income. Conservative investors view dividends as a proxy for well-run, high-quality companies. Hard-nosed investors believe that the imposed discipline of dividend payouts makes for efficient use of capital.

Is a focus on dividends a way to find the appropriate investments for you? Let's take a closer look.

What are dividends? Dividends are a distribution of a company's earnings to shareholders and are usually accrued in one of two forms – cash or stock. Each organization's board of directors determines the actual dividend amount that the firm will pay out. Most cash dividends are paid on a quarterly basis. Meanwhile, stock dividends are generally paid at infrequent intervals.

Solid companies. Companies that pay dividends must have actual earnings and cash flows to fund these cash distributions to shareholders.

A company that pays a dividend has less retained earnings to fund organic or inorganic growth opportunities. This means that the company's management team must be selective with its financial decisions, leading - in theory - to better decisions over the long run.

A long history of steadily rising dividend payments indicates that a company's management is shareholder-friendly.

Dependability. Dividends from strong, established companies can provide steady income. Although quarterly payments are not guaranteed, dividend-paying investments offer the potential for a steady income stream.

Tax considerations. You have the potential to pay less tax on your earnings. Outside of registered plans, Canadian dividends qualify for the dividend tax credit. As a result, dividend income is taxed at a lower rate than interest income.

Downside protection. If you're concerned about volatility in the stock market, dividend stocks provide some protection. The dividend softens the effect of any decline in the price of the stock.

Income or growth? To select the dividend investment that's right for you, we need to start by reviewing your goal for the investment. Is it primarily to provide income? Are you looking for additional growth? Perhaps you need more diversification?

Watch fund names. When using mutual funds to invest for dividends, it's important not just to rely on the name. Many investors are surprised to learn that dividend funds can vary widely in both equity content and

risk profile. Indeed, many of these funds are not structured solely to produce income, but rather to focus on growth.

To further complicate things, there are plenty of dividend-style funds out there, holding lots of dividend-producing stocks, but without the word "dividend" in their names.

As with all investment decisions, your specific objectives will help us pinpoint the dividend-producing investments that best suit your objectives. If you'd like to understand how dividend investing is aligned with your goals and explore the opportunities, let's talk.

Canadians staying put after retiring, says poll

We've all heard the friend or colleague bemoaning their lack of retirement savings saying, "My home is my RRSP [Registered Retirement Savings Plan]." A new poll indicates that, for most Canadians actually facing retirement, that's just not true.

The poll by Ipsos, released in July 2018, found that 93% of Canadians aged 65 and over feel it's important to stay in their current home.

According to these homeowners, staying at home during retirement is about maintaining a sense of independence during their retirement years.

Fifty-one per cent say they want to stay close to family, friends or their community, while 40% say emotional attachments and memories mean it's important to remain in their current home.

In contrast, it seems the further you are from actually retiring, the more likely you are to imagine moving out upon doing so. Just 68% of those aged 35 to 44 felt the need to stay in their pre-retirement home.

The poll points to the folly of expecting your home's value to provide for you in retirement. Building a realistic retirement savings plan is the best way to ensure you'll have choices about your home when retirement becomes a reality. ◄

Source: ***Ipsos poll for HomeEquity Bank,*** released July 16, 2018.

For the millennial generation, a little knowledge may be a dangerous thing

Despite the less-than-flattering stereotypes, millennials have a lot going for them: they are the most educated and skilled generation in Canadian history. That should set them up for career and life success.

But there's one area where they don't excel, and that may hold them back. They lack sufficient financial knowledge.

According to a PwC study, 24% of millennials have basic financial literacy, and only 8% have high financial literacy.

Why does it matter? According to a BMO report on millennials and financial literacy, this lack of financial savvy means they risk missing opportunities to make the most of the money they have or will earn.

For instance, they may choose the wrong savings vehicles for their goals, miss out on tax-savings strategies or not understand the importance of diversification in their overall portfolio.

But they have made a start. The BMO report notes that 72% of millennials are saving for a financial goal.

And before the rest of us get too smug, it's worth noting that last year, the Financial Consumer Agency of Canada (FCAC) found that many Canadians still don't understand some basic financial facts.

Seems the need for sound financial advice is as strong as ever. ◄

Sources:
1. ***Millennials & Financial Literacy – The Struggle with Personal Finance,*** pwc, 2015.
2. ***Generation Why? BMO Wealth Management Report,*** Canadian Edition, July 2017.
3. Financial Consumer Agency of Canada. ***Financial Consumers' Rights and Responsibilities – 2016 Final Report,*** conducted by Ipsos, February 2017.

Everyone's a winner, and a loser. The lesson? Diversify

At any given time, or any year, or any phase of the market, one asset class gets all the attention. Tech stocks one year, natural resources the next.

Investors can be tempted to chase after those outperformers, hoping to maximize their returns. Of course, none of us can predict the future or who will be next year's star.

Nothing illustrates this better than the 'periodic table of asset performance' which documents the top performing asset classes over a period of years.

In this example, Canadian Bonds were the top performer in 2011, but a laggard in the years 2016 and 2017. Meanwhile, Emerging Markets had a difficult year in 2011, but shone as the best performer last year.

A well-diversified investor is best placed to always take advantage of the assets having their day in the sun but also have some protection against this year's loser.

2011	2012	2013	2014	2015	2016	2017
9.7%	16.4%	48.1%	23.9%	21.6%	31.9%	28.7%
4.6%	15.3%	41.3%	15.0%	19.5%	21.1%	17.4%
-1.8%	14.0%	35.9%	14.3%	19.5%	17.1%	15.0%
-2.7%	13.8%	31.6%	10.6%	14.6%	8.1%	13.8%
-8.7%	13.4%	13.0%	8.8%	3.5%	7.7%	9.1%
-9.6%	7.2%	4.7%	7.0%	2.4%	4.4%	7.1%
-14.2%	3.6%	4.3%	4.1%	-8.3%	1.7%	4.0%
-16.2%	-0.5%	-1.2%	-2.8%	-16.3%	-2.0%	2.5%

Canadian Bonds · Canadian Small Cap · Foreign Equity · U.S. Small Cap · Canadian Equity · Emerging Markets · Global Equity · U.S. Equity

Sources: Fidelity Management & Research Company, Datastream. Total returns in CDN$. Note: It is not possible to invest directly in an index. Asset class performance represented by: foreign equity: MSCI EAFE Index; global equities: MSCI World index; emerging markets equity: MSCI Emerging Markets Investable Market Index ; U.S. equity: S&P 500 Index; U.S. Small Cap: Russell 2000 Index; Canadian equities: S&P/TSX Composite Index; Canadian small cap: BMO Small Cap Blended Weighted Index (Price Return); Canadian bonds: FTSE TMX Canada Universe Bond Index. As at December 31, 2017.

INVESTING STRATEGY

Is it time to face the impact of these life changes?

It may sound strange, but investing isn't about money at all. It's about life. It means having the financial resources to make the most of life's possibilities and the financial security to deal with life's challenges. So when life changes, so should your financial plans. Consider these life changes:

Starting a family. When a couple decides to have children, they want to be the best parents possible.

Of all the resources couples have available to them as they prepare to become parents – family, mentors, friends – they should also remember their advisor.

When children become a part of life's plan, financial goals change as couples prepare to be responsible parents. For example, how much should they be contributing to various registered plans, such as a Tax-Free Savings Account (TFSA) and a Registered Retirement Savings Plan (RRSP)? If they haven't yet bought a home, should they use the Home Buyers' Plan to withdraw up to $25,000 from each of their RRSPs for a down payment?

A budget will help plan a couple's spending and investing and go a long way to bolstering their confidence as parents.

Losing a job. Another life event many of us are all too familiar with these days is losing a job.

Having your finances in order can help you move forward, establish a sense of control and help you look to the future with hope. Some of the financial issues to consider include:

- Reviewing the package from the employer and its potential income tax implications.
- Considering income needs for the next few months and deciding whether the severance will be sufficient.
- Determining the most tax-effective way to draw income from an investment portfolio if the severance is insufficient.
- Revisiting asset allocation in light of the new circumstances.

Preparing for retirement. A transition from a full-time career to retirement has significant personal, emotional, and financial implications. Retirees and upcoming retirees need to prepare themselves psychologically and emotionally for this transition.

Some of the important financial considerations that can provide a foundation for a happy retirement include:

- Determining what your sources of income will be after retirement and how much you'll need to live the lifestyle you want.
- Deciding whether to convert your RRSPs to a Registered Retirement Income Fund (RRIF) when you retire, to wait until the end of the year you turn 71, or to choose a date somewhere in between.
- Rebalancing your portfolio to ensure that the investments you have can provide the income you need to live on today while providing the growth you need to protect you from inflation in the future.

Your investment plans and portfolio are at the service of your life goals, and investment advice can be essential to using them well. Anytime you experience or anticipate a change in your circumstances or goals, let's talk. ◀

INCOME

Safety first for these income-focused funds

If income is a requirement of your portfolio – to supplement earned income or to meet expenses – these types of investment funds can play just such a role:

Mortgage funds. These funds hold Canadian residential and commercial mortgages and are designed to provide a steady stream of income. Traditionally, these funds have invested in high-quality mortgages and have provided low-volatility and good security of capital.

Bond funds. These funds focus on providing a steady stream of income, often along with some possibility of capital gains. Some of the best choices for stability include short-term bond funds and government bond funds.

Monthly income funds. There is no typical monthly income fund. Some hold only fixed-income investments, but others are broadly diversified by asset class, geographic region, and sectors. Investments include government and corporate bonds, Real Estate Investment Trusts (REITs), income trusts, and Canadian, U.S., and global equities. Often, there's a focus on dividend-paying equities.

Balanced funds. Because they invest in both stocks and fixed-income investments, holdings in one asset class can offset volatility in another. The result can be steadier performance than that of funds holding just one type.

It's important not to go overboard on income-producing investments if growth potential is still an investment goal. The balance of security, income, and growth that's right for your risk tolerance and investment goals should drive your choices. Let's talk if your income needs have changed and you feel that it's time to review your situation. ◀