TD Wealth

Straight Forward

Spring 2016

Developing a roadmap for success

Wealth Advisory Services, TD Wealth

Many individuals are often busy with their careers or growing their businesses that they overlook the importance of developing and maintaining a holistic wealth plan. Developing a holistic wealth plan will help you and your family identify long-term goals and outline a roadmap for long-term financial success.

A complete wealth plan can become a family's mission statement for success. A well thought out plan will take into account not just the quantitative factors but also qualitative elements, such as personal goals and dreams. Working towards getting a family to agree on a purpose for their wealth will help define the necessary strategies to create a detailed retirement, education, charitable gifting and legacy plan.

A holistic wealth plan will uncover each person's or family's goals and objectives. What are the cash flow needs of the family now and in the future? What is their risk tolerance and what are their investment goals? What does retirement look like? What are the family's estate planning objectives and what does the succession plan for their business look like? These are just some of the issues that can be addressed when developing a holistic wealth plan.

Here are some items to take into consideration when working with your advisors to put together a holistic wealth plan:

1) Identify and establish long-term and short-term goals

The first step to creating a great holistic wealth plan is to identify short-term (0-5+ years) and long-term goals (10+ years). Short-term goals include items like paying off mortgages, education funding, purchasing a vacation property, and expanding a business. Long-term goals may include objectives like retirement, transitioning/selling a business and leaving an estate/legacy. Identifying short-term and long-term goals that are important to you and your family will help your advisors put together a plan which supports you with achieving these goals in a manner that aligns with your values while potentially achieving tax and estate planning effectiveness.

2) Put together a personal net worth and cash flow statement

The next step is to prepare a personal net worth statement (or personal balance sheet) and a cash flow statement. A personal net worth statement should list and identify all personal assets (i.e. businesses, investment portfolios, real estate assets, retirement accounts and pensions) and liabilities (i.e. mortgages, debts and loans).

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TD Economics

Oil prices remain a wild card for Canada's outlook

Derek Burleton, Vice President and Deputy Chief Economist, TD Economics

Fears of a hard landing in China, growing worries that the U.S. economy would fall into recession and the low oil price environment had all contributed to wild swings in financial markets to start the year. While elevated volatility is likely to persist, economic developments released over the past month have provided reassurance that these fears were overblown. China, although slowing, is holding up better than markets anticipated, and the economy appears on track for a soft landing.

The U.S.,which has been a relatively bright spot around the globe, will be key to shoring up confidence in global markets. While external headwinds remain a key risk and will weigh on growth this year, the U.S. domestic economy has enough momentum to keep growth on track. As a result, the U.S. Federal Reserve (Fed) is likely to continue its very gradual tightening cycle this year, with two hikes in June and December.

Oil prices are perhaps the biggest wild card given the resilience of global production in the face of the weak pricing environment. However, we do expect to see some further improvement by year-end. Extreme market pessimism that had weighed heavily on oil prices in recent months has been subsiding, which has helped to revive some demand for riskier assets such as commodities, as well as pull the U.S. dollar off its recent highs—another plus for oil and commodity prices.

However, the low oil price environment has largely been a supply side story, and prices will remain vulnerable to renewed bouts of downward pressure until the market is more balanced. We feel that a combination of rising global consumption and reduced share production will significantly bite into current daily excess supply of oil, estimated at around 1.5 million barrels per day. This should help set the stage for oil prices to return to around US$50-55 per barrel by year end.

While beneficial to some parts of the economy, low oil prices have been a net negative for Canada. The largest impact is on the income side, with producer and government (through royalties) revenues taking a hit, leading to a sharp contraction in investment. Indeed, investment in the oil and gas sector was down by about 30-40% last year and, despite the nascent recovery in prices, is likely to fall by another 20-30% this year. As a result, non-residential construction will be a drag on overall growth again this year.

Some offset should come from the government sector. While we still await release of the 2016 federal budget, the Liberal election platform included a sizable infrastructure program that should give domestic consumption a boost. The bulk of the impact from government stimulus, however, will show up in 2017 rather than this year.

Within the Canadian household sector, the outlook is mixed. Consumer spending is poised to provide some modest support despite high debt levels. The housing market has started the year on fire, reflecting sizzling price growth in Toronto and Vancouver. Recent changes to mortgage insurance and an upward creep in longer-term interest rates is likely to lead to a moderation in price growth to mid-single digit territory.

With ongoing headwinds facing Canada's domestic economy, it is clear that the Bank of Canada will not be following in the Fed's footsteps. That said, the risks of another rate cut have dissipated as oil prices appear to have found a bottom. Given that the central bank held the line in January despite downgrading its outlook, it appears as though the bar is set much higher in terms of what it will take to move rates lower. And given our forecast for the Canadian economy to remain on an upward growth track, albeit slowly, we suspect that the central bank will remain on hold through the end of 2017.

In recent weeks, the Canadian dollar has rebounded strongly, in line with global risk sentiment. Echoing our view on oil prices, the loonie's recent rally may have gone too far, too fast. The divergence in economic activity and monetary policies in Canada and the U.S., combined with continued volatility in oil prices, will remain constraining factors getting in the way of sustained loonie strength. We see the Canadian dollar ending the year at around US$0.75.

While making imports more costly, certain sectors will be able to reap some benefits of the low loonie. Commodity producers, manufacturers and tourism providers receive a benefit, with the latter two areas expected to experience stronger showings in 2016.

While economic growth in Canada is expected to chug along, it will be a very regional story. Much like the past year, Ontario, B.C., and Quebec are likely to be the top performers given that they have large manufacturing and export-oriented sectors. Meanwhile, commodity-rich provinces will likely continue to struggle, with Alberta, and Newfoundland and Labrador likely to record a second consecutive contraction in 2016, while Saskatchewan is expected to eke out slight growth. Similarly, the employment and housing markets in these regions could be hit quite hard, while fairing much better in the non-energy producing provinces.

Bottom Line

While the generally elevated pessimism to start the year has eased, the Canadian economy continues to face a challenging road ahead. Investment will remain a weak spot, offset by modest but steady growth in consumer spending, and an uptick in manufacturing and non-energy exports. Government spending is also expected to make a solid contribution in 2017. These factors combined should keep Canada in positive growth territory, keeping the Bank of Canada on the sidelines throughout this year and next.

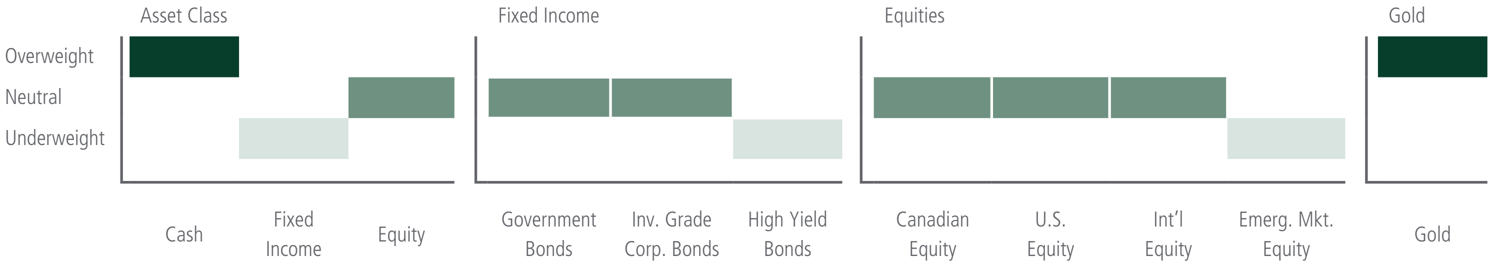
The information contained herein is as at March 11, 2016.

TD Wealth Asset Allocation Committee

Market outlook

Bruce Cooper, Chief Investment Officer, TD Asset Management and Senior Vice President, TD Bank Group

Asset Allocation Summary



We have been forecasting an environment of muted returns with episodes of increased volatility for some time, and that continues to be our view. This translates to an expectation of low single-digit returns for bonds and low- to mid-single digit returns for equities.

Risks that may fuel bouts of volatility include elevated debt levels, credit market stress and significant capital outflows from China. Capital outflows may lead to currency weakness and increased concerns about the risk of deflation. We are also watching economic growth closely because further slowing would make it more challenging for companies to grow their earnings—and our return estimates are based on companies being able to grow their earnings at least modestly. Finally, central banks remain accommodative, and investors' belief in the liquidity and support they are providing has sustained asset price growth. However, unorthodox policies, such as quantitative easing, may have reached the point of diminishing returns, and if investors lose confidence in central banks' ability to effect meaningful change, a risk-off sentiment would likely take hold.

In this environment, we remain cautious, and during the quarter we increased our domestic government bond ranking from modest underweight to neutral and our global government bond ranking from maximum underweight to modest underweight. While yields remain very low, government bonds offer diversification benefits and stability to portfolios. We believe gold can also play a role in providing insurance to a portfolio and we recently upgraded gold from neutral to overweight.

While we are cautious, we are not negative. We believe it is crucial for investors to keep a long-term perspective. As such, we maintain our preference for a diversified investment portfolio, including high quality domestic and global dividend paying equities, government and investment grade corporate bonds, a modest allocation to cash and some gold where allowed by investment guidelines.

Equity/Fixed Income Split

We are neutral equities versus bonds. We believe bonds will provide low single-digit returns and equities will provide low- to mid-single digit returns. While bond returns will be modest, they offer diversification, some income and can have an important stabilizing effect on portfolios. In terms of equities, companies reported fourth quarter results during February, and they showed a continuation of 2015's trend toward decelerating earnings growth. With modest earnings growth and valuations already approaching or at fair value, we anticipate that equity returns will be moderate. Although equities are expected to provide slightly higher returns than bonds, we anticipate episodes of high volatility. We continue to prefer high quality dividend paying equities that offer a stable, gradually rising stream of income.

Geographic Split

We maintain our preference for developed markets over emerging markets. Within the emerging markets, valuations are attractive; however, high debt levels, slowing economic growth and weaker commodity prices pose risks.

Corporate/Government Bond Split

We remain overweight cash, which should provide stability in times of increased volatility. During the quarter, we upgraded our domestic government bond holdings from modest underweight to neutral and our global government bond holdings from maximum underweight to modest underweight. Yields remain very low; however, government bonds offer stability and diversification benefits, which should be helpful amid increasing volatility. We maintain our neutral position in corporate bonds.

We remain underweight high yield bonds. Spreads widened notably over 2015, particularly in the energy sector, and the trend continued in the first quarter of 2016. However, we remain concerned about select pockets of stress and believe that default rates may rise, particularly in the commodity space.

Canadian/Foreign Currency Exposure

The Canadian dollar declined significantly versus the U.S. dollar over 2015 as oil prices dropped and central bank policies diverged. The loonie gained back a little of its lost ground in the first quarter of 2016, but broadly we expect it to remain low for an extended period. We believe it will continue to trade in a range around its current level as the Canadian economy shifts away from its reliance on commodity-based exports. If monetary policy in the U.S. continues to diverge from that in Canada, there is potential for further weakening of the Canadian dollar. However, we maintain our neutral weighting, believing the loonie is close to fair value.

Gold can be viewed as a currency alternative and we believe an allocation to gold can provide insurance to a portfolio against the risk of extreme outcomes.

TD Wealth

Developing a roadmap for success (cont'd)

Wealth Advisory Services, TD Wealth

A cash flow statement outlines your annual cash inflows (i.e. salaries, bonuses, rental income, etc.) and outflows (i.e. mortgage payments, annual lifestyle expenses, etc.). As families build their personal balance sheets, they often realize that they have more assets than they previously thought, or perhaps they have assets that they wish to protect (for example, a valuable family heirloom). In addition, preparing a personal net worth statement can help your advisors identify strategies to effectively transition your wealth and minimize future taxes payable.

3) Build your estate plan

While financial goals are important, non-financial goals such as building an estate plan are just as important. Building an estate plan now and aligning your assets with your estate planning goals can create lasting benefits for the people that matter most to you. A detailed estate plan should outline one's wishes and intentions. Having an in-depth discussion with your advisors about your current family situation and your estate planning goals can often lead to effective strategies that can be put in place to help you achieve those goals.

Your TD Wealth advisor ("advisor") can provide an objective perspective and draw upon the expertise of in-house professionals who specialize in estate and trust planning, tax planning, insurance strategies and philanthropy. These specialists have the expertise to address situations that require special attention, such as blended families, beneficiaries with disabilities, cross-border assets, and the succession of your business or the transfer of your family cottage.

4) Have your TD Wealth advisor work with your tax/legal advisors

Once you have your wealth plan in place, it is important to have a discussion with your tax/legal advisors as to the optimal route to take and which strategies are the best given your personal situation. It is also important that your advisor work with your tax/legal advisors during the execution or implementation of your plan, as these strategies often involve transferring assets or changing portfolio mixes to help achieve long-term goals and objectives. Having your advisor work with your tax/legal advisors will help ensure strategies are implemented effectively and efficiently.

5) Revisit your plan

It is important to revisit your wealth plan every 3-5 years or when an important life event occurs (such as marriage, the birth of a child/grandchild, etc.). Reviewing your plan every few years will help you benchmark whether you are on track to fulfill your wealth plan goals or perhaps identify a need to modify the goals you have previously set out to achieve. Your wealth plan should also be reviewed when a significant life even occurs, for example, a second marriage may involve updating your plan to include strategies to ensure children from a first marriage are taken care of when you pass on.

Creating a holistict wealth plan forms the foundation of a successful roadmap for families to achieve their goals and objectives, while outlining ways these goals and objectives can be achieved in an efficient and effective manner. A holistic approach will help provide comprehensive, integrated solutions to you and your heirs, and the matters that mean most to you.

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