

Return On Investment

TD Wealth Private Investment Advice

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In This Issue

Low Interest Rates	2
Words of Wisdom	2
Retirement Planning: Milestones	3
When to Take CPP Benefits	4

Staying Invested

Investor confidence has been shaken after a winter of considerable volatility in the markets. Today, it seems as though every global event is amplified by the media and analyzed for its potential negative effect. It's not surprising that long-term equity investors have been finding it difficult to maintain perspective.

But let's not forget that the challenges we currently face are nothing new. We've experienced economic slowdowns, low oil prices and a low Canadian dollar before. We've also seen significant volatility in the equity markets. In 1987, there was "Black Monday", where the Dow Jones Industrial Average fell almost 23 percent during one day. And volatility also soared during the tech meltdown of 2000-01 and as a result of the financial crisis of 2007-08. What was written in the financial newspapers at the time? In 1987: "People are now thinking the unthinkable." In 2008: "The market was telling us the world was about to end."*

Indeed, the world did not end. In fact, over the past 30 years, we have experienced these events, endured three recessions and five bear markets, and, despite these setbacks, the TSX Composite Index (with dividends reinvested) has had an annualized return of 7.9 percent.**

Given that volatility is an inherent part of the markets, it's worth repeating that staying invested is an important contributor to help you reach your financial goals. Why? First, over the long run, cash may not be a viable alternative. Even with a modest rate of inflation, a dollar today will be worth less tomorrow. The average annual inflation rate over the past 10 years has been 1.6 percent, which may seem low, but this translates to an increased cost of over 17.2 percent today, compared to a decade ago.***

Standing on the sidelines also means missing any gains. And, throughout history, the markets have often turned when least expected. Four of the top ten months of equity market gains actually occurred during recessions**, when market pessimism was high. Participation is key when these upturns occur.

Volatility also presents opportunity. Periods of volatility may offer investors a chance to buy quality shares at better prices. These times may also provide good opportunities to make adjustments to a portfolio or to rebalance, where necessary.

Portfolio gains do not occur at a steady state and volatility in the markets remains one of the certainties of investing. Keeping expectations on an even keel is not an easy task during volatile times. But successful investing involves having a plan, maintaining discipline and focusing on the longer-term goals that are set out in your wealth and investment plan. And staying invested may be an important part of reaching your financial goals. As always, please remember that we are here to help.

Sources: *Globe & Mail Newspaper, Page B1, 10/20/87, Page B1, 09/30/08. **TSX Composite Total Return Index – 01/31/86 to 01/29/16; CD Howe Institute, "Business Cycles in Canada Since 1926". ***Bank of Canada, Inflation Calculator, based on Jan. 2006 to Jan. 2016 figures.



The Effects of Monetary Policy

Today's New Normal: Low Interest Rates

As a result of slow economic growth over the past six years, we continue to experience a low interest rate environment that has shaped a new normal in today's investing landscape. Short-term interest rates have been influenced by the monetary policies of the central banks. The Bank of Canada (BoC) has held its key interest rate at a low level to keep the cost of borrowing low, with the intent of increasing both business and consumer spending to stimulate growth.

Canada's monetary policy has historically been aligned to that of the U.S. Federal Reserve (the Fed), since our economies are closely linked. But in 2015, we saw a rare divergence. The BoC cut rates twice last year, while the Fed raised interest rates at the end of the year due to an expanding U.S. economy.

Many other countries have lowered interest rates to try to boost economic growth. The situation in Europe, and more recently in Japan, is peculiar as negative interest rate policies have been put into place. With a negative interest rate, a bond purchased and held to maturity will return less than the principal invested.

On the surface, this seems counter-intuitive — why would anyone want to invest an amount for which they will eventually get less back? Yet, some European investors have been concerned about deflation and the instability of the Euro and may not believe that

better options exist. Investments with small negative returns have provided security or liquidity during uncertain times.

However, the objective of the central banks in using a negative interest rate policy is to stimulate the economy through spending and investment. Financial institutions that deposit funds with the central bank would now be paying for the ability to do so. This is meant to discourage the stockpiling of cash and instead encourage activities like lending to consumers or businesses (thereby generating a positive return on those assets) and spending, which would stimulate growth.

As interest rates change, the risk and return profiles for various fixed income assets continue to change. For some investors, managing through this period may mean re-evaluating risk tolerance levels based on the investor's time horizon, which may impact a portfolio's overall asset allocation. For others, portfolio adjustments may be needed depending on the changing risk-return profiles to assets held, or term to maturity, as examples.

In the short term, rates in Canada will likely be held at lower levels as long as growth continues at a slower pace. Keep in mind that challenges like this are a common occurrence in modern capital markets — the cyclical nature of the markets affects different asset classes at different times — and one of the greatest roles that we play is to ensure that your portfolio continues to adapt over time.

Words of Wisdom During Challenging Times

Being a savvy investor means being able to navigate through both good and bad times. Here are some quotations from successful investors to help provide perspective on persevering through difficult times:

"To be an investor, you must be a believer in a better tomorrow." – **Benjamin Graham**

During down times, remember that better days may be on the horizon. History has shown us that the markets can quickly change direction, often with little or no notice. Having the discipline to stick to the objectives set out in your wealth and investment plan, especially during the down times, is one of the hallmarks of successful investing.

"Be fearful when others are greedy. Be greedy when others are fearful." – **Warren Buffett**

What is the mindset of a great investor when stock markets are declining? Instead of running in fear, some savvy investors welcome these periods as opportunities to buy quality investments at good prices. After all, it is often more difficult to find great opportunities when buying into a high market or selling in a falling market.

"More money has been lost trying to anticipate and protect from corrections than actually in them." – **Peter Lynch**

During times of downward volatility, many investors may feel the pressure to sell their investments due to fear that the markets will continue to fall. However, most investors are unable to accurately time the markets. Successfully 'buying low and selling high,' often means having the confidence to make decisions independently and not based on what everyone else may be saying or doing.

"Any sound long-range investment program requires patience and perseverance. Perhaps that is why so few investors follow any plan. Investment success is the purpose of investment planning; but a by-product of a good plan is peace of mind." – **John Templeton**

The principles of your wealth and investment plan have been put in place to help to weather the inevitable storms. This includes holding quality investments in your portfolio, as the fundamental value of these investments is likely to withstand volatile periods. Other key investing tenets — having appropriate diversification, asset allocation and risk tolerance — will also help to endure these more challenging times.

Sources: Graham, Benjamin. "The Intelligent Investor", pg. 535. Any material that is copyrighted has been used with permission of the authors or their representatives.



Personal Income Tax Season Is Here

A Taxing Time

These are taxing times. Just 10 years ago, Canadians with income that fell within the highest marginal tax bracket were paying lower tax rates than today in all provinces except one – Newfoundland & Labrador.

But, if it is relative, it doesn't appear that Canadians today have it quite as bad as others. Aruba's top marginal tax rate is 59.0 percent, Sweden's is 57.0 percent, and Denmark's is 55.4 percent.* Surprisingly, in 1971, Canada's highest marginal tax rate was 80 percent, which by today's standards seems preposterous.**

The chart shows the top marginal individual tax rates for the ten provinces (combined federal/provincial) for 2006 and 2016. In 2016, the federal government has created a new tax bracket for taxable income over \$200,000. Provinces with tax brackets for income above this amount have rates denoted by "/". The tax rates associated with capital gains and eligible dividends are also shown — consider the tax advantages of receiving income in these forms.

Source: *Global individual marginal tax rates, KPMG. **Canadian Tax Journal, 1995, Vol. 43, No. 5, page 1062. Note that there were differences in the tax regime in 1971.

Province	2006	2016**		
	Interest & Regular Income	Interest & Regular Income	Capital Gains	Eligible Dividends
BC	43.70	47.70	23.85	31.30
AB*	39.00	47.00/48.00	23.50/24.00	30.33/31.71
SK	44.00	48.00	24.00	30.33
MB	46.40	50.40	25.20	37.78
ON*	46.41	51.97/53.53	25.98/26.76	37.19/39.34
QC	48.22	53.31	26.65	39.83
NB***	46.84	53.30	26.65	36.27
NS	48.25	54.00	27.00	41.58
PEI	47.37	51.37	25.69	34.22
NL	48.64	48.30	24.15	38.47

Notes: *Denoted by "/" are tax rates for provinces with tax brackets higher than the top federal tax bracket: \$220,000 in ON and \$300,000 in AB. Source: 2006 data, BDO (Dunwoody); 2016 data, KPMG **As of Jan. 1, 2016 except ***NB updated for Feb. 2016.

Planning Ahead

Retirement Planning: Age Milestones

We often remind our clients that as we get older, certain milestones are important when preparing for retirement. If you are nearing the following ages, take note of these considerations as you look to maximize your retirement savings. Don't leave money on the table. If you need help, please don't hesitate to give us a call. It's also recommended to consult with a tax advisor who can assist with any tax-planning related matters.

Age 60: Consider early Canada Pension Plan (CPP) payments.

Although the standard age for starting CPP payments is 65, you have the option to collect your CPP retirement pension as early as age 60. Payments will be permanently reduced if you begin early. You may also wish to defer CPP payments to receive an increased benefit by starting payments between the ages of 65 and 70.

Age 65: Don't forget the federal Pension Income Tax Credit.

The Pension Income Tax credit allows you to claim a tax credit on an amount equal to the lesser of your pension income or \$2,000. Since this is a non-refundable tax credit, it cannot be carried forward.

Note that there are certain exceptions in which the Pension Income Tax Credit can be used before the age of 65, including for those individuals 55 years of age or older who have certain qualifying types of pension income, or widow(er)s, so seek advice on your particular situation. In Quebec, the pension recipient must be 65 years old to split all types of pension income.

If you don't have a pension, one way for individuals aged 65 years or older to generate eligible pension income is by opening a registered Retirement Income Fund (RIF). We can assist with this option.

Consider pension income splitting. If your spouse/common-law partner has a lower marginal tax rate and/or available tax credits

to provide tax savings, you may consider pension income splitting. An individual can allocate up to 50 percent of their eligible pension income to a spouse for tax purposes. (Note that pension income splitting may occur as young as age 55 for qualifying individuals.)

Age 71: Convert your RSP before year end. You must convert your registered Retirement Savings Plan (RSP) before the end of the calendar year in which you turn 71 years of age. The most common choice is to open a RIF, but there are other options to consider, including purchasing an annuity or distributing funds as income.

Make final payments to an RSP before year end. Consider catching up on any unused contribution room from previous years before the end of the year. You won't be able to contribute until the usual RSP deadline (which is 60 days after the end of the calendar year), as your plan will need to be collapsed before the year ends.

Consider contributing to a spousal RSP. If you have reached the age of 71, but have a younger spouse and have leftover RSP contribution room (or are still generating RSP contribution room if you are still at work), consider contributing to a spousal RSP.



When to Take Canada Pension Plan Benefits

Much has been said about the “paradox” of choice — that having an abundance of choice is not always beneficial as it can complicate matters or lead to confusion. Indeed, this may be true when it comes to making the decision of when to take Canada Pension Plan benefits (CPP).

Over the years, we have been asked for our view on the ideal time to take CPP. Today, you have the choice of taking CPP as early as age 60 and you can still be working. As you approach the age of 60, you should consider the timing for starting CPP payments. If you start as early as age 60, you will receive reduced CPP payments. You will receive an increased benefit by delaying CPP from the age of 65 up until the age of 70. Note that these adjustments were designed to ensure that if you live the average lifespan, there’s no (dis)advantage to taking CPP early.

If you do decide to take the CPP early, your benefits will be based on a lesser number of years of earnings than if you were to take it later. Recall that the CPP is based on your average contributions made from the age of 18. The calculation generally removes up to eight of your lowest-earning years (or more if you were disabled or raising young children) and then calculates the benefit based on an average of your lifetime earnings. In 2016, the maximum CPP retirement benefit is \$1,092.50 per month for those recipients who are 65 years of age.

Here are some things to consider when making the decision about timing:

Life expectancy. Although it is never possible to predict life expectancy, if you suffer from illness or have a family history that may shorten your life expectancy, you may wish to consider taking early CPP. Conversely, if you believe that you will have a long life expectancy, you may be better off taking late CPP payments.

Current and future tax bracket. If you continue to work past the age of 60, having additional income by way of CPP payments may put you in a higher marginal tax bracket. Depending upon



your situation, you may wish to delay CPP payments when considering how it may impact your after-tax position.

Immediate and future income needs. The CPP payments may be a significant contributor to current or future income needs. Remember also that if you decide to collect early, you can still invest the payments for the future.

Effect of other income-tested benefits. Consider the effect of the CPP payments on any other income-tested benefits. As an example, if you will be eligible for the Guaranteed Income Supplement (GIS) and wish to maximize GIS payments (at 65 years or older), you may consider taking early CPP payments. This is because the higher payments associated with waiting to take CPP at the age of 65 may have a significant impact on GIS payments.

Get More Information

You can request a current estimate of how much you’re likely to receive by contacting Service Canada (servicecanada.gc.ca, 1-800-277-9914). We can help you frame the decision as you consider the options. A tax advisor can also offer assistance based on your own particular situation.

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