Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 7, ISSUE 3 MARCH 2018

"The difference between playing the stock market and the horses is that one of the horses must win." -Joey Adams

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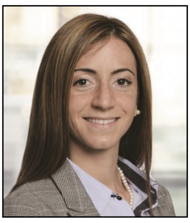
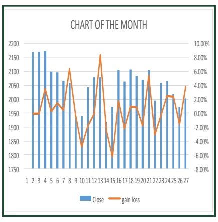
Sergio Simone
EDITORIAL COMMENT



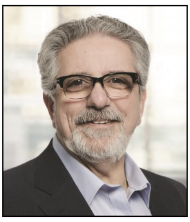
Kristina de Souza
EXECUTIVE HEALTH PLANS



THE DOW'S TUMULTUOUS HISTORY

Ryan Simone
USING THE RESP AS A 35-YEAR TAX DEFERRAL

Editorial Comment



Sergio Simone

It seems to me that the "***eternal extrapolists***" are coming out of the woodwork. These are the investors who look at a market environment and extrapolate it into the future as if it will never change. Investors are expecting that the rest of 2018 will play out the same way that the year-to-date has. It has been one of the better starts to a year, but I wouldn't bank on it continuing like this for the rest of the year.

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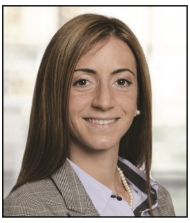
Executive Health Plans



Kristina de Souza

Building a business from the ground up is quite a feat; and owning your own business comes with unique and changing challenges. An important question is whether your business could survive without you. We've touched on this issue in the past in discussing key life insurance which offers protection should the business owner die. But in this day and age there can be a lot more to it; including what might happen to a company should the owner become very ill.

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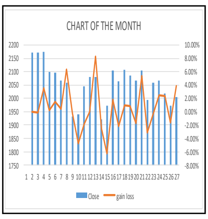
The Dow's Tumultuous History



Chris Kacher, managing director of MoKa Investors, published a graph of the Dow Jones' Industrial Average performance since 1896. This chart is a definitive illustration that has reflected the peaks and valleys experienced by the U.S. economies oldest and best known index. The chart can also be viewed as a chronicle of investors' responses to

Continue Reading

Ryan Simone

Using The RESP As A 35-Year Tax Deferral

Yes, it's true: anyone can have a Registered Education Savings Plan (RESP), even an adult with no intention of going back to school. There are no rules stating that you have to be a certain age to have an RESP or that you have to go to school. This fact alone presents an opportunity to defer .

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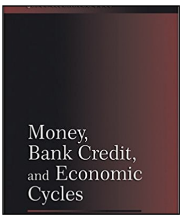


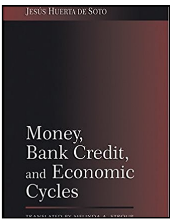
BOOK OF THE MONTH

FUND OF THE MONTH MANULIFE WORLD INVESTMENT CLASS

INVESTMENT TERMINOLOGY

CRIMINAL LAW, DRIVING AND POSSESSION OF MARIJUANA

Book of the Month



Money, Bank Credit, and Economic Cycles

By Jesus Huerta de Soto

A reconstruction of the legal framework for money and banking, from the ancient world to modern times, an application of law-and-economics logic to banking that links microeconomic analysis to macroeconomic phenomena, a comprehensive critique of fractional-reserve banking from the point of view of history, theory, and policy.

Fund of the Month—Manulife World Investment Class

The Fund seeks to provide long-term growth and capital gains to provide diversification of risk by investing primarily in equities of companies located outside Canada and the United States. This fund is ranked five-star by Morningstar. Over the last five years this fund has ranked 9th of 220 funds in its category.

Investment Terminology

Consumer Confidence Index (CCI)

The U.S. CCI is an indicator designed to measure consumer sentiment regarding current and future economic conditions. It is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. A monthly survey of 5,000 U.S. households is conducted to survey several major categories: Appraisals of present business conditions and employment; expectations for business conditions and employment in the next six months; plans to buy cars, houses, appliances and other big ticket items in the next six months; vacation plans in the next six months and expectations of inflation, interest rates, and stock prices in the next 12 months.

Paul Mazzeo, specialist in Family Law, Real Estate, Wills & Estates, Litigation and Corporate Law.

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Criminal Law, Driving And Possession Of Marijuana

In the first video of this new video series, we see where Canadian laws are headed as recreational marijuana legalization is pending. Experts on the topic discuss the current state of driving and possession laws regarding marijuana and they predict where it might be headed.

Please click on the link to see video Criminal law, driving and possession of marijuana—The Countdown

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KPW LIFE PLAN—IMAGINE YOUR FUTURE

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A Year Of Rising Risks For 2018

As each year passes, we seem to become more accustomed to rising levels of risk because risk

Fed Announces US Rate Increase

The US central bank has said it will raise its benchmark interest rate citing strengthened economic outlook.

Financial Tips For Modern Families

What it means to be a family has changed dramatically over the past generation.

Banks Missing Chances To Give Client Advice

The challenge for banks is getting the advice formula right and delivering it I a personalized

The Fed Is Now Entering The Most Difficult Phase Of Monetary Policy

The U.S. Federal Reserve's task is complicated by unfolding fiscal

Is The Bull Market Too Good To Last?

There is an old saying about the dangers of pulling a brick on a piece of elastic You can tug and

The Risks In Betting On Volatility

A sudden surge in the VIX in early February led to the termination of certain exchange-traded products—and a harsh

The Investing Habits of Canadian Women And Men

To better help Canadians achieve their financial goals, it's important

IOSCO Consults On Recommendations To Help Trading Venues Manage Extreme Volatility

Extreme volatility in securities

Bank of Canada Holds Interest Rate

The Bank of Canada today maintained its target for the overnight rate at 1 1/4 per cent. The Bank Rate is corresponding

Identity Theft a Major Concern For Canadians

Steps should be taken to protect confidential financial information from ending up in the wrong

Indexed Universal Life Continues Its Hot Streak

Indexed universal life is "clearly where the action was," said Robert A. Kerzner, CEO of LIMRA

Federal Budget Briefing 2018

The Honourable Bill Morneau, Minister of Finance, tabled the Liberal government's third budget on February 27, 2018.

Budget 2018 maintains the government's theme of building a stronger middle class, this year with a marked emphasis on gender equality. Budget 2018 includes the much-anticipated measures relating to the treatment of passive investment income earned in private corporations. The proposed measures are more modest ad streamlined than originally outlined, reflecting some of the significant criticisms of small business owners and the tax community. There is notably no specific reaction to recent U.S. tax reforms, other than a commitment to conduct a detailed

VIDEO LINKS

Personal Investor: Canadians Remain In The Dark On TFSAs

Dale Jackson looks at the latest survey on TFSA comprehension.

The Disrupters—Techs & The City

An original series exploring the pressures of change confronting modern day society and the

Why Employer-Provided Life Insurance Can Backfire

An employer-sponsored policy can leave you under protected. Here's what you need to know.

HSBC Global Investment Monthly View

April 2018

Chief Market Strategist Willem Sels gives a summary of our latest thinking on the current market trends and the implications for investors.

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EDITORIAL COMMENT CONTINUED

I'm not suggesting that we will not see growth this year, but we may have already experienced the best part of it.

We are also nine years into the second longest bull market in history and the "eternal extrapolists" are jumping on the bandwagon expecting this will last for a very long time. As soon as I read that this is the "new paradigm" I will be fleeing for the exits.

We at KPW have been aggressively supporting this bull market and have been very vocal on the belief that this will likely be the longest bull market in history. There were some signs of concern when we corrected by more than ten percent earlier this year. Still we were convinced that it would be one of the best buying opportunities that we would see in a while. With this in mind we are still aware that the party must end some time. There have been several bull markets over the last hundred years and they all ended eventually.

The usual culprit for the end of a bull market has been caused by a buildup of imbalances in the broad equity markets eventually forcing a retrenchment. The longer the good times go on, the more convinced investors become that it will continue and the more inane their investment strategies and decisions become. Investors become convinced that "this time is different" and they stray from sound portfolio building strategies like diversification. Their asset allocations become centralized in specific sectors or countries that happen to be running better than the rest. This concentration can lead to major setbacks if those specific investments take a turn for the worse.

Diversification does not necessarily imply that all sectors must be included. For example, the investment landscape has been transformed globally by the long-term decline in interest rates which have made Fixed-Income funds a great investment over the years, but today's economic climate in North America is one of inflation and rising interest rates. This is not a good scenario for fixed income funds. Canadian investors should come to accept that there are viable alternatives such as global fixed income or dividend paying equity funds. Global fixed income can improve return profiles through diversification, no matter what the trend is in North America and dividend paying, blue chip equities can still offer the appeal of income for those that require it.

There are always catalysts that can impact and change the direction a market is going in and these are the fundamentals that we must be vigilant about. Today we are seeing inflationary pressures building up and a growing part of this is due to wage inflation. The Federal Reserve and central banks around the world have applied various installments of Quantitative Easing which has spurred the economic environment. President Trump's tax reform has also caused enormous job opportunities. With all these people working there is more money earned and spending has increased, leading to inflation. Prices will rise and interest rates will follow.

Another sign to keep an eye on is rising volatility. Over the last few years investors have been spoiled with the low levels of volatility. This often causes investors to be more cavalier with their investment decisions and greedier about their expectations. We recently went a record setting 311 days without a 3% decline and 404 days without a 5% decline. This is changing investor expectations and not for the good.

The flood of easy money from the Fed's QE initiative ended in 2014 and in 2015 we saw the first interest rate increase since 2006. While rates are rising, the Fed is determined to shrink its balance sheet to the tune of a trillion dollars over the next couple of years. The European Central Bank (ECB) is expected to end its QE program later this year causing a liquidity drain. In fact, it is expected that the top seven central banks' balance sheets may turn negative in 2019. This is important to be aware of because for the better part of the last ten years, stock prices and central bank balance sheets have moved in tandem so anything that might cause a negative turn in the banks' balance sheets can be expected to have the same effect on the stock markets.

Continue Reading

EDITORIAL COMMENT CONTINUED

Although the USD has been getting stronger in recent weeks, a weaker US Dollar will likely lead to higher inflation. Weakness in the USD leads to higher commodity and import prices, which in turn contributes to a higher level of inflation.

Finally, a concern for us is the increasing positive sentiment in the United States. There is a rising level of contentment and tranquility in the U.S. There even seems to be a more harmonious relationship between worker and management. There is little, if any, industrial strife and the number of welfare recipients is dropping rapidly as prosperity rises. Internationally, ISIS has virtually been relegated to history and there are signs of talks between the U.S. and North Korea. As mentioned earlier, I become concerned that a market top is on the horizon when euphoric levels of investor sentiment is reached.

Between 2007 and 2009 consumer confidence plummeted to record low levels. I was happier then, knowing that the market would grow and asset prices would recover. While investors were heading for the sidelines I knew that this would be the best buying opportunity in our lifetime. I am in no way suggesting that we should not be investing but that we should do so with an eye, no make that both eyes, on risk management. As some of these fundamentals begin to affect market returns we should become more prudent and consider more conservative approaches in our portfolios.

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Executive Health Plans—CONTINUED

Fortunately, there is an insurance solution for your business in the event of a critical illness; The Executive Health Plan (EHP) allows a business owner to own a critical illness policy jointly with their company. In a nutshell, the company receives a tax-free lump-sum benefit if the owner is diagnosed with a covered critical illness.

On the other hand, in the fortunate event that the insured remains healthy, you may benefit from tax advantages as well as get back all payments made by yourself and the company.

In the event of a critical illness, your company can use the tax-free payout for a number of purposes. Some of these include but are not limited to: keeping your financial plans on track, limiting financial losses by hiring qualified replacement staff, repaying any outstanding debts to maintain your company's reputation, share buybacks, or even to take a portion of the amount as personal (taxable) income.

Essentially, how this plan works is both the company and its owner jointly purchase a business critical illness insurance policy. It is the company that pays the portion of the premiums for critical illness and death benefits for the desired coverage period (term), while the business owner pays the portion of the premiums that covers health benefits.

It is essential to have a legal advisor prepare a joint ownership insurance agreement in preparation of this policy. Ultimately, if and when a designated event takes place, a tax free benefit will be paid and can play out in a variety of ways. For example, if the owner is diagnosed with a covered illness; the company receives the critical illness benefit. Conversely, if the owner dies, the company would receive the death benefit.

In the event of death, payment amount is the greater of 100% of premiums paid or 25% of the face value of the policy. On the other hand, should the owner remain healthy until the policy expiration date, the owner can claim the health benefit. The health benefit is a tax free amount which can be up to 100% of what the owner and the company deposited for premiums.

Here is an example of how this solution works. Imagine a 45 year old owner/shareholder of company XYZ who sets up this plan on a 30 year term with a critical illness insurance amount of $500,000. The company would pay about $8,000 a year in premiums and the owner would pay about $5,000. If at any point during the term of the policy the owner becomes critically ill, the company would receive the $500,000 tax-free lump sum. However, if for example 15 years goes by and the owner is still in good health, they can elect to receive 100% of all premium payments made (by the owner and the company) tax-free, even though personally she only contributed $76,650. Further, if the policy reaches the 30 year term and the owner remains healthy and never withdrew the funds, despite having personally deposited $153,300 they will actually be eligible to receive $393,600, or 100% of all premium payments made both by the owner and the company. Again keep in mind that if the owner dies at any time during the life of the policy the company would receive the greater of 100% of all premium payments made or 25% of the insured amount. Again, if the owner remains healthy they will receive up to 100% of the contributions they made and the company made.

An additional benefit offered by this plan is the option to defer premium payments for a year free of interest. Should the company experience financial hardship, making it difficult to pay the premium, the option is available to defer the payments for a year without having to pay interest. The policy must be in place for a minimum of five years in order to take advantage of this feature.

Another unique feature of this plan is that it is available not only for business owners but for key employees as well. In the event that a key employee experiences a critical illness, this plan ensures the smooth running of the business in their absence. The plan is a great way to show appreciation to key employees, and to remove the stress element from their recovery.

Executive Health Plans—CONTINUED

There is also an encompassed element of long term care in these plans. If the covered individual becomes unable to perform two or more of the activities of daily living or if their mental capacity is compromised for 90 consecutive days, an advance payment for long term care is paid to the company. The one time advance payment is the equivalent of 15% of the insurance amount, up to a maximum of $25,000. Should the individual later recover, the remainder of the insurance is still available for another covered illness. If they do not recover and it is reasonable to expect recovery will not occur, the balance of the insurance amount is paid out.

The coverage amount for these plans is available ranging from $10,000 to $2,500,000. Should the covered individual be diagnosed with one of the covered illnesses, the company is eligible to receive the insurance payment 30 days following the diagnosis. However, there is no wait time if the diagnosis is cancer.

Don't let the unexpected affect the future of your company. This type of financial strategy allows you to earn additional income in anticipation of retirement. By nature, it can provide an excellent return on your investment. It allows the business owner to take advantage of the tax benefits associated with both business and insurance.

The Dow's Tumultuous History - CONTINUED

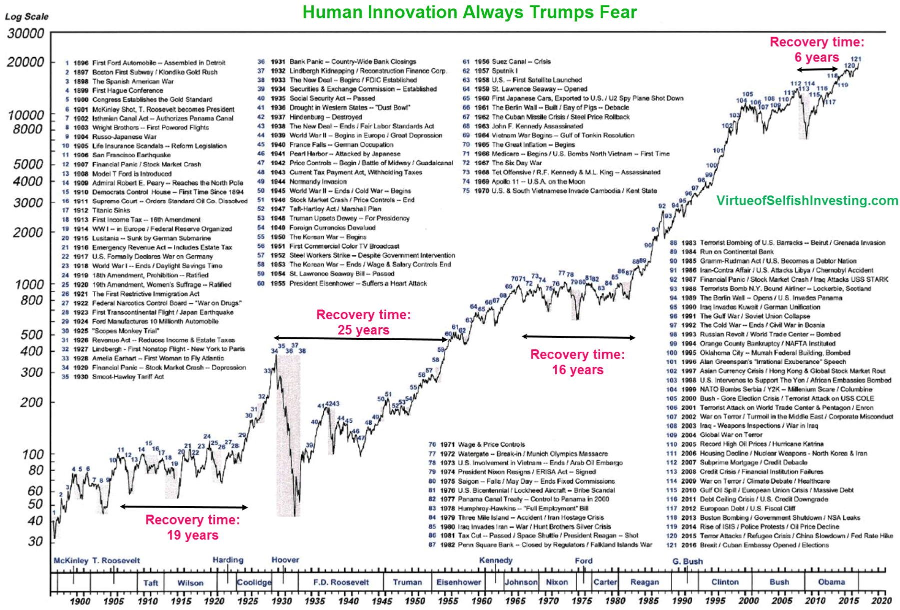
significant global events.

The key takeaway from this chart is that the stock market has always risen over a long period of time. According to Kacher, "intelligence, creativity, and innovation always trump fear."

Although the long-term results of the index are positive, there have been several long periods of time where the market has struggled to earn positive returns, especially after a significant and devastating downturn. For this reason alone, it behooves market investors to maintain good diversification and flexibility in their portfolios.

The Dow Jones Industrial Average: 1896-2016

Human Innovation Always Trumps Fear



Another quote by Kacher hits to the core of investment philosophy. "There is no get-rich-quick scheme. There is no such thing as a black box where you press a button and let it run indefinitely. Investing is more challenging than brain surgery."

The Dow has had an interesting history. Originally it was composed of 12 underlying stocks. Since day one, the index has risen more than 50,000%. Unfortunately it has been anything but a smooth ride. In between the bullish surges that carried the index beyond 20,000 points in 2017 have been long periods of misery when the index remained in a downward spiral or did nothing at all.

It took a gut-wrenching 25 years for the market to recover from the Great Depression beginning in 1929, and another 16 years for stocks to revert to their mean from the combined effects of the Vietnam War, the 1973 oil shock and the Nixon debacle.

On a more positive note, 2017 saw the Dow set a record for setting records. In 2017, the Dow gained 25.1%, having closed 71 times after achieving a new high.

No one ever knows where the market is going and today's markets are no exception. This is why investors must always remain nimble. Today is especially concerning as we are in unprecedented times. Never in history has so much Quantitative Easing been used to stimulate an economy and no one can predict what the future results will be from all this stimulation. One historical certainty is that global debt of this magnitude has never ended well.

I cannot stress enough that today investors and investment advisors must remain flexible!

Although this chart clearly demonstrates that over the last 120 years the market has always recovered from its recessions and depressions, sometimes it just may take longer than we can survive.

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Disclaimer

The RESP As A 35 Year Tax Deferral —Continued.

taxes on investment growth. Here's how:

RESPs have a lifespan of 35 years and a total lifetime contribution limit of $50,000. Many people think that you have to be under 21 to have an RESP. The reality is you only have to be under 21 to receive any government grants. These grants come in the form of the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB). Typically, it is the grants that give popularity to the RESP; however, it's important not to overlook the fact that an RESP is a registered account.

Suppose a 50 year-old with an established career and no intention of going back to school opened an RESP and invested one lump sum of $50,000. The RESP won't receive grants but the $50,000 investment will grow for the next 35 years tax deferred. When this person turns 85 the RESP needs to be closed by withdrawing the funds.

There are a couple of factors that will impact how this money is taxed at withdrawal. Part of it will be a return of capital which is not taxable. The remainder is considered an AIP (Accumulated Income Payment), which from a tax perspective, is treated as regular income. In the above example, assuming a 6% annualized return, the $50,000 would grow to $384,304.34. At withdrawal, $50,000 would be a return of capital and not taxable. The remaining $334,304.34 would be taxed as regular income. Assuming today's rates and no other claimed income, that would leave a take home amount of about $208,292.80. There is also a 20% penalty tax that reduces the final amount by about $66,860.88. After all is said and done our 85 year-old has $141,431.92.

Unfortunately, the tax implications can really eat into the final return. In the above example, the taxes basically cut the 35-year annualized return in half. This could be managed by taking on additional risk in the portfolio, but, understandably, many investors may not have the adequate risk tolerance for such a thing. As a stand alone strategy, the RESP tax deferral strategy suffers somewhat. However, this can be remedied if a person has enough contribution room in an RRSP or spousal RRSP. In our example, the 85 year-old is too old to have an RRSP. If she was married to a younger spouse with enough contribution room in a spousal RRSP then our 85-year old could transfer the RESP into the spousal RRSP and claim the income deduction for a refund.

Where death is concerned, if the RESP holder dies before the 35th year of the plan, all proceeds go to the estate. A sufficient life insurance policy would make up for any estate taxes and beneficiaries of the estate would receive the remainder.

This strategy isn't perfect for everybody but it does offer a tax deferred means of investing that most people don't know about. Combined with other strategies, the RESP strategy may compliment the overall financial plan and it shouldn't be ignored.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. 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 if the value of the securities purchased declines.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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Mutual funds provided through Carte Wealth Management Inc.

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