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KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 6, ISSUE 5 MAY 2017

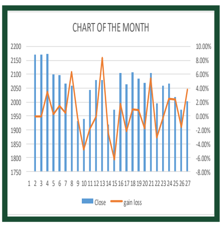
"Do not save what is left after spending, but spend what is left after saving." - Warren Buffett

To Page 2

To Links Page

Sergio Simone
EDITORIAL COMMENT

Kristina De Sousa
Falling Short on Raising Little Ones



Sell in May and Go Away

Ryan Simone
A Look At Emerging Markets

Editorial Comment

Sergio Simone

With spring in the air an old adage begins to appear on investment sites with regularity. "Sell in May and go away". While this mantra has had some successful runs over the last 50 years, recent history suggests you may want to skip this advice. The saying suggests that investors should sell their equity holdings in early May and then buy them back in late October at a discounted price.

"Sell in May and go away", originated in London's Financial District. The adage originally read, "Sell in May and go away; come back on St. Leger's Day." St. Leger was the oldest of England's horseracing classics that ran in September of each year. Many traders subscribed

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Falling Short on Raising Little Ones

Kristina De Sousa

Though most parents want the best for their families, even the best intentions may not be enough. This rings especially true when it comes to finances. Results of a recent HavenLife study discovered alarming results concerning millennial parents in particular. With nearly 9,000 of us becoming parents each day, millennial parents seem to invest namely in raising intelligent and caring children, but remain fairly unprepared financially for their families'

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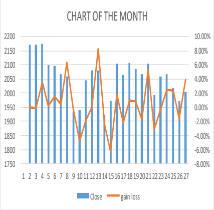
"Sell in May and Go Away?" - You May Want to Take a Closer Look



Many investment pundits eschew the benefits of investing only between the months of November and May, explaining that there is a greater probability of positive returns during that time period. There is more to this story. Although returns between May and October may not be as high, they are still positive which begs the question, "why would you want to move your money to cash when you can still make positive returns in the market?".

Continue Reading

Ryan Simone

A Look At Emerging Markets

According to a report by the management consultancy firm PWC, by 2050 six of the seven largest economies will be emerging market economies. Leading the way will likely be China, India, and Indonesia. As unpredictable as the markets are, emerging markets presents a somewhat predictable behavior when performance is compared against other asset classes such as bonds, small caps, mid-caps, large-caps, and so on. On an annual basis, emerging markets

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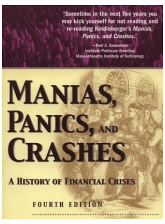
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 6, ISSUE 5 4 MAY 2017

To Page 1

To Links



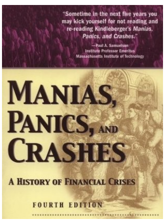
BOOK OF THE MONTH

FUND OF THE MONTH
Fidelity Global Concentrated Equity Class B

INVESTMENT TERMINOLOGY

REVIEWING AGREEMENTS FOR PURCHASE AND SALE

Book of the Month



Manias, Panics, and Crashes–By Charles P. Kindleberger

Financial crises and speculative excess can be traced back to the very beginning of trade and commerce. Kindleberger's brilliant, panoramic history reveals how financial crises follow a nature—like rhythm: they speak and purge, swell and storm. This book probes the most recent "natural disasters" of the markets—from the difficulties in East Asia and the repercussions of the Mexican crises to the 1992 Sterling crisis. His sharply drawn history confronts a host of key questions.

Fund of the Month—Fidelity Global Concentrated Equity Class B

The fund's objective is to achieve long-term capital growth by investing primarily in equity securities of companies anywhere in the world. The Portfolio Manager is Patrice Quirion. Before his current role, he was responsible for researching and making investment recommendations on companies in the financial sector, primarily banks and diversified financial companies, and for managing these components of Fidelity Canadian Disciplined Equity Fund.

Investment Terminology

MARKET TIMING

Market timing is the act of moving in and out of the market or switching between asset classes based on using predictive methods such as technical indicators or economic data. Since it is extremely difficult to predict the future direction of the stock market, investors who try to time the market, especially mutual fund investors, tend to underperform investors who remain invested. The real costs of lost time and opportunity are almost always greater than the potential benefit of shifting in and out of the market.

MAZZEO'S LAW

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

MAZZEO LAW
BARRISTERS & SOLICITORS

Reviewing Agreements for Purchase and Sale

The real estate market in Ontario, and in Canada for that matter doesn't seem to be slowing down. The bubble has yet to burst, which means that you may be next to sell or buy a property, or do both. Protecting yourself in the real estate process is crucial to ensuring that the transaction goes smoothly. What I have seen time and time again is that agreements are not cut and dry; they are full of legal language that someone without experience might not understand.

Please click on the link to be directed to Paul's article, "Reviewing Agreements for Purchase and Sale".

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KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 6, ISSUE 5 MAY 2017

To Page 1

LINKS

To Page 2

Canadians Not Planning For Expected Lengthy Retirements

Only 29% of working-age Canadians believe they'll be financially

Active Management Now More Important Than Ever

In 1897, Samuel Clemens, best known by the pen name, Mark

Percentage of Seniors in Canada Continues to Rise

Imbalances looming between working age adults and those collecting pensions and placing demands on health services.

French Election Outcome as Expected

In the second and final round of French elections, Emmanuel Macron, leader of the En Marche!

Caregiving Costs For Aging Canadians Having Impact On Families

With caregiving costs for aging Canadians expected to mount in

May US Market Outlook—Trend, Breadth, Sentiment, and Macro

US equities ended the month of April above or near all time highs

Domestic vs. Global Indicators—A Rising Tide Lifts All Boats

I've made the case in recent articles that the current rally in

Do Human Advisor Fees Offer More Value Than Robo-Advisor Fees?

Proponents of robo-advisors say their main advantage is lower fee

RRSPS Can Be Taxed At Death—But They Don't Have To Be

RRSPs continue to be a major part of Canadians' assets. In

High Net Worth Women Lack Plans For Wealth Transfer

A large proportion of high net-worth (HNW) women wield control—solely or jointly—over their family's finances, including

Moody's Downgrades Credit Rating of Canada's Big Six Banks

Moody's Investors Service downgraded the credit ratings of the

Wealth Transfer: Are Your Heirs Ready?

When it comes to wealth, many families spend a lot of time and energy building it, but far less

National Bank of Canada—Monthly Economic Monitor

The global economy is on track to top last year's dismal 3.1% growth. An uptick in economic activity in the advanced world, led by the Eurozone is being complemented by better growth in some emerging economies. That said, the rise of trade protectionism, elevated debt levels and policy uncertainty should not be underestimated given their potential to derail growth. Emerging economies are particularly at risk since they have become more sensitive to external shocks.

The U.S. economy is in a better shape than what's suggested by soft Q1 GDP data, the latter partly reflecting residual seasonality. A sharp

VIDEO LINKS

Don't Sell in May: Stock Market's Momentum May Prove The Old Adage Wrong

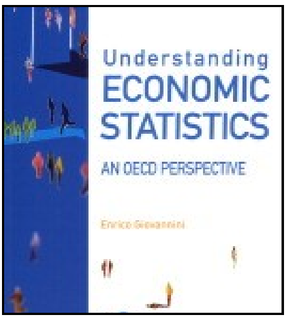
Since 1950, the S&P 500 has

How Much Can I Expect To Earn On My Retirement Savings?

My nest egg is invested in a relatively simple portfolio of stock

Life Insurance for Business Owners

Business owners, like you, have grown by hiring outstanding people and, to varying degrees, the profitability and success of



Understanding Economic Statistics

The aim of this book is to help the reader to better understand how to use economic statistics in general and Organization for Economic Cooperation and Development (OECD) statistics in particular. It introduces the main concepts used by statisticians and economists to measure economic phenomena and provides tables and charts with relevant data. Moreover, the book describes how the production of international statistics is organized, who are the main data producers, what are the main databases available over the internet and how can the quality of statistics be assessed.

Please click on the book or title for a free download of Understanding Economic Statistics.

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EDITORIAL COMMENT CONTINUED

BACK TO PAGE 1

to the philosophy of selling their entire holdings in May and go off to enjoy the summer. The St. Leger's horse race signaled a time to get back into the market.

There is some logic to this phenomenon. Several major gift giving holidays like Christmas, Valentine's Day, Easter and Mother's Day all fall during this time. Add in Black Friday and Cyber Monday sales, then back to school spending, employees making contributions to their retirement plans, nearly all of which gets directed to the stock market, pay bonuses, tax refunds in early spring, quarterly dividends that are reinvested etc.

Pierre Guenette of MoneyGeek did a statistical analysis of the TSX and S&P 500 to see how this theory worked. The question addressed by Pierre was: "Since October of 1979, would an investor have fared better by following the Sell in May strategy?"

Pierre used data garnered from Yahoo Finance. He collected the adjusted daily market returns for the TSX and S&P 500 from October 1, 1979 to September 30, 2016. The returns were adjusted to account for dividends, warrants, stock splits and right offerings for a more accurate analysis. The rates were then aggregated to calculate average monthly returns.

The following table reveals the average monthly returns for the two indices.

MONTHLY AVERAGE RETURNS		
MONTH	TSX	SAP 500
JANUARY	0.86%	0.67%
FEBRUARY	0.83%	0.27%
MARCH	0.45%	1.10%
APRIL	0.83%	1.56%
MAY	1.33%	0.92%
JUNE	-0.56%	0.00%
JULY	0.80%	0.69%
AUGUST	0.31%	-0.19%
SEPTEMBER	-1.81%	-0.79%
OCTOBER	-0.37%	0.98%
NOVEMBER	1.37%	1.49%
DECEMBER	1.79%	1.43%
BUY AND HOLD	5.92%	8.43%
SELL IN MAY	6.28%	6.70%
DIFFERENCE	0.36%	-1.73%

According to the chart, the best two months of the year for the TSX are November and December with average returns of 1.37% and 1.79% respectively. For the S&P 500, the two best months of the year are April and November, earning 1.56% and 1.49%.

At first glance it may appear that the Sell in May theory has merit as all the negative return months in both indices fall between May and October. In fact, if your investment portfolio was entirely invested in the TSX you would be better off by .36% annually by applying this theory. On the other hand, it would cost a significant -1.73% reduced return by selling in May on the S&P 500, that is, by sticking to the adage and investing in the S&P 500, an investor would have generated an annual average return of 6.70% instead of 8.43%. Although investors would have avoided the two months of negative returns, they would also have missed the two positive months that would have produced a net positive return. What the analysis does not consider is the admin costs or potential capital gains taxes involved in selling and buying back these.

The big question is; "what can we expect in 2017?" Since 1950, the S&P 500 has performed even better during the summer months when May begins in an uptrend as it has this year. The S&P 500 began May at 2384.2, just 0.7% off it's all time high of 2,400.98. Another factor that indicates an upward trend is the NYSE advance-decline line, which hit a new high recently, indicating broad participation.

Erin Gibbs, equity chief investment officer at S&P Capital IQ, stated, "On average, the market does tend to be down during the summer months – but what's going on in the U.S. economy really does make a difference." When macroeconomic indicators like the consumer price index, the ISM manufacturing index and consumer confidence indices are rising, there is a higher probability that the summer months will produce positive returns. The adage should not be taken solely on face value. Successful investors will look at fundamentals or even technical information. The bottom line is that you must evaluate what is going on in the market at any given time, and not invest based on turning the page on the calendar.

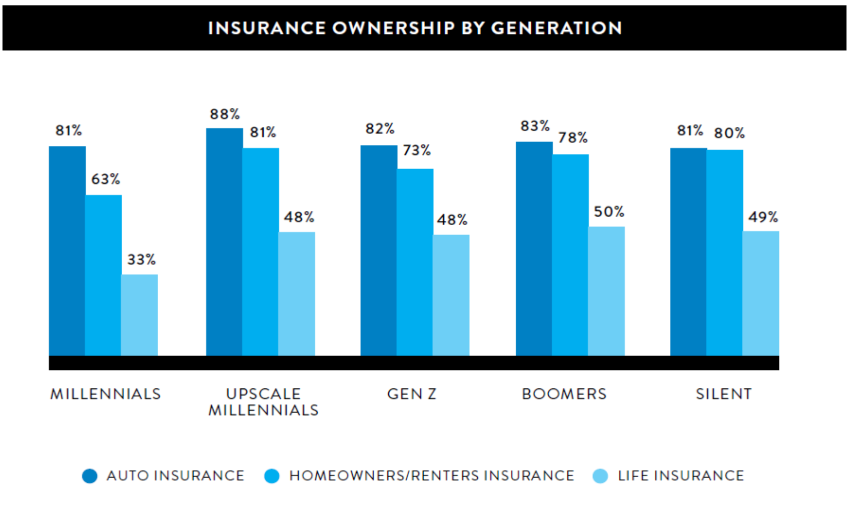
I am going to take Gibbs' sound advice: "Now that everything is positive, I'd say, stay in the market."

Falling Short on Raising Little Ones—CONTINUED

future. I can personally vouch for the fact that by having young children, your hands and head are so full that it is easy for finances to fall on the back burner. There is more than occupying your every day, that planning for the future seems next to impossible. However, planning for the future and unforeseen events is more critical now than ever. Saving for post-secondary education, emergency situations, and life insurance are three of the main facets needing improvement when it comes to the financial discipline millennial parents lack.

Though it may seem light years away right now, the cost of post-secondary education is anticipated to skyrocket in the next decade or so. It is thus concerning that less than 15% of millennial parents report education savings as a financial priority. Parents are missing out-it is critical for education tax savings programs such as the Registered Education Savings Plan (RESP) to be taken advantage of now. On top of the grants and tax benefits of such a plan, even small, early contributions have the ability to grow and compound over time, alleviating the financial burden down the road.

On a similar note, savings rates for millennials are alarmingly low. Unforeseen events can deplete a savings account instantly, or even worse, enter young families into a cycle of high interest debt that is hard to get out of. Thus, it is important to implement an emergency fund that can cover at least half of a years' worth of expenses (minimum!). On the topic of unforeseen events, there isn't anything more unpredictable or more costly than death for a young parent. Aside from immense funeral expenses alone, the running costs of a household can be debilitating for the surviving spouse. The proceeds of a life insurance policy need not be considered a luxury- it can be an absolute necessity to protect loved ones. Once again, it is alarming that only 15% of millennial parents consider life insurance to be a financial priority. Life insurance needs vary depending on a families' unique situation, but recommended coverage should be at least 5-10 times annual salary. With that said, it is safe to say that the majority of millennial parents are underinsured. An interesting fact relates to homemakers, and their hidden need for life insurance. Despite the fact that stay at home parents don't bring in a formal income, it is estimated that their daily activities are equivalent to well over 100k a year. Thus, it is equally important to consider this fact when it comes to assessing life insurance needs.



Source: Nielsen Scarborough 2015

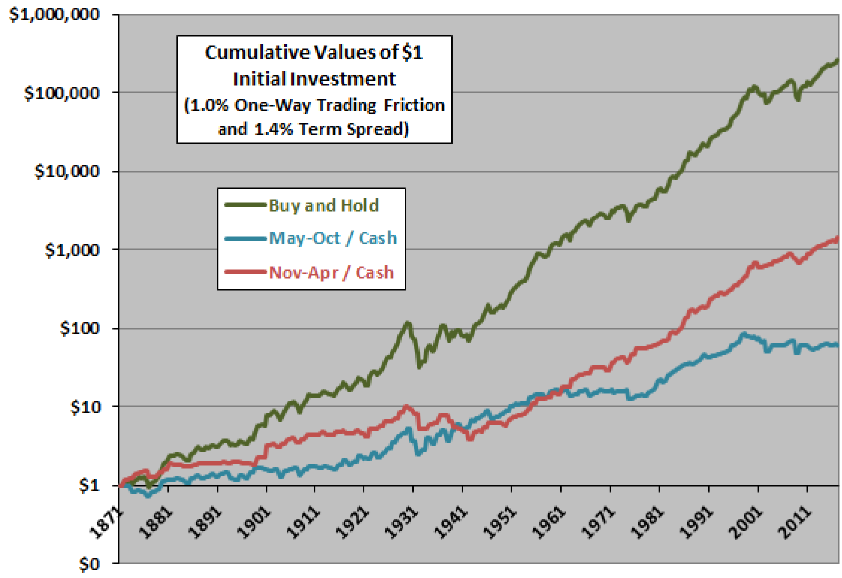
As the youngest group of adult consumers, Millennials are the most underinsured generation. In large part, this is because many have delayed many major life milestones such as purchasing a car and a home, or starting a family, when compared to past generations. These delays have kept Millennials from focusing on their insurance needs.

The moral of the story is that millennial parents have great intentions but lack the financial discipline needed to provide a certain degree of stability and achieve long term goals. It is not always what we do that hurts us, but often what we fail to do. Without improvements in the above noted areas, it may prove hard to provide the life for our children that we all strive for. It is a bit of an oxymoron that the critical time to start saving is when resources are highly tapped, but the fact of the matter is that time is on your side in the early years, so the time to start saving is now.

TO PAGE 1 Disclaimer TO PAGE 2

Sell In May And Go Away— CONTINUED

The chart of the NYSE since 1871 gives a long term perspective of this theory in practice. The Green line is indicative of an investor who ignored the "Sell in May" theory and stayed invested the entire time. The Red line shows the return progression of investments using the "Sell in May and go away until October" system. The Blue line illustrates the exact opposite of the "Sell in May" strategy. Note that the Blue line may not have produced the same returns as the "Sell in May" strategy, but none-the-less, it had positive earnings growth.



If an investment of $1 was made in 1871 and the money stayed invested, the accumulated value would be approximately $400,000 today. Compare this to the "Sell in May" line that barely earned $1,000 or the Blue line that would be worth less than $100.

My take away from this is that trying to time the market is a fool's game. Essentially, the most realistic strategy for the majority of us would be to just invest in the markets, assuming we are comfortable with the volatility that we will surely experience.

Trying to time the market is definitely a low probability endeavor but procrastination is worse. Investors who are waiting for the market to correct or drop often find themselves buying in at a higher price than they initially could have.

An analysis of investor behavior from SigFig, an investment planning and tracking firm, found that during the market correction in October 2014 roughly one in five investors reduced their exposure to equities, mutual funds and ETFs, with 0.6 percent selling 90 percent or more. At the time this may have appeared to be a brilliant move. Hindsight tells a different story. SigFig found that "Those who appeared to panic the most—for example, those who trimmed their holdings by 90 percent or more—had the worst 12-month trailing performance of all groups."

Aside from the fact that market timing rarely works, let's explore why this year in particular investors may want to ignore the "Sell in May" strategy.

There is a worldwide rally brewing. It is not just U.S. stocks. Many world markets are approaching or are at new highs. U.S. companies are trending to grow profits at a nearly 15% pace in Q1 of 2017, its best quarter since 2011. This trend will likely continue as the majority of CEOs are offering upbeat future outlooks.

We are nine years into this recovery and the economy is still expanding and is likely to grow for the next year or two.

If you are a long-term investor the best time to invest is now.

TO PAGE 1

TO PAGE 2

A LOOK AT EMERGING MARKETS—Continued.

tends to either lead the charge and outperform most other asset classes, or, find itself at the bottom of the list. Rarely, if ever, does this asset class find itself planted nicely in the middle. For example, in the Asset Class Quilt Chart below, one can see that in nearly every instance except one, emerging markets (green box) finds itself in either the top two asset classes for a year or the bottom three asset classes for the year.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10 Years
REITs 35.1%	Emerging Mkts 33.1%	Bonds 7.6%	Emerging Mkts 68.9%	REITs 28.3%	TIPS 13.3%	Emerging Mkts 19.1%	Small Cap 41.0%	REITs 30.1%	REITs 2.2%	Small Cap 8.4%
Emerging Mkts 31.4%	Comdty 14.9%	Cash 2.1%	Small Cap 41.6%	Small Cap 27.2%	REITs 8.5%	Int'l Stocks 18.8%	Mid Cap 33.1%	Large Cap 13.7%	Large Cap 1.3%	Mid Cap 7.9%
Int'l Stocks 25.9%	TIPS 11.9%	TIPS -0.5%	Mid Cap 37.6%	Mid Cap 26.3%	Bonds 7.7%	Mid Cap 17.8%	Large Cap 32.2%	Mid Cap 9.4%	Bonds 0.5%	REITs 7.4%
Small Cap 17.0%	Int'l Stocks 9.9%	Mid Cap -36.4%	REITs 29.6%	Emerging Mkts 16.5%	Large Cap 2.1%	REITs 17.5%	Int'l Stocks 21.4%	Bonds 6.0%	Cash 0.1%	Large Cap 7.2%
Large Cap 15.6%	Mid Cap 7.1%	Large Cap -36.6%	Int'l Stocks 26.9%	Comdty 16.2%	Small Cap 1.1%	Large Cap 15.8%	REITs 2.3%	TIPS 3.6%	Int'l Stocks -1.0%	Bonds 4.3%
Mid Cap 10.0%	Bonds 6.7%	REITs -37.1%	Large Cap 25.9%	Large Cap 14.8%	Cash 0.1%	Small Cap 15.7%	Cash 0.1%	Small Cap 3.0%	TIPS -1.8%	TIPS 3.8%
Cash 4.9%	Large Cap 5.5%	Comdty -37.4%	Comdty 20.1%	Int'l Stocks 8.2%	Mid Cap -2.1%	TIPS 6.4%	Bonds -2.0%	Cash 0.1%	Small Cap -1.8%	Int'l Stocks 2.8%
Bonds 3.9%	Cash 5.0%	Small Cap -37.6%	TIPS 8.9%	Bonds 6.4%	Int'l Stocks -12.3%	Bonds 3.8%	Emerging Mkts -3.7%	Emerging Mkts -3.9%	Mid Cap -2.5%	Emerging Mkts 2.8%
Comdty 2.1%	Small Cap 1.8%	Int'l Stocks -41.0%	Bonds 3.3%	TIPS 6.1%	Comdty -14.0%	Cash 0.1%	TIPS -8.5%	Int'l Stocks -6.2%	Emerging Mkts -16.2%	Cash 1.3%
TIPS 0.2%	REITs -16.5%	Emerging Mkts -48.9%	Cash 0.2%	Cash 0.1%	Emerging Mkts -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Comdty -7.7%

Funds: EEM, VGSIX, MDY, SLY, SPY, EFA, TIP, AGG, DJP, T-Bills

In other words, emerging markets investors are no stranger to the ups and downs of volatility. Unfortunately, EM's predictability ends here and investors are left to guess whether it will be a top of the quilt year for EM or a bottom of the quilt year.

If the beginning of 2017 is any indication, Emerging Markets could be making a comeback after several years in the red. The MSCI Emerging Market Index has posted a gain of 23.30% over the past 6 months. Not since 2012, has this asset class had a positive year but it seems to be heading in that direction. There are many reasons for this, but more recently in the past 2 years, concerns about China's economy and a fall in oil prices are largely to blame.

When Trump took office, there was uncertainty about what kind of impact his protectionist policies would have on the emerging markets sector. Especially since they seem to be geared towards a de-globalized economy. His promises to boost U.S. industry and ensure that more goods and services are produced and sold locally in the U.S., poses some challenges for emerging markets. However, a bigger argument is now being made that emerging markets are moving towards a position in which they no longer need U.S. consumers. China and India maintain the world's largest populations and as these countries develop economically, they have more than enough people to support local industry. This is supported by current population trends in which, over the next 30 years, population declines in western countries will mean greater appeal to servicing the larger consumer base in those counties.

I can't say with any certainty that emerging markets will finish the year on top of the asset allocation quilt, although it does appear to be heading in that direction. What I do believe is that incorporating some Emerging Markets into a diversified portfolio may prove to be a good long-term strategy for a young investor, given the economic and demographic direction of developing countries in Asia and other parts of the world.

GO TO LINKS PAGE Disclaimer GO TO PAGE 2

An Agreement of Purchase and Sale is a written contract between a seller and a buyer for the purchase and sale of a particular piece of property. Items such as price, length of closing and conditions are all things included in the agreement. Since the agreement is legally binding, it is important to get advice before signing on the dotted line. Once signed, and the offer accepted, the agreement cannot be cancelled unless both parties agree.

<u>There are specific items for which you should review with extra consideration:</u>

Fixtures and chattels: fixtures are improvements that have been made to a property that are attached, such as cupboards or water heaters, while chattels are moveable items of personal property, such as furniture or appliances. It is crucial to get these items in writing to ensure you are protected should they be damaged or removed upon closing.

Title and other searches, closing arrangements, and completion date: performing a title search will ensure that there are no problems or liens with the property. Closing arrangements should also be clearly outlined, as this is the date the seller must give vacant possession of the property to the purchaser.

Conditions: these include items such as financing or inspection. Conditions are crucial to protecting the purchaser to ensure that if something specific, such as financing, cannot be obtained; they are not on the hook for the full purchase price. On the seller side, usually the lower the number of conditions, the more appealing an offer is.

It is always better to err on the side of caution, and have a lawyer review any paperwork for the purchase and sale of a property before making the agreement legal. Ensuring your rights are protected is what we guarantee at Mazzeo Law. Whether you are buying resale, or from a builder, you don't want any surprises after you have already put through the agreement. As always, consultations with us are free, so give us a call to set up a meeting.

www.mazzeolaw.ca

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Labour Sponsored Investment Funds ("LSIF") have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.

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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RETURN TO PAGE 1