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# KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 6, ISSUE 11 NOVEMBER 2017

"I am more concerned with the return of my money than the return on my money."
-Will Rogers

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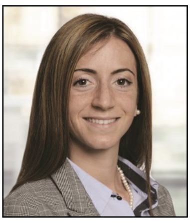
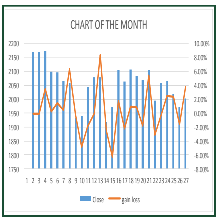
**Sergio Simone**
EDITORIAL COMMENT



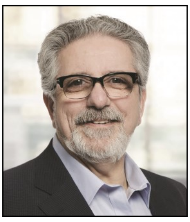
**Kristina de Souza**
LONG TERM CARE INSURANCE




SECULAR BULL AND BEAR MARKETS

**Ryan Simone**
RETHINKING RETIRMENT INCOME

## Editorial Comment



Sergio Simone

The current bull market continues to run with no end in sight. So far this year there have been more than 40 new record closing days. With the looming vestige of tax reform on the American horizon the bulls continue to push the markets onwards and upwards, and that is what has me concerned.

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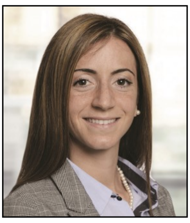
## Long Term Care Insurance



Kristina de Souza

The landscape of the aging population has undergone profound changes in recent years. Thanks to healthier living and medical advances, today's seniors are living longer. Coupled with this rise in life expectancy inherently comes an increased risk of losing the ability to care for one's self. Most individuals put a great deal of care into planning and saving for retirement, but the amount of time spent in these retirement years is raising the bar for how much savings is actually required.

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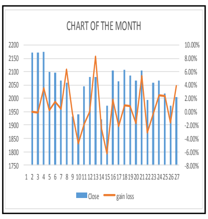
## Secular Bull and Bear Markets




March 2009 was a turning point in the stock markets. It was the end of a secular bear market and the beginning of a secular bull market. Since that turnaround date, the S&P 500 has established a series of inflation-adjusted record highs.

The term secular comes from the Latin "saeculum" which translates to "long period of time".

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Ryan Simone

## Rethinking Retirement Income

Did you know that the retirement age of 65 was set during a time in history when the average life expectancy was 61? Things have certainly changed for retirement planning and it's time to reconsider traditional practices.

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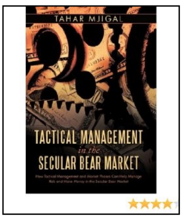


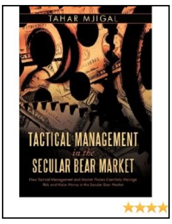

BOOK OF THE MONTH

FUND OF THE MONTH DYNAMIC POWER GLOBAL GROWTH


INVESTMENT TERMINOLOGY

JOINTLYHELD PROPERTY AND RESULTING TRUSTS

## Book of the Month




### Tactical Management in the Secular Bear Market

By Tahar Mjigal

This book examines: The big picture of the market and economic variables that move the market; the catalysts behind a new secular bull market; market forecast; tactical management in the cyclical bear and bull markets; global psychology; and tactical risk management in each market phase.

## Fund of the Month—Dynamic Power Global Growth

The fund seeks to provide long-term capital growth through investments in a broadly diversified portfolio consisting primarily of equity securities of businesses based outside of Canada.

## Investment Terminology


### Market Melt-up

A dramatic and unexpected improvement in the investment performance of an asset class driven partly by a stampede of investors who don't want to miss out on its rise rather than by fundamental improvements in the economy. Gains created by a melt up are considered an unreliable indication of the direction the market is ultimately headed, and melt ups often precede melt downs.

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

# MAZZEO'S LAW

### JOINTLY HELD PROPERTY AND RESULTING TRUSTS

A recent decision from the Ontario Superior Court of Justice should serve as a warning for common-law couples to maintain separate assets if they don't want to share them upon separation, says Vaughan family lawyer Paul Mazzeo.

Please click on the link to continue reading Paul's article Jointly Held Property and Resulting Trusts

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### Risk of Market Downturn "More Acute Than Ever Before"

Global securities regulators are worried the risks of a market

### Multi-asset Global Income Investing

With Canadian investment grade bond yields near historic lows, investors may not be getting the income they need

### Case Study: When Someone Dies Before Making a Will

A tragedy has taken the life of Amira after she unexpectedly

### Missing an Additional 'Melt-up' In The Market

With stocks notching new highs like clockwork—and some experts calling the market "frothy"

### Senate Advances Tax Bill

The Senate Finance Committee approved its tax reform bill, sending it to a full Senate where some Republicans are skeptical.

### Using Tax Advantages of Life Insurance in Your Financial Plan

While most people may look at life insurance proceeds simply as

### Pace of Inflation Slows in October: Stats Can

The annual pace of inflation cooled in October as the cost of gasoline came back down after spiking higher in September

### AI Cannot Replace Human Advisors

Despite the recent proliferation of digital asset-allocation services (a.k.a. robo-advisors) they pose

### Interest Rates Likely On Hold Until April: CIBC

The Bank of Canada will wait until at least April to change interest rates, allowing it some time to

### Japan Extends Economic Growth Streak

The Japanese economy grew for a seventh consecutive quarter—the longest streak in nearly two decades—according to

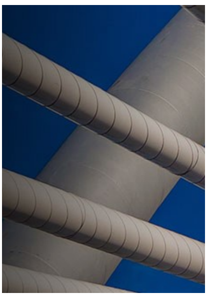
### Ways To Stop Elder Financial Abuse Before It Starts

As Baby Boomers continue to enter their senior years in large

### At Least One Type of Equities is Still Undervalued: REITs

Record-high stock markets, near record-low credit spreads and

### Fixed Income Outlook, A Tight Market Gets Tighter—Guggenheim



Investors might be tempted to take a short respite from defensive positioning and increase risk as we head into the final weeks of the year. Seasonal patterns are turning in favor of risk markets—since 1996, the S&P 500 has rallied by 5 percent between Oct. 15 and Dec. 31 on average. Fueling what we are anticipating to be a near-term melt up, the economy is the strongest it has been since the recession, consumer sentiment is at a 13-year high, and easy monetary policy around the world continues to support asset prices.

While we expect the next few months to be positive for equities and credit, our focus remains on our longer-term consistent performance goal and

## VIDEO LINKS

### Help For Aging Property Owners

Kevin Wark, tax consultant, Conference for Advanced Life Underwriting and managing partner,

### Autumn 2017 Economic Forecast

The euro area economy is on track to grow at its fastest pace in a decade this year, with real GDP

### AGF Asset Allocation Committee Outlook—Q4 2017

Kevin McCreadie discusses his quarterly outlook and portfolio recommendations


### Wells Fargo Monthly Economic Outlook

November 2017

In this video update, Wells Fargo Global Economist Jay Bryson and Economist Sarah House discuss GDP growth expectations, monetary policy, the global economy, and more.

I'm not implying that it is going to come crashing down any day soon, but I do believe that when everyone jumps on the bandwagon it may be time to consider our options. It may be time to ask, "what if I'm wrong?" My dilemma seems to be that as much as I'm trying to find reasons for the markets to turn around and head south, the indicators I have my eyes on are saying the opposite.

Global economic indicators are still quite good; equities are continuing to rise; U.S. economic surprises are biased to the upside; U.S. tax cuts have passed the initial hurdles; In Japan, Abe won a landslide victory and Jerome Powell is likely to become the next Chairman of the Federal Reserve.

On the negative side, geopolitical issues in Europe are getting messier, especially in Austria and Catalonia; the ongoing Russian meddling investigation continues to dominate headlines; the Canadian economy is slowing down; Inflation expectations are falling; NAFTA negotiations have stalled, and China has unveiled its new policy goals.

Let's tackle the negative side. Over the past few years the Eurozone has experienced a steadily declining unemployment rate and is now well below the 5-year average of 9.6%. Meanwhile, European manufacturing has been strengthening quite steadily over the past year and the PMI has remained well over 50 indicating expansionary territory. October saw the PMI reach its highest level in over three years, a huge positive indicator. Although Consumer Confidence is not excessively positive and leans towards a neutral view of the overall economy, it has reached its highest level since 2001. Another positive indicator is that European equity valuations remain quite attractive relative to the U.S. market. This is despite a slight closing of the gap with U.S. valuations in recent months. A major reason I find it difficult to discount the European economy is that it has continued to climb in the face of continuously negative headlines.

Despite great Q1 and Q2 growth numbers for Canada the third quarter experienced a significant slowdown. The Bank of Canada has also suggested that after a couple of rate hikes they would now take a breather. This may be partly due to the fact that Canada's non-energy export volumes remain 10% or so below levels reached 10 years ago which could be indicative of deeper problems. Canada also seems to be lagging China and Mexico for a share of U.S. goods as imports have fallen to less than 13% from 20% just two decades ago.

While the Bank of Canada was clear in its October Statement that it will be very cautious in raising interest rates because "household spending is likely more sensitive to interest rates than in the past", strong data may eventually force its hand. Due to the greater uncertainty in the Canadian economy going forward, we will likely maintain a lower allocation to Canadian equities.

Economists are largely in agreement that NAFTA has provided benefits to the North American economies. Regional trade has increased sharply over the last two plus decades and cross-border investment has also surged but debate continues to exist regarding NAFTA's legacy of creating more job losses and wage stagnation in the U.S., with some workers and industries facing painful disruptions as they lose market share due to increased competition. Others debate that many have gained from the new market opportunities that have been created since NAFTA was implemented in 1994.

President Trump has committed to renegotiating the terms of NAFTA. While details of the talks are classified, the Trump administration has said it will focus on reducing the U.S. – Mexico trade deficit, tightening rules-of-origin requirements, reforming the investor-state dispute resolution mechanism, and updating the pact to include digital services and intellectual property. Unfortunately, there is a lot of uncertainty surrounding these negotiations that have not been aided by Trump's threats to withdraw the United States altogether. NAFTA remains a large uncertainty in how the 2018 economic landscape will unfold.

As we settle into the middle of Q4 2017, we believe global growth signals are solid and there is little evidence that the economic expansion is nearing an end. A hallmark of the recent growth trend is low volatility. The S&P 500 has not seen a 3%

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drawdown since the U.S. election over a year ago. This represents the second longest such record going back almost 90 years.

Our forecasts continue to see sustained growth albeit modestly. The world's major economies continue to expand in a synchronized fashion as evidenced by rising Purchasing Managers' Indices (PMIs), and while this current cycle seems to be getting a little long in the tooth, we are not experiencing the typical excesses that tend to loom in advance of a recession.

Economic data continues to surpass expectations. The U.S. Fed is farthest along in normalizing monetary policy after hiking rates four times since the end of 2015. The Fed is now scheduled to begin scaling back the reinvestment in Treasury and mortgage securities as it looks to reduce its balance sheet. Meanwhile, the Bank of Canada has hiked twice since July and the Bank of England raised its benchmark rate for the first time since 2007. These are all signs of economic expansion. Europe and Japan remain a little behind and continue to stimulate their economies with ultra-low interest rates and quantitative easing programs.

For those investors with a penchant for fixed income, higher returns may exist in corporate credit. However, the caveat here is that the spread offered on corporate debt relative to sovereign bonds is historically small, suggesting that credit markets may be fully valued, and investors are not being compensated enough for the additional risk of default. Also, rising rates may act as a headwind for fixed income and we continue to lean towards equities for more favorable returns.

Based on the economic landscape, we continue to overweight equities and underweight fixed income, but at a more reduced gap between the two. This may be the time to consider adding some additional insurance to your investment portfolio.

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**Long Term Care Insurance—CONTINUED**

For a number of Canadians, the long-term care (LTC) system is somewhat of a safety net should they become unable to care for themselves or those they love. Provincial health plans may cover some of the costs associated with LTC, but the bulk of expenses ultimately rests with the family.

As a result of the recent demographic changes, there have been vast changes in the long-term care sector here in Ontario. The need for care can include staying at a long-term care facility; somewhere that provides seniors with around the clock nursing and personal care. Long-term care is encompassed within Ontario's health care system, and funded on a cost shared basis with both the Government and residents. On top of room and board, residents are required to cover their own costs for any medications or services not covered by private or provincial drug benefit programs.

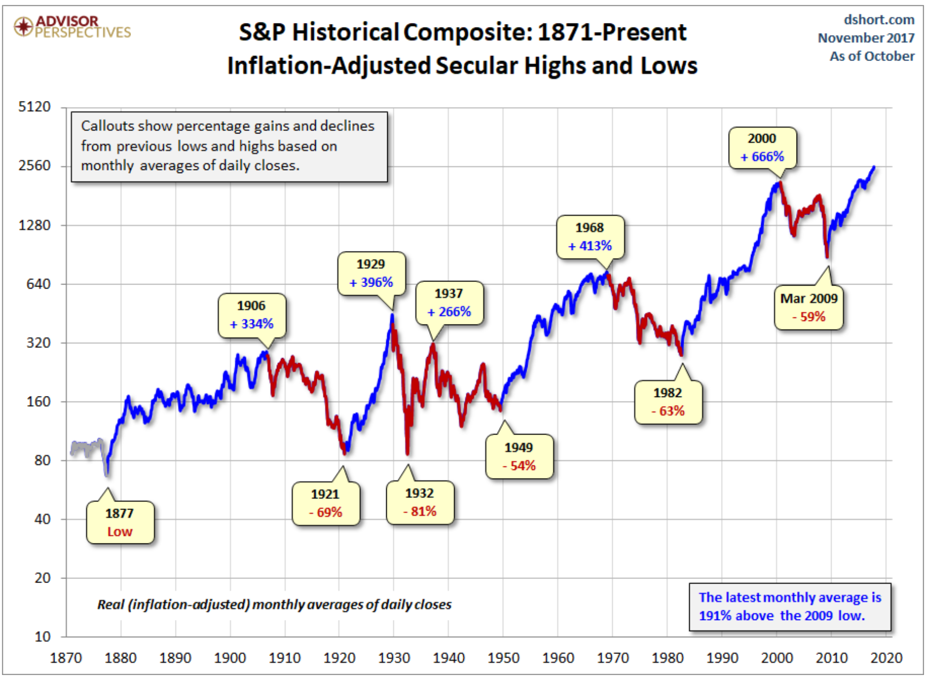
There are some concerning stats surrounding the long term care system in Ontario. The average cost to stay at a Government-subsidized home is upwards of $2,000 per month. However, more than half of LTC homes are privately owned and are small in size with less than 100 beds available. On that note, privately-owned retirement residency may cost anywhere from $3,000-$4,000 per month for a semi or private room. Furthermore, the average time to attain placement in a LTC home is nearly 5 months, and there are over 30,000 people on the wait-list for placement in a long stay bed. It is clear to see how the cost of living alone may cause great financial hardship if the proper financial plan is not in place.

In the past, long term care homes have accommodated seniors with a wide range of needs. In recent years however, only those individuals with "high" or greater care needs are eligible for long-term care. This change has to do with the government's ultimate goal of having seniors experience care within the home. A more indirect and less desirable outcome of the stricter admission criteria has led to seniors entering LTC homes with far greater needs than ever before. As mentioned, staying in such a facility can be costly, so planning and accounting for these needs is an essential part of your retirement planning process.


The good news is that Long Term Care Insurance covers what provincial health plans do not. These policies serve a multitude of purposes, namely to provide quality care in your home or in a private long-term care facility of your choosing. LTC insurance is used to buffer any financial impact associated with the need for care, and can be used to cover expenses such as care by a certified nurse, rehabilitation and therapy, personal care and home care services (assistance with daily activities). There is even the option to compensate a family caregiver with the proceeds of the policy. A typical LTC Insurance policy pays a tax-free benefit on a monthly basis should you develop the need for daily care as the result of illness or accident; to be used as you see fit without providing receipts for its use. With an LTC policy, often you have the ability to choose not only the benefit amount but the duration of payments and the waiting period required. There are additional benefit options that can be elected, including refund of premium for heirs, and increases associated with the cost-of-living.

Ultimately with LTC insurance, not only are you ensuring you will have the proper care in place throughout some of your most vulnerable years, but you are protecting the savings and assets that you spent a lifetime working to achieve.

## Secular Bull and Bear Markets - CONTINUED




The blue lines illustrate trends that have led to new all time real highs. The red lines are indicative of secular bear markets, or markets that have trended downward. For example, there was an obvious rally between 1932 and 1937 and despite its strength, it still remained part of the overall Bear Market that began in 1929. Even though the rally was strong, it failed to still fall 29% below the previous all time market high.

Some interesting highlights that can be glossed from the chart is that Secular Bull Market gains have vastly outweighed Bear market losses. The total gains during this time period were 2,075% while the total losses were only –329%. Another statistic is that total bull years were 80 opposed to 52 Bear years. Therefore bull market years outnumber bear market years by a 3:2 ratio.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## RETHINKING RETIREMENT INCOME —Continued.

There's a longstanding rule of thumb in which retirees should take 4% of their portfolio annually. Traditionally this would maintain one's lifestyle for the rest of his or her life. Unfortunately, this rule of thumb came about during a time when low risk investments in fixed income securities would yield 4% or greater. That is no longer the case today

Today, looking at the Bank of Canada's posted rates, safer fixed-income returns on 5 - and 10-year bonds range around 1.29%. This may not be a problem for an investor with a life expectancy in the 60s but today's mortality tables give men a 50% chance of living to 89, and an over 25% chance of living past 94! These numbers are even higher for women. A retiree taking 4% of their conservative portfolio is likely to deplete his savings by age 89. If you don't think you'll live to 89, remember that you have a one in two chance and in Vegas those are considered good odds.

If you are approaching retirement, plan on a long one. Without some thoughtful planning, you could easily outlive your savings and have to rely on government benefits or family for your income.

Another factor that could put a kink in the 4% return is inflation. While inflation has been low in recent years, it can have a powerful impact over a 20 or 30 year time frame. Even a low inflation rate of 2%, like we are currently experiencing, can turn a current income of $50,000 per year into approximately $30,000 in 25 years. Viewed in a different way, in 25 years you would need more than $82,000 to have the same spending power as $50,000 today.

Since a 4% withdrawal isn't sustainable what options do we have? Option one is to increase the risk profile of the portfolio and use high risk investments to make up the shortfall of conservative investments. This is not an ideal situation for a retiree who is already more vulnerable to down trending markets then someone in their 20s, 30s, or 40s. Option two is to drastically decrease the annual withdrawal from 4% to something closer to 1.29%. Also not an ideal situation if this interferes with one's lifestyle. A third option may be a combination of the first two options but with less drastic changes on each side of the coin.

Although markets do experience volatility which may be unsettling when you are relying on income from your portfolio, you still need equities for growth potential. This is as critical in your retirement as it is when you are saving for it. Fortunately history does suggest that the market is able to recover from declines that happen during a year and provide investors the potential for positive long-term returns. In fact, over the last 35 years, the market has experienced positive annual returns more than 80% of the time.

Some planners argue that a 3.3% annual withdrawal rate is sustainable to age 97. This isn't drastically lower than the traditional 4% but it still may interfere with lifestyle. Shortfalls in lifestyle can be addressed increasing only a portion of the portfolio's risk profile. However, this can still be harmful to the longevity of a portfolio if portfolio withdrawals begin during a market drawdown, making it crucial that retirees have an actual plan in place that can accommodate for this type of scenario. For instance, a proper plan will consider the type of product a retiree is using to fund retirement and not just the risk profile. Perhaps instead of a high risk mutual fund which is vulnerable to market drawdowns, a retiree may opt for a segregated fund which offers a guarantee on investment. In any case, it won't be a single option that answers the 4% dilemma for today's retirees. Rather, retirement planning needs to involve a hybrid of all options which can be complex.

There are no longer simple answers for when someone should retire or when someone should take their benefits. Given longer life expectancies, low interest rates, and low returns on bonds, it is more than likely harmful to rely on the traditional rule of thumb. Doing so, without a proper plan, means you'll have a one in two chance of being 89 and broke.

**FULL DISCLOSURE—FEES —Continued.**

07-23-1998 to 09-30-2017


Figure 3: Red line shows the Power American Growth Fund; Blue line represents the index.

I'd like to suggest that investors should place more emphasis on value and less on fees. Are the fees you are paying creating additional return? If so, then a lower earning ETF may not be the best solution for your portfolio.

Obviously, we can't know for certain what these funds will return over the next 10 years. But if we pick those managers with the best track records and the longest histories we can focus less on MER fees and more on meeting and possibly exceeding our financial goals. Investors who are led in their decisions by an uniformed, low-MER strategy may find themselves at a shortfall when it's time to divest.

Jointly Held Property and Resulting Trusts—Continued

“For common-law spouses, property is split according to ownership, unlike married spouses, where there is the presumption that everything is split evenly,” says Mazzeo, principal of Mazzeo Law.

“Common-law couples should be aware that if they don’t want assets split in half, and if the assets are actually one person’s property, they should be held that way."

A cohabitation agreement is another way to ensure the property remains in the hands of the intended spouse, Mazzeo tells AdvocateDaily.com.

*Chechui v. Nieman*, 2016 ONSC 1905 (CanLII), dealt with the ownership of a jointly owned house and a joint investment account worth $1 million between a couple who were engaged but later split up. The ex-common-law wife, the applicant, claimed 50 per cent ownership in both, while the ex-common-law husband, the respondent, claimed his wife held her interest in the home and the account in trust for him.


The respondent’s mother provided $1.7 million toward the purchase of the home while the applicant obtained a mortgage for the remainder of the purchase price.

After his mother died a short time later, the husband paid off the mortgage and opened a joint investment account, the decision says.

Considering the evidence, Justice Kenneth Hood sided with the wife with respect to the house and with the husband with respect to the investment account.

“The respondent was making a claim that although the assets were held jointly with his wife-to-be, he said she was just holding it in trust for him, meaning it was all his, even though they owned the assets jointly,” says Mazzeo, who comments generally on the case.

Specific evidence on how each asset was obtained was important to the decision, he says.

The judge considered evidence from a financial advisor to whom the respondent explained how he wanted the money invested and how he wanted to collect investment income.

“It was clear that it was really his money and set up as a joint account, not as a gift to her, but with the intention that if he passed away, the monies would be transferred to her,” Mazzeo says.

However, the same argument didn’t hold for the property.

The judge ruled that no resulting trust claim could be made with respect to the $1.7 million gift provided by the respondent’s mother, and the mortgage was given on the strength of the applicant’s income. Considering evidence from two lawyers the mother consulted prior to giving the money to her son, the judge said it was clear the money was intended as a gift to both.

Mazzeo says this situation likely wouldn’t be much different if the pair were actually married before the split.

“While there are some differences with treatment of the matrimonial home, exclusion doesn’t apply, so I don’t think the outcome would be different.”

Still, Mazzeo says the case highlights the potential dangers of holding joint property if the intentions aren’t made clear from the beginning — and put in writing.

“You could end up losing a significant amount of money,” he says. .

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