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Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 6, ISSUE 12 DECEMBER 2017

"A fine is a tax for doing something wrong. A tax is a fine for doing something right."- ***Anonymous***

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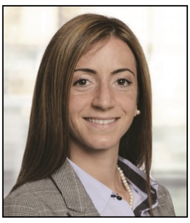
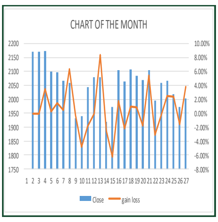
Sergio Simone
EDITORIAL COMMENT



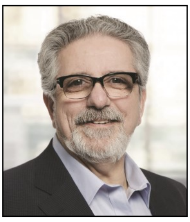
Kristina de Souza
PENSION TAX CREDIT STRATEGY



THE BUSINESS CYCLE—GLOBAL EXPANSION

Ryan Simone
LIFE PLANS, NET WORTH AND THE CHALLENGE

Editorial Comment



Sergio Simone

Over the last year it has become evident that the climate for interest rates has shifted from one of decline or holding to one that is conducive to tightening. Interest rates are on the move higher. We have overweighted mutual funds that focus on dividend-paying companies for many years now and investors may well be wondering if this will remain a sound investment philosophy going forward.

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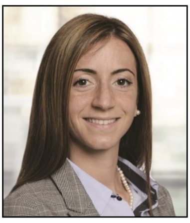
Pension Tax Credit Strategy



Kristina de Souza

It is common practice to wait until the age of 71, at which point seniors are forced by the Government, to convert a Registered Retirement Savings Plan (RRSP) to a Registered Retirement Income Fund (RRIF). This is because most individuals wish to minimize the mandatory withdrawal amount on their RRIF.

However, there is an up-and-coming, unique strategy available to seniors that will ultimately reduce their overall tax liability.

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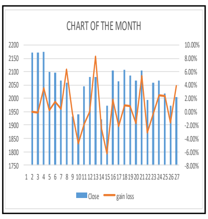
The Business Cycle—Global Expansion



The global expansion remains relatively steady and synchronized across major economies. Broadly speaking, most developed economies are in more mature (mid-to-late) phases of the business cycle. The Eurozone may not be as far along as the U.S. in the cycle so it will continue to benefit from improving sentiment and credit conditions.

Continue Reading

Ryan Simone

Life Plans, Net Worth and the Challenge of the Canadian Economy

When I create Life Plans for our clients there is generally one constant: real estate almost always makes up a significant portion of a person's net worth. It is no surprise that there is

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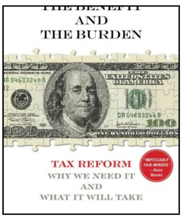


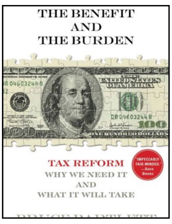
BOOK OF THE MONTH

FUND OF THE MONTH MANULIFE MONTHLY HIGH INCOME

INVESTMENT TERMINOLOGY

DO YOU HAVE A WILL?

Book of the Month



The Benefit and the Burden

By Bruce Bartlett

The U.S. Tax Code has undergone no serious reform since 1986. Since then, loopholes, exemptions, credits, and deductions have distorted its clarity, increased its inequality, and frustrated our ability to govern ourselves. The answers to all these issues gives a sense of the code's many benefits and burdens.

Fund of the Month—Manulife Monthly High Income Fund

Managed by the Manulife Value Equity Team, all companies are viewed under the same fundamental proprietary lens, using a scalable and repeatable process driven by the team's fundamental beliefs unchanged since the fund's founding in 1996. The team's focus is on creating a high returning conglomerate portfolio consisting of diversified businesses to ensure that revenue and earnings come from many different sources.

Investment Terminology

Call Risk

A callable bond has a provision that allows the issuer to call, or repay, the bond early. If interest rates drop low enough, the bond's issuer can save money by repaying its callable bonds and issuing new bonds at lower interest rates. If this happens, the bondholder's interest payments cease and they receive their principal early. If the bond holder then reinvests the principal in a bond of similar characteristics, he/she will likely have to accept a lower interest payment. Therefore, the investor's total return will be lower and the related interest payment stream will be lower—a more serious risk to investors dependent on that income.

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

MAZZEO'S LAW

Do You Have a Will? If Not, Here Are 7 Reasons Why You Should.

Something I see all too often as a family lawyer are people fighting over the estate of a loved one that has recently passed because there is no will left behind with instructions. Emotions and hurt can still occur even when there is one because family members sometimes feel the division of assets and such is unfair or disagree with the instructions.

Please click on the link to continue reading Paul's article "Do You Have A Will?

MAZZEO LAW

BARRISTERS & SOLICITORS

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Strong Fundamentals and Reform Efforts Bode Well for 2018

Equity markets have been buoyed by improving company

Bank of Canada Holds Interest Rates at 1%

The Bank of Canada maintained its key interest rate at one per cent, confirming expectations that the bank would hold off on

After 7 Years of Job Growth, Room for More, or Danger Ahead?

The economy's vital signs are stronger than they have been in

Brace Yourselves, Investors: We're About to Experience The Steepest Rate Hikes Since 2006

Wall Street economists are telling

Global Investment Outlook 2018—Blackrock

We debated the prospects for inflation, the sustainability of low volatility, the market impact of

Climate Change and Credit Risk

Moody's Investors Service, the bond credit rating dimension of Moody's Corporation, issued the

Expect the Fed to Stand by its 2018 Outlook

Financial markets see that solid growth will prompt the central bank to stick to three rate hikes despite low inflation.

SEC Chairman Urges Caution Over CryptoCurrencies and ICOs

With financial markets abuzz about cryptocurrencies and initial

Fed Raises Rates, Keeps Forecast for 3 Hikes in 2018

With a notable upgrade to its economic outlook for 2018, the

Five Things to Know About Upcoming Changes to CPP

Canada's finance ministers agreed to a suite of changes to

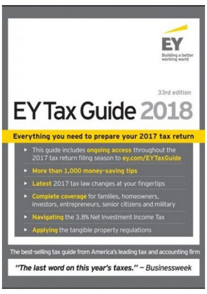
Have Stocks Reached a Permanently Rigged Plateau?

A painting recently sold for a record $450 million, a blanket

3 Key Investing Themes to Know for 2018

The Fed's rate increase this weak was widely expected, and focus is now on what's next for 2018.

Ernst & Young Tax Guide 2018



This is E&Y's 33rd edition and explains everything you will need to know to prepare your 2017 tax return.

The Guide includes ongoing access throughout the 2017 tax return filing season to ey.com/EYTaxGuide.

There are more than 1,000 money-saving tips. It also highlights the latest 2017 tax law changes.

VIDEO LINKS

How the World's Biggest Money Manager is Preparing for 2018

To most Main Street investors, BlacRock is basically invisible.

The Best Investing Advice for 2018 From Fortune's Experts

Every party has to end sometime. That's the troubling thought that's

When it Comes to 2018 Investing, 'Boring' is Better

One portfolio manager says the best way to position oneself in

Citizens National Bank 2018 Economic Outlook

Fueled by increased consumer spending and a decreasing trade deficit; Economist Bob Morgan predicts 2018 will be the best year of economic growth since the Great Recession of 2008-09. Strong job growth, increases in fixed business expenditures and rising incomes will all positively impact the US economy. Uncertainties that may impact business over the next year include a tight labor market, potential changes to tax law and rising interest rates.

EDITORIAL COMMENT CONTINUED

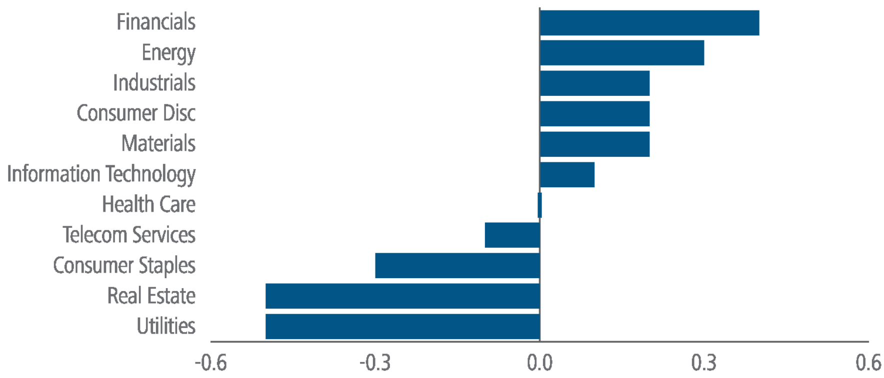
For three decades there has been a steady secular decline in interest rates across developed countries. In 1990 US 10-year Treasury bonds, a highly regarded “risk-free” asset was earning approximately 9%. Today, that same investment earns about 1.5%. Much of the yield on these bonds is driven by current economic sentiment. When economic conditions and fundamentals are strong and the long-term outlook for growth is positive, the attraction to these bonds wanes and people steer their investment dollars to equities. When there are perceived risks to economic growth and inflation, or when investors are frightened of the economic future, demand for these bonds increases, raising the price investors are willing to pay and lowering the yield.

The 2008 Global Financial Crisis was a catalyst for a trend to even lower rates as many central banks around the world lowered interest rates, some to below zero, in an effort to stimulate economic growth. The intention was to motivate investors to seek yield elsewhere in the markets, primarily in equities which would stimulate economic growth. Mutual funds began to invest in “bond proxies”. These are higher yielding equities like: Real Estate Investment Trusts (REITs); utilities, staples and telecom companies. The problem is that like bonds, these investments are also interest rate sensitive.

Since 2015 Canada and the U.S. have raised interest rates as a sign that the economy was back on stable footing. The Fed began unwinding its unprecedented stimulus program and the inflation rate began to inch above the long-stated target of 2%. Although the Eurozone has not followed this path yet, they are likely to move along the same trajectory as Eurozone economies continue to grow.

I do not believe that this is the time to take a short-sighted view and move out of dividend paying investments and into longer term Treasury bonds. The spread between yields on dividend-paying equities and government bonds in North American markets show that dividend yields continue to remain attractive on a relative basis. I believe that rates have a long way to go before the historical spread between bond yields and dividend yields normalize.

As previously mentioned, government issued bonds are considered “risk free” so when the interest rate on these types of investments increases, the dividend paid by a company that has many risks to deal with, like operating risk, market risk, leverage risk, etc., becomes less attractive on a relative basis. Fortunately, this does not occur across the board. For example, banks and other financial institutions tend to perform very well when interest rates rise because their net interest margin increases.



Source: Factset, Mackenzie Investments. Five years as of September 2017

An examination of S&P 500 companies’ performances during rising interest rate environments has shown that specific equity strategies tend to perform quite well during these times. Companies that are on a trend of growing their dividends delivered the strongest returns. The same companies also delivered these higher returns with less volatility than the broad markets. The key is that should economic expansion continue to happen, as is projected, and interest rates continue to move higher, dividend-paying companies will not all provide similar returns. These returns will be affected based on things like, sector. Some sectors have obviously offered better opportunities in a falling interest rate environment. I still believe that a sound dividend investment strategy can still generate attractive and better returns than Treasury bonds even when rates rise.

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Pension Tax Credit Strategy—CONTINUED

The approach works as such; individuals transfer money from their RRSP to their RRIF, and make withdrawals in order to capitalize on the Pension Income Tax Credit.

At first glance this approach may seem too good to be true, but the reality is that this is a legitimate and beneficial strategy; one that may save individuals between the age of 65 and 71 hundreds of dollars in taxes each year. The rationale is; should you fall in this age bracket and are not receiving any pension income, there are advantages to establishing your RRIF prior to the mandatory age of 71.

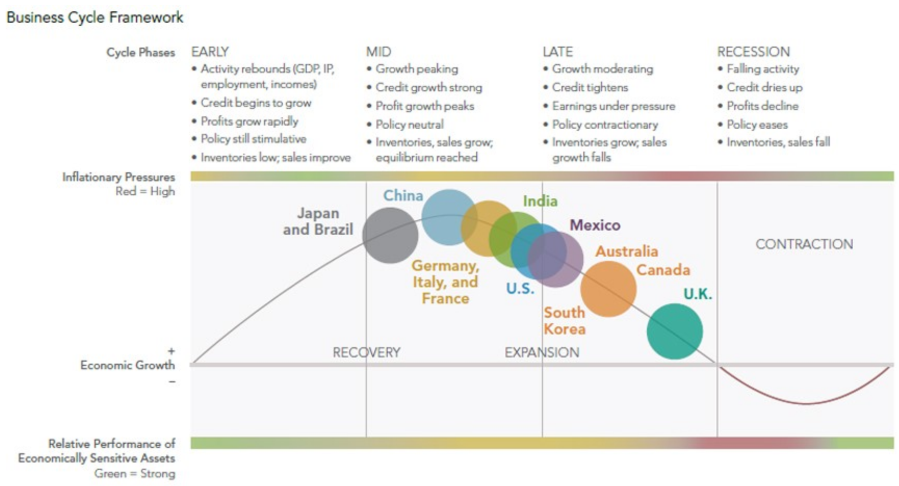
The basis for this approach, as mentioned, is the significant tax break the Government of Canada provides on the first $2,000 of income taken from a RRIF in a given year. This is how the strategy works in practice: transfer $2,000 from an RRSP to a RRIF and that $2,000 is subsequently withdrawn from the RRIF. Initially, this $2,000 withdrawal is subject to regular income tax, however, this amount is eligible for the Pension Income Tax Credit, which eliminates 15% in federal tax, in addition to 4%-11% in provincial tax.

Ultimately, you may end up saving up to $500 in taxes per year. With that said, the effects of this plan do depend on the tax bracket in which one falls. Those in the bottom tax bracket will effectively not pay any tax on the initial $2,000 RRIF withdrawal each year, and those in the higher tax brackets may pay a couple hundred dollars on the withdrawal.

There are a number of ways the withdrawals can then be handled. One approach is to deposit the $2,000 back in your RRSP (provided one has the contribution room and is younger than 71 years of age), get a refund on the taxes you paid on the RRIF withdrawal, and keep the credit. Keep in mind with this approach that you will eventually owe the taxes when the money is withdrawn from the RRIF. This strategy may be useful for individuals who are still working and will be in a lower tax bracket once they retire.

Another option, is to deposit the annual $2,000 RRIF withdrawal in a Tax Free Savings Account (TFSA). In this case, the funds can grow tax free until retirement, at which point they can be withdrawn without any tax implications. The key benefit here is that one can take advantage of the Pension Income Tax Credit on the withdrawals for a longer period, by beginning to deplete the RRSP at an earlier point in time. As one can see, there are a number of options available when it comes to retirement income planning, all of which are worth exploring with the help of a knowledgeable professional.

The Business Cycle-Global Expansion - CONTINUED



Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of Aug 15, 2017.

China's activity has rebounded to multiyear highs, but policy is tightening and slowing momentum in industrial activity and housing suggest most of the upside may already have occurred. Overall, the global expansion is on firm ground, but peak growth rates have probably already been reached.

The global financial markets have remained in a sweet spot amid steady growth, low inflation, and heavily accommodative monetary policies. The global recovery over the past 20 months or so, has boosted trade and multi-national profits, but the absence of a significant acceleration in inflationary pressures has mitigated any impetus for monetary policymakers to shift aggressively away from their extraordinarily easy policies.

From an asset allocation standpoint, the world seems to be in the midst of a slow transition toward a less accommodative monetary policy position. In addition, global activity is likely nearing a peak while the U.S. business cycle continues to mature. From a macro economic perspective, asset valuations are generally elevated and geopolitical risks are increasing. We believe thorough portfolio diversification that includes international equities and in-flation-resistant assets is critical to hold at this time in this business cycle.

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LIFE PLANS, NET WORTH, AND THE CHALLENGE OF THE CANADIAN ECONOMY—Continued.

a correlation between rising real estate prices and people's net worth, and, recent StatsCan numbers appear to back this up.

New financial data is out on Canadians and it appears that net worth is increasing amongst the population. The median net worth of Canadian families jumped 14.7% from $257,200 in 2012 to $295,100 in 2016. Canadians' largest asset is housing accounting for more than a third of total assets. However, where there is a home asset there is often an associated debt and StatCan's survey of financial security shows housing debt is also on the rise. 2016's median mortgage value was $190,000 which is a 20% increase from the 2012 survey and double the amount from the 1999 StatsCan survey.

Moreover, the number of 'debt-free' individuals is down from previous years. 'Senior-led' families typically make up the largest portion of debt-free Canadians. In 1999 72.6% of senior-led families were debt free. Today, the number of debt free senior-led families has dropped to 58%. One contributing factor of the increase in debt is that the average mortgage rate on principal residences is an historically low 2.94%. Simply put, it has been cheap to borrow money. Unfortunately, carrying debt in or near retirement years is not an ideal situation. As of 2016, 14% of mortgages (up from 8% in 1999) are currently held by people aged 65 and older.

When modeling a Life Plan, the initial building phase will show a client his or her net worth over time. Clients can see this number grow or shrink every year until the end of the plan. To make sure today's hot real estate market doesn't skew future net worth numbers, I'll typically set the plan to assume a growth rate on real estate equal to inflation (anywhere from 2% to 3% depending on how aggressive the forecast model will be). Even with the lower inflation-matched growth rate on real estate, most clients are taken aback by the size of their net worth towards the end of a plan. Unfortunately, a high net worth doesn't mean much in retirement years if most of it is tied up in the walls of one's home.

When I read that more near-retirement Canadians are carrying mortgages into their drawdown years, I can't help but think of it as a 'double the trouble' moment in planning. On one side is an individual who is exiting their wealth creation days and on the other side is that same individual who has a significant portion of his accumulated wealth locked up in his home. The icing on the cake is that this same individual is also carrying a large debt in the form of a mortgage. This can negatively impact the wealth conversion that needs to take place in retirement years. In years where we normally convert our assets into 'income assets' to fund a lifestyle, an increasing number of Canadians are instead converting assets to pay off other non-income producing assets. The long-term impact to net worth is very noticeable when modelling this into a life plan where net worth will rise consistently and then drop in a very dramatic fashion.

Although news of increasing net worth of Canadians seems promising, behind it all are signs that point to future trouble for the Canadian economy. We've entered a period of an aging population, rising interest rates, and increased debt. Our clients will recognize this challenge in their own portfolios via their underweighted position in Canadian equities – a position that will likely remain for some quarters to come.

Still, having a last will and testament will minimize family disputes.

When you don't have a will in place, your estate is tied up in the courts and eventually they end up deciding how to divide your estate without your direction. While there are more reasons than not, here are seven reasons why having one is a good idea.

1. Family Protection

One of the most important reasons for having a will is protecting the interests of your family and loved ones after your passing. Sometimes depending legal challenges beyond what you would imagine occur and a portion or your entire estate may be awarded to someone you would not have wanted to inherit it. For example, in a wrongful death lawsuit the father of a son who had passed suddenly was awarded over $1 million even though the father had not been part of his life for over 32 years. His mom and siblings who were part of his life received nothing.

2. Estate

In creating your will, you and only you decide how your estate is to be divided and distributed. It is a legally binding document that instructs exactly how you want your assets and such to be handled when you pass.

3. Inheritance

Controlling who gets what is an important part of your will. In fact, sometimes disinheriting certain family members to ensure they do not receive any inheritance is even more important. But if you don't have a will, you have no say and sometimes your full inheritance can be passed on to someone you would not have wanted to receive anything like an ex-spouse.

4. Children

Needless to say that if you have children, especially if they are minors, you would want to have a say in who will look after them should you pass away before they are able to care for themselves. Without any instructions, the court will have to appoint a family member or guardian to care for them.

5. Taxes

Appropriating your estate by dividing it among family members or donating to a charity of your choosing can minimize the taxes on your estate. It's unfortunate but without one, the estate is taxed and the government will still get its share in taxes. Avoid being overtaxed on your estate by having a will in place and all assets properly divided.

6. Executors

This is quite a responsibility for the executor as their role will be to pay all bills, close accounts, cancel credit cards, and notify any and all banks and business establishments of your passing. Having someone you can trust that is reliable and organized handle these things makes the most sense. It also doesn't have to be a family member, so choose this person wisely.

7. Gifts & Donations

Leaving a gift or donation behind is like leaving a legacy that can make a positive impact that lives on even when you are gone. Not to mention, that gifts and donations up to a certain amount are excluded from taxes.

None of us are guaranteed tomorrow and the only guarantee in life is that one day, whether sudden or not, we will pass on. Having a will can put our minds at ease and allow us to better enjoy our days while here knowing that our family's interests will be protected and taken care of.

Contact us for a free consultation and we will be happy to help answer and address any questions or concerns you might have with your last will and testament.

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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.

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