



In the text below, we include an article on estate preservation and also our thoughts on equity markets following U.S. corporate tax cuts.

As always, if you have any questions, please feel free to contact any one of us.

Estate Preservation

A comprehensive retirement plan addresses topics beyond “will I have enough?”. This is why part of our planning process is to ask you about your wills, powers of attorney, executor and insurance policies you may already have in place. Often times, some thoughtful planning can help minimize CRAs involvement with your net worth.

In the attached document you will find a brief document on Estate Preservation. Please let us know if you would like to discuss any aspect of your retirement plan in greater detail after having a moment to review.

Equity Strategy

Corporate Tax Cuts = Advantage North America

We start 2018 with a bullish outlook for U.S. and Canadian markets. After flailing about for the better part of a year, U.S. President Donald Trump and the Republican controlled Congress managed to pass their tax reform bill before year-end, with a substantial reduction to the federal corporate tax rate to 21% from 35% being the focal point from an investment perspective. The economic cycle almost always trumps politics when it comes to asset returns but, make no mistake, this is a big deal. A BIG positive deal in our view. Leaving aside the late cycle timing of this tax cut, it is definitely a tailwind for stocks and one of the reasons the fair value band for the S&P 500 was raised to 2,850-2,900 late last year. At the time, it was assumed the tax rate would go down to 25% and be phased in over several years for conservatism so the final product is a pleasant surprise, especially since it kicks in this year. Although precise figures are difficult to find, many analyses conclude that the average effective tax rate for publicly traded companies is in the 26% range (given loopholes, deductions etc) so a very rough approximation would see S&P aggregate earnings go up by 6% to 8% given the reduction in tax rates. Given current earnings estimates for companies have only just begun factoring in the new legislation, and leading indicators of corporate profitability continue to improve, we think there is still substantial upside to estimates, making the market more reasonably valued than what bearish pundits would have us believe. This is especially true given persistently low inflation and interest rates which make equities the most attractive asset class from a relative value standpoint.

There are also potential derivative impacts from the tax bill such as higher economic growth (through increased corporate and consumer spending), repatriation of foreign cash which could further drive mergers and acquisition activity. This boost to growth could prompt the Federal Reserve to raise rates a little faster but we see this as only a minor risk at this point in the cycle, especially given how low the Fed Fund's rate is by historical standards.

Monthly Market Commentary – January 2018

The impact of the tax cut will vary greatly by industry but generally speaking, profitable and U.S. focused companies will benefit most. In our view, financials will be one of the top beneficiaries and is one of our favourite sectors. BMO Capital Markets U.S. large-cap financials analyst very recently raised his estimates and targets meaningfully. He writes: “we estimate direct and indirect effects of tax reform, when considered altogether, to be 19% accretive to our two-year- forward core earnings per share (EPS) forecasts and 2% accretive to our two-year-forward book value per share (BVPS) forecasts, on average (unweighted) across our coverage universe of 26 large-cap banks and specialty finance stocks. Consequently, we raise our target prices by 16% on average, implying 11% mean upside for stocks.”

Transportation is another sector we like which should see a strong earnings uplift. BMO Capital Markets transportation analyst recently noted that he “expects significant EPS upside revisions across most U.S. transportation companies and well in excess of the accretion expected to the S&P 500.” He also thinks increased economic activity and excess capacity means railroads are in a good position to leverage stronger volume growth into higher incremental margins when compared to other industries. The positive impact will also be felt by Canadian companies with substantial U.S. operations such as railroads (as per the comment above), equipment manufacturers, banks and insurance companies.

Looking at BMO’s North American Risk Appetite Index, the good news is that despite daily records in many stocks indices, risk appetite continues to be muted from a historical perspective. We continue to think that the path of least resistance for equities may be a continued grind higher through year end.

Estate preservation

Many Canadians are concerned about their financial security in retirement and preserving the value of their estates for the next generation. It's a common and understandable situation.

Have you started to plan?

What's surprising is that so few have taken the time to create an estate plan that can help organize their assets, minimize taxes and pass along their estate in the manner they intend.

The predictable result: excess tax can be paid on retirement assets. When the time comes to settle the estate, the value may be substantially diminished. Many people simply have not made estate preservation a priority.

Just getting started is often the most difficult step you'll take. Once you've made the commitment to get started, you'll find it's far easier than you think. Please consider the following questions:

- How will you preserve your assets from taxes and unnecessary probate?
- How will you ensure the fair and timely distribution of your estate according to your wishes?
- How will you protect your family in the event of your premature death?
- How can you minimize capital gains taxes- during and after your lifetime?

- How can you preserve your RRSPs or RRIFs in their entirety for your heirs?
- How can you create wealth and enhance income on a tax-favoured basis?
- Do you have an updated will?
- Have you established a power of attorney – financial and quality of life?
- Are your intentions clear regardless of which spouse dies first?
- Do you have any assets that may attract U.S. or foreign estate taxes?
- Would you like to make any provisions for how and when your heirs are to have access to your assets?

With proper planning you can ensure that your estate is managed according to your objectives. We will help you to develop answers to these questions – answers which will result in a plan for now and the future. For more information, speak with your BMO financial professional who will refer you to an Estate & Insurance Advisor (Financial Security Advisor in Quebec) from BMO Estate Insurance Advisory Services.