BMO NESBITT BURNS

The Dorfman Group Journal

A Quarterly Review from the office of Michael Dorfman

Fall 2013

In this issue:

The Future of Oil Prices

Much has been written in the popular press regarding the future direction of oil prices. Certainly for the Canadian economy and stock market, energy is a defining commodity which influences several provinces' finances, companies and industry sub-sectors. Jeff Rubin, the former chief economist for one of our competitor firms has written extensively about oil as a commodity with decreasing reserves and increasing scarcity which would result in a $200 per barrel price. Certainly, this was the consensus view as emerging market demand and global growth rose in the 2000-2008 periods. Since then, oil prices have stabilized around the $100 per barrel price point and some signs leading to contrarian views are emerging.

First and foremost, we have learned that energy prices are much more price elastic than we thought. Meaning, previous thinking was that consumers would continue to use energy almost regardless of price, somewhat like the consumption of other "addictive" products such as alcohol and cigarettes. In fact, we now know that consumers will change their behavior and consume less energy as prices increase. As a side note, this has also become true for cigarettes and alcohol, though perhaps less so.

So as gas prices have been raised to the point where it can cost around $100 to fill a tank, consumers are driving less. They are shifting car purchases to hybrid technology and are beginning to embrace electric cars.

Though plug-in vehicles are still in their infancy due to logistical difficulties and the short battery life, one has to believe we will soon have most of those constraints sorted out.

As the demand side of the equation declines, the supply side shows little sign of abating. New offshore discoveries of oil are regularly announced. The technology permitting easier and cheaper exploration of existing and future reserves is expanding exponentially and there is an explosion of supply of natural gas derived from shale, particularly in the United States.

In fact, it is by now common knowledge that the U.S., once the world's biggest energy importer, is set to soon become a net exporter of energy and a significant one at that. So, decreasing demand and increasing supply can only lead to one conclusion: over the long term, oil prices will come down, not sky-rocket to $200 a barrel as Rubin famously predicted. Admittedly, it's hard to see the world economy weaned off fossil fuels anytime soon, but trends and long term patterns often start with small signs before becoming mainstream.

Michael Dorfman

Contact us:

Michael Dorfman, CFP™
Senior Investment Advisor,
Managing Director

Adam McHenry, CFA
Associate Investment Advisor

Milica Vukovic
Associate Investment Advisor

Kimberley Scriver
Investment Representative

Tel: 416-359-4914
Toll free: 800-567-3008
michael.dorfman@nbpcd.com
www.dorfmangroup.ca

Estate planning in the 21st century: Is your estate plan up-to-date?

Our society is being transformed by three emerging trends: the accumulation of digital assets, the growing need for elder care, and the changing status of pets in our lives. Canadians are accessing the online world at an unprecedented rate. We are now able to interact with family and friends, acquire information, experience entertainment and manage financial accounts online, all from the comfort of our living room. An increase in life expectancy has created the need for eldercare and the consideration of pets as "members of the family". To keep up with these new realities, our approach to estate planning needs to evolve.

Recent studies show that individuals have embraced online technology in ever-increasing numbers. From social media, online photo and music collections, to on-line stock trading, the surge in individuals who have a personal, professional, or financial presence online has created millions of intangible digital assets, each with its own unique access name and password. This accumulation of online property raises an important question: what happens to these digital assets in the event of our death or incapacity? It is important to take a moment to think actively and openly about all the digital aspects of your life and to keep track of these online accounts and passwords regularly to ensure that your inventory of estate assets is complete and up-to-date.

The older segment of the population is rapidly expanding and, as life expectancies rise, so do the chances of becoming a caregiver to an elderly relative. In fact, nearly one in six Canadians aged 45 and over are already providing care to an older parent, with more than half of them providing both personal and financial support. More than one third expects they will be required to provide elder care in the future. While the idea of including your parent or older relative may seem out of the ordinary, with today's aging population and longer life expectancies, it is becoming increasingly necessary.

Almost half (49 percent) of Canadians own a pet and as life expectancies increase, the incidence of pet ownership is likely to rise. Numerous studies have shown that pets are good for our health and help combat both loneliness and depression, particularly in the elderly. As pets are increasingly considered "members of the family", it stands to reason that pet owners might want to consider including them in their estate plans. This would include designating a pet caregiver and leaving them a reasonable monetary legacy to help with the costs of pet ownership. While as many as three-quarters of pet owners feel that it is important to make arrangements in their estate plan for the ongoing care of their pet, only seven percent actually made a formal provision in their estate planning documents. This oversight may be due to a general tendency to assume that we will outlive our pet or that someone else will step in to look after our pet.

When updating your estate plan, consider whether it's appropriate to incorporate digital assets, aging parents and other relatives, and pets. If interested, let's discuss strategies on how to incorporate these trends into discussions with your legal professional.

New estate planning considerations

- Think actively and openly about all digital aspects of your life, keep track of online accounts and passwords and consult a legal advisor about how to safeguard and ensure an orderly distribution of your digital wealth to your loved ones.
- If you are a caregiver to an aging parents or older relative, consider including them in your estate plan.
- If you are a pet owner, consider including them te plan by designating a pet caregiver and leaving the pet caregiver a reasonable monetary legacy.

Test of English as a First Language

Is it me, or have others noticed just how "dumbed" down the English language has become lately? It's hard to find just one thing to blame. Certainly the dominance of texting and general preference for short, snappy 140 character messages is a good place to start. The decline of reading books and newspapers in favour of YouTube and other video "solutions" is not helpful either.

I lament not just the general decline of English and the written word, but also the rapid way certain expressions and sayings find their way into popular colloquialisms as quickly as they do. Again, blame the internet and the fast universal remission of words and ideas on this trend.

Without any particular order, here is a list of some of my favorite linguistic banalities that we encounter on a regular basis, and that I believe should be banned from future use:

- "It's All Good". Without being labeled a pessimist, I think we can all agree that it's NEVER all good. I'm quite certain that even the sunniest, most positive person out there has something not going "good" with their day or life at any given time. For those who disagree with me, just pick up any newspaper.
- "At The End Of The Day". This one has crept into modern conversation in a particularly annoying way. It's perceived as making the person who uses it sound a little more educated or articulate, that is until everyone starts using it and it starts to sound banal and boring. I realize the basic intent is to place a bold, underlined conclusion on one's thoughts or opinions, but can't we revert to the shorter and more succinct "ultimately"?
- "It Is What It Is" – This is my most hated current popular expression. Why? Because of course, "it is what it is". How could it be otherwise? Something is only NOT what it is in science fiction stories. This is therefore the quintessential banality. Remember that the next time it threatens to slip out of your mouth.
- "So". This seems like a rather harmless, short word. Innocent, unthreatening. Why am I putting it on my list of word banalities? Because of the incessant way people are using it to start nearly every sentence. "Where did you go today?" "So, I went to a movie, so then, I ate and so, after I came home." Stop the madness! 'So' is a legitimate word, but not when used all. the. bloody. time.
- "To be honest". Mea Culpa on this one. I am sometimes guilty of using it. Just as bad is "frankly". Why? Would I expect someone who begins their sentence with this phrase to be lying to me? We expect honesty in our dialogue with others, and inserting this in our conversations can make us appear to be doing exactly the opposite. I am working hard to avoid using this expression.

In another vein of self-awareness, I am also trying to avoid using banalities in my work, when discussing investments, for example. In particular, I will avoid saying "the market is volatile". This is dumb. It's always volatile, that is going up some days, going down others in an unpredictable fashion. I will also try to avoid asking "What is your risk tolerance?" Why? Because in 27 years in this business, no one has ever admitted to having a high risk tolerance! Instead, the vast majority will say they have a low tolerance for risk, but a high expectation of returns. Well of course you do! One of my goals is to find a better way of truly measuring investment objectives and risk parameters. So, at the end of the day, I promise to get this done.

Michael Dorfman

Retiring and Downsizing or Home Sweet Home?

Over the next twenty years, more than 9 million boomers will be retiring. Many have spent their working years accumulating as much savings as possible to fund the next phase of their life: Retirement. These Canadians are considering all assets on their personal financial balance sheet as possible sources of income in retirement.
For many, their principal residence takes up a lot of real estate on their balance sheet – pardon the pun. Canadians seem to have a love affair with home ownership. Traditionally the home has been viewed as a shelter, but many may be torn between a popular "home is my castle" mind-set and, increasingly, relying on it as a retirement asset fuelled by the boom in the real estate market.

A recent BMO Retirement Institute report raises awareness of the potential challenges facing boomers' who are home owners. According to the Institute's survey, 'Living comfortably in retirement' and 'owning a home' were considered important financial accomplishments to achieve over one's lifetime. In fact, it's no coincidence these goals ranked so high when Canadian boomers stated their home comprises 51% of their total net worth and 41% considered building equity in their home as an option to save for retirement. This suggests that many Canadians could be considering downsizing their home as they approach retirement.

What does your home represent to you? Is a significant part of your wealth tied to your home? If so, you could consider selling your home and buying a smaller property (financially that is) to free up the equity in your home and increase the size of your retirement nest egg. Downsizing your home can help stretch your retirement budget by reducing certain expenses; you probably won't require the maintenance involved with larger backyards and multiple bedroom homes.

If you are like most Boomers, you probably purchased your home with your family and jobs in mind. Upon retirement, however, your choice of where to live will no longer be based on such factors as proximity to work or to your children's schools. The type of dwelling and proximity to healthcare are two new considerations to keep in mind at this stage in life. Although health matters may be hard to predict, it is important to think about a home that supports you while you age in your home. A change in location is not to be taken lightly. It is important to take the time to evaluate its impact on your day-to-day activities, and social interactions as it can determine the lifestyle you will lead.

Finally, if you will be carrying a mortgage in retirement, downsizing to a less expensive home may reduce or eliminate your mortgage, and also remove the added stress of debt obligations when transitioning to living on a fixed income in retirement.

Your home is an important asset, emotionally and financially. Let's discuss what your home means to you as you prepare for your retirement.

Downsizing considerations

- Could you retrofit your current home for retirement?
- Where might you consider living if your current home no longer makes sense?
- Consider renting before buying, to see if you like the neighbourhood.
- Will you still be close to family and friends and have adequate social support?
- Do you want to be responsible for the upkeep and maintenance of your property?
- If you become ill or start having mobility issues, will you be isolated in your current or new location?
- Where are your main service providers located (bank, doctor, hairdresser, grocery store). Will a change in location add inconvenience?
- What are the financial costs and savings of moving or staying put?