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Your best Interest

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A quarterly newsletter for select families and organizations

The Fortin Wealth Advisory Group

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Adaptive wealth counsel for discerning clients

FALL BACK? I don't think so.

Have the recent events of China changed my market outlook and investment strategy? Not really. In Canada, there is disappointing growth, low inflation, low energy prices and weak exports. This could force the Bank of Canada to cut again. Really, this would only add a marginal amount of stimulus to an already highly accommodative environment – which includes a weakening loonie which we feel will continue to move towards 68 cents.

I have said it before and will say it again: The Commodity Super Cycle is over. As long as emerging markets are slowing, Canada will slow as well. Our economy is directly tied to those of emerging markets as is our stock market which is almost perfectly correlated to emerging markets.

The only interest in Canada going forward over the next couple of months will be the election. At the very least, watching candidate after candidate drop out is entertaining even if none of the parties offer anything new to diversify our economy and stimulate growth.

We continue to see positive economic data out of the US which mostly tells us where the Canadian dollar is headed (down) and that there continues to be corporate growth. The Corporate growth stems from demand for consumer good and improving technology globally – this is a spillover from economies re-working themselves in Europe and improving technology as well as US corporations ensuring that they are relevant and dominate global market share in arenas where there will be little slowdown in demand (technology, autos, telecoms, consumer goods).

At the end of August we witnessed the US market experience its first 10%+ correction since 2011. By historical standards that is a very long time to go without a correction. 10%+ corrections are wholly normal and should be expected in periods of extended bull markets (where we sit today). We always require a catalyst for said pullbacks and as we now know it was the economic turbulence in China that was more widely disseminated.

You may be wondering where we go from here. The question should be: what can turn a simple expected correction into a full scale market selloff and the answer is that the key economic factors, as previously mentioned, and the vast liquidity and global momentum as well as corporate profitability indicate there we do not expect any change to the current long term bull market. We see multiple years of outperformance in our favoured areas of US and European equities. We feel that equities have the best relative valuation among asset classes – especially the more balanced and defensive US equity market, which has superior dividend growth potential and that we remain in a multi-year bull market. We are excited to be a spectator in the Re-Industrialization of America and witness the resurgence of their Manufacturing industry.

Thus, although our clients are decidedly and noticeably well positioned (favouring European and US equities with a significant underweight to bonds), we would be buyers on any pullbacks. Because we know this is short lived, we want to take advantage of the short term mispricing.
But based on my comments on Canada, stay away from the falling knives in materials, metals and energy... please. Just look at Penn West whose dividend looked amazing amidst the plummeting stock, wooing investors to buy in. Then Penn West eliminated their dividend along with 35% of their workforce. No thanks. Many of the oil projects are working at 40% capacity and it will take years for them to manage themselves to the new reality of $50 – $70 oil. Until emerging markets experience tremendous growth – we will not be looking at these cyclical areas of the market.

In summary, it bears repeating that there are many similarities between the current environment and the 1990s bull market.
The jobs growth, low inflation, corporate profit market expansion, acceleration of technological innovation bears all point to a great decade for investors – and there were many correction of 5% or more. The trick during the 1990s was for investors to avoid being "shaken out" when catalysts (i.e. China) or other stressors unavoidably developed.

TFSA or RRSP – Determining the best savings option for you

Since the introduction of TFSAs, many Canadians have questioned whether to contribute to a TFSA or RRSP for their retirement savings. While both plans allow your investments to grow tax-free inside the plan, there are major differences in the tax treatment of contributions and withdrawals. TFSA contributions are not tax-deductible and all withdrawals are tax-free. With an RRSP the opposite is true; contributions are tax-deductible and all withdrawals (including any income earned while inside the RRSP) are taxed as ordinary income when withdrawn.

As a result, when deciding whether to make a TFSA or RRSP contribution, the most important financial factor is your marginal tax rate today, and your expected marginal tax rate in retirement. The table below compares three scenarios where a pre-tax $10,000 contribution is made to both a TFSA and RRSP, and the contribution earns a five per cent rate of return over 20 years. At the end of 20 years, the funds are withdrawn from each plan.

If your marginal tax rate is 40 per cent at the time of the TFSA or RRSP contributions and withdrawals, your after-tax savings will be identical. However, if you're in a higher tax bracket when making your TFSA or RRSP contributions than when making your withdrawals, the RRSP provides more after-tax savings than the TFSA. Conversely, if you're in a lower tax bracket when making your TFSA or RRSP contributions than when making your withdrawals, the TFSA provides more after-tax savings than the RRSP.

In summary, if you expect your marginal tax rate to be lower (including the possible clawback of government benefits, such as Old Age Security) when you retire, then an RRSP is generally more beneficial. If you expect your marginal tax rate to be higher in retirement than it is today, then contributing to a TFSA may be the better option.

It's also important to note that for many, an RRSP offers a higher contribution limit than a TFSA. The RRSP contribution limit for 2015 can be as high as $24,930, whereas the TFSA contribution limit is currently $10,000. Ideally, investors should maximize contributions to both plans to take advantage of the income tax savings benefits. However, from a financial standpoint, this may not always be possible. While everyone's situation is unique, the following guidelines can assist you in deciding between a TFSA or RRSP contribution:

TFSA vs. RRSP Comparison

	Scenario 1		Scenario 2		Scenario 3	
	Marginal Rate 40% when contributed; 40% when withdrawn		Marginal Rate 40% when contributed; 20% when withdrawn		Marginal Rate 20% when contributed; 40% when withdrawn	
Plan	**TFSA**	**RRSP**	**TFSA**	**RRSP**	**TFSA**	**RRSP**
Pre-tax Income	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Income Tax Payable	$4,000	n/a	$4,000	n/a	$2,000	n/a
Net Contribution	$6,000	$10,000	$6,000	$10,000	$8,000	$10,000
Value 20 Years Later @ 5% Growth	$15,920	$26,533	$15,920	$26,533	$21,226	$26,533
Income Tax Payable Upon Withdrawal	n/a	$10,613	n/a	$5,307	n/a	$10,613
Net Withdrawal	**$15,920**	**$15,920**	**$15,920**	**$21,226**	**$21,226**	**$15,920**

Please note: The RRSP withdrawal is for comparison purposes only as actual withdrawals would generally occur after the RRSP is converted to a Registered Retirement Income Fund (RRIF).

Congratulations all around.

The board of directors formally approved our Team Leader as a Vice-President of the firm this summer. Congratulations on this tremendous achievement Christine. Your dedication, global expertise, committement to clients, and advocacy in our industry makes you very deserving.

And, not to be outdone, Amanda is a homeowner! Having purchased her first residence this summer with her partner, Jeremy, Amanda is now spending spare time fixing up their place to make it perfect.

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