

High Level Investment Report

Trusted Advice & Peace of Mind

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This is Going to Be Huge?

The election is over and the outcome for most was unexpected, even upsetting, as we are seeing based on the media reports out of the United States post-election. The comments below are not intended to pick a side, or down play concerns, rather to discuss and point out some of the policies Trump stands for. If you take away the image of the candidate and just focus on some of the campaign platforms, there may be ideas that investors can get behind.

The U.S. election was likely **the most important election for generations to come**. It does not mean Trump will succeed, but as much as any President can independently influence the direction of a countries policies and economic prosperity, Trump may offer the potential for a bright future in the United States of America. The news reports indicate voters were looking for a change and it appears their voices were heard. This seems to be part of a global movement and, as I wrote about BREXIT in a prior newsletter, I would like to highlight, what maybe **some positive points of the election outcome** and then, we can move off of the election and political topic.

Trump's desire to redirect the path of the US political landscape and his willingness to challenge the 'establishment' in Washington, could be considered bold and possibly refreshing in years to come. **We are living in an era of transparency** and overtime, I believe people will become more trusting of politics and business because of it.

Putting personalities aside and looking specifically at Trumps' intentions to **lower U.S. corporate tax rates to 15% from 35%**, will encourage Corporate America to bring jobs back home from places like Ireland, where Corporations pay low tax. This could be enough to get US residents excited for job opportunities.

The **promise to invest in infrastructure** to stimulate the economy is nothing new, it's been done before, Roosevelt did it in the 30's. As the media has reported, Trump intends to add \$5 trillion in debt, but this debt will go towards assets and potential GDP growth. The last \$10 trillion of debt creation went towards filling holes left over from the 2008 financial crisis and did not reach the real economy.

Trump's trade deal renegotiation threats are also getting bad press, but without full details of his eventual plans, these are impossible to comment on. However, I think citizens should be willing to get behind a leader of a country who is willing to fight to bring back jobs, after decades of trade deals that **hollowed out their middle class jobs**.

For Canadians, there isn't as much for us to consider what a Trump victory means, however I believe it will be more positive than many Canadians are expressing. The fact that President-elect Trump is **friendly to the resource and fossil fuel industries will likely be a major positive for Canada's resource sector**. It may also reverse or at least slow some of Canada's political decisions, specifically focused out West, that are choking our economy. If Trump is pro-resource and oil specifically, then Canada has to adjust policies to stay competitive. Therefore, Trump's direction with resources may benefit the western provinces over time, if it can have a positive impact on how our Country is making policy decisions.

Lastly, and readdressing lower corporate tax rates, many Canadian companies generate business revenue from their U.S. subsidiaries, which will mean tax savings, better earnings, and for investors this results in better longer term returns.

My intention was to keep this letter from becoming too political, and only shine a positive spin on the U.S. Election result, **so I will share a final personal viewpoint** I have about Trump's election win.

I just spent time in Mexico for my birthday, which falls on Remembrance Day. I was also there during the U.S. election. The chatter around the pool was very interesting to say the least, as there were a lot of American tourists at the resort. The Mexican people made jokes about Trump but overall there wasn't a lot of disappointment by them, but possibly this was because his election doesn't stop Canadians from coming to Mexico. Tourism likely won't feel the pinch from Trump, and **after the election the Peso fell over 10%**, so things only got cheaper while I was vacationing!

However, it was some of my conversations with Americans that were interesting. When they spoke about Trump it would often lead only to his "locker room talk" or to his friendly views towards Russia, and that Trump is friendly with the "bad guys". But when I discussed the items mentioned above, and also the level of geopolitical tensions the USA had built up with Russia in the last few years (and the real threat of it turning into War at some point), they became open to another viewpoint that they just weren't hearing. I didn't side with Trump's comments or viewpoints, **I just tried to talk about things that really matter to them**, their lifestyle, their jobs and the fact that we are all lucky to be vacationing in Mexico!

As we were there during Remembrance Day (Veteran's Day), my feelings about the benefit of a President that wants to stop the tensions with a nuclear power also resonated. As we celebrate a day each year for those that fought in wars of the past, Remembrance Day should

mean more to us now than it has in a long time. As a Canadian, the friendly neighbour to the North, I am happy that Trump is friendly towards Russia. I value our freedom and do not want to live in a world where major countries are consistently in disagreement. The world needs someone to reduce these tensions and Trump's win may reduce the likelihood of a clash between the USA and Russia.

As we sat around the pool, and spoke more about the topic, you could see that this was a view not spoken about often, but something that means a lot to everyone deep down. One wonderful lady named Lucy, actually said she was happy she spoke with me because no one would dare speak about the positive potential a Trump scenario could bring and mentioned it's good to get insight from outside her country, or at least outside her circle of influence. I am not saying my views are correct, but I was able to have very meaningful and calm discussions about the election, which wasn't the case for many at other sections in the pool!

Reiterating the initial comments, **transparency in Washington is going to be the new norm** in 2017, as Trump "drains the swamp" as he puts it. I believe the citizens will benefit, and I hope that they do, as my wife is American, and her sisters and their family all live in the USA.

As I transition this letter to an investment focus, increased transparency is also a trend in the investment industry in Canada for late 2016 and beyond, which will also be a benefit to the investing public, my clients included.

The title of this article also relates to some of the **"Huge"** changes for investors starting in the next few months.

Every Investor will be provided with more transparency starting with their December 2016 Investment statements. As part of CRM2 (an industry standard called the "client relationship model"), it will be a **requirement of every Investment Firm to provide disclosure on fees paid for advisory services and also the performance history of their accounts over time**.

Let's break down these **two main transparency items**:

- 1) **Costs Associated with Investing**
- 2) **Performance Reporting and Calculations**

Costs Associated with Investing:

Beginning with your December 31, 2016 statement, you will now see the **costs associated with investing, in dollars, and will be broken down to shows advisory fees, commissions and administration fees.**

Fee-Based Accounts will see this:

Your Year-to-Date Fees Summary	
▶ Fees you paid	
This section summarizes all compensation received by BMO Nesbitt Burns with respect to your account. Our compensation comes from two sources: what we charge you directly (Operating and Transaction Charges), and what we receive through any third parties.	
	CAD(\$)
Operating charges	
Managed Account	13,500.00
Total operating charges	13,500.00
Transaction charges	
Total transaction charges	0.00
Total fees you paid in 2016	0.00
▶ Payments BMO received from third parties	
	CAD (\$)
Total payments BMO Nesbitt Burns received from third parties in 2016	0.00

Transactional Based Accounts will see this:

Your Year-to-Date Fees Summary		
▶ Fees you paid		
This section summarizes all compensation received by BMO Nesbitt Burns with respect to your account. Our compensation comes from two sources: what we charge you directly (Operating and Transaction Charges), and what we receive through any third parties.		
	USD(\$)	CAD(\$)
Operating charges		
Administration Fees	0.00	275.00
Sales Tax	0.00	35.75
Total operating charges	0.00	310.75
Transaction charges		
Trade Commission - Equities and Related Products	0.00	4,124.40
Trade Commission - Mutual Funds	0.00	1,505.00
Trade Commission - Fixed Income	250.00	265.50
Total transaction charges	250.00	5,894.90
Total fees you paid in 2016	250.00	6,205.65
▶ Payments BMO received from third parties		
	USD (\$)	CAD (\$)
New Issue Commission	0.00	2,450.29
Trailing commissions	0.00	1,780.85
Total payments BMO Nesbitt Burns received from third parties in 2016	0.00	4,231.14

The purpose of this reporting, is to **make the costs associated with investing more transparent for the investor**, and identify how fees and costs are being charged.

For my clients who are in fee-based accounts, you already have been receiving annual fee letters, which are provided to you. As well, you also have seen the fee charges in the transaction portion of the statement. Therefore, this isn't new information for you, it is just consolidated in a different format.

For those clients in mutual funds only, or that pay commissions for stocks purchases and sales, the fees have always been a topic of discussion and commissions are confirmed at the time of the trade by me. Again, this will be a way to identify these costs in a summary, to make it more clear for you as my client.

I see these additional reporting requirements as a good thing overall.

***However, with this fee disclosure change **there are two things that are important to understand:**

- The fee on the statement **potentially doesn't reflect your full fee, or cost of investing.** For instance, if you hold mutual funds, there are **management expenses** (MER's) within the mutual fund that are charged to pay for the mutual fund managers expenses as well as administration expenses of the fund company. Therefore, if all of your money is invested in mutual funds, then the fee on your statements is only reflecting approximately 40 to 50 percent of your total costs using the average range of "all-in" mutual fund expenses. If you hold stocks, bonds, directly and a small amount of mutual funds, then the fees you see on your statement will be more reflective of your true all-in cost.

It is a best practice to ask about your all-in fee, especially if you have accounts at multiple investment firms, as the fee shown on those statements will not include the costs that are not paid to the investment firm directly.

For my clients **I have tried hard to make it a best practice to provide fee transparency**, and is why whenever possible (and suitable), I have used fee-based accounts.

- **The fee that you see is not the amount that goes directly to the Investment Advisor.** The fees that are paid from your account, or paid to the firm from the mutual fund companies are directed to Nesbitt Burns. These fees are used to cover costs like head office administration, statements, online technology, research analysts, wealth specialists and local real estate costs and support staff expenses. The list goes on. The portion of the fees you pay that go to the advisor cover the value and work provided doing research and investment management, wealth planning, client service and counsel, coordination of tax reports with accountants, cash flow management etc. There is also a portion of the fee that the advisor directs towards his support staff income, marketing, charitable business and community support.

In a period of full disclosure it is important for you to know this information. I have also been looking for ways to reduce my clients all-in fees in the last year and continue to do so especially in a market environment where returns are not as easy to come by.

My goal at the end of the day is to be able to tell my clients, **“you are getting good value for the fee you pay, and the fee you pay is competitive for the investment management, services and council you are receiving.”**

The important part to know is that there will always be cheaper fees as the industry commoditizes itself, however, **lower cost typically doesn't correlate with higher quality.** Yet, high cost doesn't mean high quality either. **I am confident that the fees my clients are paying are right-fitted to their personal situation and reflect good value,** and I make sure I constantly review fees and make adjustments when I find ways to do so.

If you would like more clarity on this topic I am happy to discuss the next time we meet. As well, you may find your family and friends bring up this topic in the New Year, **especially if they are shocked by the visible fee reporting.** Many investors have not been aware of their fees for their entire investing history. It is not uncommon to hear people say **“I don't pay fees on my investments”**, which is why I say there will be **shock** for some investors in January 2017.

Performance Reporting & Calculations:

The second addition to the **transparency on statements will be performance reporting.**

I provide my clients with performance figures and reports when meeting for a review, and have made a point to do this more regularly for the past year. However, on your statements this will now become something new for everyone. **Performance will be reported in percentages in your year-end statement, giving you a history over the past several years of returns.** However, **people don't spend percentages, and don't tell me they need “X” percentages each month to live 😊.** People want to know how much money they are earning or spending, which is where the new performance measurement will be of interest to investors.

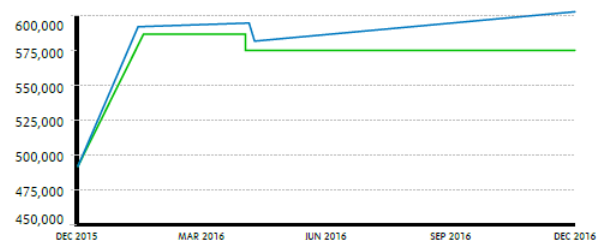
On each statement, starting in 2017, you will see something like this:

Your Performance Report

► Changes to your account

This table provides a summary of the change in value of your account, including all deposits, withdrawals and the change in market value of your investments, for both the current year and as of the start of reporting. Where applicable, balances have been converted to Canadian dollars, see page 1 for exchange rates.

	This Year (2016)	Since Jan 1, 2016
Opening Value	490,000	490,000
Deposited	+ 100,000	+ 100,000
Withdrawn	- 20,000	- 20,000
Net Invested	= 80,000	= 80,000
Change In Market Value	+ 30,000	+ 30,000
Closing Value on Dec 31, 2016	600,000	600,000



This will show growth in dollars in a visible chart as well as in a graph, which is more aligned with how people view investment returns.

Performance is still relative to what your risk tolerance is and your objectives are, so the responsibility is still on me to discuss the performance at review meetings and relate your returns to the type of investments you own. This reporting will just help keep you informed between our face-to-face reviews.

As with everything lately, there seems to be **constant change** no matter where you look, and we are going to go through more of it soon. Whether it is because of a new U.S. President taking office in January, or down to the way information is being provided to you as my clients, **my job is never boring. My job is to make sure my clients are informed and to be available to them to answer their questions and handle their concerns.** While my wife will say my job is to invest people's money and my 6 year old son says "I buy people gold treasure", in reality **the role I perform is equally spent planning, discussing and counselling people for and through times of change.**

Most clients aren't interested in investing, they are **interested in the result their savings and investing produce**. It is their money that provides for them, and my job is to look after it. I take that responsibility and trust seriously.

I had several clients email me on election night, concerned as the Trump victory surprise was taking shape and the markets were pointing to be very negative the next day. I responded from Mexico, to calm fears, as I have always thought a Trump win would not be a bad thing for the markets or investors and I truly believe this. The market does have its set of risks that would be there with Hillary or Donald in the White House, and those are the same risks I have watched for several years. However, **right now I am focusing on the good things that a Trump Victory will provide and guiding clients towards investments that should benefit.**

All the best until I see you,

Take care,

Ryan Cockburn

