

High Level Investment Report

Trusted Advice & Peace of Mind

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Interesting Fact: Canadian Dollar's Strength has eliminated almost all the S&P 500's gains since May 4th.

- May 4th was the low for the CDN dollar at 72.73 cents U.S. The S&P 500 has risen 8.66% between May 4th and Nov 22nd, meanwhile the Canadian Dollar's increase has eroded 8.03% of that return. Meaning, the S&P 500 Index is only up 0.63% in Capital Value to a Canadian, meanwhile we hear the Markets in the U.S. are up strongly. Unfortunately Canadians' aren't feeling the true full positive impact of these gains. At least for now. Just a reminder for clients when reviewing returns at a time of dramatic currency moves. It can be deceiving, and my role is to manage expectations during these times that can be confusing for returns on investments south of the boarder.

Financial Literacy Month

November is Financial Literacy Month in Canada, a focus since 2011, to help draw attention to the needs and importance of financial literacy and understanding of many financial topics that most people are under informed on.

For the most part, I think it comes down to the **lack of overall excitement around learning about financial matters** that are cause for the lower level of knowledge or understanding for most people. I mean, would you rather spend your free time watching your kids or grandkids activities, read a good novel, work out at the gym, go for a hike, or would you rather curl up on the couch with a good finance report? I think that most would choose any of the choices before the last. So if you have got to this part of my newsletter I guess I am lucky to have your attention! Thank you.

In this Fall High Level Report, I want to focus on a few topics that I think are **key general topics in personal finance** and should be a focus for the average person. This could be a refresher for you, but it's worth revisiting.

Let's get started.



1) RRSP's 101:

"RRSP" stands for **Registered Retirement Savings Plan**. RRSP's are accounts that exist to help Canadians save for retirement, with an immediate tax refund on contributions as an **incentive to save**. Everyone who earns employment income builds up "RRSP Room". This amount is **18% of your earned income** up to an annual maximum (which is \$26,010 for 2017). This room accumulates if you don't make contributions nor have a pension with your employer. It is easy to spend money, but **it's important to save and invest money, even just a little each month**.

Sometimes people are unsure about what an RRSP is and what you can invest in. Even for those who do have RRSP accounts, there still may be some uncertainty of what RRSP options are. Let's look at the RRSP a different way.

Think of an RRSP as a "big box" that you can stuff money and investments into - a piggy bank that can hold more than just loose change. Taking this example further yet, think of it as a "big box store", such as Walmart, where in this case instead of spending your money on things inside that you consume, you are investing the money. You have \$200 per week or month to put into your RRSP. Inside an actual Walmart you have many Investment options, if you relate the items in the store back to an actual company or shares of those companies that make these goods.

Let's go shopping (I mean saving!) As you walk past the deli counter, you could invest in **Maple Leaf Foods** shares or **Saputo** that sells the fancy cheeses. Through the middle isles of the store, you could invest in shares of **Kraft**, or **Pepsi**, as the number of products flying off the shelves are a significant opportunity long term.

What about investing in shares of **Unilever** or **Procter & Gamble** as you are pretty sure everyone in the store is going to shower or brush their teeth at some point. **Paper and forestry** companies have exposure to the paper towel and toilet paper isle. **Johnson & Johnson** gets you exposure to baby items like diapers. We all have "flushed money down the toilet" at some point, so here is your way to actually make money by flushing it down the toilet, literally! **Pfizer** or **Merck** are solid Investment options as they are makers of many drugs dispensed at the pharmacy. Boy, all this shopping (I mean investing) is making you hungry. Why not invest in **McDonald's** or **Tim Hortons** as you likely see line up at the restaurants inside the store? But wait, that's just food, toiletries and drugs.

You can also invest in **Google** or **Apple** as the phone sales department at the store is a busy one leading up to Christmas. Not only that but what phone service company will you sign up with? You could invest in **Rogers** since they have good family plans. Tablets and other laptops are hot Christmas gifts, which exposes one to the opportunity to benefit by investing in Microsoft, Intel and many other chip makers and technology companies. **Disney** has their classic movies out for the holiday season, as well as **Hasbro** will be entering their best Toy season of the year. At this point you realize that it is likely **smart to invest in MasterCard** as you watch everyone spending money and putting it on credit cards!

You also need to **think "Outside of the Boxstore"** as well. The dang store is open 24 hours in many cities so a power company or two would be a good investment wouldn't it? The energy and materials that go into all these goods are also an opportunity to invest. **FedEx** is going to be shipping a lot of goods through Walmart online store, so that is a good idea. And last but not least, **if you want to be frugal and just wait for a sale to invest your money** you could put your \$200 per week/month into a gift card as "cash" and wait for these investments to go on sale (A.K.A – wait for a market correction). This is your choice and you could be more conservative for the time being. This analogy just scratches the surface, **but illustrates you are investing vs the illusion of "buying stocks"**.

That's basically what an RRSP is, a big invisible box held at a financial institution where you can spend your money by investing it. All this with the added benefit of getting a \$50 bill or more on average handed to you by the greeter (i.e. your CRA tax refund) on the way out the store for every \$200 you invested inside your "Walmart RRSP".

This sounds like a good way to use your money. The goal of the RRSP would be to save enough over the years to feel like you have enough money saved to own everything in the store.



2. What is a RRIF? Is that a noise a small dog makes?

For most people, once started, saving and investing is quite easy. Money goes in, it builds over time and you plan your retirement as years go by. **Now it's time to take money out of your RRSP.** **There can be a lot of anxiety over how one is going to get their money out of the RRSP and manage the drawdown of their savings to help fund retirement.**

The RRIF is a "**Registered Retirement Income Fund**", and using our previous analogy, a RRIF is a new account ("big box store"), where in **the year you turn 71 you must convert your RRSP into it.** You have to **transfer all of your investments into this account and in the following calendar year you must begin taking a mandatory minimum amount out of the account.** Your "minimum withdrawal" is calculated using the prior year end value and apply a minimum percentage rate. At age 72 the minimum is 5.28% and gradually increases to 20% per year at age 95 and over (at 84 the rate is 8.08%).

You are able to take more than this amount out as well if needed to fund your retirement expenses. You can also **convert your RRSP to a RRIF before age 71 if needed or wanted** to begin funding your retirement expenses early or want to deplete your taxable savings over a longer time frame. Whatever amount you withdrawal will be fully taxable.

This is usually **the part people don't like** and when they start to question if RRSP's were really a great idea in the first place. I believe they are and **reinforce the tax return received many years earlier and the compound tax deferred growth inside the RRSP.**

3) TFSA

The **Tax Free Savings Account** is one of the best ideas to ever come from the Government to help people save for retirement. The thought of not paying taxes on money made on investments inspired Canadians to start saving again. Initially the goal of many was to get a bit aggressive and make big gains and then not have to pay taxes. While a good thought early on when TFSA were only \$5,000 or \$10,000 early on, **they are now significant in potential size, with a total of \$52,000 of available contribution room accumulated since they were started in 2009.** In 2018, another \$5,500 room will be added to this total.

TFSA accounts are a great savings vehicle and a good way to build savings for retirement, **so that you have a non-taxable source of retirement money to help balance the fully taxable RRSP, RRIF and pension income.** Like an RRSP or RRIF, you can invest in Stocks, Bonds, Mutual Funds, GIC's or hold cash.

Sometimes people use TFSA's as a short term Investment account, to hold money for an eventual trip or other expense. While not a bad idea if it forces savings, I believe it is a waste of your TFSA room to only earn minimal interest while the money could be sheltering larger, longer term gains from tax. But, **the great thing about TFSA's is that any money withdrawn can be added back in any year following the year withdrawn.**



4) Paying down Debt vs Savings

This is the most important consideration for long term success in retirement, in my view. Currently debt is cheap. Rates are at historical lows, **but they won't always be.** In my **Summer 2016 High Level Investment Report**, I wrote about paying down debt and why the low levels of interest rates was a good thing as it gave a bit more time to work off our debt loads. **We recently saw two interest rate hikes this past summer and fall.** Mortgage rates increased. At the same time, **requirements for qualifying for mortgages are now based on a posted rate, much higher than the rate you will actually get.** These are two warning signs that interest rate trends are going up.

I grew up with a mother working at a local law firm as a legal secretary. I recall vaguely her having to work a lot when I was young. I didn't know why but it was a busy and stressful time for her. That I knew. **It was the early 1980's and interest rates exploded into the teens.** People were losing their homes. Foreclosures were high, and my mother was having to meet with families to sign foreclosures and **experience with them the hardships of this generational event.** I now know what was causing the busy and stressful workloads, and I mention this because without realizing it, **the exposure I had during my youth I believe has impacted my views towards debt.**

My advice and my own personal strategy is to put money into your investments, and also plan to make top up payments on your mortgage or line of credit. Preferably it is best is to **pay down extra on whatever is the highest rate loan,** most likely the credit card. If you have credit card debt, pay it off with a lower rate line of credit and then pay down the line of credit. If making monthly deposits to an investment account and you have noticed a good move in the portfolio, **an idea would be to stop the investment deposits and pause to redirect that money to debts or your mortgage for a few months.**

Go online to watch how additional deposits on your mortgage drops your amortization period from your original time frame. It will become addictive, I assure you. This is what I do. I hate debt, but I understand it is required to finance many things we need in life such as shelter and transportation.

Even children's education costs require debt, that can last with us for years.

I want to stop here for this report as I have covered some basic topics that are **the key cornerstones to understand.** Many of you likely already knew the information and the importance of the strategy of saving and paying down debt. However, **I think it's worth a review as going back to the basics in anything is good to do once and a while.**

I am passionate on the debt repayment advice as I think we could enter a period like the 1980's again in the next 5 years. **I don't think rates will be as high as they were then, but they won't need to be as people have more debt than they did back then overall.** A rate at only 6% would be a shock and cost a lot in interest payments down the road. I think we could see higher than this. **Paying on debt is wasted money on interest payments.** **Paying down debts if you have them now, will give you the ability to invest at those higher guaranteed rates in the future, rather than pay at those rates.** It's a wise strategy if you can do it.

My final comment is that **I encourage you to share this report (online PDF copies of this report are on my website at ryancoburn.ca under the Publications tab) with people in your family (or friends) who you think could use a refresher, who could benefit from information on these topics, and that you care about helping in their financial future.**

I have many successful clients and you all got to where you are by having some discipline regarding these topics above. As Canadians we are living in a time of excess levels of debt, our housing is the most expensive in the world in relation to many key metrics, and we are living longer. **Strict Saving, Budgeting Skills and Debt Management strategies are required to be financially secure in the coming decade or more.** My job and passion is to help you and those closest to you in achieving these goals over time.

All the best as we close out 2017 to you and your family.

Take care,
Ryan Coburn