Investment **Insight**

Do You Have a Positivity Bias?

Are you inclined to have a more positive view of the current state of the markets? If so, according to some researchers, you may be an exception to the norm. They believe that humans are naturally biased to be negative and this has evolved from a critical survival trait. Consider that in prehistoric times, man faced a world filled with predators and danger. The negativity bias in our thinking was adaptive and increased the probability that we would remain part of the gene pool.

As such, it's not a surprise that the current bull market has been called the "most unloved bull market in history". The prolonged positive market period has been met with caution and defensive sentiment by many. This, despite recent record-breaking performance by the U.S. indices, solid performance by the Canadian markets since January 2016 (when the price of oil rebounded from its lows) and strong economic data from both nations.

The field of behavioural economics helps to explain why our perceptions may sometimes be skewed by negative bias, and how emotional factors can affect economic decision making. Pioneers in this area, such as Nobel Prize winner Daniel Kahneman, have determined that individuals make irrational decisions because their fast-thinking capabilities, often driven by emotion, can overtake a slower, more analytical mode in which reason dominates. A simple math problem illustrates how fast thinking works: If a baseball bat and ball cost a total of $1.10, and the bat costs $1.00 more than the ball, how much does the ball cost? Intuition and fast thinking lead most people to answer $0.10, which is incorrect.[1] In investing, fast thinking can cause poor decision making. For example, investors may sell low or buy high due to pressure or anchor to a particular price target when it may not be warranted.

Being aware of the influence of emotions and bias on investing can help to better regulate them. This may include sticking to an investment plan during volatile times or avoiding the urge to react to social and media pressure. We can also integrate different techniques into our investing programs, such as regularly rebalancing portfolios, using managed products to put buy/sell decisions in the hands of experts or incorporating systematic investing programs to avoid market timing.

Most important, we are here to help remove the impact of emotions and bias from investing and provide support as you chart the course for longer-term success. While we may need a negative focus to survive, there are merits to having a positive one to thrive.

1. Answer: $0.05 ball plus $1.05 bat equals $1.10.

L to R: Michael Tomkins, Colleen Thorpe, Michael Mereszak, Victor Chan

To Our Clients:

The renegotiation of NAFTA, the threat of war and the impact of natural disasters should remind us that, as investors, we are often at the mercy of current events that may temporarily affect the financial markets. The good news? Your portfolio uses the elements of diversification and asset allocation to help temper periods of volatility and mitigate downside risk. Diversification and discipline can be two of your greatest allies.

In these final months of the year, we are here to assist with any investing matters. Wishing you the best for the cooler months ahead.

Michael, Victor, Michael & Colleen

In This Issue

$678M Unclaimed: The Value of Consolidation

It may be easier than we think to lose track of funds over time. According to the Bank of Canada, $678 million remains unclaimed as of the end of last year. This includes Canadian-dollar deposits or negotiable instruments, such as GICs, term deposits, bank drafts or money orders issued/held by a bank or trust company, in which there has been no activity for 10 years and the owner cannot be contacted.

The Bank of Canada holds the balance for 30 years after the period of inactivity and you may be eligible to claim the balance if you are its rightful owner. You can search for unclaimed balances to which you may be entitled at: **www.bankofcanada.ca/unclaimed-balances/**

Such a large unclaimed amount demonstrates that funds can easily be lost over time. Bank accounts may be forgotten, cheques may be undeliverable if you have moved and even company retirement plans may be forgotten if you change jobs.

The Value of Consolidating Accounts or Investments

If you have multiple accounts at different financial institutions, there may be an opportunity to consolidate. This may help to keep track of funds so they won't be lost over time. There may be other benefits too, including:

Increased administrative efficacy — Consolidation may reduce paperwork or simplify the processing of annual tax returns and the eventual administration of your estate. It may also help to reduce the overall fees paid for the administration of the accounts.

Improved asset allocation — Consolidation may allow for better visibility of your investments when considering risk exposure. Having investments across several locations may make it difficult to maintain an appropriate overall asset allocation. You may have duplicate securities or be overly exposed to certain asset classes. As investments change, consolidation can help to make the task of rebalancing easier.

Better tax efficiency — The tax treatment of investment income generally depends on the type of income generated (interest, dividends or capital gains) and where investments are held (in registered or non-registered accounts). A consolidated view of your holdings may help to better identify tax-effective ways to structure your investments.

Be aware of certain complications with consolidating accounts or investments. Investments may be locked-in and may need to be migrated over time. Some investments may be subject to tax implications, making a transfer unwise. Every situation differs so please seek advice or call if you would like assistance.

Currencies Are Constantly in Transition

Currencies are constantly in transition and the Canadian dollar is no exception. Over recent years, the value of the Canadian dollar has declined along with oil prices. Yet, since May, the dollar has quickly reversed its course, surpassing US$0.80, its strongest level in more than two years.

What is Happening?

A stronger Canadian dollar has been somewhat surprising given that oil prices have stabilized at lower levels. However, improved Canadian economic data — including that Canadian GDP growth is expected to be the fastest among G7 Nations, as forecast by the IMF — and increases in the Bank of Canada's benchmark interest rate in July and September have made Canadian dollar deposits more attractive. This, combined with a weakening U.S. dollar, has helped to support a higher Canadian dollar.

Does This Matter to Investing?

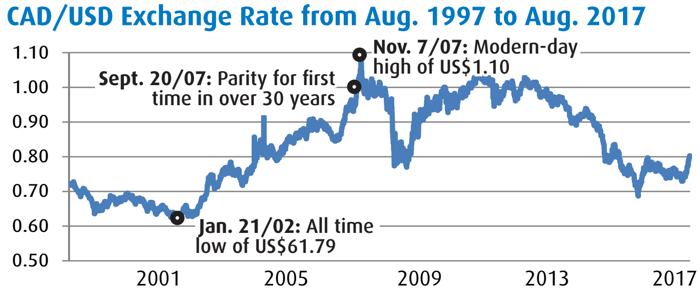
Recent changes have been met with concern by those investors who are carefully watching their U.S. dollar-denominated securities reduce in value relative to a strengthening Canadian dollar. After all, exchange rate changes can impact capital gains and losses realized for tax purposes when foreign-denominated assets are converted to Canadian dollars.

Investors will be prudent to remember that investment decisions should not be made based on expectations of future foreign currency movements. While exchange rates fluctuate from year to year, the impact of currency changes on investment returns has the tendency to decline over time. Within a well-diversified portfolio that has exposure across different geographies, the effect of currency movements tends to even out. Often a rise in one currency is offset by a decline in another. The interplay between baskets of currencies is sometimes referred to as a natural hedge.

And, similar to timing the stock market, accurately predicting currency changes over time is not likely to be a winning game. At the same time, a higher Canadian dollar relative to other currencies may make the purchase of foreign-denominated securities or assets more attractive, should the opportunity make sense.

Remember that currencies are constantly in transition. A look back at the value of the Canadian dollar (versus the U.S. dollar) shows just how much change has occurred over 20 years.

CAD/USD Exchange Rate from Aug. 1997 to Aug. 2017



Kids Now Back in School: Do You Have an RESP?

By recent accounts, the estimated cost of raising a Canadian child from birth to adulthood is between a whopping $193,000 and $250,000.[1] Are you using all the tools available to you to help with the expense? Surprisingly, the latest figures from Statistics Canada reveal that many families are not: around 50 percent of eligible beneficiaries do not yet have a Registered Education Savings Plan (RESP).[2]

RESPs: The Reasons Are Many

The benefits of having an RESP for a child's education planning should not be overlooked. Consider that the average undergraduate university tuition is $6,400 per year. Combined with room/board and other incidentals, a year at a major university can cost in excess of $20,000. Even with scholarships or government assistance, a large number of students will end up graduating with significant debt.

RESPs: Well Designed

RESP funds grow on a tax-deferred basis within the plan. Assets may be invested in a wide range of securities. Although contributions are not tax-deductible, when investment income and government grants are eventually paid out for approved educational purposes, they are taxed in the hands of the student beneficiary. This is likely to result in minimal taxes as the student beneficiary will likely be taxed in a lower marginal tax bracket. The RESP can also promote gradual and steady savings, which may benefit from compounded growth over time.

CESGs: Don't Pass Up "Free" Money

A key feature of the RESP is that the government offers the Canada Education Savings Grant (CESG), equal to 20 percent of the contribution amount made, to a maximum grant of $500 per beneficiary per year (or $1,000, if there is unused contribution room from the previous year). The CESG is available until the end of the calendar year in which the beneficiary turns 17 years old and certain conditions apply. CESGs offer the potential lifetime benefit of $7,200 per beneficiary provided by the government: a significant contribution.

RESPs Can Help Grandchildren

Setting up an RESP may be a great way to help grandchildren. If parents do not have the current financial means, this may help beneficiaries to access the CESGs during the age qualification period. Here's how an annual contribution can grow over time:

Contribution Per Year, Starting Age 1	Total Contribution (From Age 1 to 19)	Return at Age 19 @5% annual return
$200	$3,800	$7,247
$500	$9,500	$18,118
$1,000	$19,000	$36,237
$1,500	$28,500	$54,355

Assumes 5% compounded annual growth on principal and on CESG (20% of contribution).

Source: 1. Ontario Securities Commission, www.getsmarteraboutmoney.ca; 2. open.canada.ca/data/en/dataset/f2113c88-8fed-43bb-9255-968200182e52

Estate Planning: The Pitfalls of Joint Ownership

More frequently, parents and adult children are holding assets in joint ownership, such as investment accounts or properties.[1] This is often done to help with the management of assets as parents age, allow for ease of transfer of assets after the death of the parent and minimize estate administration tax (in provinces where applicable). However, holding assets in joint ownership with children may have unintended consequences. Here are just a few:

It may cause estate equalization issues. Jointly-owned property will not form part of the estate. If the intent is to equalize an estate for multiple beneficiaries, there is no guarantee that a child will share the jointly-held asset after the death of the parent, which can lead to court disputes. Income and estate administration taxes may also unevenly impact the value of an estate which includes jointly-owned property. In these situations, experts suggest documenting your intentions.

There can be tax implications. For example, transferring property to joint ownership may, depending on the form of joint ownership chosen, trigger a capital gain with tax payable in the year of transfer. As well, where the property is a residence, the transfer may lead to a suboptimal use of the principal residence exemption (PRE). For certain assets, other planning tools (such as using a trust) may have better tax outcomes.

Assets may be exposed to creditors or a former spouse of a joint owner. This may occur in the event of financial difficulties or a marriage breakdown, thereby putting assets at risk.

These are only some of the potential complications to be aware of prior to entering this type of arrangement. Consult with legal, tax and estate planning experts regarding your particular situation.

Note: 1. "Joint ownership" refers to a situation in which an asset is owned by more than one person with rights of survivorship and is separate from the legal concept of tenants in common. Not applicable in the province of Quebec.

Beyond Investing: What Are Your Retirement Plans?

If it is still on the horizon, have you thought seriously about your retirement?

Most of us are concerned about our retirement income and we work hard to ensure that we will be financially secure once we reach the golden years. That's the purpose of such things as pensions and Registered Retirement Savings Plans, and we take our role seriously as investment advisors in helping to support you in this regard.

But beyond the financial aspects, have you considered what you will do when you retire? This is a period of your life that could last for thirty years, if not more, possibly one-third of your lifetime! Those who promote retirement products have led us to perceive the golden years as filled with endless world travel or days spent on the golf course.

However, the reality may be that such an idyllic routine is not appealing to some, whether affordable or not. In fact, retirement can create new issues, such as the challenge of finding things to do with idle time, changes in relationships with family members, and the changing social role that comes with not being in a workplace, to name a few.

Adjusting Without Work

We have all met new retirees who say that they are busier than they have ever been, and happier too. Some pursue activities for which there was never time when working. But other individuals don't similarly adjust. They may miss the social interactions with colleagues or the daily routine. Indeed, too much idle time may lead to increased stress — not the type of utopia imagined for retirement. As such, some retirees will take up part-time work; others may decide to postpone retirement and continue working.

Planning is Important

What will you do during the many years of retirement? Planning ahead can help. Here are some areas to consider as you think about your own situation:

- **Hobbies** — Can current hobbies develop into a rewarding retirement pursuit?
- **Community** — Will you become more involved in your community, such as a place of worship, an elected office or a volunteer role of some sort?
- **Family** — Are your spouse and other family members dependent on your presence? Will spending more time at home in a non-work role change the dynamic?
- **Education** — Can you further your education, or even pursue a degree?
- **New Business Opportunities** — You're never too old to start something new. Benjamin Franklin invented bifocals at age 76. Charles Flint created IBM at 61 and Col. Harland Sanders founded KFC at 62.[1]
- **Charitable Endeavours** — Perhaps you can dedicate time to a particular social or environmental cause that you support.

Write it Down

Like a financial plan, committing your retirement thoughts and goals to paper is worthwhile. You can then discuss your plan with those who are close to you, and also determine if it is practical as it relates to your resources, abilities and responsibilities to others. Over time, it may change as your thinking progresses. The end result? Having a plan can help form the basis of what will truly be one of the best times of your life.

Source: 1. businessinsider.com/entrepreneurs-over-50-2014-11

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