The Fortin Wealth Advisory Group – BMO Nesbitt Burns Winter 2018

Your best Interest

A quarterly newsletter for select families and organizations www.christinefortin.com

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2018 Annual Letter

Part One: General Principles

It will be worth reiterating, in the context of this annual letter, the nature of our philosophy of advice. Generally speaking, my experience has been that successful investing is goal-focused and planning-driven, while most of the failed investing I've observed was market-focused and performance-driven. Another way of making the same point is to tell you that the really successful investors I've known were acting continuously on a plan – tuning out the fads and fears of the moment – while the failing investors I've encountered were continually (and randomly) reacting to economic and market "news."

Most of our clients are working on multi-decade and even multigenerational plans, for such great goals as education, retirement and legacy. Current events in the economy and the markets are in that sense distractions of one sort or another. For this reason, we make no attempt to infer an investment policy from today's or tomorrow's headlines, but rather align clients' portfolios with their most cherished long-term goals.

We make no attempt to time markets; and we cannot – nor, are convinced, can anyone else – consistently project future relative performance of specific investments based on past performance. In a nutshell, we as a wealth advisory team are planners and marshal the best trade-off from an investment and wealth advice standpoint. We believe that our highest-value services are our Planning, Signature Goals Based Reporting and Behavioural Coaching – helping our discerning clients avoid overreacting to market events in both the negative and the positive.

Our essential principles of portfolio management in pursuit of our clients' most important goals are fourfold.

(1) The performance of a portfolio relative to a benchmark is largely irrelevant to financial success. (2) The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals. (3) Risk should be measured as the probability that you won't achieve your financial goals. And (4) investing should have the exclusive objective of *minimizing that risk* to the greatest extent practicable.

Once a client family and us have put a long term plan in place – and funded it with the investments that seem historically best suited to its achievement – we very rarely recommend changing the portfolio beyond its regular rebalancing and small macroeconomic changes. In brief, our principle is: **if your goals haven't changed, don't change the portfolio**. Our unscientific sense is that the more often people change their portfolios, the worse their results become. Christine agrees with the Nobel Prize – winning behavioural economist Daniel Hahnemann, when he said "All of us would be better investors if we just made fewer decisions."

Going back to 1980, the average annual intra-year decline in the S&P500 has exceeded fourteen percent. Yet, even without counting dividends, annual returns have been positive in 29 of those 38 years and the Index has gone from 106 at the beginning of 1980 to 2673 at year-end 2017. I believe the great lessons to be drawn from this data are that – historically, at least – temporary market declines have been very different from permanent loss of capital, and that the most effective antidote to volatility has simply been the passage of time. I can't predict that it will always work out this way. I can only fall back on the wisdom of the great investor and philanthropist John Templeton, who said that among the four most dangerous words in investing are **"its different this time"**.

The nature of successful investing, as I see it, is the practice of **rationality under uncertainty**. We'll never have all the information we want, in term of what's about to happen, because we invest in and for an essentially unknowable future. Therefore we practice the principles of long-term investing that have most reliably yielded favourable long term results over time: planning; a rational optimism based on experience; patience and discipline. These will continue to be the fundamental building blocks of our investment advice in 2018 and beyond.

Part Two: Current Observations

A year of global growth.

The year 2017 was most noteworthy to us in that for the first time in this century, all the major economic basins of the world were growing simultaneously, albeit at different rates. Before this, at different times, Europe or Japan or emerging markets dealt with significant headwinds, and growth in North America was plodding and sluggish. I regard the synchronization of global growth as a somewhat underappreciated positive that is continuing.

The U.S. accelerates - and feels better about it.

Steady if unspectacular hiring has driven the unemployment rate down 4.10% for two months at this writing, putting the economy on track for a potential third straight quarter of 3% growth – a breakout of sorts. The consumer, by all important measures, is feeling better about things than he has since before the Great Recession, and retail sales are quite robust. Household net worth in the fourth quarter may have reached $100 trillion, and consumer balance sheets continue to be healthy. Business investment is accelerating at long last. And imagine the tailwind if the corporate tax rate cut form 35% to 21% passes.

Hysteria about valuations remains overdone.

Valuations aren't a tool for timing the market (nor is anything else), so as long-term equity investors we tend to tune it out. That said, we don't buy the idea that equities are importantly "overvalued." Indeed, compared to the yields on competing fixed income investments, equity valuations appear to us pretty reasonable, a view shared on more than one occasion this year by Warren Buffett.

Behind the Scenes – Team Announcements and Developments

To provide you with some insight of the work we do behind the scenes and perhaps are a little to humble to proclaim, we have listed out some of our recent developments below.

Tim has now been working alongside Christine for the Fortin Wealth Advisory Group for a year! Congratulations Tim! Tim is fully versed in our clients' goals and financial plans and once again is our go-to tax fellow. As Tim works very closely with Christine on the high level goals as well as our investment models – look for Tim to be joining Christine in review meetings on occasion.

Sofia has taken on more responsibility on the team and in addition to scheduling and administration, Sofia ensures that we execute on our goals timeline and has undertaken Cash Management. She is excited to have moved from banking to wealth and proven herself in a short time to be a go to in our office for her knowledge. She is now studying to write the *Canadian Securities Course* and once completed will be fully investment licensed!

Christine has once again been involved in BMO for Women in 2017. In December, she was part of a think tank in Toronto with Environics to candidly discuss ways that we can support women advisors in our industry – both existing and to attract women into our industry. Christine will continue to be part of the role out of the strategic initiative being spearheaded by the head of BMO Wealth.

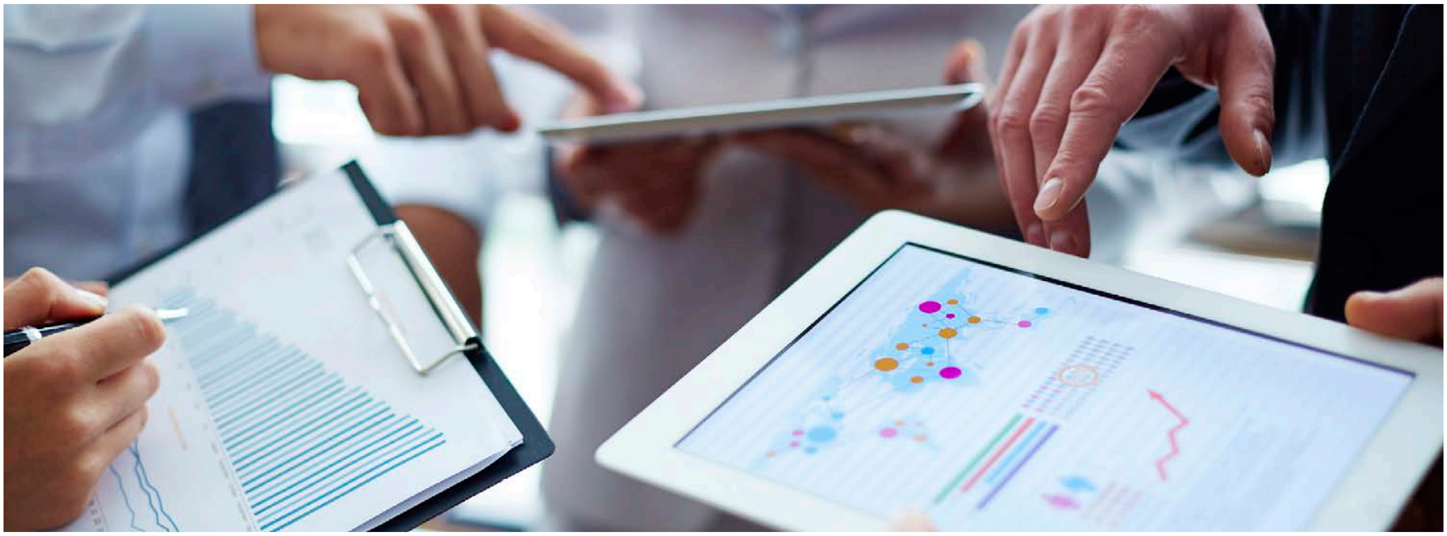
Tim on his quest to obtain his Certified Financial Planner designation, has just finished step one in having completed his *Financial Planning Supplement*. He is now studying to write the Professional Financial Planner exam later this month.

Christine continued to work on the shaping of BMO Commercial bank's message and "Our Story" for the Commercial bank.

Christine was recently engaged by a large global money manager to speak at their annual Due Diligence event on her favourite subject "Disrupting the Status Quo with both Service and Advice in the Private Client World." Christine has made a name for herself nationally as being known for ability to challenge advisory teams to think outside of the box when providing services for clients, as well as asking themselves "what is their purpose" in order to constantly challenge mediocrity.

The Fortin Wealth Advisory Group is currently piloting new technology for our firm whereby most of our account documentation will be handled electronically. We are using iPads and electronic signatures. We have been diligent in working with our technology group to ensure that we work through this game changing technology enhancement benefiting clients and advisory teams alike. Next phase is eliminating the paper copies for yours and our records.

Christine was invited to serve on a key internal advisory board for new technology that will change the investment management and pricing integrity landscape in Canada. **The Fortin Wealth Advisory Group** has long been considered a change leader. As a result, many of Christine's suggestions are now coming to fruition in a brand new landscape. We call it **Nesbitt One** and our team is now in beta testing for something that has not been seen in Canada. Ask **Christine** about it next time you are talking to her, her excitement is palpable.



A Reminder for Canadian Snowbirds

If your retirement plan includes spending winters in the U.S., you'll have many things to consider such as who will look after your home in Canada, ensuring you have adequate travel insurance, and how you'll manage your bills and finances while you're away.

From a tax perspective, "Snowbirds" – Canadian residents who spend part of each year in the U.S. – may be considered U.S. residents for income tax purposes and be required to provide information about their financial assets to the Internal Revenue Service ("IRS").

U.S. citizens and permanent residents of the U.S. must report worldwide income on their U.S. income tax returns regardless of where they live. Even though you may only visit the U.S. for a few months every year, depending on the circumstances you may be considered a U.S. resident for U.S. tax purposes and be subject to U.S. individual income tax filing and information reporting requirements.

The U.S. Substantial Presence test

The IRS will consider you to be a U.S. resident for U.S. income tax purposes, if you meet the "U.S. Substantial Presence test."

To determine whether you meet the Substantial Presence test in the current year, count the total number of days you spent in the U.S. for the current year, then add one-third of your days spent in the U.S. from the previous year, and one-sixth of the total days spent in the U.S. from two years prior. If the sum of these days is equal to or greater than 183 days and you spent more than 30 days in the U.S. in the current year, you will have met the Substantial Presence test and may be considered a U.S. resident for U.S. income tax purposes for the current year. Generally, you will not meet the Substantial Presence test if you stay in the U.S. for less than 120 days each year.

Even if you meet the Substantial Presence test but were in the U.S. for less than 183 days during the current year, you may demonstrate that you have a closer connection to Canada and be treated as a non-resident of the U.S. by filing IRS Form 8840, also known as the "Closer Connection Exception Statement for Aliens."

If the information you provide on IRS Form 8840 supports your closer connection to Canada, you will not be treated as a U.S. resident for U.S. income tax purposes, and you will not be required to comply with U.S. income tax filing obligations.

Conversely, if you spent 183 days or more in the U.S. in the current year, you will not be eligible to claim the closer connection exemption and will have to consider relying on the "tie breaker" rules that are part of the Canada-U.S. Tax Treaty to support your claim that you are a resident of Canada.

If you're planning to travel to the U.S. on a regular basis, it's important to keep a record of your days spent in the U.S. so that you do not inadvertently become a U.S. resident for income tax purposes.

A Team that Dines Together....

Thanks to Christine, our team recently had the opportunity to have a private 5 course dinner put on by Ned Bell, Executive Chef for Oceanwise. Ned has recently left his post as the Executive Chef of the Four Seasons Hotel, Vancouver, after almost a decade to pursue his passion of creating awareness around sustainable fishing practises and disrupting the status quo on current policies (needless to say his desire to challenge mediocrity aligns with our beliefs). He also recently released a fantastic recipe book called "Lure" as a 20 year passion project. Ask any of us about the menu and we will make you drool... we enjoyed ourselves, dined and wined and kicked off 2018.

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The Fortin Wealth Advisory Group
Adaptive wealth counsel for discerning clients

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