BMO Nesbitt Burns | Autumn 2018

Investment **Insight**

Perspective in the Face of Pessimism

With the extended bull run, it seems as though every global event is analyzed for its potential negative effect on the markets: Will this be the start of a bear market?

But think about just how much opportunity would have been missed if you followed the underlying pessimistic narrative over recent times. For years, the media has been claiming that equity markets have reached their peak.

So, why is pessimism so seductive? First, it is innate: Organisms that treat threats as more urgent than opportunities have a better chance to survive and reproduce. A Harvard study showed that pessimism is perceived to be more expert, intellectual and competent. Daniel Kahneman, who won a Nobel Prize for his work on cognitive psychology, showed that people respond more strongly to loss than gain. Optimism often means staying the course, which can appear oblivious to risks. Pessimism requires action, which appeals to human nature because we are more inclined as a species to act than wait.

This is not to say that today's economic headwinds should be ignored. A major shift in global trade continues to be of concern as the U.S. imposes tariffs globally. At home, Canada remained sidelined in NAFTA negotiations over the summer and the Trans Mountain pipeline experienced setbacks. Italy's debt issues, complicated by political change, and Turkey's currency crisis have been in the news; all of which have kept investors on edge.

Being an optimist doesn't mean believing that short-term setbacks won't happen. After all, financial and economic markets are cyclical by nature. But what looks like tomorrow's problem is often not the real issue when tomorrow rolls around. Economies have proven remarkably resilient over time and the future is likely to be no different. We often underestimate our ability to adapt: people, businesses and economies move on from even the toughest setbacks.

How can investors keep perspective in the face of pessimism? One way to do this is to step back from the headlines. Focus on your end goals, not the news of the day. Continue to save and invest steadily for the future. Leave the worry over day-to-day developments to those of us who oversee your investments.

Equally important, invest confidently with your longer-term objectives in mind. Your portfolio is being managed with the expectation that markets will experience both ups and downs. Remember that patience, along with time and the virtues of compounding, are likely to be some of your greatest allies.

In This Issue

Mark Allinotte, Marilyn Mooers, Dale C. Gagnon

To Our Clients:

We hope that this newsletter continues to provide you with ideas, beyond your investments, to better manage your wealth. We are here to provide support relating to any of the topics covered each quarter.

We would like to take this opportunity to thank those of you who have introduced us to family and friends. To us, this reflects confidence in the services we provide and is one of the greatest compliments we can receive. Thank you sincerely.

As we approach the final months of the year, let us know how we can be of assistance.

Mark Allinotte, Dale C. Gagnon, Keith Lavictoire, Marilyn Mooers

RESP: What is Your Withdrawal Strategy?

Does a higher degree pay off in the long run? A Statistics Canada study followed the employment outcomes of over 8,000 graduates. The result? Over 20 years, men with a BA degree earned an average of $635,000 more than high school graduates; women earned an average of $513,000 more.[1]

Tuition is expensive, but a Registered Education Savings Plan (RESP) can help. The RESP has three components: i) original contributions made by the plan's owner; ii) grants paid by the government, such as Canada Education Savings Grants; and iii) accumulated income payments (AIPs), income and/or gains on contributions and grants. Grants and AIPs may be paid to a qualifying beneficiary as an Education Assistance Payment (EAP), which is taxable in the student's hands. Original contributions can be withdrawn tax free by the plan owner at any time.

The RESP generally can remain open until the end of the calendar year that includes the 35th anniversary of the plan's opening. After this time, unused grant money must be repaid and there may be a 20 percent penalty tax on top of regular income tax due on AIPs. As such, it is important to plan your RESP withdrawal strategy:

If the child has qualified for the EAP:

Structure withdrawals early to minimize taxes. EAPs are taxable in the hands of the beneficiary. Once a beneficiary starts a qualified program, begin drawing EAPs to, at a minimum, use the child's "basic personal amount" tax credit each year. This is a non-refundable tax credit, so unused amounts cannot be carried forward. Plan ahead to minimize tax. Consider that the tuition tax credit can offset EAP income and can be carried forward indefinitely, but other sources of income, such as a summer job, may impact a student's marginal tax rate.

Exhaust EAPs first. When withdrawing funds, you must often specify the amount considered to be the EAP versus a refund of contributions. Exhaust EAPs first; contributions can be paid tax-free at any time.

Draw down EAP funds before enrolment ends. There are no restrictions on the use of EAP monies, as long as the child is enrolled in a qualifying post-secondary program. (An initial limit of $5,000 applies for the first 13-weeks of full-time enrolment.) EAPs can only be made until six months after the student ceases enrolment, so if (s)he drops out it may be beneficial to withdraw as much as possible to avoid tax penalties on unused funds.

If the child does not qualify for the EAP:

If beneficiaries are at least 21 years old, AIPs may generally be made to the plan owner starting in the 10th year following the year that the plan was opened. To avoid penalty tax on AIPs:

Transfer AIPs to the plan owner's RRSP account. This can be done if the plan owner has available RRSP contribution room (subject to certain conditions). If no RRSP contribution room is available, an option may be to delay collapsing the RESP for a few years (if permissible) to build up the RRSP contribution room. With this transfer, grants must be repaid.

1. https://www150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2014040-eng.htm

The Year End is Almost Here: Don't Forget Tax Planning

With the year coming to a close, now is a good time to take necessary steps to help minimize your 2018 taxes. Here are some ideas:

If you are age 65…

If you've turned 65 years old, you are eligible for the pension income tax credit. This provision allows a taxpayer to claim a non-refundable tax credit on up to $2,000 of eligible pension income. If you don't have any pension income yet, generate some for yourself. Move a small portion of your Registered Retirement Savings Plan (RRSP) assets into a Registered Retirement Income Fund (RRIF). You can then withdraw $2,000 each year until you convert your RRSP and start drawing "regular" income. This is also a great way to effectively withdraw RRSP funds on a tax free basis.

If you are age 71…

Convert your RRSP before the end of the year. You have several options, including converting to an RRIF, an annuity, or taking all or a portion of the RRSP savings in cash (subject to taxes at your marginal tax rate). We can help you with the decision. However, remember that the process of transferring accounts can take some time, so don't leave this decision until last minute. Also, don't forget to make final RRSP contributions, since you won't have a plan at the usual RRSP deadline of March 1, 2019.

At any age…

Consider charitable donations. Make eligible charitable donations before Dec. 31st to benefit your 2018 taxes. Gifting publicly-traded securities with accrued capital gains to an eligible charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax.

Make RESP contributions. While contributions are not tax-deductible, the end-of-year deadline may be important to take advantage of the Canada Education Savings Grants.

Contribute to your RRSP. You still have until 60 days after the calendar year to make a contribution to save on 2018 taxes.

Maximize the tax benefits of capital gains and losses. If you have taken capital gains this year, before year end, consider realizing capital losses to offset these gains. Care must be taken when doing this, and the assistance of a professional may be beneficial.

Digital Assets: Will You Leave a Legacy?

It was believed to be one of the earliest cryptocurrency transactions: eight years ago, a computer programmer traded 10,000 bitcoins for two large, all-dressed pizzas.[1] The transaction was worth only about US$40 at the time. Who would have known that eight years later, those 10,000 bitcoins would be worth over US$73 million![2]

Since that time, the rise in the value and popularity of cryptocurrencies has added a new dimension to a question that has been complicating the estate-planning process: what happens to your digital assets when you die? Cryptocurrencies are only part of the story. As we spend more time online, our digital footprints have grown to include many other digital assets. Yet these are rarely addressed in wills, often leaving family members to navigate a complex web of online accounts.

It is important to consider the way these assets are eventually transferred, not just for monetary reasons. Some assets contain personal information that can be used by fraudsters to target the deceased or, worse, relatives who may be vulnerable during a difficult time. Assets may also have sentimental value: photos or videos in social media accounts can often provide comfort to those left behind.

Here are some things to think about as you consider the way you will transfer your digital assets:

Make an inventory of digital assets. Start with the digital devices you use, such as computers, smartphones or hard drives. Think about your activity on each device, including email, social media and financial accounts, or websites you may own/operate. Consider what may have value in any form: monetary, informational or sentimental.

Allow for access. Consider keeping a physical list of account names/passwords stored in a secure place. If you change passwords frequently, consider subscribing to a password manager that allows for transfer to an appointed individual upon death.

Remember that many accounts can only be accessed with a password, and that specific rules and regulations for each account provider vary and may be subject to change. For example, cryptocurrencies such as bitcoin are tracked on a public ledger. Since there is no central registry, a forgotten password may sadly result in significant losses. Facebook allows users to appoint a legacy contact who is granted limited access to a user's page after their death. However, without a password they cannot remove or change past posts. Facebook will memorialize a user's page, but only in rare cases will they consider requests for additional account content.

Decide what to do with assets. Create instructions outlining your plans for your assets. Will assets need to be transferred to a beneficiary? Which accounts will need to be closed?

Ensure assets can be passed on. If applicable, write a provision into your will allowing your estate administrator to access and manage your digital accounts according to your wishes.

Your digital assets may be worthy of protection. Making decisions in advance is one of the best ways to ensure that they are passed along in the manner you intend. After all, what may be worth two pizzas today could be worth far more in the future.

1. http://fortune.com/2018/02/26/laszlo-hanyecz-pizza-bitcoin/; 2. BTC at 8/3/2018.

Keeping Perspective: Reasons to Be Thankful...

If you've been following the headlines of late, it may seem as though optimism is in short supply. But with the Thanksgiving and December holidays falling in Q4, why not take the time to reflect on some reasons why we should be thankful:

Oh, Canada! — Consider yourself lucky to be living in one of the best nations in the world! Canada was ranked #1 as the world's most admired country in 2017 (Reputation Institute). Calgary, Vancouver and Toronto consistently place in the top 10 cities to live globally each year.[1] What do Canadians think makes our nation great? "Peace", "freedom to live as we see fit", "health care", "politeness"...and, of course "Leonard Cohen"![2]

We are living longer and better lives — We have one of the highest life expectancies in the world: over 82 years old.[3] In just two generations, this has increased by almost a full decade. Our standard of living has more than doubled over the last 50 years: GDP per capita was around $27,600 in 1968 (in 2018 terms, adjusted for inflation); today it is around $60,000. Necessities and luxuries alike are becoming cheaper: consider that 30 years ago a 680W microwave cost almost $580; today it is only $140 (1100W).[4] And keep in mind that 70 percent of the world still lives on less than US$10 per day.

There's never been a better time to be an investor — Today, we have access to greater markets, more choice, and better information. Over the past 50 years, the S&P/TSX Composite Index has appreciated by over 5.9 percent on an annualized basis[5] and the stock market continues to be one of the greatest wealth generators of all time.

Your future looks bright — According to a recent survey, 32 percent of Canadians nearing retirement have no retirement savings.[6] Advised Canadians save more for retirement, amassing 2.73 times greater assets than non-advised households, and have greater financial confidence about the future.[7]

Source: 1. Economist Intelligence Unit annual survey; 2. http://abacusdata.ca/the true-north-friendly free what-makes-us-proud-to-be canadian/; 3. World Health Organization 2018; 4. Report on Business Magazine, 04/12; 5. 1/1/68 to 4/30/18. 6. https//www.bnnbloomberg.ca/ 32 of canadians are-nearing-retirement without any savings-poll-1.991680; 7. After 15 years, Investment Funds Institute of Canada, 2012.

The Bulls and the Bears

This past August, both Canadian and U.S. equity markets boasted a new record for having one of the longest bull markets in modern financial times. A bull market is often defined as a period in which stocks have increased by at least 20 percent, over at least a two-month period. A bear market occurs when stocks have fallen by at least 20 percent.

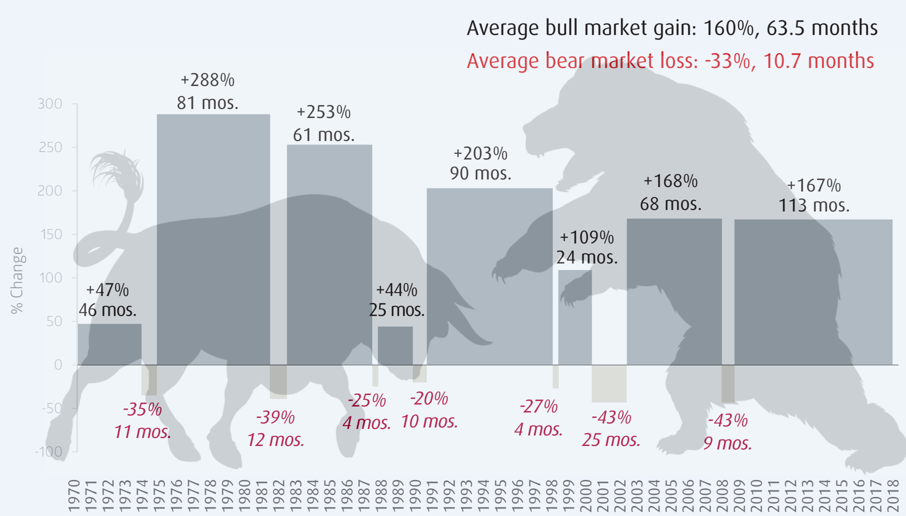
Let's take a look back at the history of the bull and bear markets of the S&P/TSX Composite Index since 1970. There have been eight bull markets and seven bear markets. Bull markets have been longer, averaging around 63.5 months, whereas bear markets have lasted on average only around 10.7 months. Bull markets have provided a more significant percentage change in value — given that it takes a 100 percent gain to make up for a 50 percent loss, the gains were enough to produce significant returns, as shown in the chart below.

Does the current aging bull market still have legs to run? Nobody can predict the direction of near-term markets, except to say that equity markets are cyclical by nature. Given that there are differing ways to define a bull market, by some accounts this isn't the longest run in recent times,[1] which may provide comfort to those who support the old adage that bull markets never simply die of old age.

Regardless, as history has shown, the upturns, on balance, have lasted much longer than the downturns and have taken stock prices to much higher levels than their former peaks.

1. bloomberg.com/news/articles/2018-08-21/longest-bull-market-in-history-comes-with-jumbo-sized-asterisk

Bull and Bear Markets of the S&P/TSX Composite Index Since 1970



Source: S&P/TSX Composite Total Return Index, 1/1/70 to 7/31/18

With the compliments of...

Dale C. Gagnon
CFP, CIM, FCSI, FMA
Investment Advisor
Wealth Advisor
613-567-6239
dale.gagnon@nbpcd.com
www.dalegagnon.com

Mark Allinotte, B.Comm
Investment Advisor
Wealth Advisor
613-567-0401
mark.allinotte@nbpcd.com
www.markallinotte.com

Keith Lavictoire
Associate Investment Advisor
613-567-6242
keith.lavictoire@nbpcd.com

Marilyn Mooers, MBA
Investment Representative
613-567-3660
marilyn.mooers@nbpcd.com

BMO Nesbitt Burns Inc.
BMO Capital Centre
269 Laurier Ave. W., Suite 201
Ottawa, Ontario K1P 5J9
Toll Free: 1-800-267-1276
Fax: 613-237-7801

BMO Wealth Management
BMO Nesbitt Burns