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NEWSLETTER – FALL 2016

PERSPECTIVE is a word I have often used in newsletters, yet it seems to be more relevant every time I use it. These days it is very easy to get caught up in the headlines of Brexit, Trump, the EU failing, China's slowing growth, low interest rates, record high price/earnings levels for stocks, negative interest rates on bonds. If we focus on these headlines we would either do nothing – or run for the hills!

What the headlines ignore are the more boring economic facts – like the fact that the US is growing at 2-3% per year, that it has almost full employment, that its consumer debt is under control, and that consumer spending accounts for 70% of the US economy. The headline is that China's growth is slowing – the fact is that China's economy is still growing at about 6% per year as are many emerging markets around the world. The headline is that India is dragged down by corruption and poor infrastructure – the fact is that despite these less than ideal conditions India is growing by about 7% per year.

Perspective is the element that most of us have difficulty applying. We are bombarded with one side of the story and don't have the time or knowledge to explore the other side. I think this is one of the greatest advantages of using actively managed mutual funds for your investments – you are hiring a professionally trained manger to seek out those opportunities around the world.

The last few – and next few - years have been, and will be difficult for individuals trying to grow money for retirement or to maintain retirement income. Low interest rates render the traditional savings vehicles (bonds, GICs, saving accounts) of little use and force savers to take on more risk in an effort to earn any return. Success in this environment will require planning, your commitment to follow through, and regular reviews and adjustments – we are here to help.

ESTATE PLANNING

The Ontario government has enacted new rules to govern the administration of Estates. Their intent is to generate far more revenue from Probate fees. They have shifted responsibility from the Justice department to the Sales Tax department and greatly expanded the reporting requirements and their ability to audit the accounts and to hold the Executors responsible.

Generally speaking, there should not be too much effect when the first spouse of a couple dies, but a potentially major impact when the second spouse dies.

We all know that everyone should have a Will, but we also know that some people just haven't gotten around to it yet. So what happens if you die without a Will (technically, you die intestate)? Without a Will to name an Executor, no one has the legal authority to act for you. An Executor's first duty is to arrange your funeral – obviously funeral homes will work around that –but who is going to make the final decisions if there are disputes? The Executor's next duty is to secure and protect your assets – without a Will, no one has the legal powers needed to do that.

You probably have a good idea of how you want your assets distributed, but without a Will you have no say. The provincial Guardian decides and distributes your assets. Basically, your spouse gets the first $200,000 and splits the rest with any children. You can imagine how slow and cumbersome the process becomes. Of course the government has no desire to minimize the tax that will be paid.

The new rules place a much higher onus on the Executor in terms of justifying valuations for Probate and being able to defend them in an audit. The government has given itself the right to audit up to 4 years after death. This will definitely delay the final distribution of your Estate.

Cory and I recognize that Executors will need more help than ever before and both of us completed the Certified Executor Advisor course this summer to be in a better position to help you.

We have also arranged a seminar for Wednesday October 26 for you and your executor to help you understand and deal with the new requirements. Doug Carroll, a tax and estate expert from Invesco will discuss the role and duties of an executor. Darrell Hawreliak, a local lawyer, will also be available to answer your questions.

CRM II

You will be seeing much more news about this piece of jargon (it stands for Customer Relationship Management) over the next few months. It comes from the Canadian Securities Administrators (CSA) and refers to a new type of statement that you will receive in 2017. The goal is to improve the transparency and your knowledge of the fees you pay for investment advice. The statement will show you the dollars that you paid to Investia for each type of fee. We have often discussed the fact that you generally pay Investia a trailer fee of 1% of your assets and no upfront fees. Research done by the CSA found that many people were not translating the 1% to a dollar term and did not realize that the fee on $100,000 of assets at 1% is $1,000.

The goal of increasing knowledge and transparency is admirable but they have only gone half way to making you aware of the amount you pay for investments. The total cost is referred to as the mutual fund's MER or Management Expense Ratio. If a fund's MER is 2.5% this generally breaks down to 1.5% to the fund company and investment manager and 1% to Investia. In my opinion it would be much more useful for you to see the total cost not just the 1%.

Using that perspective word again – we think you should be focused on the value you receive, not just on the cost. This is where we have a bit of a dilemma - we constantly upgrade our skills and knowledge in areas such as financial planning, debt management and financing, investment management, tax preparation and planning, life, health, and travel insurance, and estate planning. We try to make you aware of the services we offer through newsletters and emails. Some of you use most of our services, but others only use us for investments. We would like to be your financial advisors in all areas – please let us know how we can help you.

TRAVEL INSURANCE

This is not a topic that comes up very often but a recent personal experience brought it to the forefront. My wife and I arranged a trip to Scotland and Ireland in May. We were to be travelling for 18 days but Mary Anne fell and badly broke her ankle the day we arrived in Scotland. Our vacation consisted of 5 days in a Scottish hospital, hastily arranged flights home, and physiotherapy that is still continuing. I estimate the costs incurred by us and our insurance company to be about $30,000.

The lessons to be learned that I would like to pass on to you are: don't leave your province without having travel insurance, and understand your group plan – don't assume it covers everything.
There are three elements to travel insurance, trip cancelation, trip interruption, and emergency medical.

Trip cancelation is used if you have to cancel your trip before it starts. Generally, this requires a doctor certified illness or a death in your close family. It may, or may not be included in your Group coverage.

Trip interruption is used to recover your costs if your trip is cut short because of illness or accident. It is probably not included in your Group coverage.

Emergency medical covers the cost of treatment, hospital costs, and travel home when caused by an illness or accident during your trip. The "pre-existing conditions" clause can cause problems in this area. The arranging of airline flights on short notice and co-ordination with ground transportation in a foreign country was more difficult than I expected and I was grateful for the insurance company's help in this area.

You can access Manulife Travel Insurance quotes and applications through our website www.BEFiancial.ca.

We are here to help and we really want to add value to our relationship. Please let us know how we can help you.