The Francis Forum

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Separating Fear and Greed from your Investment Decisions

Emotions are a critical component of the behavior of investors, and fear was at a fever pitch prior to, and now following, the US Presidential election. We had several calls and e-mails from clients asking what we've done to protect their portfolios from a major correction that would ensue after the presidential election results were in. Their overconfidence in their prognosticating abilities was surely to be justified.

Behavioral finance is a fairly new term and area of research that surfaced when researchers realized that investors, people who make otherwise rational decisions throughout much of their life, do not make rational decisions when it comes to money. Fear, greed and overconfidence are three material factors that often weigh in — even for people who have studied finance and have a good knowledge and background in markets and economics. For this reason, markets are often flooded with sales when the stock market drops and, conversely, caught in a buying frenzy when markets rise.

It is confirmation that investors are buying high and selling low, which is contradictory to Economics 101 and something most of those participating know well.

It is volatility in both the markets and investors' portfolios, paired with uncertainty that drive fear and loss aversion. This is where having a good financial advisor and sounding board is key.

We spend a lot of time talking clients "off the ledge" when they'd like to move all of their money into one outperforming asset class, place a large bet on hedging strategies for a pending correction they see coming or suddenly want to get out of the market altogether and "drop anchor" for fear of pending scary dives in the markets.

The key here is that your temperament is being affected for some reason. It is critical that you recognize it. You literally need to resign yourself to the fact that you are not going to reliably call market movements in advance, particularly their onset, magnitude and duration. There is an infinite set of possible outcomes given the sheer amount of variables.

Between the Brexit vote in the U.K., the presidential election in the U.S. and talk about raising interest rates, the markets of the various asset classes look like a roller coaster as of late.

When there's uncertainty, it's natural to be worried. We have to remember, though, that we've survived multiple U.S. elections, and you will have many more over your investment time horizon to deal with.

We also know that, in uncertain markets, it is still better to stay the course, grab on to the side of the kayak and ride through the white-water of the markets' concern de jour. From there, you can have a strong temperament and execute your investment plan while not losing sight of the underlying investment fundamentals, and your goals of retirement, college planning, prudent diversification, etc.

So, at the end of the day, investors have to remember that investing isn't about President-elect Donald Trump — whether you're terrified about the future or emboldened by potential change. It's about having a solid investment plan with sound financial goals and sticking with it no matter whether markets go up or down. Keep your temperament strong and your emotions out of your investment portfolio.

As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely,

Duane

How to Unlock Your LIRA/LIF

What is a LIRA

LIRA stands for Locked-In Retirement Account. This is basically an RRSP account that is locked-in, restricting you from making any withdrawals until the age of 55.

What is an LIF

LRIF stands for Locked-In Income Fund. This is basically a RRIF account that is locked-in. A LIRA must be converted to a LIF by the end of the year in which the account holder turns 71 years of age.

How is a LIRA created?

Employees who work for a company that offers pension plan (such as the federal government), will build up pension credits or dollars over time. If the employee should leave the job, they have a choice of:

1) Leave their accumulated pension in the pension plan and collect a pro-rated pension at retirement age.
2) Transfer the value or commuted value of their pension to a locked-in RRSP account which is also called a LIRA (Locked-In Retirement Account)

If close to retirement age, option 2 is usually not available.

There are a few of ways to unlock your LIRA/LIF

If you are 55 years of age or at an age where you would have been eligible for a pension from the originating pension plan (whichever is less) then you can do the following:

- Transfer the LIRA to a LIF account and begin to take income from it. This LIF account will be considered a "new" LIF account. This can be achieved with the help of your financial institution.
- You are allowed a one-time 50% unlock from the LIF account when you transfer from a LIRA to a LIF. This means you can request that as much as half of the LIRA account to be transferred to an RRSP or RRIF account. This 50% unlock needs to be completed within 60 days of the creation of the new LIF account.

Here are some other methods which can also be utilized:

Small account balance: If you are at 55 years or older and the total value of all money held in your LIRA/LIF is less than $27,450 (for 2016), you can apply to withdraw or transfer all the money in your Ontario locked-in account.

Regular withdrawals: If you are 55 years of age or older, you can get limited annual payments from a LIF account. Convert your LIRA to a LIF account and then request the maximum payment allowed. The calculation is assessed by formula.

Financial hardship: You are allowed to unlock money if you qualify under one of the financial hardship rules, even if you are under 55 years of age. If you think you might qualify, you apply for the unlock. If granted, you will receive a letter from the government which you give to your financial institution to unlock the account.

Here are the financial hardship criteria:

- **Withdrawal Based on Low Income:** Your expected total income from all source
- s before taxes for the 12 months following the date you sign the Application is less than $32,200
- **Withdrawal for a Debt against your Principal Residence**: You need money to avoid legal action or eviction from your principal residence due to unpaid mortgage payments or property taxes.
- Withdrawal for Unpaid Rent – You need money to avoid eviction from your principal residence due to unpaid rent
- **Withdrawal for First and Last months' Rent:** You need money to pay first and last months' rent, to rent a place to live.
- **Withdrawal for Medical Expenses**: You, your spouse or a dependent need money to pay for medical expenses and/or dental expenses to treat an illness or physical disability that any of you have.
- **Withdrawal for Renovations to Your Principal Residence**: You, your spouse or a dependent needs money to pay expenses to renovate your current or future principal residence to accommodate an illness or physical disability that any of you has.
- **Withdrawal for Renovations to a Dependent's Principal Residence:** You, your spouse or a dependent need money to pay expenses to renovate that dependent's current or future principal residence to accommodate an illness or physical disability that the dependent has.

Shortened life expectancy: If your life expectancy is two years or less and you have a signed statement from a doctor, you can apply to unlock your money.

Non-resident of Canada for two years: If you are a non-resident of Canada and your departure from Canada took place at least 24 months ago, you can apply to withdraw all the money from your Ontario locked-in account. Use this form.

Are withdrawals from a LIRA/LIF or RRSP/RRIF taxable?

Withdrawals from a LIRA, LIF, RRSP or RRIF will be considered taxable income for that year. The financial institution can withhold some tax back at the time of the withdrawal.

http://www.moneysmartsblog.com/how-to-unlock-an-ontario-locked-in-retirement-account-lira-lrif/

Tax Tips for Real Estate Investors

Just because you can incorporate, doesn't mean you should - and vice-versa. Weigh the advice and real estate investing tax strategies of several professionals - a lawyer, a financial advisor, an insurance agent, a lender and an accountant to consider all of the real estate investing tax benefits. But be forewarned: they will have different opinions and you will have to sort through that advice to make the decision that's right for you and your business regarding the possible tax benefits of real estate investing.

Overall, corporate income from passive sources, including rental income, is initially taxed at the highest corporate tax rate. This can be reduced to approximately 20 per cent where dividends are paid to shareholders. Due to the tax-favoured treatment of dividends, these dividends may generate little or no personal income tax, but may be subjected to taxes at the rate of approximately 30 per cent, depending on your income and province of residence. This potentially creates double taxation.

Active income is income from businesses such as retail, restaurants, professional practices, developers and rental income in a corporation with more than five full-time employees amongst associated companies. The first $500,000 of taxable income from these businesses is taxed at the low rate of corporate tax (about 16 per cent, depending on your province, although some provincial limits increase at $400,000).

Beyond the general tax rates, a wide assortment of other tax issues will be revealed during your conversations about incorporation. The most important thing to remember here is that your situation is unique and demands a unique approach.

There may be tax implications when refinancing a real estate investment property. When you refinance a property you own personally, the interest you paid on the loan may or may not be deductible. It depends on what you used the funds for. If they were used for personal use, the interest is not deductible. On the other hand, if you used the money for qualified real estate investing purposes, the interest will be deductible. The funds received on refinancing will not, however, be taxable.

In a corporation, these mechanics change. Here, if you take funds out of a corporation, they may be taxable regardless of how you use them.
You may be able to get some corporate taxes refunded as a result of paying these dividends, but talk to your advisor first. It is much easier to make adjustments to business decisions before a transaction takes place.

Make the mortgage on your home tax deductible
You can make the mortgage on your home tax deductible. Sometimes called the "Smith Manoeuvre", the strategy actually takes several forms. In the basic version of a typical plan, you may have, for example, a house with a value of $200,000. Say the outstanding mortgage on the residence is $120,000. In many situations, it will be relatively easy for you to obtain a mortgage of at least $150,000 on this property (75 per cent loan to value). You could also obtain a mortgage product from various institutions, which allows you to effectively place a mortgage and /or line of credit on the property for $150,000. That would be tracked in at least two segments. In one segment, the bad/non-deductible mortgage would equal $120,000. The good/investment line of credit would be available for the difference between $150,000 and the outstanding "bad" debt, initially $30,000 in this example. As you make payments on the "bad" debt, the amount you have available to borrow and invest with increases — although the total is never more than $150,000.

This means you could invest in real estate, mutual funds, your corporation or other qualified real estate investments and receive a tax deduction for the interest related to the "good" debt. These tax deductions then provide you with more cash flow, which, in turn, can be used to pay off more "bad" debt and increase the "good" debt.

Documentation is key to deducting interest
The rules related to interest deductibility can be confusing, but a recent Supreme Court of Canada decision offers some clarification where the interest charges on mortgages for a rental property itself are deductible, as is the interest from other loans, provided certain conditions are met.

One of these conditions relates to maintaining the ability to trace the source of the borrowed funds to an eligible investment. Structuring your financial affairs correctly may allow you to deduct more of your interest costs, thus saving more money.

A variety of financial institutions have debt products which allow you a total amount of debt and then divide this total into multiple accounts you have created. Over time, it may also be possible to restructure your debt so that even otherwise non-deductible interest can be converted into fully deductible interest. To make sure you can take advantage of deductible interest, talk to your tax advisor about what you can do to deduct as much of your interest as possible — and in a method that is acceptable to the CRA.

http://www.whichmortgage.ca/article/top-tax-tips-for-real-estate-investors-118711.aspx

How Trump's Tax Plans could Benefit High-Net-Worth Dual-Citizens and Canadians living in U.S.

While some Canadians may still be in shock that Donald Trump will soon become the next president of the United States, others have been wondering what, if any, impact Trump's presidency and proposed tax plan would have on their wallets. The quick answer is: not much. And if you're a wealthy Canadian or a dual Canadian-U.S. citizen, you may even come out ahead.

Of the many aspects of Trump's tax plan, two may affect certain individuals more than any other: the promised repeal of the U.S. estate tax and the cancellation of the Affordable Care Act, known as "Obamacare."

Elimination of U.S. estate tax
The U.S., unlike Canada, has an estate tax that applies to the fair market value of an American's assets upon death. The U.S. estate tax was originally enacted in 1916 and was scheduled to be repealed altogether in 2010 as part of George W. Bush's broader tax reform package, but a sunset clause in that legislation meant that the estate tax was effectively only eliminated for one year — 2010 — and was resurrected as of Jan. 1, 2011. There is an exemption equal to US$5.45 million indexed annually to inflation.

Contrast this with Canada, where we don't have an estate tax on death based on the fair market value of your assets, but rather we tax only the unrealized appreciation of assets (other than your principal residence) upon death. We also tax the fair market value of your RRSP or RRIF on death.

High-net-worth U.S. citizens living in Canada, including dual citizens, and non-U.S. citizens who own "U.S.-situs property" at the time of death may still be caught by the U.S. estate tax. The most common examples of U.S. situs property are U.S. real estate or U.S. shares.

Canadians who are not U.S. citizens are allowed prorated access to the US$5.45 million exemption under the Canada-U.S. tax treaty, based on the fraction of the value of their U.S. situs property divided by the value of their worldwide estate. From a practical point of view, this means that if your worldwide estate is under US$5.45 million when you die, you will get a full exemption from U.S. estate tax.

High-net-worth Canadians who die owning U.S. situs property and have an estate larger than US$5.45 million currently have exposure to U.S. estate tax and have been using a variety of tax planning strategies. Some result in a change to the ownership structure of their U.S. assets, perhaps by using a discretionary trust to own U.S. real estate or a Canadian investment holding corporation to hold U.S. securities. If Trump follows through on his promise to repeal the U.S. estate tax, then this planning would no longer be necessary.

The potential elimination of the U.S. estate tax would also benefit wealthy Canadian families with children living in the U.S. by making their estate planning much simpler. Under the current rules, if you leave your assets to someone who is a U.S. person, such as a son or daughter who moved to the U.S., then U.S. estate taxes could impact the value of the assets that your beneficiaries are able to retain.

While your own Canadian estate may not be subject to any U.S. taxes upon death, your U.S. daughter's worldwide estate could be subject to the U.S. estate tax when she dies as a U.S. person. Today, rather than leaving your assets directly to U.S. beneficiaries, it may be preferable to create what's become known as a "dynasty trust," which is a trust arrangement designed mainly to prevent U.S. estate tax erosion of family wealth. Assets held in a dynasty trust are not owned by the trust beneficiaries and, therefore, are not subject to estate tax upon the death of the U.S. beneficiaries.

The repeal of the estate tax would make this planning no longer necessary.

Obamacare tax
The second Trump tax proposal that may be beneficial to high-income U.S. citizens living in Canada (including dual citizens) is his proposed repeal of Obamacare. Obamacare included a new tax, which began in 2013, and applied to high-income U.S. tax filers making over US$200,000 annually. Called the "net investment income tax" (NIIT), it imposes a 3.8 per cent surtax on net investment income, including interest, dividends and capital gains.

Under U.S. law, citizens are required to file an income tax return reporting worldwide income no matter where they reside, which is why U.S. citizens living in Canada are required to file U.S. tax returns each year. In the majority of cases, however, U.S. citizens don't end up owing U.S. federal tax due to offsetting foreign tax credits.

The problem for dual income tax filers since 2013 has been that foreign tax credits are not available in relation to the 3.8 per cent Obamacare NIIT. This means that high-income, dual-filers, have been paying an extra 3.8 per cent on their investment income. In high tax rate provinces like Ontario, this means an effective marginal tax rate on investment income of over 57 per cent for U.S. citizens living in Ontario.
The proposed repeal of Obamacare would eliminate the NIIT, resulting in a 3.8 per cent tax savings for these high income, U.S. tax filers.

http://business.financialpost.com/personal-finance/taxes/how-trumps-tax-plans-could-benefit-high-net-worth-dual-citizens-and-canadians-living-in-u-s

Health and Wellness: Aromatherapy

Aromatherapy can be defined as the art and science of utilizing naturally extracted aromatic essences from plants to balance, harmonize and promote the health of body, mind and spirit. It seeks to unify physiological, psychological and spiritual processes to enhance an individual's innate healing process.

An important element of aromatherapy is synergy, which is the combination of numerous essential oils that can actually create a more powerful effect than the oils would have on their own. This is why blending essential oils is such an important area of study for alternative healers, since the range of possibilities is almost endless. However, it is important to always do your consultation with trained aromatherapists, as some essential oils can trigger allergies, and can actually be toxic if mixed improperly.

Stress Relief: Perhaps the most widespread and popular use of aromatherapy is for stress relief. The aromatic compounds from many different essential oils are known as relaxants and can help to soothe your mind and eliminate anxiety. This is what most people who perform aromatherapy at home use it for, since the mixtures are very simple and the research on this aspect of aromatherapy is very well-known and widely studied. Certain studies have also shown that lemon oil can improve mood and reduce outbursts of anger.

Antidepressant Capacity: Second to stress relief, aromatherapy is very commonly used to eliminate feelings of depression, and due to the very complicated side effects of pharmaceutical antidepressants, this is a very important function of aromatherapy. While this is useful as a complementary treatment, psychological help or counseling should be sought out if depression continues or worsens.

Memory: One of the most frightening and widespread diseases affecting older people is memory loss and the inability to form short term memories. While Alzheimer's is still considered an incurable disease, there are certain ways to reduce or slow down the progression of the condition. Aromatherapy has often been turned to as an alternative or supplemental treatment for dementia and Alzheimer's disease. Studies have also shown the efficacy of aromatherapy on younger patients in terms of boosting their memory capacity for a certain amount of time after the treatment. This refreshing burst for the brain can be useful in all walks of life, no matter what age you are.

Boost Energy Levels: We can all use more energy to get through the hectic daily tasks of modern life. However, stimulants like coffee, cigarettes, energy pills, or even illegal substances can have very damaging effects on the body. While diet and exercise can also help, many people turn to aromatherapy to put a bit more pep in their step. Many essential oils are known to increase circulation, raise energy levels, and generally stimulate the body and mind, without the dangerous side effects of other stimulating substances

Healing and Recovery: Many essential oils can help increase the rate of healing throughout the body. This can be due to increased oxygen and blood flow to wounds as well as more internal healing processes like those following surgeries or illness. The anti-microbial properties of certain essential oils also keep the body protected during these delicate healing stages of the body. They can also reduce the severity and discomfort from skin conditions like psoriasis and eczema.

Headaches: Everyone gets headaches from time to time, and the bad ones can stop us dead in our tracks. Rather than relying on pharmaceuticals or dishing out a lot of money for a massage, aromatherapy can be a wonderful solution that can not only eliminate your current headache, but possibly reduce the stress, anxiety, or medical origin of your headaches to prevent them in the future.

Sleep Aid: Not getting enough sleep can exacerbate or cause a huge range of medical conditions and can leave us feeling unproductive and devoid of energy. Aromatherapy can provide us with a more balanced sleep schedule and can even realign our Circadian rhythms so our body naturally gets tired at an appropriate time, sleeps restfully through the night, and is energized in the morning to face the day.

Immune System: It is far better to prevent than treat, as most medical professionals say, and aromatherapy can give you a serious boost to your immune system if used properly. The anti-microbial effects, as well as the anti-fungal and antibacterial effects can protect you from any number of illnesses and infections that could damage your system. This area of aromatherapy is very popular and widely studied.

Pain Relief: Analgesics can have a lot of different effects on the body as a side effect, even if they do relieve the pain. Pain relief is one of the most useful applications of aromatherapy.

Digestion: Although this isn't the most widely researched area of aromatherapy, digestive issues can certainly be treated by aromatherapy. It can ease constipation, indigestion, bloating, and can speed up the metabolism so food is digested quicker.

Whatever your condition, always consult your doctor before embarking on a new treatment plan. Also, be sure to only acquire these substances from approved sources and don't attempt to mix and use oils unless you have been trained as a professional aromatherapist.

https://www.organicfacts.net/health-benefits/other/benefits-of-aromatherapy.html

Winter Activities

Canadian Tire National Skating Championships
January 16th – 22nd
https://skatecanada.ca/event/2017-canadian-tire-national-skating-championships/

Winter Night Market
January 20th – 22nd
http://www.ottawaasianfest.com/

Polar Hero Race
February 4th
http://www.polarherorace.com/ottawa-en

Winterlude
February 3rd – 20th
http://www.canada.pch.gc.ca/eng/1416239267950/1416239373076

Red Bull Crashed Ice World Championship
March 3rd – 4th
http://www.ottawa2017.ca/

Upcoming Events:

Client Seminar:
Investment Metrics
Wednesday, January 25th, 2017
1525 Carling Avenue, Lower Boardroom

Client Seminar:
TBD
Wednesday, February 22nd, 2017
1525 Carling Avenue, Lower Boardroom

Client Seminar:
Trusts and Estates
Wednesday, March 22nd, 2017
1525 Carling Avenue, Lower Boardroom

The Davis Cup Tennis Tournament by BNP Paribas

The Arena at TD Place will be the site for the upcoming Davis Cup by BNP Paribas World Group first-round tie between Canada and Great Britain. Canada will be competing in the elite 16-team World Group for a sixth straight year after defeating Chile 5-0 in the World Group play-offs in September. They were relegated to the play-off round after a 5-0 loss to France on the road in the first round in March. Canada has experienced tremendous Davis Cup success over the past few years, reaching the semifinals for the first time in the country's history in 2013 and returning to the quarter-finals for a second time in 2015. Canada is currently ranked No. 12.

The winner of this tie will move on to the World Group quarter-finals and will also be assured to keep their spot in the World Group for the following year. The losing nation will be forced to play a World Group play-off tie to keep their spot in the elite level for 2018.