The Francis Forum

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INSIDE THIS ISSUE

When Tuna Fish Goes On Sale…

Everyone Loves a Winner

Stories are a great way to learn and I recall many years ago, industry expert, Don Connelly, told the "tuna fish story" which has remained with me all these years. The story goes like this: Every week, you have on your shopping list four cans of tuna, packed in water and of course the white albacore variety. The price is around $4 per can. One week, you come in and find that your favorite tuna is on sale selling at 4 cans for $1. What do you do? Stock up on all the tuna you can carry, of course.

Now for the moral of the story.

When stocks go on sale, maybe because of business cycles or other factors, and the stock prices go down, investors run like their hair is on fire, rather than stocking up when it's on sale. For tuna, you buy all you can carry. That's just normal behavior.

Investors are wired differently; following the winners like a groupies, because, "everyone loves a winner" and we all want to be winners. But it can be a short distance to disaster. Let's look at an example: an investor buys a growth stock today with a price of $500 per share. In order to double the investment, the stock price must rise to $1,000 per share. While that is certainly possible, no one knows if it will occur and if so, how many months, years or decades until it does so, if it ever does. These companies that are high-priced are typically big-name, high-profile companies that attract a lot of attention.

Conversely, there may be a company that is out of favor and low-profile – a value stock - where the book value is $20 per share and the market price is $10 per share. It is safer to assume that this stock will reach its book value sooner than the high-priced growth stock will double. While certainly, there is no guarantee, this example is designed to illustrate that the higher profile/high-priced companies are not always the best way to go.

Making sound financial decisions is rarely as simple as reading a list of winners in a magazine, and while normally going against the crowd pays a bigger reward over the long-term, it takes courage and a long view. Historically, value stocks (those companies out of favor where the book value is higher than what the market currently prices the stock) outperform growth stocks (based on a momentum of earnings), although there are periods where growth outperforms value.

Doing what's best for you is not always simple, easy or obvious; it requires time, effort and a desire to achieve a level of satisfaction in your financial life. The best way to get there is to work with a team of experts that can help guide you, and to be supportive and communicative stakeholders. Have the willingness and desire to measure *your* "win" based on *your* own scale, not someone else's.

We continue to approach investing in these markets with measured confidence. We value your trust in us and look forward to building your wealth over the long term.

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

Sincerely,

Duane

Behind the Scenes – Advisor Focus

This is a new section that we have added to this quarterly newsletter which focuses on what advisors in this branch have done to go above and beyond the call of duty. Most of the time, our clients don't ever find out how far we'll go to ensure we put their interests above our own.

By Duane Francis CFP, CIM, FCSI, CPCA, CIWM
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The sudden passing of a loved one; the unexpected loss of your job; you are retiring, receiving an inheritance or buying a new home. These are what I like to call "Critical Financial Events" and as a portfolio manager that focuses on financial planning for my clients, I realize that our planning is an ongoing process of preparing for and reacting to critical financial events.

Few of us are comfortable with change and events like these can be fraught with emotion, but our real role is not only to put a sound plan in place, but to be "emotional modifiers" helping our clients make the "right" decisions not the "easy" ones.

One such client experienced one of these critical financial events back in 2010 when I received a call from his wife "Susan" to tell me that her husband "John" had suffered a back injury and was unable to work. She was concerned because he was in a great deal of pain and was clearly not going back to work any time soon. Fortunately for them, they were both employed and had good jobs; John, a teacher, providing them with the security of future pension income. That being said, the promise of future income was not going to ensure that their family of four, with two children nearing post-secondary education, would be able to maintain the current lifestyle that they had become accustomed to.

"Let's update and revisit your plan" I mentioned, "and we can look at some options". With John's employee benefits package, his disability insurance coverage offered him two years at almost his full salary. This gave them some time to avoid making any rash decisions and to look at all of the options available to them.

Some of the challenges that arose throughout this situation, which is not uncommon, is providing evidence to the insurance company that John could not work and was therefore eligible for long-term disability payments.

This process took much longer than we had all anticipated and before we knew it, we were nearing the end of 2013. John's two years of full income had run out. Susan and John were concerned because at 47 and 43 years old respectively, they wanted to know what the future held in store for them.

"We're too young to retire!" "Will be have enough to survive?" "What will our financial future look like?"

As it turned out, John was eligible for a Long-Term Insurance Plan which could provide them with one more year of income at about 80% less than his was previously earning - very tough times.

Based on the financial plan I had created for them, we had to make some budget reductions and some investment-planning decisions to accommodate the radical changes that had taken place. We put a stop to his RRSP contributions, reduced her contributions to retirement savings and reallocated them to a TFSA in John's name for future emergencies.

One of the things that had always given them confidence was that as the situation changed, so did their plan as we kept on top of any changes to their overall Plan and provided them with projections based on "worst case scenarios".

To under-promise and out-perform has been a philosophy I have followed. Planning with this philosophy in mind allowed them to have a bit more peace of mind.

After almost 5 years, John was given the option through his employer to resign and collect either a monthly disability payout or to take the lump-sum transfer-value of this monthly payout. Again, several scenarios were prepared comparing the two options and in this situation, which is not always the case, it made more sense to take the disability pension as opposed to the transfer value.

Without the benefit of a written Comprehensive Financial Plan and continued comprehensive planning, this situation may not have provided the "peace of mind" that allowed this family continue to enjoy their lives.

When you have Mortgage "Rate-Envy": Does it Make Sense to Refinance?

Who would have believed that mortgage rates would have such a continued downward trend? Mortgage shoppers are looking at some of the lowest rates in history, and many homeowners with existing fixed-term mortgages are experiencing some "rate envy" about today's rock bottom rates.

It might be worth a conversation about your options. Typically, we think of a fixed term mortgage as a non-negotiable contract. And it's true that there are financial penalties to re-negotiate. But, many clients have been asking for a mortgage analysis – a detailed look at the penalties versus the payoffs – to determine whether it's worth refinancing.

What does it cost to get out of your existing mortgage? Generally, you can expect to pay the greater of either a) three months' interest, or b) the interest-rate differential. The interest rate differential can be high in some cases; your mortgage lender will expect you to pay them the equivalent of what they will lose by releasing you from your mortgage and lending the money at current rates.

So is it worth it? For some homeowners it can be an important moment of opportunity, while for others, it may not be worth the costs involved. Most lenders will include the cost of the payout penalty and other costs into the new mortgage so you don't have to be out of pocket to complete the transaction.

I would be happy to help you make a realistic assessment of your situation and help you determine if your benefit outweighs the cost. **With rates where they are today, there's never been a better time to talk.**

3 things that do or don't change with a Bank of Canada rate cut

1. **The prime rate in most cases will change,** but lenders decide how much of that cut they will pass on to consumers, if any. If you have a variable mortgage, you are now paying less; sixty per cent of the two recent cuts are now reflected in lower variable rates. Take advantage and keep your payments the same so you pay off your principal faster.

2. **Fixed rates don't**, they are influenced by the bond market.

3. **Variable mortgage approvals don't**, they are based on a qualifying rate, which means your borrowing power likely won't increase.

Courtesy of Mortgage and Lending Expert, Jean Lamarche
613.795.9591
http://www.ottawamortgageguys.ca/

Beware of Who You Rent To

Beware of who you rent to: What landlords can do to avoid tenants from hell

About 99 per cent of people who lease will be problem free — but you have to keep your eye on the one per cent.

Hiring someone to handle your property and deal with everything from collecting rent to making repairs can easily cost you five per cent of your gross rent. In the case of students, property management companies can charges as much as 20 per cent for students renting a single house.

One of the problems for landlords in some provinces is that you can't ask for a security deposit for damages. You can ask for first and last month's rent, but you can't make it a requirement of signing — meaning you're left holding the bag if repairs are needed.

Companies now have a list of demands all tenants have to meet in order to be approved as tenants. They get a credit report, a background check, two last landlord references, a letter of employment and pay stubs. Some also demand social insurance numbers.

Even if you use a company to find you a tenant, you'll still need to manage the property. If you are doing it on your own, that means actually going to the property and seeing it in person. You can have a do-it-yourself approach to property management but regular inspections are very important even if you have a property management company.

Most industry representatives consider it a major problem that these days, renters are now subleasing their properties on sites like Airbnb. The renters have incentive to do this because it pays well, but they're doing it with zero background checks and simply saying 'here's the key. This occurs despite the fact that almost all leases have a clause that specifically disallows subleasing without approval of the landlord.

People can manage their own property, but they need to be knowledgeable. More importantly, they always have to be monitoring what is going on with an investment. It's not just something that can be put on autopilot. Cheques coming in are great, but as a landlord, you have to be in touch with everything about your property.

http://business.financialpost.com/personal-finance/mortgages-real-estate/beware-of-who-you-rent-to-what-landlords-can-do-to-avoid-tenants-from-hell

Most Wealthy Families see their Fortunes Disappear within a Few Generations

When Stephen Lovell used to visit his grandparents as a kid, it was like entering the world of Cole Porter or “The Great Gatsby.”

People dressed in tuxedos and sipped cocktails. They owned boats, airplanes, hobby farms. Not to mention a lavish mansion in Ontario, Canada, and a summer home in Southampton, New York.

He estimates that his grandfather, who founded the John Forsyth Shirt Co, had a fortune of at least $70-million (U.S.) in today’s dollars. But through a combination of bad decisions, bad luck, and alcohol dependency, the next generation squandered that money.

“I think about it all the time,” says Lovell, a financial planner in Walnut Creek, California.

Indeed, 70 per cent of wealthy families lose their wealth by the second generation, and a stunning 90 per cent by the third, according to the Williams Group wealth consultancy.

U.S. Trust recently surveyed high-net-worth individuals with more than $3-million in investable assets to find out how they are preparing the next generation for handling significant wealth.

“Looking at the numbers, 78 per cent feel the next generation is not financially responsible enough to handle inheritance,” says Chris Heilmann, U.S. Trust’s chief fiduciary executive.

And 64 per cent admit they have disclosed little to nothing about their wealth to their children.

The survey lists various reasons: People were taught not to talk about money, they worry their children will become lazy and entitled, and they fear the information will leak out.

When I asked financial planners why the wealthy are so poor at passing along money smarts and why second– and third-generation heirs turn out to be so ham-handed, the answers were surprisingly frank.

A sampling: “Most of them have no clue as to the value of money or how to handle it.” “Generation Threes are usually doomed.” “It takes the average recipient of an inheritance 19 days until they buy a new car.”

Yes, the statistics may be grim. But just because most wealthy families see their fortunes evaporate within a couple of generations does not mean yours will.

Here are some strategies to avoid it:

TALK EARLY AND OFTEN
You may think you are encouraging hard work by not disclosing wealth to your kids, but that really just fosters ignorance.

If you have just never talked about money, get over it, and give your kids a crash course in financial literacy. Many financial institutions, including U.S. Trust, offer specialized learning materials and courses to get heirs up to speed.

That goes for grandkids, too: Instill smart money lessons in them, and you have pushed family wealth forward another 30 or 40 years.

DISCUSS THE WILL
If you are ready for true transparency, take it up a notch and bring up the elephant in the room: the will.

“Parents and grandparents should communicate the whats and whys of their will in a group setting, with all their children present, long before the will is read,” says David Mullins, a planner in Richlands, Virginia.

That way, you can hash out any issues as a family beforehand. It is better than after the fact, when the patriarch or matriarch is not around to explain or make adjustments, and things devolve into all-out legal war.

“Trust me, siblings will find out who got what,” says Mullins. “Without proper communication, this can destroy families.”

CREATE A ROAD MAP
Almost one-quarter of baby boomers think their kids will not be able to handle wealth properly until the ripe age of 40. And almost half of wealthy individuals over 70 agree.

That is why you should give your heirs a financial road map in the form of a family mission statement, advises U.S. Trust. You can lay out what you expect in terms of spending, saving, and giving back, as well as pass along strategies for building wealth.

Stephen Lovell wishes his mother had that kind of road map.

“How did my mother blow it?” he says. “She just didn’t know any better. And now we all live with that regret, every day.”

http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/a-little-honesty-might-preserve-the-family-fortune/article25074714/

How Much Diversification is Necessary?

The choices these days for building a diversified portfolio are nearly endless. Not only do you have to choose among asset classes and then between active funds, index funds, ETFs, closed-end funds or individual securities, but you also have the different variations to consider within each class including large, mid or small cap, growth, value, momentum, yield, international, emerging markets, REITs, liquid alts, treasuries, corporates, TIPs, junk bonds, commodities and the list could go on...

To make matters worse, every market practitioner goes out of their way to try to convince you that they have figured out the formula for a perfectly diversified portfolio. Their portfolios offer the best returns at the lowest cost with the lowest risk using the best risk management techniques, etc.

Diversification requires finding the right balance between eliminating unsystematic risk (risk that's specific to single securities or industries) and di-**wors**ification - adding too many overlaps. If you're not diversified enough you increase your portfolio's risk, and if you diversify too broadly, you could end up paying higher fees with increased complexity for no reason.

One guiding portfolio management principle is that investors should have a reason for every asset class, strategy, fund or security in their portfolio. This is a step you can't ignore if you wish to create a truly diversified portfolio that isn't just a jumbled mess of different investments that sounded good at the time over the years because everyone was talking about them.

Here are a few thing to consider when thinking about building a diversified portfolio:

The asset class should offer diversification and correlation, and you should acknowledge that the risk factors and the relationships between asset classes can and will change over time. Asset classes and their risk characteristics should be different from one another. These could include differences in geography, economic development, security structure, risk factors, income payments or investment styles.

The asset class should have an expected long-term return above that of inflation. You also may want to consider diversifying within asset classes by strategy, market cap or risk level.

There is certainly a lot to consider..

http://awealthofcommonsense.com/how-much-diversification-is-necessary/

Tax: Harvesting a Loss

Recent market volatility may have caused you some sleepless nights over the past week as you checked your portfolio and watched it seesaw up and down. If you're one of those who has seen certain stocks or mutual funds you own drop in value over the past week or so, there are a couple of tax ideas that may help you make the most of these recent declines. Both strategies, of course, are only applicable if you hold your investments in a non-registered account, rather than, say, an RRSP, RRIF or TFSA.

The first strategy — tax loss harvesting — is generally not discussed until year-end, but can be done at any time. It would generally only be applicable if you bought your stock or mutual fund more recently, as chances are, if you've held the position for a couple of years or more, you likely still have an accrued gain, despite suffering a recent setback.

Under the tax rules, capital losses may only be applied against capital gains. If you have no realized capital gains in the current year, the capital loss may be carried back and applied against any capital gains in the prior three years or may be carried forward indefinitely to offset future gains.

But don't think of selling at a loss and then trying to immediately buy the security back again - you will fall afoul with the superficial loss rule. A superficial loss occurs if you dispose of an investment at a loss and the investment is then re-acquired either by you or an affiliated person within 30 days. The tax law defines an affiliated person to include, among others, your spouse or common-law partner as well as a corporation controlled by either of you or even your RRSP or TFSA.

The consequence of having a capital loss deemed superficial means that the loss cannot be used immediately, but rather must be added to the adjusted cost base of the investment, only to be recognized upon its ultimate disposition.

If part of your portfolio has decreased in value such that you have zero or minimal gains, you may wish to consider selling those investments, paying off your mortgage (subject to any pre-payment penalty, if applicable) or other consumer debt, and then getting a secured line of credit on your home to immediately buy back the investments you just sold.

If the investments were in a loss position, the superficial loss rule would kick in to deny your loss. But if they are flat or have a minimal gain, now would be an ideal time to do the debt swap, making your interest fully tax deductible.

http://business.financialpost.com/personal-finance/taxes/how-market-volatility-can-be-your-tax-friend

Health and Wellness: Compression Socks to Improve Circulation

Compression stockings and socks can be confusing to understand: what are the different types, what are they used for, which should I choose and how do I wear them

What is Compression Hosiery?

Compression stockings are medically designed to improve circulation, and relieve the symptoms of edema, vein diseases and other leg discomforts, and guard against further progression of such venous disorders. Compression hosiery has much higher content of elastic fibers than other stockings or socks and can be made from a variety of materials, including cotton and microfiber.

There are two main types of compression hosiery: uniform and graduated. Uniform compression, as the name states, offers the same amount of compression to all parts of the leg. According to studies, graduated compression hosiery is much more effective in treating vein diseases. Graduated compression is tightest at the ankle and pressure gradually decreases as it moves up the leg. When circulation is impaired, blood tends to pool in the lower extremities, causing circulation problems. The graduated compression helps move blood through veins towards the heart.

Compression stockings increase venous blood flow and help blood valves work efficiently. This improves circulation and helps move fluid back into blood vessels. Compression keeps blood flowing smoothly and reduces swelling and leg pain.

If you have experienced tired, aching legs, compression stockings may bring relief. People who spend all day standing or sitting, like nurses, hair stylists, factory workers, wait staff and truck drivers may find compression hose useful. Some athletes swear by compression socks or compression leg sleeves to reduce muscle fatigue. Air travellers find compression hose relieves leg discomfort caused by inactivity and cramped seating. In general, for anyone who wants to improve circulation, compression stockings are the first step towards leg health.

When NOT to use compressions stockings

As beneficial as compression can be, it should not be used by people with certain conditions, including severe uncontrolled congestive heart failure and advanced arterial disease.

Compression pushes blood away from the leg and may not be recommended for smokers and anyone with a decreased blood supply to the legs. Poor blood flow in arteries is different from vein conditions and compression hosiery is usually not advised. Those with diabetes, neuropathy, skin infections and allergies should check with a healthcare professional. In fact, it is always wise to consult a physician before using compression therapy.

Wearing Compression Stockings

Putting on compression hose is not quite like slipping into a pair of socks or pulling up your pantyhose. The elasticity and resistance of the material can make it hard to handle and some styles can actually be difficult to put on.

You should contact your doctor or other healthcare professional if:

- There is increased pain, swelling or numbness while wearing compression hose.
- If you see redness or open skin on your feet or legs
- If compression hose feels too uncomfortable, you may need a different type, but don't discontinue wear without talking to your doctor.

Wearing Compression Hosiery for Travel

There is a potential, although slight, risk of developing a deep vein thrombosis during long plane flights. This even has a name, 'economy class syndrome.' The key is to increase blood flow and compression hose can help with that. The Independent Traveler has some useful steps to help you avoid the threat of DVT or other leg health problems that can arise during flights:

Moving and stretching encourage blood flow, so take some time periodically to walk up and down the aisle.

Drink plenty of hydrating fluids before the flight and avoid diuretics like coffee and other caffeinated drinks.

Compression hosiery has been shown to reduce the risk of DVT caused by air travel. You should wear the stockings for the duration of the flight. And as always, consult with your doctor first.

https://www.ameswalker.com/content/compression-hosiery-guide.asp

Fall Activities

Beau's Oktoberfest
October 2nd – 3rd
http://www.beausoktoberfest.ca/

The National Women's Show
October 24th – 25th
http://www.nationalwomenshow.com/

Ottawa Wine and Food Festival
October 30th – November 1st
http://ottawawineandfoodfestival.com/

Halloween at Rideau Hall
October 31st
http://www.gg.ca/document.aspx?id=6&lan=eng

Remembrance Day Ceremony
November 11th
http://www.beechwoodcemetery.com/

News

Upcoming Events:

Client Seminar: How to Plan for Aging Parents
Wednesday, October 14th at 6:30pm
1525 Carling Avenue in the Lower Boardroom

Client Seminar: Critical Illness Insurance
Wednesday, November 18th at 6:30pm
1525 Carling Avenue in the Lower Boardroom

The 14th Annual Children's Christmas Party
Sunday, December 6th from 1pm-5pm
Fun Haven!

The Ottawa International Film Festival

Founded in 2009 The Ottawa International Film Festival (OIFF) is a not-for-profit festival that runs every October.

Being the first International Film Festival in the Nation's Capital, OIFF has quickly risen to become a highly regarded, unbiased platform for filmmakers that are looking to advance their career in the Motion Picture Industry. OIFF is committed to advancing the work of creative international filmmakers while maintaining a dedicated space for equally creative Canadians.
OIFF showcases features and shorts by filmmakers from around the world to an audience of film executives, journalists, embassies, film fans and filmmakers.

OIFF delivers year-round networking activities, workshops and panels that are available to the public and free to all participating filmmakers. These activities assist with meeting new investors and other industry professionals all while learning about funding, pre-sales, private financing, distribution and the business of the film industry.