# The Francis Forum

*Spring Edition 2016*

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**INSIDE THIS ISSUE**



## Rebalancing your Portfolio

Studies show that your strategic asset allocation (how you spread your money among different types of investments) greatly affects your returns. Generally, the more stocks you own, the more you could earn. That's because in the long run, stocks are potentially much more lucrative than bonds or cash—even after tough setbacks for stocks, such as during the Global Financial Crisis September 2008 through March 2009.

Price changes, however, will move your portfolio away from your desired asset allocation. The solution to this problem is to rebalance your portfolio. That is, sell asset classes that are up in relative value and buy asset classes that have fallen in relative value. Besides eliminating portfolio drift, rebalancing can let you profit from contrarian investing.

**Keep rebalancing as you buy and sell**
The trouble is, rebalancing is costly unless you are in a fee-based structure. You pay brokerage fees for buying and selling. In addition, you may also have to pay capital gains taxes instead of keeping unrealized capital gains working for you—except in tax-deferred accounts like RRSP's and TFSA's..

**Retirees can rebalance as they withdraw**
You simply buy or sell in a way that rebalances your portfolio as you withdraw. As you withdraw the money you need, you'll move closer to your desired asset allocation. When you sell stocks, consider selling those in the sectors that have done best.

**Consider alternative investments**
Individual investors once had few asset classes (or types of investments) to choose from: There were common stocks, fixed-income investments and cash. You now have more asset classes to choose from, especially if you're a Mandeville Private Client.

You can, for instance, use REITs to buy into office towers, apartments, hotels, commercial and industrial real estate. As another example, you can buy into Private Equity, as long as your Investment Policy Statement suggests you can tolerate the illiquidity of certain offerings.

But today's volatile and nervous financial markets currently make Private Equity investment much more attractive.

To further complicate things, you have the selection of mutual funds and ETFs with exposure to a variety of industries or countries. One advantage of having so many asset classes to choose from is that it lets you diversify more widely. This can both improve your returns and reduce your risk at the same time.

We continue to approach investing in current 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*

The Francis Forum

Create Wealth, Achieve Freedom

Spring Edition 2016

## Behind the Scenes – Advisor Focus

This is a new section that we added to this quarterly newsletter in early 2015. It 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 advocacy on their part.

**By Adam Schacter CFP, CIM, EPC**
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**Mandeville Private Client Inc. / Capital Wealth Architects**

If you've ever complained over having to pay for life insurance, consider that you may be lucky to be in a position to even have it in place at all.

Consider that you're "forced" into having to pay for insurance on your car, yet the thought of insuring our own lives for the sake of our families seems like we're throwing money away…

Like it or not, insurance is the cheapest way of transferring the financial implications of a "worst case scenario" to an insurance company in exchange for a fee. If you total your car, you may lose the emotional aspects of what that car meant to you, but your financial loss will be reimbursed by an insurance company.

In the same way, if you lose your life, become disabled or critically ill, your quality of life and that of your family will change drastically. If proper insurance was put in place to cover the financial aspects of this "worst case scenario", then at least the financial implications of this scenario would be reimbursed to you by an insurance company.

When it comes to life, disability and illness insurance, applicants need to qualify for their coverage both medically and habitually. A history of reckless driving and/or a string of medical issues would make your case much less attractive to an Insurance Company. Keep in mind, there are a number people out there that have an immediate need for insurance coverage, but cannot qualify for it due to their current medical conditions.

In October 2011, I received a call from "Mrs. Smith" who was shopping around for coverage for her husband. She explained to me that her husband had terminal cancer and that they needed to put coverage on him because there was no money to cover his eventual final expenses (funeral, etc). She explained that she had spoken to over 20 insurance brokers who simply dismissed her case as "uninsurable" – meaning there was no way an insurance company would take on the risk.

While on the phone with her, I explained some of the same things she had previously heard from this other broker, but with one very different caveat: I let her know that I would at least ask around to see if there were other options for her family.

As it turned out, this led me on a bit of a mission in an attempt to, at the very least, provide a best-case-scenario to their family's looming financial issue.

As my research continued, I kept her up to speed on some of the answers I received from various insurers, and I urged to continue trying to get some potential insurance coverage by calling other brokers; who knows? Maybe there was *something* out there for them…

In February 2012, I found something;

It wasn't perfect, but there was a company willing to take on this case. The twist here was that the coverage wouldn't come into effect for two years, meaning the family would have to pay the monthly premiums for two years with no coverage in place. If something happened to "Mr. Smith" within those two years, there would be no money coming in, but the monthly premiums would be refunded.

While it wasn't ideal, it was *something*, and after going through a full explanation of how this was going to work, they both decided to proceed with this viable solution.

Sadly, in August 2014, "Mr. Smith" passed away peacefully in the presence of his dear family. I was surprised when "Mrs. Smith" called me that August afternoon to tell me her husband had passed away that morning. She was calm, strong, exhausted and ready to accept this current challenge of settling her husband's estate and proceeding through life without him.

Two days later, I arranged to bring all the necessary insurance claims paperwork to her house. When I arrived, I was met with such admiration from her entire family. The girls were at a high school age and seemed very accepting of their situation. They had been going through this for over three years. "Mrs. Smith" must have explained to them how significant the influx of money was at a time like this. She must have also explained how persistent I was almost two and a half years earlier.

I continue to stay in touch with "Mrs. Smith" and will continue to treat the word "can't" with measured skepticism, given the wide variety of brokered insurance solutions available through Mandeville Insurance Services and the exhaustive wealth management solutions through Mandeville Private client.

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## Saudi Arabia, Shale & Iran:
## Everything You Need to Know about the Oil "Crisis"

Oil prices have managed to plunge again after a fall of 29% in 2015 and 44% in 2014. While markets took these drops in stride, something seems different about the volatile plunge thus far in 2016.

Why are oil prices so low? And why are the world's asset markets so worked up about it?

Oil prices are low because both demand and supply forces are conspiring to make it so. Why the energy markets are concerning is another story.

First, the demand for oil is highly correlated to economic activity, which currently is looking rather weak in cyclical terms. In good times, consumers typically have growing income and thus have a higher demand for goods. Companies, ever eager to supply these goods, have to run factories longer or faster, and demand more energy to do so. More goods get produced, more get transported, and more people drive to buy them or to deliver them. In fact, according to the U.S. Energy Information Administration about 75% of the petroleum used in the USA in 2014 was for gas, heating oil, diesel, and jet fuel. As such, the global demand for oil is just not very strong. Low demand brings low prices.

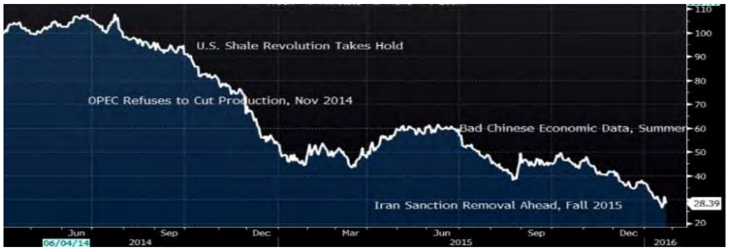
However, the real story behind the plunge in oil prices lies in supply. The United States' shale gas revolution has turned out to be a permanent game changer for world oil supply. In fact, in 2014 the International Energy Agency reported that the U.S. had become the largest oil and natural gas producer, surpassing both Russia and Saudi Arabia. This addition to the global oil market was enough to induce oil prices to fall from their highs above $100 per barrel to levels in the $70s.

Typically when prices fall, OPEC comes to the rescue. OPEC, the Organization of Petroleum Exporting Countries, has historically controlled the majority of the oil's supply, and tended to increase production when prices were "too high" and cut production with prices fell "too much." The November 2014 OPEC meeting delivered a significant shock to the world; instead of cutting production to prop up prices, Saudi Arabia in particular showed it was prepared to keep pumping and even lose money, in order to try to force the new higher cost producers out of the market.

Over the course of 2015, rather than getting forced out, U.S. shale producers innovated and cut costs, and survived even as prices fell to $50 a barrel.

Meanwhile, over the course of 2015, non-OPEC oil producers kept their pumps on at full steam as well. Most of these countries' fiscal balances were under severe financial strain. As government budgets had been relying on significantly higher oil prices, politicians were short on money and yet still reliant on oil revenues. They had to maximize oil production in order to get money in the coffers.

These issues were dominant drivers of supply from 2014-2015. However, as 2015 came to a close, another oil producer was about to enter the scene: Iran. The elimination of Iran's sanctions means that the country will once again export to the world's markets. Iran's government has stated intentions to produce 500,000 barrels a day, which in a market that is already oversupplied, is enough to cause further disruption. Iran desperately needs the oil revenues to buy crucially needed imports; the country has every incentive to maximize all exports of oil it can.




Finally, the last nail in the coffin of oil prices is the growing likelihood that the world runs out of space near-term to hold all the oil being produced, a phenomena called tank tops. Data indicates that world storage is filling up, and only the U.S. had much spare capacity. With continued global excess supply, this spare storage could likely get full in the first half of the year.

In sum, oil is getting pumped out of the ground at maximum output, by a whole host of new producers, and there are not many places to put it since demand is relatively weak. In the latest energy outlook produced by the U.S. Energy Information Administration, the oversupply will continue for all of 2016 (see chart above). As a basic rule of economics, the only way to clear this surplus from the system is for prices to become very cheap and clear excess supply. With very low prices, consumers will demand more, and/or producers will get priced out of the market and production will fall.

The price volatility we have recently witnessed as oil shoots up and down by 5-7% daily, from $26-31 per barrel, suggests that we are getting close to that clearing price. One point to make here - At time of publication, a barrel is priced at $37…perhaps the worst for energy prices is over and a recovery is beginning?

http://www.forbes.com/sites/sarazervos/2016/01/26/saudi-arabia-shale-iran-everything-you-need-to-know-about-the-oil-crisis/?utm_campaign=Forbes&utm_source=TWITTER&utm_medium=social&utm_channel=Investing&linkId=20695983#22950c86794c

## 8 Millionaire Money Tips for the Rest of Us

If you're barely getting by, it may seem crazy to try to emulate a millionaire. After all, millionaires have a ton of money, and you don't.

And while some millionaires used their wisdom and wit to get where they are, there are presumably plenty out there who were born wealthy and had numerous advantages growing up.

But advice for the rich is often universal, and there's a lot we can learn from the wealthiest of the wealthy.

With that in mind, we tapped advice that also applies to the rest of us.

1. **Make your money work for you.**

Why it matters: the wealthiest people generally own their own businesses. This allows them to generate income or grow assets even when they are not sitting in the office. If you don't have the resources to start your own business, invest in one. The best way to replicate the ownership of a business is by owning shares in businesses that are already in existence. These companies can be selling iPhones, candy bars, detergent, cars – globally, 24 hours a day, seven days a week, and 365 days a year. It's the next best thing.

2. **Keep an emergency fund.**

Why it matters: Even the wildly rich need to keep money saved for emergencies; they simply need more money put aside than the rest of us. This is especially important for the self-employed. Without a lot of money put aside, the self-employed are often one incident away from bust.

3. **Plan for a health emergency.**

Why it matters: If you have a spouse and kids, they're likely depending on you to stay in good health. What happens in the event of a medical emergency, incapacity or even death? Do you have appropriate medical, disability and/or life insurance in place, which, when combined with others assets, will provide for surviving family members?

Even if you don't have many assets and aren't concerned who will get your mansion and three cars because you live in an apartment and take the bus to work, as long as you have an income that supports your family, you should have the proper coverage in place.

4. **Review your finances periodically.**

Why it matters: money is complicated, and the rules, especially with taxes, often change. An annual meeting (at least) of a client and an advisor is essential. Even if you're huddling with your spouse and a money management software program, it's better to have a serious look than to never bother looking critically at your finances and hoping everything works out OK.

5. **Don't lend people money.**

Why it matters: It might sound cold, but wealthy people lose a lot of money because they fall victim to 'friends' who have their own financial interests in mind.

Think about how much fun you'll have if you don't have much money to begin with – and still loan out money. When people come to you for money, send them to your financial advisor.

6. **Teach your kids about money.**

Why it matters: It really doesn't matter how rich or poor you are. If you don't teach your kids how to handle money, they're going to have problems.

Don't enable your kids to be financially illiterate or mentally weak. Make them face financial reality ... Don't bail them out or fight their battles for them. Kids need to know life has winners and losers. Don't be afraid to hurt their feelings. They'll get over it and be stronger because of it.

7. **The earlier you get into the habit of saving; the more money you'll have.**

Why it matters: it's familiar advice but still important to remember. Even average wage earners can reach millionaire status. You just need to follow certain guidelines. Compound interest has been called the eighth wonder of the world – the more you save, the more compound interest you earn.

8. **Understand what drives you to spend your money.**

Why it matters: Whether you're in the top 1 percent of income or the bottom 1 percent, we have reasons for the way we spend our money.

Don't be an emotional spender. It's important to understand why you tend to spend money. For instance, maybe fear drives you to spend more than you should, so you stock up on grocery items you don't need. Or maybe you spend recklessly simply because spending and buying makes you happy. If that is the case, work with a principled, credentialed and experienced advisor to help you plan and achieve your financial goals.

If you understand what your biases are in making money decisions, you have greater insight and are better able to possibly prevent yourself from making financial decisions based upon emotion.

http://www.businessinsider.com/8-tips-financial-advisers-give-their-richest-clients-that-anyone-can-use-2016-2

## How to improve your Odds of Retiring Well with a few Simple Strategies

Much of the anxiety about retirement planning stems from not knowing how much you really need to save each year. Your own savings rate will depend on many factors such as income level, retirement age and whether you own a home.

For the sake of example, assume a couple has late-career earnings (combined) of $110,000, which puts them a little above the national average. Their pensions from CPP and OAS will replace about 30 per cent of their final employment earnings. Their retirement income target is about 55 per cent so they need additional retirement income equal to 25 per cent, which will come from personal savings. (The retirement income target can vary from 40 per cent to 70 per cent depending on one's circumstances — 55 per cent is not unusual. To make the math simple, we will assume they aim for income of 27 per cent of final pay starting at age 65 and save eight per cent of pay each year for 30 years to get there.

Historically, a 27 per cent income target would have been easy to reach. Using historical investment data and a 60-40 (equities-fixed income) asset mix, the only period in which one would have fallen short is 1946-1975 when an eight per cent savings rate would have produced 25 per cent of final pay. The best period was 1971-2000, when a savings rate of eight per cent would have generated retirement income of 79 per cent of final pay. When this is added to CPP and OAS pensions, and after taking into account lower taxes after age 65 and the elimination of many pre-retirement expenses, this couple's disposable income would have approximately doubled after retirement!

Looking into the future, however, interest rates and investment returns will almost certainly be lower for a number of reasons, not the least of which is an aging population. Even so, the eight per cent savings rate could be enough, on average, or at least that is what Monte Carlo simulation suggests.

(A Monte Carlo simulation involves running a given scenario hundreds of times, with one key assumption changing each time. After enough simulations, a pattern emerges, which is the statistical probability we are seeking — in this case, the savings rate required to reach a 27 per cent income target.)

The same Monte Carlo simulation also shows that there is a five per cent chance that retirement income in 30 years' time could be 41 per cent of final pay or more, which would be great. Unfortunately, there is also a five per cent chance it could be 17 per cent or less.

The question is whether younger savers can increase the certainty of achieving their retirement income goal of 27 per cent without having to contribute more than eight per cent. Moreover, they want to minimize the chances of a bad outcome because a 50-50 chance of falling short is simply too high.

To accomplish this, one of the tools at our disposal is to vary the asset mix. Equities should do better than fixed income investments over the long run, but they also entail taking on more risk. Nonetheless, we will increase the weighting in equities if that is what it takes.

To be specific, we will assume that the equity weighting starts as high as 80 per cent of the portfolio at age 35 and then drops every five years, down to 45 per cent just before retirement. This of course is just an example as each client case has its own criteria for asset allocation.

Another tool is to vary the savings rate: contribute more if we are falling behind and less if we are ahead, subject to the constraint that the median savings rate does not exceed eight per cent.

The Monte Carlo simulation using this variable strategy shows that it is significantly more effective than the simple strategy described at the outset. Even though the median contribution rate is a shade under eight per cent, the probability of meeting the 27 per cent target has climbed from 49 per cent to 62 per cent. In addition, the chance of a bad outcome is reduced.

There are several takeaways:

- Whatever your personal savings rate, there is no guarantee it will be enough to achieve your retirement income target. Life is inherently uncertain.
- The adequacy of a given rate like eight per cent is contingent on saving diligently over a 30-year period. If one starts late, skips a few years, invests poorly or retires earlier, the required savings rate can be substantially higher.
- You can measurably improve your chances of success by changing your asset mix and savings rate from time to time, as circumstances dictate.
- You need to have a way to assess whether you are on target or not at various points in time during the accumulation period. This will call for the use of a spreadsheet, special software and/or a financial planner you can trust.

http://business.financialpost.com/personal-finance/family-finance/how-to-improve-your-odds-of-retiring-well

## Tips To Protect You from Identity Theft & Related Tax Fraud

If the media is to be believed, identity theft tops the list of taxpayer concerns for 2016. And it's not all in your head: a 2015 Identity Fraud Study, released by Javelin Strategy & Research, found that identity thieves stole $16 billion from 12.7 million consumers in the USA in 2014, a new victim every two seconds.

Those statistics are scary but there is some good news to be found in the report: the numbers are actually down from the previous year.
The reason? It's very likely the result of an increased awareness from consumers together with increased protections in place from industry and government.

The more you know about how to protect yourself, the better chance you have to not be a victim. Here are some to tips help you protect yourself from identity theft and identity theft related tax fraud:

**Understand that public wi-fi access really does mean public.**
When you're sitting in Starbucks or your local library, be careful; your data may be vulnerable to interception. Don't connect to an unknown wi-fi connection (make sure that it's legitimate). If you have an alternative connection available like using cellular data, consider using that instead. If you must connect using public wi-fi, use a VPN (virtual private network).

Save the really sensitive data – like online banking – for later. It really is best to avoid websites that could expose your passwords or financial information to potential cyber thieves on public connections.

**Take care with private documents.**
With so much emphasis on internet security, it's easy to forget to safeguard paper documents. Don't be careless with credit card statements, bank receipts and copies of tax returns. File the copies you need and shred the ones that you don't.

**Keep your mailing address current.**
We're an increasingly mobile society. It's rare that you'll retire in the home that you start out in. Chances are, you'll switch addresses more than once.

When you do move, make sure that you contact your financial institutions, credit reporting agencies and tax authorities so that your mail doesn't end up in the wrong hands.

http://www.forbes.com/sites/kellyphillipserb/2016/01/24/11-tips-to-protect-you-from-identity-theft-related-tax-fraud/?utm_campaign=Forbes&utm_source=TWITTER&utm_medium=social&utm_channel=Investing&linkId=20661854#b69d4894bb65

## How to Protect Yourself from Identity Theft

Never provide personal information through the Internet or by email. The CRA does not ask you to provide personal information by email.

Keep your access codes, user ID, passwords, and PINs secret.
Keep your address current with all government departments and agencies.

Choose your tax preparer carefully! Make sure you choose someone you trust and check their references. Always review your return, agree with the content before filing, and follow up to make sure you receive your notice of assessment, since it contains important financial and personal information that belongs to you.

Before supporting any charity, use the CRA website at www.cra.gc.ca/charities to find out if the charity is registered and get more information on the way it does business.

Be careful before you click on links in any email you receive. Some criminals may be using a technique known as phishing to steal your personal information when you click on the link.

Caller ID is a useful function. However, the information displayed can be altered by criminals. Never use only the displayed information to confirm the identity of the caller whether it be an individual, a company or a government entity.

Protect your social insurance number. Don't use it as a piece of ID and never reveal it to anyone unless you are certain the person asking for it is legally entitled to that information. If an organization asks for your SIN, ask if it is legally required to collect it, and if not, offer other forms of ID.

Pay attention to your billing cycle and ask about any missing account statements or suspicious transactions.

Shred unwanted documents or store them in a secure place. Make sure that documents with your name and SIN are secure.
Immediately report lost or stolen credit or debit cards.

Carry only the ID you need.

Do not write down any passwords or carry them with you.

Ask a trusted neighbour to pick up your mail when you are away or ask that a hold be placed on delivery.

http://www.cra-arc.gc.ca/scrty/frdprvntn/menu-eng.html

## Winter Activities

**The National Women's Show**
April 16th – April 17th, 2016
http://www.nationalwomenshow.com/

**Bon Appétit Ottawa**
May 3rd, 2016
http://bonappetitottawa.ca/

**Ottawa Comicon**
May 13th – May 15th, 2016
http://www.ottawacomiccon.com/

**Tamarack Ottawa Race Weekend**
May 28th – May 29th
http://www.runottawa.ca/

**The Tim Horton's Ottawa DragonBoat Festival**
June 23rd – June 26th, 2016
http://www.dragonboat.net/

## Upcoming Events:

**Client Seminar: Socially Responsible Investing**
Wednesday April 27th at 6:30pm
1525 Carling Avenue in the Lower Boardroom

**Client Seminar: Seasonal Gardening with Neil Ritchie**
Wednesday May 18th at 6:30pm
1525 Carling Avenue in the Lower Boardroom

**Children's Movie Day: Finding Dory**
Saturday June 18th at 9:00am
Cineplex Cinemas Ottawa
3090 Carling Ave. Nepean, ON K2B 7K2

### The Canadian Tulip Festival

Since 1953, the Canadian Tulip Festival has been celebrating the legacy of the tulip, Ottawa's flower, which symbolizes the strong bonds of friendship between Canada and the Netherlands, forged in Canada's role in the Liberation of the Netherlands during the Second World War.

Ranked the world's largest tulip festival, the Canadian Tulip Festival offers festival-goers the opportunity to explore the colourful tulips in bloom, Dutch culture, an International Pavilion, Ikebana workshops, and be entertained by a diversity of music artists as well as captivating fireworks.

May 13th – May 26th, 2016

Tulip gardens bloom throughout the National Capital Region and along the Tulip Route leading to the largest garden at Commissioner's Park beside Dow's Lake and the historic Rideau Canal, a UNESCO World Heritage Site.