The Francis Forum

Summer Edition 2016

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INSIDE THIS ISSUE

The New Diversification: Open Your Eyes to Alternatives

When it comes to diversification, the “old rules” may not work as well as they used to. Incorporating alternative strategies can help to augment and diversify your sources of risk, while also introducing potentially new sources of return.

Consider Alternative Investments

Individual investors once had few asset classes (or types of investments) to choose from: There were common stocks, fixed-income investments such as bonds (including preferred shares) and cash such as Treasury bills or Canada Savings Bonds. You now have more asset classes to choose from.

You can, for instance, use REITs (or real estate investment trusts) to buy into office towers, apartments, hotels, commercial and industrial real estate. Keep in mind, too, that REITs avoid the higher income taxes that most income trusts have faced since the start of 2011. While residential real estate may soon weaken, real estate in general could rise if loose monetary and fiscal policies are too effective and eventually lead to runaway inflation.

As another example, you can buy into venture capital funds that invest in private companies and receive tax credits for doing so. When the stock market is receptive to IPOs (Initial Public Offerings), well-managed venture capital funds can profit handsomely. But today’s volatile and nervous financial markets currently make venture capital funds less attractive.

Private equity has arrived as a major component of the alternative investment universe and is now broadly accepted as an established asset class within many institutional portfolios. Many investors with little or no existing allocation to private equity are now considering establishing or significantly expanding their private equity allocation.

Private equity is often categorized an "alternative investment", comprising a variety of investment techniques, strategies and asset classes that are complimentary to the stock and bond portfolios traditionally used by investors.

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

Behind the Scenes – Advisor Focus

This section was 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 know how far we'll go to ensure advocacy on their part.

By Michael Prittie CFP, CIM, FCSI, CPCA, CIWM
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Beginning in 2005 as a means to provide an additional and convenient service at a reasonable fee, Capital Wealth Architects began providing tax preparation services.

It has been the experience of our clients that, since we handle the investment and financial planning aspects, we are in a convenient position to tie in the tax preparation to ensure all opportunities are examined and aligned to enhance your overall personal finances.

The tax preparation services offered are truly mutually beneficial. Clients get to take advantage of a service with a proven track-record of success with low error rates, while advisors can get a complete picture to analyze and assess any opportunities to take advantage of with more ease and transparency. This really equates to a win-win outcome as a client.

A top executive at a large tax preparation firm declared that the error rate at his firm was around 10%. By contrast, our service has an error rate which is a mere fraction of that.

Whether clients choose to take advantage of the tax preparation services or not, advisors always like to learn their tax situation and will request to see the return itself.

A few weeks ago, Mrs Client brought in a copy of her most recent income tax return so I could understand and review it… And there were certainly some discrepancies…

Mrs Client gets her income taxes prepared at an outside firm, and I was surprised at some of the errors that were made.

It didn't take long to compile a list of them. One of the errors had Mrs Client claiming taxable distributions on mutual fund switches – a transaction that is not currently a taxable event.

Another included claiming all the expenses relating to carrying charges and financial advisory fees – carrying charges and financial advisory fees are only tax-deductible when they are incurred with respect to non-registered accounts.

Mistakes happen, but these seemed to be easily identifiable.
With Mrs Client's permission, I passed the income tax return to our in-house tax-preparer, Lisa Bailey. After review, Lisa found some smaller errors that would need to be amended at the same time.

As a result, we recommended to Mrs Client that we issue a T1 Adjustment to CRA in order to amend the errors. The amendments in total would provide Mrs Client with an additional $700 in income tax savings.

Most importantly, these amendments will ensure that when CRA looks at this income tax return, it will not be flagged as offside and in need to reassessment.

It certainly pays to do it right.

In addition, the annual cost to prepare the entire income tax return at our branch is lower than the current costs charged by her existing tax preparer.

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Create Wealth, Achieve Freedom *Summer Edition 2016*

Five Things You Need to Know to Ride Out a Volatile Stock Market

1) WATCHING FROM THE SIDELINES MAY COST YOU

When markets become volatile, a lot of people try to guess when stocks will bottom out. In the meantime, they often park their investments in cash. But just as many investors are slow to recognize a retreating stock market, many also fail to see an upward trend in the market until after they have missed opportunities for gains.

Missing out on these opportunities can take a big bite out of your returns. Consider that in the 12 months following the end of a bear market, a fully invested stock portfolio had an average total return of 37.4%. However, if an investor missed the first six months of the recovery by holding cash, their return would have been only 7.5%.

By missing just a few of the stock market's best single-day advances, you could put a real crimp in your potential returns.

2) DOLLAR-COST AVERAGING MAKES IT EASIER TO COPE WITH VOLATILITY

Most people are quick to agree that volatile markets may present buying opportunities for investors with a long-term horizon. But mustering the discipline to make purchases during a volatile market can be difficult. You can't help wondering, "Is this really the right time to buy?"

Dollar-cost averaging can help reduce anxiety about the investment process. Simply put, dollar-cost-averaging is committing a fixed amount of money at regular intervals to an investment. You buy more shares when prices are low and fewer shares when prices are high, and over time, your average cost per share may be less than the average price per share. Dollar-cost averaging involves a continuous, disciplined investment in fund shares, regardless of fluctuating price levels.

Dollar-Cost Averaging at Work

Month	Monthly Investment Amount	Share Price	Shares Purchased Each Month
January	$500	$9.00	55.6
February	$500	$10.00	50.0
March	$500	$8.00	62.5
April	$500	$11.75	42.6
May	$500	$12.25	40.8
June	$500	$9.00	55.6
Total	$3,000	$60.00	307.1

Average Share Price: $10.00 ($60.00/6 purchases)
Average Share Cost: $9.77 ($3,000/307.1)

The average cost of your shares would be $0.23 less than the average price of your shares over that period. Figures are for illustrative purposes only.

Investors should consider their financial ability to continue purchases through periods of low price levels or changing economic conditions. Such a plan does not guarantee a profit or eliminate risk, nor does it protect against loss in a declining market.

3) NOW MAY BE A GREAT TIME FOR A PORTFOLIO CHECKUP

Is your portfolio as diversified as you think it is? Your portfolio's weightings in different asset classes may shift over time as one investment performs better or worse than another. Together with your advisor, you can re-examine your portfolio to see if you are properly diversified. You can also determine whether your current portfolio mix is still a suitable match with your goals and risk tolerance.

4) TUNE OUT THE NOISE AND GAIN A LONGER-TERM PERSPECTIVE

Numerous television stations, websites and social media channels are dedicated to reporting investment news 24 hours a day, seven days a week. What's more, there are almost too many financial publications to count. While the media provides a valuable service, they typically offer a very short-term outlook. To put your own investment plan in a longer-term perspective and bolster your confidence, you may want to look at how different types of portfolios have performed over time.

5) BELIEVE YOUR BELIEFS AND DOUBT YOUR DOUBTS

There are no real secrets to managing volatility. Most investors already know that the best way to navigate a choppy market is to have a good long-term plan and a well-diversified portfolio. But sticking to these fundamental beliefs is sometimes easier said than done. When put to the test, you sometimes begin doubting your beliefs and believing your doubts, which can lead to short-term moves that divert you from your long-term goals.

Jumping In and Out of the Market May Cost You
20 Years Ended December 31, 2015

Period of Investment	Average Annual Total Return of S&P/TSX Composite Index[2]
Stayed Fully Invested	7.63%
Missed the 10 Best Days	4.38%
Missed the 20 Best Days	2.29%
Missed the 30 Best Days	0.41%
Missed the 40 Best Days	-1.24%

This table is for illustrative purposes only.

It is important to keep perspective before making any changes to your portfolio.

https://www.franklintempleton.ca/downloadsServlet?docid=ib9a5dgw

Seven Reasons Investors Profit from Share Buybacks

These days you hear a lot about "enhancing shareholder value". That is, managements of many firms want their shares to perform well. Management, of course, has a fair bit of self-interest at heart in deciding how best to accomplish this. Fortunately, when managers think like shareholders, you win.

1) Most firms want to see the price of their shares rise. After all, managements' interests are often aligned with those of the shareholders. Many key executives, for example, receive stock options and other compensation tied to their firms' share prices. As a result, they make more money if the shares go up—which helps shareholders.

2) Management teams are now more vulnerable due to the rise of institutional investors. Many firms are controlled by a few big institutions. This gives the institutions a lot of voting power. If a firm's shares fall, it drags down the institutions' performance. This can result in a money manager losing his/her job. As a result, they put pressure on firms to fire executives who do little for the share price.

So, while every firm wants its shares to do well, there's disagreement about the best way to accomplish this. One disagreement concerns dividends and buying back shares. Some think rising dividends push up share prices. Others think share buybacks do a better job.

Over time, rising dividends supported by rising earnings drive up a firm's share price. After all, an ever-rising yield attracts income-seeking investors. With every dividend hike, they bid up the shares until the yield is similar to those of comparable firms.

Others, however, argue that buying back shares is the best way to boost a firm's share price. First, share buybacks reduce the number of shares outstanding. This usually raises earnings per share by spreading the earnings over fewer shares. Higher earnings per share usually justify a higher share price.
Second, share buybacks use up cash. If a firm's cash earns, say, three percent, it drags down the firm's returns. By buying back shares, firms get rid of cash and its depressing effects on their returns.
Share buybacks are more flexible than dividends

3) Share buybacks give firms flexibility. When excess equity seems to be a temporary condition, share repurchases allow the firm to distribute cash to shareholders without increasing the cash dividend, which investors may consider to be a permanent change.

Then again, one could argue that paying "special dividends" is just as effective as share buybacks in using up extra cash.

4) Share repurchases improve ROE (return-on-equity) as long as pre-purchase earnings per share are greater than the after-tax interest rate on the debt that is issued to make the repurchase. The effect of share repurchases on ROE is greatest when shares are undervalued. In fact, firms sometimes feel buying back shares is the most profitable investment they can make, especially if the share price fails to reflect a firm's profits.

5) Taxes favor buybacks. Interest paid on debt, for example, is deducted from a firm's profits before taxes are assessed. As a substitution of debt for equity financing, it (a share buyback program) can reduce tax expense. The other thing is the federal government's tax cuts for capital gains. By paying taxes on half of capital gains, investors keep more after-tax dollars from capital gains than from dividends. To the extent that share buybacks lift share prices, shareholders benefit more.

6) Share buybacks raise the demand for the shares in the stock market. Continuous buying lends support to the share price.

7) When management says it wants to buy back shares, it is telling the market that its shares are undervalued. Even if the firm doesn't buy back any shares, this can have a positive effect on the share price. Short sellers, for example, will think twice if they fear a firm might drive up its share price.

There are drawbacks. The added value from repurchases comes at the expense of greater volatility in earnings per share, a result of the increased leverage. That increased risk may be reflected in lower credit ratings. In addition, less equity worsens the debt-to-equity ratio.

https://www.adviceforinvestors.com/news/investment-strategy/7-reasons-you-profit-from-share-buybacks/

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Seven Strategies for Maximizing After-Tax Investment Returns

Seven strategies for maximizing investment returns you might not know about

Investors tend to focus first and foremost on gross returns. Since an investor only gets to keep their net return after-tax, tax should be an important factor when it comes to investment decisions. The most basic example of this is to make the most of available tax shelters. Most people are aware of tax shelters like RRSPs, TFSAs and RESPs, but, if you are self-employed, you can even create your own tax shelter by incorporating and leaving some of your income in a corporation, paying a lower tax rate than you would otherwise pay personally. Here are seven more considerations for how to make your investments more tax-efficient.

1) Investors with RRSPs and TFSAs may think that they don't need to worry about the tax implications of their investments, but that isn't true: foreign dividends earned in a TFSA are subject to withholding tax from the source country, and Canadian mutual funds or Canadian-listed exchange-traded funds that own foreign stocks are also subject to withholding tax on the dividends earned in an RRSP. Furthermore, RRSP withdrawals will be taxable someday, so how big to grow an RRSP and when to take withdrawals is another important tax consideration for registered accounts.

U.S. stocks that trade on a U.S. stock exchange are not subject to withholding tax when held in an RRSP — but they are in a TFSA. So RRSPs may be a better option than TFSAs for U.S. stocks. But where you hold non-U.S. foreign stocks depends on your overall asset allocation and whether you have non-registered investments as well.

2) Investors with non-registered investments should consider leaning more towards earning capital gains or Canadian dividend income. Capital gains are only 50 per cent taxable in a non-registered account. Canadian dividends are taxed at a lower rate than interest or foreign dividends, but the exact tax rate varies depending on your tax bracket.

3) Real estate investment trusts (REITs) and limited partnerships (LPs) generally pay out distributions to investors that take different forms. While some of the income may be considered taxable dividend income, some portion may also be considered return of capital. Tax is not immediately payable on return of capital, but will reduce your cost base on an investment and increase the taxable capital gain when you ultimately sell it. REITs and LPs can boost after-tax returns in a taxable account.

4) In the ETF space, corporate class ETFs currently allow investors to switch between different funds without incurring taxable capital gains. Some ETFs can convert taxable interest and dividends into deferred capital gains.

Corporate-class mutual funds can also reduce tax on non-registered investments. Keep in mind that the recent federal budget will do away with the tax-free switching option available to corporate-class investors later this year, so the clock is ticking on this particular corporate class tax efficiency.

5) Universal life insurance has a savings feature that can be allocated into various active and passive investment options that grow tax-free. Fees tend to be higher than non-insurance solutions, so fees and tax savings need to be compared. Whole life insurance invests some of your premiums on a tax-free basis by the insurance company into unique asset classes, such as private placement bonds, residential and commercial mortgages, private equity and policy loans to other policyholders. Commissions are generally high up-front, so a whole life policy should not be a short-term commitment.

5) Rental real estate can be extremely tax-efficient. Mortgage interest is tax-deductible and a financed rental property can sometimes create tax refunds. Even cash flow positive properties can have income sheltered from tax by claiming Capital Cost Allowance on your tax return.

7) Flow-through shares can earn tax-effective returns and create tax deductions in excess of 50 per cent of your investment. The government incentivizes investors to buy flow-through shares issued by junior exploration companies. These shares are of speculative risk and that is why the tax benefits are used to attract investors.

In summary, there are many different tax-efficient ways to invest, but keep in mind that tax should never be the primary decision-making factor. A thorough understanding of retirement and estate objectives should be a starting point for any investment plan. From there, seek out tax-efficient returns, because when all is said and done, you only get to keep the after-tax amount.

http://business.financialpost.com/personal-finance/managing-wealth/move-over-rrsp-tfsa-here-are-7-strategies-for-maximizing-investment-returns-you-might-not-know-about

How Much Investment Risk to Carry in Retirement

Assessing appropriate risk for an investment portfolio is more art than science. While the tools for determining asset allocation between stocks and bonds are accessible and abundant, it may be that they are putting investors into inappropriate portfolios in the first place.

The key principal in modern portfolio theory is the concept of the efficient frontier — essentially, attempting to minimize risk while maximizing return — introduced by economist Harry Markowitz in his 1952 article "Portfolio Selection," published in The Journal of Finance.

"The process of selecting a portfolio may be divided into two stages," Markowitz wrote. "The first stage starts with observation and experience and ends with beliefs about the future performances of available securities. The second stage starts with the relevant beliefs about future performances and ends with the choice of portfolio."

The efficient frontier involves a mathematical determination of how an investment portfolio should be structured to achieve the highest expected return based on the minimum level of risk for a particular investor. In theory, every investor has an optimal portfolio that resides on the efficient frontier opportunity set.

In practice, most investors end up with reasonably balanced portfolios when they invest. A balanced portfolio generally has about 60 per cent in stocks and 40 per cent in bonds. It is a frequent investment default that has become a rule of thumb midpoint for average investors.

Another frequently referenced rule of thumb is that an investor's bond exposure should be equal to their age. This idea has come into question as interest rates have moved to artificial and historic lows at a time when life expectancy is on the rise. The result is that many are suggesting a bond allocation equal to age less an arbitrary number — 10 or 20, for example. But, recent research suggests that the concept of decreasing stock exposure as you age may actually be flawed. A 2013 study titled "Reducing Retirement Risk with a Rising Equity Glide Path" by Wade Pfau and Michael Kitces in the Journal of Financial Planning suggests that equity exposure should actually increase in retirement.

The study points out that success for a retirement portfolio is highly dependent on the sequence of investment returns. If returns in the early years of retirement are good, a retiree may be so far ahead of their targets that any poor returns later in retirement are insignificant.

On the other hand, if investment returns are weak in the early years of retirement, the conventional recommendation to reduce stock exposure over time may just ensure that the portfolio never recovers.

"Overall, the results show that rising equity glide paths from conservative starting points can achieve superior results, even with lower average lifetime equity exposure," say the authors. "For instance, a portfolio that starts at 30 per cent in equities and finishes at 60 per cent performs better than a portfolio that (stays constant) at 60 per cent equities. A steady or rising glide path (also) provides superior results compared to starting at 60 per cent equities and declining to 30 per cent over time."

As a financial planner, a retirement plan should preface an investment plan and resulting asset allocation. When an investor can determine their required rate of return based on their assets, liabilities, income and expenses, they can build an investment portfolio with more personalized foresight.

As a baseline, an investor should then determine a minimum rate of return to act as their benchmark. This rate of return should be attainable based on their risk tolerance. And despite the rule of thumb to decrease risk in retirement, research has also shown us that reducing the perceived risk of stock exposure over time can actually increase the actual risk of outliving your investments. So don't be afraid to question whether your asset allocation should be different than what convention might otherwise assume.

http://business.financialpost.com/personal-finance/managing-wealth/how-to-figure-out-how-much-investment-risk-you-should-carry-in-retirement

Health and Wellness: Tracking your Fitness with Wearables

With the advent of wearable technology and mobile apps, fitness tracking is more accessible than ever. But how does this technology accelerate the fitness journey and which platforms are best?

When it comes to diet and exercise, research shows that having the ability to track progress can lead to more motivated health club members. These members are more likely to achieve their fitness goals and continue their membership at your club.

Tracking our fitness and wellbeing with wearables: What's in it for you?

Do you remember the days in the early 2000s when lots of people wore colourful wristbands to show their support for various initiatives like the Lance Armstrong's Livestrong campaign? Some years later, wristbands were seen everywhere, this time containing iconic power and supporting the wellbeing of their owners. Today there is another class of such wristbands, just to name a few: UP by Jawbone, Nike FuelBand and Fitbit, with spending on the devices, nearly doubling in 2015 from 2014, according to the NPD Group.

In the past, these wristbands disappeared as soon as they showed up, just like any other fashion trend. But it seems, this time, the short-term trend has changed into something substantial that could bring a lot of fun, usability and comfort for the user while also providing a lucrative revenue stream for the manufacturer and associated industries.

In 2015, wearable devices, including smartwatches and fitness trackers — saw an increase of 57.7 percent over 2014 in the US, and this growth will continue in 2016, with 81.7 million adults using wearables by 2018, eMarketer, the research firm predicts.

What's in it for you?

With fitness bands, you can control your daily activities: what does your day look like and how much rest did you get at night? They can track your exercise routines, eating habits and even help you develop personal diet plans to fit your lifestyle. I personally use my band or rather the app that comes with it, to connect me to my training partners' apps. This enables me to see their activities and compare my own results to theirs. We can easily schedule our training sessions together – sometimes through competitions that force us to be more active. Since I started using it, I've actually kept to the ambitions I've set. It motivates me and supports me to change my habits to make me healthier, like taking the stairs over the lift.

What's in it for fitness providers?

People like me, who share their training sessions on social networks, are a great target for fitness companies. With the data collected through the fitness bands, they can create tailored offers for target users, at times when they'll be more receptive to offers, or provide dedicated goods like new shoes after running a certain number of kilometers. These can bring additional revenues from consumers that may previously have been a very difficult target to reach.

What's in it for hospitals?

The medical industry can benefit from the information collected through fitness bands by predicting and preventing illnesses. They can see their patient's activity and access information on their heart rate, which they would otherwise have had to collect themselves. Diagnoses could be identified more quickly because the examination can be more efficient. There is often great pressure on medical equipment which could be relieved if specific data was available up front. For health staff, it's easier to find out details about their patients and in emergency situations, there are even functions in apps that allow the user to provide the key insurance data on a locked phone. This could save valuable time and therefore lives.

What's in it for insurers?

The benefits to insurers are twofold: on the one hand, they could optimize their premiums, give rebates or create special offers depending on the type of sport the user was taking part in, to strengthen their membership. On the other hand, the treatment times for people who bring in their own set of data records would be reduced and as such, insurers' costs could be cut down.

Lots of stakeholders can benefit from these wearables and the greatest advantages will be realized by users who ideally live a healthy lifestyle. But the prerequisite for all these benefits is ensuring data security and trustworthiness of providers. If both are covered sufficiently, there is more to be gained for all involved parties. It is now crucial that these advantages are used and that fitness wristbands are not treated as a mere fashion trend that will disappear soon. Instead, it should expand to smart clothes or other wearable devices that can improve the health and wellbeing of individuals.

http://ascent.atos.net/tracking-our-fitness-and-wellbeing-with-wearables-whats-in-it-for-you/

Summer Activities

GoodLife Fitness City Chase
July 9th
http://goodlifefitnesscitychase.ca/events/ottawa

HOPE Volleyball Summerfest
July 16th
http://www.hopehelps.com/

Ottawa Lebanese Festival
July 20th – 24th
http://www.ottawalebanesefestival.com/

Puppets Up! International Puppet Festival
August 5th – 7th
https://puppetsup.ca/

Sound of Light
August 6th – 20th
http://www.feux.qc.ca/

Upcoming Events:

Enjoying the summer!

Our Family Movie Day featured Disney Pixar's Finding Dory.

We hope you enjoyed the show as much as we did!

Stay tuned for upcoming functions, events and seminars

White-water Rafting on the Ottawa River

Whether you are a first time rafter or a white-water enthusiast you will find it all on the Ottawa River! Fully guided rafting trips on the world famous **Rocher Fendu** rapids of the Ottawa River, range from the gentle Class I – II rapids to the adrenaline rush of Class III – V rapids.

Get ready for excitement and high adventure white-water rafting in either a traditional 12 person big boat, a 6-person sport-raft or a family raft. The bigger rafts are perfect for those new to the sport, bigger groups and younger children.

The family-style raft trip is great fun for adults as well as a wonderful experience for children. With gentle white-water on the middle channel of the famous Rocher Fendu section of the Ottawa River, it offers 12-kilometers of gentle rapids, isolated islands and spectacular waterfalls. Learn about portage routes for Algonquin Indians, the exploration of Samuel de Champlain and the massive logging industry that made history on this Canadian Heritage River centuries ago.