The Francis Forum

Fall Edition 2017

Duane Francis, CFP, CIM, CPCA, FCSI, CIWM
Portfolio Manager/Senior Financial Advisor
Life Insurance Advisor

Mandeville Private Client Inc.
1565 Carling Avenue, Suite 610
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101
Fax: (613) 728-4075
Email: dfrancis@mandevillepc.com

Janet Nunn
Executive Assistant
Telephone: (613) 728-0101 Ext.228
Email: jnunn@mandevillepc.com

INSIDE THIS ISSUE

5 Questions about Investing in the Second Half of 2017

The world's major economies all appear to be on the road to recovery, providing unprecedented opportunities for companies and investors.

1. Europe's economy has been struggling for years. Why should I invest overseas?

Europe's economic recovery has been stubbornly slow, but there are reassuring signs that growth may be finally returning to Europe after nearly a decade of fits and starts. In fact, the European Union recently raised its 2017 economic growth forecast, saying the bloc's revival is strengthening. Gross domestic product in the 19-country European Monetary Union is expected to grow by 1.7% in 2017 — still modest but improving.

Also, some of the political risks in Europe seem to be ebbing. Emmanuel Macron's presidential victory in France on a business friendly and pro-EU platform lifted sentiment, and centrist politicians across Europe appear to be beating back a populist backlash against the EU.
Still, Europe faces risks, including high unemployment in some countries and ongoing uncertainties over the United Kingdom's decision to leave the EU. Those issues, however, have also restrained the share price of some companies, and valuations of select companies in Europe appear relatively attractive. Indeed, the economy and companies are likely to benefit from a weaker U.S. dollar, continued central bank stimulus measures and ultra-low interest rates, all of which could provide a favourable environment for economic growth and potential reward for investors.

2. Emerging markets have surged. Do they still have room to run?

For the first few months of 2016, emerging markets, and most others, were restrained by concerns about U.S. Fed rates hikes, U.S. dollar strength, commodity prices, and the risk that China might drag the global economy into recession.

But since the "growth scare" early in 2016, emerging market stocks and bonds have surged. Now, with a background of improving global growth and potentially higher export volumes, the rally may have room to run. Brazil and Russia, for example, are expanding after two years of contraction. China remains a critical component of the growth outlook. Government stimulus appears to have steadied growth in China, and it's likely policymakers will do whatever it takes to meet official growth targets ahead of China's leadership transition in October.

While it sometimes seems that emerging markets are hostages to forces beyond their control, many have taken steps toward greater self-sufficiency. Indeed, the advances in some developing countries are also the result of improved fundamental strength — including stronger manufacturing, industrial production and improved earnings growth. Also, the political and financial systems in many developing countries have come of age during the past two decades.

Uncertainties will persist, but many developing countries are fully integrated in the global market, have burgeoning middle classes and a rising standard of living. Despite the recent run-up in emerging markets, valuations remain relatively attractive compared to some developed markets. From low-cost producers in the mining space to Indian banks and innovative Asian technology firms, select companies continue to present opportunity to invest in the evolution of emerging markets.

Continued on page 2

Continued from cover page

3. U.S. equity markets seem pricey. Are these levels sustainable?

The U.S. market may seem a little pricey to some investors, especially after the three major U.S. equity indexes hit all-time highs earlier this year. Granted, the valuations in some areas of the market may be stretched, making research and selectivity crucial to investing in companies with the potential to reward investors. But, more broadly, the underlying economic conditions in the U.S. are becoming increasingly supportive of equity investing.

Higher valuations can be justified by a number of factors, including economic tailwinds. Although still not in high gear, the U.S. economy is improving. So far this year, employment and manufacturing data have been relatively strong. Business and consumer confidence measures also have been high. In addition, corporate profits, which came under pressure in 2015 and 2016, have rebounded, surging more than 9% in the first quarter.

On the policy front, the easing of regulations by the new administration, combined with prospective tax reform and stimulative spending on infrastructure, could provide a further boost to growth. That said, policy remains fluid and any missteps with regard to trade policy could have an adverse impact on the overall economy.

The U.S. economy has proven to be resilient, but investors should remain mindful that we are in a volatile and sometimes unsettling period. While the macroeconomic and geopolitical issues are likely to make the investment environment challenging, the U.S. market continues to provide opportunities to invest at relatively attractive valuations in companies we believe have the potential to prosper over the long run.

4. Interest rates are rising. Do bonds still make sense?

Don't bail on bonds. While it is true that rising interest rates can hurt some bond prices in the near term, bonds should continue to play an important role in a diversified portfolio. Bonds can help mitigate volatility, preserve capital and supply the investor with either current income or a relatively certain amount at some point in the future.

And even though the U.S. Federal Reserve has embarked on what is expected to be a series of gradual interest rate hikes, the new direction seems to indicate the Fed is confident about the U.S. labour market recovery, domestic inflation expectations and gradual economic recovery outside the U.S.

It's also important to remember that over the long term, higher rates can be beneficial for fixed income investors. As bonds are sold or reach maturity, the proceeds can be reinvested in bonds with a higher coupon, which can help offset the impact of price declines.

The impact on equities is more mixed, with some sectors benefitting as the economy continues to strengthen and others facing a headwind from higher financing costs. Higher interest rates could make the environment challenging for income-oriented stocks. However, even in a rising interest-rate environment, some higher yielding stocks should continue to do well. Some companies, including banks, can benefit from gradually rising rates, as the hikes are likely to be in response to a strengthening economy. Because many of today's higher dividend-payers are in relatively economically sensitive areas, in-depth research and selectivity is key.

5. Geopolitical events can rock markets. How can I stay on track during volatile times?

Don't panic over politics. Every era has its troubles. There are hardships, challenges, panics and crises. This period is no different. From dramatic elections in Europe and the U.S. to concern over oil prices to the strength of the dollar, there always seems to be a "wall of worry" when it comes to the global economy and the world's markets.

But economies and markets also share a remarkable history of resiliency, an ability to bounce back after being knocked down that can be both surprising and reassuring. Indeed, despite heightened economic and political ambiguity recently, equity volatility has been subdued while U.S. indexes have reached all-time highs.

Investors have been through a period of intense political drama, and given the sustained level of uncertainty, it's understandable that some might respond by focusing on the short term. Don't do it. In the long run, investors' interests are more likely to be served by pushing your time horizon. That's one way of staying on track despite unforeseen turbulence.

Another is to remember that the age-old logic of diversification is still valid — be thoughtful and careful, but also stick to a diversified asset allocation. Today's environment requires a global perspective. Investors should consider having exposure to stocks and bonds from around the world. Ideally, the resulting portfolio will have the potential to benefit from the extraordinary changes in the world's capital markets that present long-term investment opportunities.

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

Sincerely,

Duane

https://www.thecapitalgroup.com/ca/insights/articles/five-questions-about-investing#top

The New Financial Planning Landscape for Boomers

A few years ago, a Certified Financial Planner's® client started missing appointments. At first, the planning professional didn't think anything of it, but when she finally visited the elderly woman at home, she quickly realized something was wrong.

"I asked permission to talk to her two daughters, and she couldn't remember one of their last names," she explained. The Planner has worked with more than 1,200 clients during her 22 years of experience in the financial field.

The elderly woman was suffering from the early stages of Alzheimer's. The Planner quickly began working with her client's two adult children to plan for the financial implications of their mother's care.

Today many members of the Baby Boom generation — those born between the years 1946 and 1964 — are facing similar situations: balancing their own finances while caring for both their aging parents and their adult children, who are often struggling to establish themselves.

Like many Certified Financial Planner professionals, she has been helping her clients deal with this issue more and more over the past five years, and is even living through it with her own family.
"It's something a lot of people didn't anticipate, certainly I didn't when I was starting out my career," she said.

The issue has reached such prominence that the Planner enhanced her CFP designation by becoming a Certified Professional Consultant on Aging in 2012, and has even authored a book called Financial Care for Your Aging Parent.

She did this with the knowledge that Canada's Boomers are unique: highly educated and largely affluent, they find themselves sandwiched between two generations with unforeseen financial issues. Boomers often have parents who are living longer than anticipated lifespans. This longevity, coupled with insufficient savings and low interest rates, has resulted in a generation living longer with less financial security.

Simultaneously, Boomers' kids are entering adulthood at a time of great economic uncertainty, and contending with skyrocketing costs of education and home ownership.

So how can Boomers plan through the financial squeeze of providing for children and aging parents? What financial planning considerations are necessary for Boomers to protect themselves while helping care for their family members?

The Planner advises her clients to approach this squeeze the way travelers are trained to deal with an emergency on an airplane: by putting your own oxygen mask on first.

First, she advises people to figure out their own financial number for retirement – the amount they will need to live comfortably after they stop working – and then build in a contingency cushion of 20-30%.

When the Planner engages in this process with her clients, she often finds that clients have overcommitted to their children or parents in a way that is jeopardizing their own financial security.

Many Boomers are borrowing against their retirement savings to help fund down payments on their children's homes or to finance their wedding plans, lump sum payments the Planner cautions against.

When it comes to caring for aging parents, the biggest risk most families face is a loss of income associated with taking on the burden of care. Many people reduce their own work hours to look after parents who are experiencing deteriorating physical or mental health.

The Planner believes that one option is for families to keep working and hire professional caregivers, reducing the emotional and financial strain on their own lives.

And while it's emotionally difficult, she believes families need to look at all options – including the possibility of selling their parents' home and moving them into a long-term care facility.

The Planner encountered this when she argued for professional care for her own mother, battling her siblings' understandable emotional reservations. In the long run, The Planner says, the cost of care is lower in a long-term care facility and adult children can use the value of the house to pay for the care, while providing the best care, by those who are uniquely suited to contend with every stage of an aging individual's decline.

The Planner said that establishing a relationship with a Certified Financial Planner professional is also a "huge" asset when it comes to addressing the generational squeeze. Outside advice can help families establish a concrete plan of action while also defusing tension between family members by offering an impartial, outside opinion.

Template savings programs are ineffective, she believes, because people's financial situations are as unique as their families, and plans must be tailored to people's specific needs, priorities and assets.

"It takes a lot of work to figure out the best way through this kind of pressure," she said. "You need someone who will look at every piece of the puzzle."

https://www.financialplanningforcanadians.ca/financial-planning/financial-planning-tips-for-boomers

The Francis Forum

Create Wealth, Achieve Freedom

Fall Edition 2017

5 Tips for Loaning Money to Family

Lending a helping hand and a few well-placed dollars to a family member during challenging times is an all too Canadian thing to do. However, there may be emotional and financial pitfalls firmly attached to your largesse.

“Family loans are fraught with peril with many feeling obliged to lend money they really can’t afford,” says a CFP® professional in Toronto. “When borrowers default on the loan, the situation becomes uncomfortable and emotionally driven from both sides.”

1. Think before you act.

The biggest mistake is to say ‘yes’ before thinking it through and loaning money that has been set aside for retirement savings, a mortgage payment or living expenses. Be sure to assess your own needs so your financial security is not put in jeopardy.

2. Here today, gone tomorrow.

Don’t loan money you expect to get back. Chances are, unless it’s a formal agreement related to a business, you’re unlikely to see the cash again. Only loan money you’re sure you can live without.

3. It’s not just you.

Be sure to discuss any loan requests with your spouse, especially if the money is coming from the family pot. You must both agree to the terms so that if the deal goes south, along with your money, strain on the relationship is minimized.

4. Get it in writing.

Put the terms of the loan in writing so that there is no miscommunication about repayment terms. Both parties must treat the loan like a business transaction, not a handout.

5. Is this the end?

Before lending money, know your own emotional constitution and how you and your spouse will react if the money is not repaid. Will it end your relationship with a sibling or friend? Is the loss of the relationship worth it, even if you can afford the loan?

A financial planner can help separate emotion from fact and identify the long-term implications of loaning money to your overall financial plan. “It’s hard to say no to family, but if you have to turn them down, tell them why,” the Planner explains.

If you’ve already loaned money that you’re having trouble recouping, have an honest discussion, she says. “It may be a temporary set-back that can be remedied. Not talking about the elephant in the room will only make that elephant bigger.”

https://www.financialplanningforcanadians.ca/financial-planning/5-tips-for-loaning-money-to-family

How to make a Success of Succession when passing on the Family Business

Growing up, Roland Chan never expected to take over his father's insurance business.

"My father and I always discussed business, but never really talked about a transfer of leadership or ownership of his," Mr. Chan says.

After all, Mr. Chan's education and background are in technology. He worked at a tech startup and later ran his own tech-consulting company.

About 10 years ago, his father (who is also named Roland) asked him to "join forces" in the family business. Mr. Chan thought long and hard about the move, including how it would affect his personal life, as a married father of two young children, as well as satisfy his professional goals.

"Although I wasn't involved in the company, I had a tremendous amount of respect for my father and the good he was doing in the community and for the employees and agents associated with the company," the 42-year-old Mr. Chan said. "I had a sense it was something bigger than the business I was involved in."

He says his father also wanted to make sure his son was the right fit. "We knew I was a good candidate, but just because I was a family member didn't mean I would be the correct choice," Mr. Chan says. "My father and I have a great relationship, but when we talk about the business it's about performance."

Mr. Chan took over as director of operations of Toronto-based LiLand Insurance Inc. in early 2009, following a lengthy succession period and a lot of family discussions and planning.

"We knew it was going to be complex," Mr. Chan says of the process. "It's not just about tax and estate planning."

Mr. Chan says the plan allows his parents to continue to benefit from the business they built, while also taking into consideration other family members involved in the business as part of the overall estate plan.

An increasing number of business owners, especially retiring baby boomers, are wading through the complex process of transferring their companies to the next generation. Of course, not all business owners are choosing their children to run their companies, but experts say those who are should carefully plan the transition well in advance, taking into consideration interests of the company, the family and other stakeholders such as employees and shareholders.

Continued on page 5

Continued from page 4

Only about half of business owners have a succession plan, according to the Canadian Federation of Business. Not having a plan can create turmoil among family members, especially if the business owner was to suddenly pass away. Who will own and run it then?

"Too often, business owners leave the succession planning until just weeks before they retire, or don't plan at all," says Jennifer Reid, vice-president of tax and estate planning at Richardson GMP in Calgary. "It can be done the right way," she says, with a lot of preplanning.

Ms. Reid suggests owners start to gauge their children's interest and competency in the business when they're teenagers or young adults by having them work at entry-level jobs in the business. From there, the kids will need to develop the right skills and training to advance, including some leadership chops if they want them to eventually take over.

Parents are often reluctant to talk about the family business with their kids, which can be a mistake.

"You don't need to start with numbers," Ms. Reid says. "Have some discussion about what the vision is for the business and the family … and what the interests are of the children."

As time passes, parents need to figure out which of their offspring, if any, want to take over the company and in what capacity. Some may want to own the business and not run it, while others may want to do both. Parents also need to ensure the kids who are interested are capable not just of running it, but helping it grow – and not running it into the ground.

"Unless the kids are charged up about the opportunity to take on the business, they're better off to do everyone a favour and sell the business – that's what I hear, a lot," says Sean Foran, managing director of business transition planning at CIBC Private Wealth Management.

In many family businesses, there are some kids who want to be involved and others who don't. That leaves parents trying to figure out how to arrange their estate in a way that's fair to all of their children.
"It can be a delicate balancing act," Mr. Foran says.

A common strategy is to use an estate freeze with a discretionary family trust. It's a reorganization of the company's share structure that locks in the current value of the business.

An estate freeze can be a tax-efficient way for parents to transfer future growth of the business to the next generation, while still retaining flexibility with how the assets will eventually be divided among the children. Parents can also be beneficiaries of the trust to control what portion of the growth they eventually transfer. The trust can also provide tax benefits on income distribution and on a future sale of the business using the lifetime capital gains of the trust beneficiaries, which in 2017 is about $835,700.

Mr. Foran says the structure also gives parents time to consider which of their kids will run the company.

"If there's a sibling that really wants to drive the business forward, it might make sense to freeze the value of the business and put shares in a trust to allow you to wait and see who emerges as the leader," Mr. Foran says.

"An estate freeze can be a way to balance the interests of kids who feel entitled to their share of the wealth that their parents built up to a point in time, and then allow somebody to take it forward and be working for themselves and their own family without subsidizing their siblings who might be making less of a contribution."

Parents should also formalize their succession plan not just for their offspring, but to address any concerns employees and suppliers may have about the future of the operations.

"You don't want to give your employees or customers any uncertain feelings about having the business transfer generations," Ms. Reid says. "You see that a lot in movies – the son takes over and doesn't know what he's doing. You don't want that in real life."

Business owners also need to keep legal and financial professionals in the loop about their plans – and get them working together. "If you're not speaking to your accountant, lawyer, financial planner and investment adviser, you're probably missing something," Ms. Reid says. "Your business might be running great, but you might be missing something on the personal, retirement side."

https://beta.theglobeandmail.com/globe-investor/globe-wealth/how-to-make-a-success-of-succession-when-passing-on-the-family-business/article35840012/?ref=https://www.theglobeandmail.com&cmpid=rss1&click=sf_globe&service=mobile

The Francis Forum

Create Wealth, Achieve Freedom

Fall Edition 2017

Health and Wellness:
Food trends through the years - a mixed bag for heart health?

Remember when packaged foods emblazoned with the words “fat free” seemed to be everywhere? Then came labels boasting “zero grams of trans fat.” “Sugar free” and “low sodium” claims soon joined the chorus. These days, gluten-free foods are all the rage.

For the most part, food industry trends have echoed the nutritional mantras of the time and were designed to improve our health — especially cardiovascular health. But just how successful have these efforts been?

“It’s a mixed picture, but overall, I think we’re going in a good direction,” says Dr. Walter Willett, professor in nutrition and epidemiology at the Harvard T.H. Chan School of Public Health. Here’s a rundown of the major trends over the past few decades.

Terminating trans fat

The biggest change — and greatest success story — is removal of trans fats from processed foods, says Dr. Willett. The main source of these harmful fats is partially hydrogenated oil, a long-time food industry favorite because it’s cheap, it’s easy to use, and it has a long shelf life. For decades, deep-fried fast foods, baked goods, crackers, chips, and margarine were made with partially hydrogenated oils.

But trans fats raise undesirable LDL cholesterol, make blood more likely to clot, and ramp up inflammation in the body — all of which raise heart disease risk. In 2003, the FDA began requiring manufacturers to list trans fat on the Nutrition Facts label to boost consumer awareness. As a result, many companies chose to stop using trans fats in their products. By June 2018, the fats will be banned from our food supply entirely, thanks to a long-awaited FDA ruling.

The carb calamity

The low-fat craze that took hold in the 1980s turned out to have unintended — and very unhealthy — consequences. Following the nutrition dogma of the day, food manufacturers cut fat from their products. But often they replaced it with refined carbohydrates, such as white flour and sugar. Americans also began eating more carbs (think pasta, white potatoes, white bread, and sugary desserts). Eating less fat, however, doesn’t necessarily help you lose weight. And diets high in refined carbohydrates may contribute to weight gain and promote type 2 diabetes and heart disease.

Just as is true for fats, some carbohydrates are far healthier than others. The best choices include unprocessed or minimally processed whole grains, such as whole-wheat or rye bread, brown rice, bulgur wheat, oatmeal, popcorn, and corn tortillas.

Going against the grain?

But some grains — including wheat, barley, and rye — also contain gluten, a protein that’s been getting lots of attention in recent years.

“Gluten-free diets have been a big trend lately, but there is no good evidence to support these diets for most people,” says Dr. Willett.

Exceptions include people with celiac disease, which affects about 1% of the population.

Many Americans believe that a gluten-free diet could improve their health. In fact, the opposite might be true. A recent Harvard study found that people who avoid gluten may eat fewer whole-grain foods. Also, gluten-free packaged foods may have more sugar, fat, and salt than their gluten-containing counterparts. Gluten-free diets aren’t inherently bad, but the way they’ve been translated into the average diet isn’t necessarily healthy, says Dr. Willett. People who need or want to avoid wheat should be sure to eat gluten-free whole grains such as brown rice, oats, buckwheat, and quinoa.

Sugar: Good news, bad news

The carbohydrates that pose the greatest threat to heart health are the simple, refined ones, especially sugar. High-sugar diets have been linked to a higher risk of heart disease, even in people who aren’t overweight. Sugar-sweetened beverages such as sodas, energy drinks, and sports drinks contribute most of the added sugar in the average American’s diet. But recent data show that consumption of sugary drinks has dropped by about 25% in the United States over the past decade, thanks in part to education campaigns and bans on soda sales in schools.

Unfortunately, other sugar-awareness efforts are on hold. In 2016, the FDA approved a revamp of the Nutrition Facts label that would require food manufacturers to list added sugars in their products, among other changes. But the ruling was shelved earlier this year.

Salt: Still too high

In 2016, the FDA proposed voluntary guidelines for the food industry to slash the amount of sodium in our food supply. Excess sodium (which pairs with chloride to form salt) is linked to high blood pressure, heart attacks, and stroke. The average American eats about 50% more sodium than nutrition experts recommend, and much of is already in their food before it reaches the table.

Time will tell if the FDA guidelines will make a difference. But a recent study suggests that we’ve been moving in the right direction: the average amount of sodium that households acquired from packaged foods and beverages decreased by 400 milligrams per capita between 2000 and 2014.

https://www.health.harvard.edu/blog/food-trends-through-the-years-a-mixed-bag-for-heart-health-2017090612317

Fall Activities

Whiskey Ottawa
October 14th
https://www.whiskeyottawa.ca/

Ottawa Wine and Food Festival
November 3rd – 5th
http://www.ottawawineandfoodshow.com/

Remembrance Day Ceremonies
November 11th
http://www.legion.ca/

Grey Cup Festivities
November 21st – 26th
http://www.greycupfestival105.ca/

NHL Outdoor Classic
December 16th
https://www.nhl.com/

Upcoming Events:

Client Seminar:
Canadian Deposit Insurance Corporation
1525 Carling Avenue – Lower Boardroom
October date TBD

Client Seminar:
Executor advice – What you need to know
1525 Carling Avenue – Lower Boardroom
November date TBD

Children's Christmas Party
The Canadian Aviation and Space Museum
Saturday December 9th

Gold Medal Plates

Gold Medal Plates is the ultimate celebration of Canadian Excellence in cuisine, wine, the arts and athletic achievement. Celebrated in eleven cities across Canada, Gold Medal Plates features the premier chefs in each city in a competition to crown a gold, silver and bronze medal culinary team in each city, and subsequently nation-wide at the Canadian Culinary Championships.

The Ottawa competition takes place on Thursday Nov 9th, 2017