



Summer 2019



In this edition

Pursue Your Plan with Confidence... 1
New Initiatives that May Impact the Young and Old.....2
Does Canada Have a Growing Debt Problem?.....2
Keep Probate Fees in Perspective3
During Volatile Times, Sitting Still Can Be Difficult3
The Impact of Technology Over 50 Years4
From Michael's Corner.....5

Charlene M. Birdsall
CPA, CMA, CIM, RIAC
Investment Advisor and
Portfolio Manager
204-925-2252
charlene.birdsall@nbc.ca

Michael Silicz
B.A. (Hons.), M.A., M.PAdm., LL.B., RIAC
Investment Advisor and
Portfolio Manager
204-925-2265
michael.silicz@nbc.ca

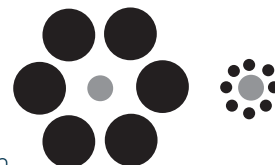
Pursue Your Plan with Confidence

When Tiger Woods won his fourth Masters Tournament this past spring, he ended an 11-year drought, creating not only a moment that went down in golf history, but also a lesson in unpredictability. Indeed, it is challenging to predict what will happen and when, and this applies not only to golf.

This unpredictability extends to current financial climates, with the extended bull market run being unexpected by many. Despite sluggish economic conditions, the first four months of the year saw equity markets on an upward trajectory. But these are unprecedented times. Never before have central banks held rates at low levels for such lengthy periods. While the role of a central bank is not to stabilize markets, the markets have been calmed by decisions to hold interest rates steady.

In investing, there are many ways in which it mirrors the game of golf. "High percentage" players always consider the risks versus return before playing any stroke. Likewise, a well-constructed portfolio takes into account the same types of factors. Investing, like golf, is a game of patience and persistence, filled with many mental challenges.

One challenge that can affect golf performance is the impact of perception. Those familiar with the inset optical illusion know that the circles in the middle are exactly the same size. Psychologists at Purdue University used this illusion in a putting green to make a golf hole appear larger or smaller by projecting circles of light around it. When people perceived the hole to be smaller, they were less successful in putting.



Similarly, perceptions can drive investing behaviour. Are there ways in which you allow outside perceptions to influence the way you invest? For instance, are you quick to compare portfolio gains to those of today's market darling, without considering quality, risk or diversification? Or, during volatile times, do negative media reports tempt you to make changes instead of allowing a portfolio the time to grow?

The discipline and patience needed to putt a birdie may be something we can apply to our own investing style. Bringing this sharpened focus is a great step toward mastering our own plans. Stay the course and pursue your game plan with confidence and persistence. Fore!

New Initiatives that May Impact the Young and Old

In late March, the federal government tabled their final budget prior to October's federal election. It was a collection of many different initiatives and here are some notable changes that may impact you or your loved ones, specifically targeting the young and the old.

The Young: Housing Affordability

While many children may be hoping for support from the bank of mom and dad to purchase a home, if this isn't part of your financial plan, the budget may offer some relief in two initiatives:

First-Time Home Buyer Incentive – A qualifying first-time home buyer with household income under \$120,000 per year may be entitled to receive incentives of up to 10 percent of shared equity on a newly constructed home (5 percent on an existing home). No monthly ongoing payments will be required but the buyer must repay the shared equity mortgage upon re-sale of the home. An insured mortgage and shared equity amount cannot be greater than four times annual household income. This program is expected to begin in September.

Home Buyers' Plan (HBP) – The available withdrawal limit under the current HBP is proposed to increase to \$35,000. Under current rules, a first-time home buyer can withdraw \$25,000 from their Registered Retirement Savings Plan (RRSP) on a tax-free basis. Access will be extended to those who experience a breakdown of marriage or common-law partnership, even if they do not meet the first-time home buyer requirement.

Seniors: Retirement Support

There was also some good news to help seniors in retirement:

Automatic CPP Enrolment – Starting in 2020, Canada Pension Plan (CPP) contributors who are 70 years old or older will be automatically enrolled to ensure they receive benefits. Currently, an application must be launched in order to receive benefits and some have missed out because they apply late or not at all.

Advanced Life Deferred Annuity (ALDA) – Currently, an annuity purchased with registered funds must commence annuity payments by the end of the year that the holder reaches age 71. The budget proposes to allow up to 25 percent of a registered holding* to be used to purchase an annuity that begins payments at the latest by the end of the year in which the holder turns 85, for a lifetime maximum of \$150,000 (indexed to inflation). This may present a tax-deferral opportunity, allowing retirees to keep more money in registered plans for longer, and may support those who are worried about outliving their retirement income.

Improved GIS – For low-income seniors, the basic earnings exemptions are proposed to increase to \$5,000 per year (from \$3,500) for Guaranteed Income Supplement (GIS) benefit eligibility. Earnings up to \$15,000 per year will receive a partial exemption.

For greater detail on Budget 2019, please get in touch.

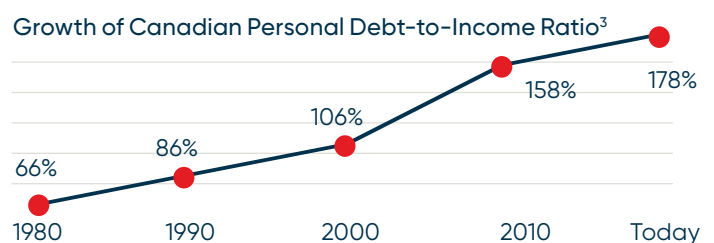
*Including RRSP, RRIF, Deferred Profit Sharing Plan, Pooled Registered Pension Plan, Registered Pension Plan. At publication, this initiative has not been enacted into legislation.

Does Canada Have a Growing Debt Problem?

Do we have a growing debt problem? Recent figures indicate that Canadians on average have a debt-to-income ratio of around 178 percent (Q3 2018).¹ This means that Canadians owe \$1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income.

According to the OECD, we place 8th in the developed world for high indebtedness.² In the U.S., where debt levels peaked at around 116 percent prior to the credit crisis of 2008, debt levels are now under 90 percent.

This ratio has risen over the decades. Consider that just 30 years ago, average Canadian household debt was only around 86 percent (see chart). Some have called Canada's rising debt figures disturbing, while others argue that this assessment might be overly harsh since the ratio lumps in those with significantly high mortgages (in cities like Toronto or Vancouver) and doesn't factor in a household's assets or the ability to pay off that debt load.



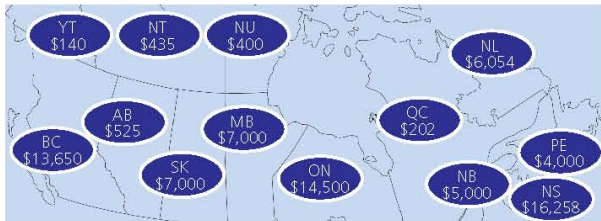
Regardless, Canadians – individuals, corporations and even the government – have never been so indebted and we face longer-term consequences as this debt will eventually need to be repaid. When interest rates start to rise, these debt obligations will become more costly. However, one reason why central banks have kept rates low is to encourage spending and stimulate sluggish economies. The paradox? Low rates make borrowing more affordable, and have also pushed up housing prices, making us more indebted.

1. <https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036>; 2. OECD ranking 2018; 3. Source: Statistics Canada.

Keep Probate Fees in Perspective

In Canada, we don't have a "death tax," where significant taxes must be paid on the transfer of wealth at death. Consider that in some countries like the U.S. or Japan, estate tax can reach rates of up to 40 and 55 percent respectively!¹ Yet, over the years, probate fees have become a de facto estate tax.

Estimated Probate Fees on a \$1M Estate Value by Province²



Probate is the process by which a court confirms the validity of the will of the deceased individual. This declaration allows estate representatives and institutions to proceed on the basis of the instructions detailed in the will, without worry of future disputes. The fees vary by province – in most cases, based on a percentage of the value of the estate.

It may make sense to try and minimize these fees; after all, not many enjoy giving up their hard-earned wealth to the government. In doing so, a basic strategy would be to pass as many assets as possible to heirs outside of the estate: registered plans and insurance with designated beneficiaries, as well as property registered jointly with rights of survivorship ("joint tenancy")³, may pass outside of the estate.

But keep in mind that there may be dangers involved in trying to minimize probate fees. It could lead to other financial implications or headaches. Particular care must be taken when a beneficiary or joint tenant is not a spouse. For instance, joint tenancy means permanently giving up full ownership of your asset, which may include its control. If a joint tenant encounters financial difficulty, creditors may force the sale of a jointly-owned asset. There is also risk of a falling-out in any relationship, with spouses or others.

There may also be equalization issues. Suppose you have two grown children as your only heirs and you designate Child 1 as the beneficiary of an RRSP in an attempt to bypass probate, leaving the rest of the estate to Child 2. When you die, taxes due on the fair market value of RRSP assets will be payable by the estate, potentially reducing the amount for Child 2.

Saving a few dollars in probate fees may result in other taxes. For example, putting an asset such as a house in joint ownership with a non-spouse may save future probate fees, but if they already own a principal residence, they may be subject to capital gains tax on the sale of the property.

At the end of the day, keep perspective: probate fees may be little more than a nuisance in the objective of effectively settling an estate.

1. E&Y Worldwide Estate & Inheritance Tax Guide 2018; 2. At 1/9/19, based on provincial website estate administration schedules; 3. Not applicable in Quebec.

During Volatile Times, Sitting Still Can Be Difficult

This summer vacation, are you looking forward to doing nothing? For many of us, sitting still can be difficult. No more is this true when it comes to investing during periods of market volatility. After all, as humans we are hardwired to want to take action in times of vulnerability. We're all familiar with the phrase: "don't just sit there, do something!"

However, a recent Globe & Mail article highlighted that some investors may be their own worst enemies during periods of volatility. During the volatility we experienced in 2018, Canadian inflows and outflows into U.S. stocks lagged market performance (see chart). Investors put funds into investments after market gains, lagging the market by about a month, and sold investments after market drops, resulting in performance chasing.

Of course, there may be good reasons for selling securities, such as rebalancing to restore asset allocation or taking gains after a long bull run. But if simply reacting to rises or drops in the market is driving these decisions, many investors may be better off by just staying put.

Renowned investor Warren Buffett once described his investing style as "lethargy bordering on sloth." Perhaps there may be some good investing insight hidden in those restful summer vacation plans: go ahead, don't just do something, sit there!

Canadian-U.S. Equity Flows vs S&P 500: Feb. '18 to Jan. '19



Source: "Investors are their own worst enemies", Globe & Mail, T. Shufelt, 3/27/19.

The Impact of Technology Over 50 Years

On July 20, 1969, Neil Armstrong and Buzz Aldrin took humankind's first steps on the moon. How the world has changed in 50 years, largely driven by technology!

An interesting article recently crossed our desks that helps to conceptualize the speed at which technology has expanded over time. We may forget that the historic spaceflight of the Apollo 11 was powered by a computer with the processing power equivalent to a pair of Nintendo game consoles! When you view the processing power of gaming systems over the years (measured in FLOPS or floating-point operations per second), beginning in the days of Atari "Pong", this exponential growth is stunning (see: chart).

Year	FLOPS (Millions)	Console
1986	0	Atari 7800
1996	200	Nintendo 64
2005	240,000	Xbox 360
2013	1,843,200	PlayStation 4
2017	6,000,000,000	Xbox OneX

visualcapitalist.com/visualizing-trillion-fold-increase-computing-power/

Technology Has Changed the Investing World

Consider the impact of technology on the investing industry. Gone are the days when boisterous traders yelled out orders on the trading floor. Electronic trading systems have made transactions faster, cheaper and more efficient. Investors have more choices and opportunities than ever before. Just

30 years ago, geographical diversification largely meant looking at the U.S., Japan and select countries in Europe. Today, we have become interconnected globally. Technology has also supported the creation of new asset classes and investing products. Investors have access to a depth of information, disseminated at speeds faster than ever. In many ways, there has never been a better time to be an investor.

Technology Has Changed What We Invest In

We are in the midst of a digital economic revolution. The "cloud", machine learning and artificial intelligence weren't part of our vocabularies just 10 years ago. Technology continues to transform many industries and acts as a disruptor for others. Consider the current popularity of ridesharing companies. A popular "meme" provides a humorous perspective: *1998: Don't get into strangers' cars. 2008: It's dangerous to meet people on the internet. 2018: Summon strangers on the internet and get into their cars.*

Technology companies have significantly changed the composition of the global markets. Today, seven of the 10 largest global companies by market capitalization are technology firms. Just 20 years ago, the composition was much different (see: chart below).

There's no telling what the future may hold. What will be the next giant leap for mankind?

Top Companies by Global Market Capitalization 1999 & 2019

	Start of 1999			Start of 2019		
	Company	Country	Industry	Company	Country	Industry
1	Microsoft	USA	Software	Microsoft	USA	Tech
2	General Electric	USA	Conglom.	Apple	USA	Tech
3	Exxon Mobil	USA	Oil & Gas	Amazon.com	USA	Tech
4	Royal Dutch Shell	Netherlands	Oil & Gas	Alphabet Inc.	USA	Tech
5	Merck	USA	Healthcare	Berkshire Hathaway	USA	Diversified
6	Pfizer	USA	Healthcare	Facebook	USA	Tech
7	Intel Corp.	USA	Hardware	Alibaba Group	China	Tech
8	Coca Cola	USA	Beverage	Tencent	China	Tech
9	Walmart	USA	Retail	J&J	USA	Healthcare
10	IBM	USA	Software	Exxon Mobil	USA	Oil & Gas

Source: Financial Times Global 500 Archives, for Q4 1998 end and Q4 2018 end.

From Michael's Corner

It was the best of times, it was the worst of times.

The Best

Welcome to our world, Asher Hamilton Silicz! Michael, Ali and Eli are proud to introduce you to the newest member of their growing household! Born April 7, 2019 at 7 pounds 3 ounces, Asher is now 3 months old and enjoys sleeping (thankfully!), smiling at people, and pooping as soon as a loved one puts on a new diaper on him. He's the light of our lives right now. His big brother, Elijah, is especially found of him. Here are some fun pictures!



The Worst

On June 2, 2019, our family lost a brother, son, uncle, and a true man for others. Justin was 32 years old when he was called back to Heaven, but not before he touched many people's lives in a very positive way. Many readers will remember JJ from Walter's early days, to Wellington West events, to even acting as your lawyer. He will be missed, and will always be remembered. A heartfelt thank you to so who have reached out to our family. You can read more about Justin's upstanding life here: https://passages.winnipegfreepress.com/passage-details/id-264763/Silicz_Justin

Please tell someone, right now, that you love them.





In memory of our client, Jim Simpson, we were able to find his bench at the heart of Woodhaven Park. Even without a cameraman, we were able to take a decent picture.



Our team participated in a team building activity at Activate! We got out of our office attire and into our gym clothes for the intense physical gaming session.

Charlene M. Birdsall, CPA, CMA, CIM, RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2252
charlene.birdsall@nbc.ca | charlenebirdsall.ca

Michael Silicz, B.A. (Hons.), M.A., M.P.Adm., LL.B., RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2265 – Toll free: 1-800-461-6314
michael.silicz@nbc.ca | michaelsilicz.com



The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial – Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). This newsletter has been prepared under contract for the Investment Advisor noted by J. Hirasawa & Associates, and is published for general information only. Content copyright by the publishers and may not be reproduced without written permission. Statistics, factual data and other information are from sources that we believe to be reliable but we cannot guarantee their accuracy. It is furnished on the basis and understanding that the author and its affiliates are to be under no liability whatsoever in respect thereof.