

Current Trends and Issues in Financial Planning





The 2018 CIFP Financial Planning Update

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ECONOMIC UPDATE



CANADA'S 2018 ECONOMIC OUTLOOK


- Complex
- Ambiguous
- Uncertain
- Volatile

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CANADA'S 2018 ECONOMIC OUTLOOK

- Outlook is positive
 - Strong business and consumer confidence
 - 2018 economic growth 2% largely driven by consumers
 - Despite high consumer debt loads



SUSTAINING CANADIAN ECONOMIC GROWTH


- Does Canada have enough capacity to sustain production growth
 - Tighter labour markets
 - Increasing demand for labour
 - Growing retiree population
 - Rising wages
 - Lower capacity due to economic slowdown



POLITICAL UNCERTAINTY


- Political uncertainty south of the border is reducing Canada's export performance
 - Rising protectionism in U.S. and in the world in general
 - Rising trend in unilateral trade policy
 - Re-negotiation of NAFTA
 - Imposition of tariffs and duties
 - Lower dollar has not offset these uncertainties

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GLOBAL ECONOMIC GROWTH

- IMF expects global economy to grow at 3.90% in 2018
 - Largest contributors will be U.S.A., China and India



U.S. ECONOMIC GROWTH


- U.S. growth in the 2nd quarter of 2017 helped to spur global growth and recovery
 - Main driver of U.S. growth was U.S. consumer
 - Imports grew at fastest pace in 7 years in the 2nd quarter
- Inflation rising
 - U.S. Fed target 2%
 - U.S. inflation 1.60%



CANADA'S CURRENT OUTLOOK

- 1st Quarter of 2018 Canadian economy grew by an est. 1.30%
 - Slower growth in real estate
 - Higher interest rates
 - New mortgage rules
 - Slow growth in mining, oil and gas sectors
 - Business sector investment rose in the final quarter of 2017
- Consensus forecast of 2.0% in 2018

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CANADA'S CURRENT OUTLOOK; DOWNSIDE RISKS

- Household risks in increasing indebtedness
 - H.H. debts have risen to 170% of disposable income in Q4 2017
- Rising interest rate
- Rise in protectionist trade practices
 - Trade represents 2/3rds of Canadian GDP
 - Renegotiation of NAFTA
 - Potential for U.S.-China trade war
 - Duties and tariffs



INCOME TAX UPDATE



BUDGET 2018: THE \$500,000 BUSINESS LIMIT REDUCTION

- Current business limit on associated CCPCs reduced where "taxable capital employed in Canada exceeds \$10,000,000
- Proposed changes:
 - Where a group of associated business (CCPCs) earn "adjusted aggregate investment income" of between \$50,000 and \$150,000
 - \$5 for every \$1 of investment income
 - Reduction to \$0.00 for "adjusted aggregate investment income" of \$150,000 or more

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CHANGES TO RDTOH


- Current dividend refund is available up to 38.33% (33.33% in 2016) of taxable dividends paid to the extent of available RDTOH
 - These dividends can be eligible or non-eligible dividends paid
- Proposed changes would allow recoup of RDTOH related to non-eligible dividends paid
 - An exception would be allowed for RDTOH related to Part IV Tax on eligible portfolio dividends
 - Creation of two RDTOH accounts; eligible RDTOH and non-eligible RDTOH
 - Eligible RDTOH would capture Part IV eligible dividends
 - Non-eligible RDTOH would be for all other dividend income
 - A corporation pays a non-eligible dividend it would recovered non-eligible RDTOH first, then eligible RDTOH

CHANGES TO "KIDDIE TAX" (TAX ON SPLIT INCOME) RULES

- Family business' have traditionally sprinkled income among family members in the form of dividends, salary or wages – if reasonable – in a bid to reduce income taxes
- New reasonable test on children between ages of 18-24
 - Assessed based on children's contributions of capital and labour to the business

ESTATE AND INSURANCE PLANNING

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CHANGES IN TESTAMENTARY TRUST RULES

- Jan. 1st 2016 changes in trust rules
 - Most trusts will now be taxed at highest MTR
 - Testamentary trusts must file with a December 31st year-end date
- Qualified Disability Trusts
 - Can continue to take advantage of graduated taxation rates
- Graduated Rate Estates
 - Can take advantage of marginal tax rates for the 1 three-years



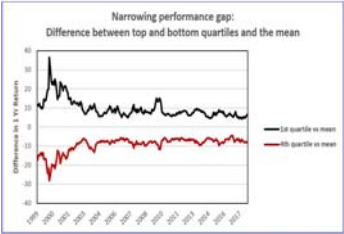
ASSET MANAGEMENT AND INVESTMENT PLANNING



The Narrowing Performance Gap

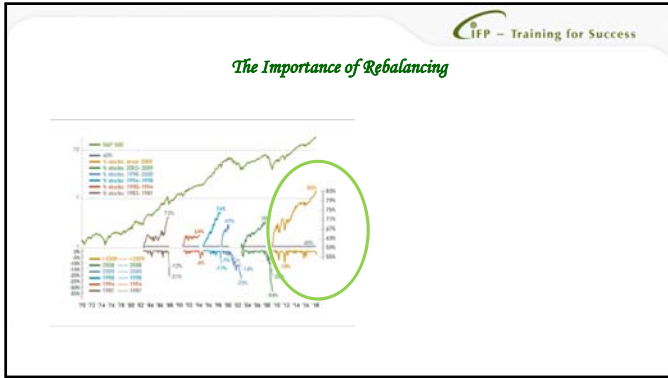
Narrowing performance gap:
Difference between top and bottom quartiles and the mean

Outperformance margin is declining!



— 2nd quartile vs mean
— 4th quartile vs mean

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Market Drivers: U.S.A.

CANADIAN EQUITIES
The S&P/TSX Index was one of the worst performing markets in the world in the first quarter of 2018. The S&P/TSX was dragged lower by concerns of a further weakening Canadian economy due to increases in interest rates, tighter mortgage lending rules, and increases in minimum mortgage payments. The weaker Canadian dollar also weighed on global equity returns for Canada.

INTERNATIONAL EQUITIES
In overseas markets, international equities rose 0.51 percent in Canadian dollar terms as measured by the MSCI EAFE Index. Setting aside the potential of trade wars, Europe and Asia's economic outlook continues to be very robust and this will likely flow through company earnings.

U.S. EQUITIES
Despite a great start to the year in January, markets have trended downward mostly on fears of potential global trade wars, beginning with the U.S. and China. Given the negligible impact on each country's GDP, the market factor may have been greater than warranted.

U.S. EQUITIES
Risk of Canada's debt position on the heels of global economic uncertainty could be higher than warranted.

U.S. EQUITIES
Volatility clouding fundamentals
The ongoing risk of global trade wars have created a heightened level of volatility. While the initial reaction in the markets may be overdone as specifics are unknown, market sentiment often doesn't care about specifics in the short term. Although volatility is likely to persist, company earnings remain solid.

RESEARCH: [Bar chart showing research levels for Canadian Equities, International Equities, and U.S. Equities]

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Market Drivers: International Equities

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INTERNATIONAL EQUITIES
Emerging opportunities
While the compelling investment thesis that trade war volatility, the economic and corporate earnings outlook remains solid in addition to environmental, social and governance, the part of the world with likely return on trading equities continues.

RESEARCH: [Bar chart showing research levels for Canadian Equities, International Equities, and U.S. Equities]

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Market Drivers: Fixed Income

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FIXED INCOME
With the U.S. Federal Reserve and the Bank of Canada raising their overnight lending rates by 25 basis points off the backs of solid economic data, the potential for higher inflation and higher interest rates have put pressure on many traditional fixed income instruments.

FIXED INCOME
No income and be flexible
Central banks globally are expected to shift their policies toward increased interest rates. An environment of potentially higher inflation and higher interest rates highlights the need for agile portfolio management to help mitigate volatility and to seek out alternative sources of income.

RESEARCH: [Bar chart showing research levels for Canadian Equities, International Equities, and Fixed Income]

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Manufacturing Activity as a Support of Global Growth

Macro snapshot
 Macroeconomic forecasts believe that manufacturing activity is supportive of global economic growth. However, the rate of growth is likely slowing.

Purchasing Managers' Index
 Above 50
 Below 50

The Macro Snapshot Purchasing Managers' Index™ serves as monthly economic barometer of leading selected companies comprised by IHS. They provide valuable insight into the production activities of the manufacturing sector as well as services, construction and other sectors. The services & construction activities, however, are not included. Some states and some products however may not qualify as being under part of the macro conditions in any given territory. Certain macro training modules use the data to help design targeted sales strategies, and analysis to plan. Financial planners use PMI data to forecast official economic data.

Source: IHS Global Economics Intelligence as of March 31, 2018. Information provided for the reference of these slides.

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OVERVIEW OF CANADA

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THE PACE OF ECONOMIC GROWTH IN CANADA

Canadian economy has slowed but still growing at a steady pace
 Canadian growth is being primarily powered by the consumer, but the common concern is that high levels of debt and rising interest rates means that engine may slow over the course of 2018.

Source: Statistics Canada Economic Accounts as of March 31, 2018. By referring to the data on the Global Economic Intelligence website you can obtain PMI data.

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GROWTH IN CANADIAN CONSUMER DEBT

Canadian consumers' debt burden likely to increase
Household debt-servicing capacity will become stretched even further as interest rates rise to more "normal" levels over the next few years.

Debt service ratio

Source: Statistics Canada, Monthly Household Debt Obligations as of December 31, 2010

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THE CANADIAN DOLLAR

The Canadian dollar is likely to remain range bound
The two forces impacting the loonie – oil prices and the difference in Canadian and U.S. 2 year bond yields, are creating volatility for the Canadian dollar.

Predicted CAD/USD exchange rate regression analysis of oil prices to CAD/USD vs. interest rates for CAD/USD vs. interest rates daily from 2000

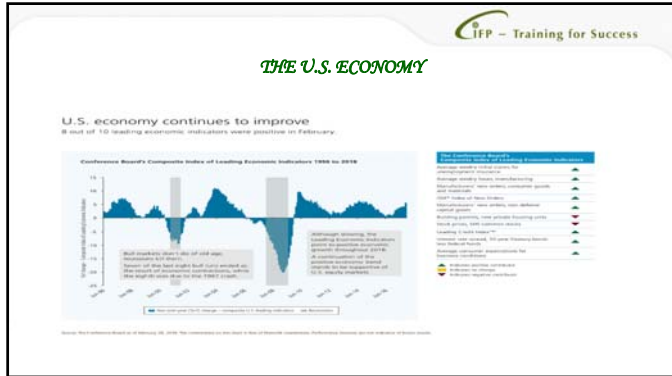
Current CAD/USD: 1.0427758
Implied Fair Value: 1.0427758
Oil Price: 100.000000
2-yr Spread: 2.250000
2-yr Spread: 2.250000

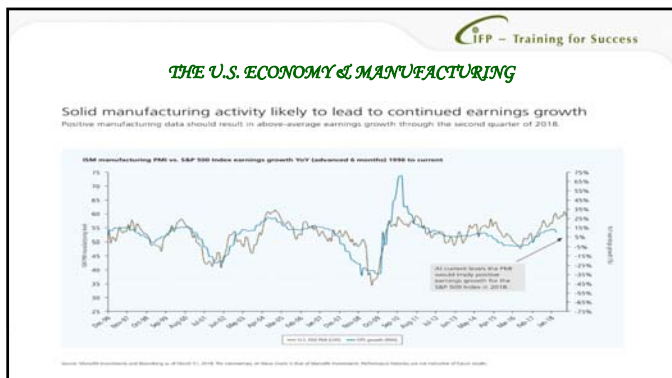
Source: Bank of America, 10/11/11

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OVERVIEW OF THE U.S.A.

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OVERVIEW OF GLOBAL MARKETS

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MANUFACTURING IN DEVELOPED & EMERGING MARKETS

Manufacturing activity is in expansion in developed and emerging markets
Manufacturing output in Europe, Europe, the U.S. and the U.S. is growing at a steady pace, further supporting synchronized global economic growth.

Manufacturing PMI for developed and emerging markets

Source: IHS GlobalVantage, Economics & Global Markets, © 2014. All rights reserved. For more information, visit www.ihs.com. IHS GlobalVantage is a registered trademark of IHS GlobalVantage, Inc.

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OVERVIEW OF FIXED INCOME

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GLOBAL SOVEREIGN BOND YIELDS

Attractive yields exist in global sovereign bonds, but not everywhere
Investors need to look for the best risk/reward opportunity when looking for yield in global government bonds.

10-year government bond yields (%)


Source: Bloomberg Barclays, © 2014. All rights reserved. For more information, visit www.bloomberg.com. Bloomberg Barclays is a registered trademark of Bloomberg Barclays, Inc.

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THE FED CONTINUES TO TIGHTEN

The Fed is fully justified to continue tightening
Trend of higher inflation coupled with a solid employment market is likely to lead to increased interest rates.



Source: Board of Governors of the Federal Reserve System. The inflation rate is the annual percentage change in the Consumer Price Index for All Urban Consumers.



THE NEED FOR FINANCIAL PLANNING RESEARCH & ENGAGEMENT



WHY WE NEED RESEARCH?

There is a need to bridge the gap between the real world that we have just reviewed and the world of theory in which new concepts, linkages and understanding of a myriad of academic research topics needs to be bridged.

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WHY CLIENT ENGAGEMENT IS NEEDED?

The most effective Qualified Trusted Professional is one who follows the financial planning process using his or her fundamentally sound hard skills in conjunction with a highly developed suite of engagement skills.


QUESTIONS?
