

# Advice Matters

SPRING 2016

## A lesson from my father

“Tune out the noise.  
Tune in opportunity.”

The best advice we ever receive is often from our parents. Neil Macdonald, Managing Director of ScotiaFunds, shares the investment advice he received from his father, who over the course of his life learned the importance of tuning out the market ‘noise’ and tuning into a sound financial plan. Here’s Neil’s story.



by Neil Macdonald

Managing Director, ScotiaFunds

**AS WE CONTINUE** to experience volatility in markets, I have a lesson in perspective from my father.

My dad grew up in a council house in Glasgow, Scotland. After serving in the British army in Singapore, he arrived in Montreal with \$20 to his name.

A job offer came quickly. He was a loyal company man, working 37 years for a paint company. With three boys and a stay-at-home mom, we skied and had a small cottage but we didn’t have a lot of money to invest.

My dad had his routines. Every morning he’d put on his shoes, then read the paper over breakfast – with a twinkle in his eye he’d announce: “Ach no boys, it’s nothing but bad news” in his thick Scottish brogue.

He started an RRSP at age 50. A cautious man, he wanted no risk. He didn’t trust the market. He didn’t want to lose any money.

My dad retired at 62. His portfolio was a company pension, the company stock he collected over his career and his RRSP.



## “I’m not worried, I have a plan.”

He bought a Volkswagen camper van and would travel the country.

A few years later, Warren Buffet bought the paint company and my dad dutifully tendered his shares. He started to read a few things that Mr. Buffett had written. “Have you heard of this fellow ‘Warren Buffett’ Neil?” he asked me one day. “Aye, he makes good sense!”

At 75, he sold the house and the cottage. For the first time in his life, he realized he had more than he needed and sat down with a financial advisor. Together, they came up with a long-term plan.

I had dinner with my dad not long ago. He looks well – at 84,

he is healthy and happy. I asked how he was reacting to the volatility in the market. I saw that twinkle in his eye again and he said “Och aye, you know it’s nothing but bad news!”

But then he said more seriously “Neil, I’m not worried, I have a plan. I’m not even going to look at it.”

My dad reminded me of the importance of developing a long-term financial plan with a trusted financial advisor, which can free you from worrying about the ups and downs of the markets.

Thank you for the good news, Dad! ■

## INVESTING INSIGHTS

# 5 Timeless Tips on Managing Market Ups and Downs – *for retirees*

Life can take on new meaning at retirement, but so too can worries about whether your nest egg will sustain the life you envision. While market volatility can be unnerving for any investor, it can be even more so for retirees when they see the value of their nest egg shrink when they need it most.

**BY RECOGNIZING** short-term market uncertainty for what it is, you can help ensure that it doesn't derail your retirement plan. Here are five tried and tested principles that can help you gain needed perspective and enjoy the well-earned fruits of your labour:

## 1. Take care of the essentials.

One strategy employed is to use the income from government or private pensions to cover the essentials – food, shelter, and other necessities. This can help reduce the impact of market volatility on your day to day income requirements.

## 2. Think short term and long term.

Holding a portion of your portfolio in cash or other liquid investments can help you buffer volatile market swings because you won't have to sell longer-term investments in a declining market and can participate in the recovery. But while cash is key for the short term, you still need to grow your nest egg to take you through your retirement – which can easily last a quarter of a century.

A Scotiabank advisor can help you ensure that your asset allocation is still in line with your time horizon, investment objective and risk tolerance.

### Tip

A big concern in retirement is running out of funds too soon – and if you encounter volatility, particularly during the early years, it can make a dent in your portfolio. One solution is to use a 'cash wedge' strategy. It involves having cash readily available to cover a year's worth of expenses, and then having another portion of your savings in shorter-term investments for an additional year or two of expenses. The rest of your savings are allowed to grow over time.

This way if markets happen to fall, you can use your cash wedge to cover expenses and then use the shorter term investment to replenish your cash. On the other hand, if markets rise, a portion of your longer-term investments can be sold instead to replenish your cash. A Scotiabank advisor can help with this strategy.

**3. Review your withdrawal rate.** Determine if you need to reduce the amount you withdraw from your retirement account on a regular basis, and help preserve your capital longer.

### Tip

Consideration should be given to the rate that you withdraw from your retirement accounts. A common strategy is to employ the "4% rule"<sup>†</sup>. The rule suggests that a portfolio invested with an equal allocation to stocks and bonds will last 30 years if the retiree withdraws 4% of their savings in year one, and adjusts that amount annually at the rate of inflation. Speak to your Scotiabank advisor to see which rate is appropriate for you.

**4. Seek out alternative income streams.** Taking on a part-time job or renting out a property are great ways to receive income outside of your portfolio and supplement

your retirement income, while helping you ride out a temporary market downturn.

## 5. Keep calm and carry on.

Investors generally feel a financial loss about twice as much as a gain of the same magnitude.\* Understandably, many of us experience a roller coaster of emotions when investing, which can translate into poor buy and sell decisions. Being aware of these emotions during times of volatility will help you stay on the straight and narrow.

Staying invested during market ups and downs during your retirement years is simple – but not always easy, and requires different considerations than in your working years. Contact your Scotiabank advisor today to ensure your plan continues to make sense for you. ■

<sup>†</sup> Bengen, William P. (October 1994). "Determining Withdrawal Rates Using Historical Data." *Journal of Financial Planning*: 14–24.

\* Source: Kahneman, Tversky (1979, 1992).



## FEDERAL BUDGET

# Federal Budget 2016: Highlights

## THE 2016 FEDERAL BUDGET

was tabled toward the end of March by the new Liberal government under Prime Minister Justin Trudeau. As expected, the Budget delivered on key aspects of the government's electoral platform, focused largely on measures to support the middle class.

Some of the key tax measures that may impact you include:

**Rate changes to personal income tax** – including the new top marginal income tax rate of 33% on taxable income over \$200,000 and the reduction of the second personal income tax rate to 20.5% from 22%.

**Small business tax rates that were scheduled to decrease to remain static** – active business income up to \$500,000 will be taxed at 10.5%, but was previously scheduled to decrease from 11% to 9%.

**A new Canada Child Benefit to replace the existing scheme** – the new CCB benefits lower and middle income families, and will be adjusted according to family net income and number of children in the family.

**The elimination of certain tax credits** – these include family income splitting, children's fitness and art, and education and textbook tax credits; however, the tuition tax credit will remain.

**Top up of Guaranteed Income Supplement (GIS)** – geared to the lowest income seniors.

**Changes to the tax efficiency of corporate class funds** – under proposed changes, as of October 1, 2016, investors will no longer be able to switch between corporate class funds within the same mutual fund corporation on a tax-deferred basis; your Scotiabank advisor can provide more context if this impacts you. ■

## TAX SMART STRATEGIES

## SIX PERSONAL TAX TIPS

Like the saying goes, the only certainties in life are death and taxes. And while filing your taxes may not be your first choice for a leisurely activity, there are ways to make it less taxing.

To get you started, here are six tax tips\* that could help keep more money in your pocket:



### 1. Consider deferring discretionary tax claims to the 2016 tax-year.

With the increase in the top marginal personal tax rates in 2016 for individuals earning taxable income over \$200,000, deferring discretionary tax claims like RRSP contributions could save you some money in taxes. It should be noted that you can make RRSP contributions within your available limit, without having to deduct them on your tax return.



### 2. Ensure that all available tax credits are claimed.

Many tax credits are available, including credits for eligible medical expenses and for first time home buyers. In the case of non-refundable tax credits, some unused credits can be transferred to the higher-income earning spouse or common-law partner.



### 3. Find out about possible caregiver tax credits.

Where you are responsible for the care of a dependant as a result of mental or physical infirmity, or disability, several tax credits may be available, such as the Family Caregiver Amount, Caregiver Amount, or the Infirm Dependant Amount. In addition, fees paid for a dependant's nursing home or attendant care

may be claimed, in some cases in combination with the 'disability tax credit'. As the rules around these possible tax claims can be complex, speak to your tax advisor to determine what tax claims might be available to you.



### 4. Consider pension income splitting.

This strategy allows a pensioner to transfer as much as half of their eligible pension to their spouse or common-law partner, and could result in a lower overall tax bill.



### 5. Expenses related to moving for work may be eligible deductions.



If you move within Canada to start work or carry on a business at your new location, you may be able to deduct eligible moving expenses. Note that your new residence must be at least 40 kilometres closer to your new work location.



### 6. Keep all of your tax receipts and supporting documents in one place.

Canada Revenue Agency requires that such documents are kept for a minimum of six years.

\*These tax tips are not comprehensive and are general in nature. Consult a tax specialist for advice specific to your financial situation.

## FINANCIAL PLANNING

# Advice for Life

## Generations



## MILLENNIALS 18-34

## Key Priorities

If you're a Millennial, your financial goals could focus on shorter-term needs, such as paying down debt, including student loans, or saving for a down payment on a home.

## Advice for Life

- If you carry a student loan and other debt, like a balance on a credit card, or a personal loan, focus on paying off the debt with the highest interest rate first. Even if the balance is small, higher interest rates accumulate more quickly and can cost you more over the long-term.
- To save for a down payment on a home, consider saving small amounts regularly through a Pre-Authorized Contribution (PAC).
- There are unique benefits to an RRSP and TFSA. Speak to a Scotiabank advisor about whether an RRSP, TFSA or both accounts make the most sense for your current income level and needs.



## GENERATION X 35-54

As a "Gen-Xer", your financial priorities may include paying off your mortgage, as well as saving for your retirement and your children's education.

- The easiest way to pay your mortgage off faster is by changing your payment schedule from monthly to bi-weekly or weekly. This simple step can save you money and take years off your mortgage.
- Chances are you're already saving for retirement and you may be entering your peak earning years. While maintaining your savings habits, consider increasing PAC contributions as your income rises and supplement with lump sum investments when possible, such as your tax refund.
- If you have children, helping pay for their education may be top of mind. Consider a Registered Education Savings Plan, using the Canada Child Benefit payments you may receive to contribute. Your child's plan may be eligible to receive Canada Education Savings Grants, further helping to save for their future.



## LATE BABY BOOMERS 55-65

As a late Baby Boomer, your financial goals are likely centred on retiring comfortably and formalizing a plan for your estate.

- As you approach retirement, consider accelerating your savings further by increasing PAC contributions, making lump sum investments where possible and maximizing your use of RRSPs and TFSAs.
- Should you wish to leave something for your family, consider establishing an estate plan. Thinking about how you plan to distribute your assets, how it will be transferred and documenting it will give you peace of mind that your wishes will be met in an orderly and efficient way.



## BABY BOOMERS 65-74 & THE SILENT GENERATION 75+

For retired Boomers and members of the Silent Generation, your focus may be managing the wealth that you have.

- Enjoying your retirement should be a priority, and part of that is having the peace of mind that you will live comfortably for the duration of your retirement.
- To help ensure that your savings last for the duration of your retirement, careful consideration should be given to the rate at which your retirement savings are withdrawn. For more information, read the 5 Timeless Tips on Managing Market Ups and Downs - for Retirees on page 2.
- Speak to a Scotiabank advisor to ensure that you have a prudent plan that includes the use of tax deferral accounts, as well as tax-efficient cash flow options.

Financial advice is important for everyone, no matter what generation you are. While some principles – like saving for emergencies and investing for the long-term – are true no matter what your age is, priorities often differ depending on your life stage.

To provide you with some Advice for Life, we've highlighted common financial priorities based on life stage, and some strategies to help address them.





MARKET INSIGHTS

# Quarterly Recap

## Federal Liberals introduce budget.



The Canadian Liberal government delivered its first budget, which included billion-dollar spending increases for infrastructure projects, Aboriginal peoples and low- to middle-income Canadians. The government is projecting yearly deficits of \$29 billion for the next two years. Jean-Francois Perrault, Scotiabank's chief economist, said the budget was a "smartly designed piece of policy" but believes the Liberals' projections of the budget's impact on Canada's economic growth are "a bit of a stretch." For the important highlights, turn to page 3.

## To raise or not to raise?



Seemingly conflicted, Chair Janet Yellen and the U.S. Federal Reserve (Fed) chose to hold rates steady over the first three months of the year. Domestically, the U.S. economy has continued humming along, as business and industry create jobs and hire workers. This places the Fed between a rock and a hard place – deciding between raising interest rates in response to a growing U.S. economy, or holding firm so as not to jeopardize global growth.

## Europe signals determination to boost growth.



European Central Bank (ECB) President Mario Draghi cut interest rates and boosted the amount of stimulus the central bank would inject into the economy. These policy measures were aimed at quashing the deflationary threat and marked a dramatic increase in the ECB's stimulus program, and will be deployed at a scale not used before by the ECB. Draghi also cautioned politicians that they also needed to address "structural weaknesses" of the eurozone economy.

## China cuts 2016 growth target amid economy concerns.



Further signs of slowing economic growth in China was evident as the government cut its growth target for this year to a range of 6.5% to 7%. Grappling with the slowest growth in 25 years, Chinese policymakers decided to use a range, rather than a single figure, in hopes of avoiding any downward revisions which would spark more volatility. ■

MARKET PERFORMANCE

(YTD Returns in CA\$ as at March 31, 2016) Source: Bloomberg

▲ 1.4%

FTSE TMX Canada Universe Bond Index

▲ 4.5%

S&P/TSX Composite Index

▼ -4.9%

S&P 500 Index

▼ -6.3%

MSCI World Index

▼ -0.8%

MSCI Emerging Markets Index

You're richer than you think.



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