John Armstrong CFP
Sterling Mutuals Inc.
Independent Financial Network

JA Update

John Armstrong, CFP ®
December 2016

US Election Implications

It's a funny old world. So now that Mr. Trump is the President Elect south of the border, what will the impact be in terms of future economic and investment market performance? While it is far beyond the scope of this newsletter (and indeed common sense), to speculate what will happen in equity markets in the short term, we would like to provide some commentary that you may find helpful.

History tells us that the election of a particular individual as president does not have a lasting impact on investment markets, negative or positive. Economic policy can of course have a lasting impact, but this takes time to develop.

There is no doubt that there will be changes in US policy; but what that change will look like is yet to be seen. Mr. Trump's messaging has been vague and often conflicting, so it is difficult to say what policy will come out of his administration. And even once the specifics of his agenda are known, it is likely that even the Republicans in the House and the Senate will have a moderating effect on the resulting legislation. Many of them did not support his presidential aspirations; this may act as a check against any extreme policy changes. While he will not have to deal with the level of political gridlock that plagued the Obama administration, he will certainly need to moderate many of the positions that he took during the campaign.

From an investment point of view there will certainly be winners and losers. For example, his intention to decrease regulation is likely to benefit the healthcare and financials sectors. And his commitment to increase spending on infrastructure and defense should result in the growth of these sectors, as well as increasing the prices of the commodities that supply them.

On the other hand, if the trade barriers that Trump has talked about are put in place, emerging market economies that export much more to the US than they import from the US will feel pain. As an aside, Canada and the US have a fairly equal trading relationship. While Trump has blustered about re-opening the North American Free Trade Agreement, there is little to be gained by imposing restrictions on Canada /US trade. We are already an excellent customer for the US. In contrast, Mexico has far more at stake.

Trump's pro-business position may prove to be helpful in encouraging what has been a sluggish recovery in the US. And his lower tax policy agenda may result in additional investment and spending by the corporate sector.

One thing to keep in mind is that some of these policies are likely to encourage inflation, something that we have seen very little of in recent years. This will have implications for other things too, like interest rates and currency valuations.

Our feeling is that it will take a period of time for all of this to become clear. Having a diversified portfolio is once again the key to doing well in uncertain times. And because of the complex relationship between all of the moving parts in the global economy, we feel that using actively managed investment products is very important. As stated earlier, there will be winners and losers as a result of changing policy. With the right approach, this can create opportunity for investors. Further to this, active management may not always increase investment returns, but it certainly helps to reduce investment risk.

In This Issue

John Armstrong CFP
Sterling Mutuals Inc.
Independent Financial Network

JA Update

John Armstrong, CFP ®
December 2016

US Election Implications

It's a funny old world. So now that Mr. Trump is the President Elect south of the border, what will the impact be in terms of future economic and investment market performance? While it is far beyond the scope of this newsletter (and indeed common sense), to speculate what will happen in equity markets in the short term, we would like to provide some commentary that you may find helpful.

History tells us that the election of a particular individual as president does not have a lasting impact on investment markets, negative or positive. Economic policy can of course have a lasting impact, but this takes time to develop.

There is no doubt that there will be changes in US policy; but what that change will look like is yet to be seen. Mr. Trump's messaging has been vague and often conflicting, so it is difficult to say what policy will come out of his administration. And even once the specifics of his agenda are known, it is likely that even the Republicans in the House and the Senate will have a moderating effect on the resulting legislation. Many of them did not support his presidential aspirations; this may act as a check against any extreme policy changes. While he will not have to deal with the level of political gridlock that plagued the Obama administration, he will certainly need to moderate many of the positions that he took during the campaign.

From an investment point of view there will certainly be winners and losers. For example, his intention to decrease regulation is likely to benefit the healthcare and financials sectors. And his commitment to increase spending on infrastructure and defense should result in the growth of these sectors, as well as increasing the prices of the commodities that supply them.

On the other hand, if the trade barriers that Trump has talked about are put in place, emerging market economies that export much more to the US than they import from the US will feel pain. As an aside, Canada and the US have a fairly equal trading relationship. While Trump has blustered about re-opening the North American Free Trade Agreement, there is little to be gained by imposing restrictions on Canada /US trade. We are already an excellent customer for the US. In contrast, Mexico has far more at stake.

Trump's pro-business position may prove to be helpful in encouraging what has been a sluggish recovery in the US. And his lower tax policy agenda may result in additional investment and spending by the corporate sector.

One thing to keep in mind is that some of these policies are likely to encourage inflation, something that we have seen very little of in recent years. This will have implications for other things too, like interest rates and currency valuations.

Our feeling is that it will take a period of time for all of this to become clear. Having a diversified portfolio is once again the key to doing well in uncertain times. And because of the complex relationship between all of the moving parts in the global economy, we feel that using actively managed investment products is very important. As stated earlier, there will be winners and losers as a result of changing policy. With the right approach, this can create opportunity for investors. Further to this, active management may not always increase investment returns, but it certainly helps to reduce investment risk.

In This Issue

- CPP Enhancements
- Year End Reminders
- Choices in Retirement
- Statement Changes

Enhancement of the Canada Pension Plan

With employer sponsored retirement programs becoming increasingly modest, and far less common, more onus is put on the individual to take care of financing their own retirement. Contributing to Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs) offers an opportunity for Canadians to accumulate investment assets for their retirement, but many people find this very difficult to do. The federal and provincial governments have put a plan in place to enhance the retirement income benefit provided by the CPP. The 'forced savings' aspect of the CPP means that, regardless of their own saving habits, Canadian workers automatically contribute to a pool of capital which will provide them income in retirement, for life. Although there are critics of these enhancements, our feeling is that the changes will in fact benefit many Canadians.

So what are the enhancements? The intent of the changes is to increase the maximum available CPP retirement benefit by about 50%. Currently the maximum annual benefit is $13,110. In today's dollar terms, the enhanced CPP represents an increase of nearly $7,000, to a maximum benefit of nearly $20,000. Keep in mind that most people do not receive the maximum amount. The percentage of the maximum that they receive depends on how much they have contributed and when they start taking their CPP benefits.

And who is paying for the enhancements? CPP benefits are funded by employee and employer contributions. They are mandatory. The enhancements will be made by increasing both employee and employer CPP contributions. The increase will commence in 2019 and will be done gradually over a period of seven years.

Because CPP benefit pay-outs are based on individual contributions, the larger benefits paid in future years will be funded by those that pay the larger amount into the plan. Those that stand to benefit the most from the enhancements are the young Canadians that are entering the workforce now, but they will also be the ones funding the enhanced benefits with their mandatory contributions.

So as professionals that assist people with managing their retirement income steams, how do we feel about these enhancements? Our feeling is that overall these are positive changes. Many Canadians will enter retirement with a more stable income than they would have otherwise. They will also have the peace of mind of knowing that the income will be indexed to inflation and will continue for life. The group of people that historically had difficultly accumulating their own retirement savings will be the ones that benefit most by this.

Another positive thing about the enhancement is that it seems to have satisfied those pushing for new government pension programs at the provincial level. Why create another level of administration and pension management when the CPP is already operating well? Enhancing an existing program makes more sense.

Some employers will be unhappy with the additional payroll costs that will result. On the other hand, diminishing employer sponsored pension and savings programs is a big part of the reason that these enhancements are necessary.

The main criticism we have of the CPP is not new and does not relate to the enhancements. We would like to see it operate more like a pension plan in terms of survivor benefit options. Improvements to this would go a long way in helping people to view the program as a real retirement asset rather than as a payroll tax.

Year End Reminders

√ **Charitable Contributions** deadline for the 2016 tax year is December 31st. Remember that annual cumulative donation amounts over $200 receive a tax credit of 40%. Family contributions can be grouped in order to maximize the amount over $200. The bottom line, donations over $200 only cost you about 60 cents on the dollar; so don't hesitate to give!

√ 2016 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is March 1, 2017.

√ **Tax Free Savings Account** contribution room increases by $5,500 for Canadians over the age of 18 as of January 1, 2017. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSAs in 2016.

√ For **non-registered investment accounts**, check your year end fund company statements for capital gains or losses triggered by redemptions or switches made during the calendar year. The <u>'T' slips issued by the fund companies do not reflect the tax consequences of investor activity</u>; they reflect only the details of fund distributions paid out in cash or reinvested in the fund. We are happy to provide additional details upon request for any gains or losses triggered during the year.

√ 2016 Income Tax—If you have any questions regarding what is required in terms of tax reporting investment documentation, please do not hesitate to contact our office. We would be happy to provide a summary of the documentation you should have. We are also able to download many of the documents that you may not be able to put your hands on.

Enhancement of the Canada Pension Plan

With employer sponsored retirement programs becoming increasingly modest, and far less common, more onus is put on the individual to take care of financing their own retirement. Contributing to Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs) offers an opportunity for Canadians to accumulate investment assets for their retirement, but many people find this very difficult to do. The federal and provincial governments have put a plan in place to enhance the retirement income benefit provided by the CPP. The 'forced savings' aspect of the CPP means that, regardless of their own saving habits, Canadian workers automatically contribute to a pool of capital which will provide them income in retirement, for life. Although there are critics of these enhancements, our feeling is that the changes will in fact benefit many Canadians.

So what are the enhancements? The intent of the changes is to increase the maximum available CPP retirement benefit by about 50%. Currently the maximum annual benefit is $13,110. In today's dollar terms, the enhanced CPP represents an increase of nearly $7,000, to a maximum benefit of nearly $20,000. Keep in mind that most people do not receive the maximum amount. The percentage of the maximum that they receive depends on how much they have contributed and when they start taking their CPP benefits.

And who is paying for the enhancements? CPP benefits are funded by employee and employer contributions. They are mandatory. The enhancements will be made by increasing both employee and employer CPP contributions. The increase will commence in 2019 and will be done gradually over a period of seven years.

Because CPP benefit pay-outs are based on individual contributions, the larger benefits paid in future years will be funded by those that pay the larger amount into the plan. Those that stand to benefit the most from the enhancements are the young Canadians that are entering the workforce now, but they will also be the ones funding the enhanced benefits with their mandatory contributions.

So as professionals that assist people with managing their retirement income steams, how do we feel about these enhancements? Our feeling is that overall these are positive changes. Many Canadians will enter retirement with a more stable income than they would have otherwise. They will also have the peace of mind of knowing that the income will be indexed to inflation and will continue for life. The group of people that historically had difficultly accumulating their own retirement savings will be the ones that benefit most by this.

Another positive thing about the enhancement is that it seems to have satisfied those pushing for new government pension programs at the provincial level. Why create another level of administration and pension management when the CPP is already operating well? Enhancing an existing program makes more sense.

Some employers will be unhappy with the additional payroll costs that will result. On the other hand, diminishing employer sponsored pension and savings programs is a big part of the reason that these enhancements are necessary.

The main criticism we have of the CPP is not new and does not relate to the enhancements. We would like to see it operate more like a pension plan in terms of survivor benefit options. Improvements to this would go a long way in helping people to view the program as a real retirement asset rather than as a payroll tax.

Year End Reminders

√ **Charitable Contributions** deadline for the 2016 tax year is December 31st. Remember that annual cumulative donation amounts over $200 receive a tax credit of 40%. Family contributions can be grouped in order to maximize the amount over $200. The bottom line, donations over $200 only cost you about 60 cents on the dollar; so don't hesitate to give!

√ 2016 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is March 1, 2017.

√ **Tax Free Savings Account** contribution room increases by $5,500 for Canadians over the age of 18 as of January 1, 2017. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSAs in 2016.

√ For **non-registered investment accounts**, check your year end fund company statements for capital gains or losses triggered by redemptions or switches made during the calendar year. The <u>'T' slips issued by the fund companies do not reflect the tax consequences of investor activity</u>; they reflect only the details of fund distributions paid out in cash or reinvested in the fund. We are happy to provide additional details upon request for any gains or losses triggered during the year.

√ 2016 Income Tax—If you have any questions regarding what is required in terms of tax reporting investment documentation, please do not hesitate to contact our office. We would be happy to provide a summary of the documentation you should have. We are also able to download many of the documents that you may not be able to put your hands on.

Give Yourself Choices in Retirement

Why do we go to such great lengths to organize client saving plans into the appropriate pots of money? One of the main reasons is that it provides choice as to where to draw from when funding various retirement income needs. So why is choice important?

1. Taxation— When redeeming from your savings plans, different account types have different tax implications. Withdrawals from RSP, RIF and LIF accounts are considered income in the year you draw the money out. Non-registered account withdrawals are not considered income, but they can trigger capital gains tax. TFSA withdrawals have no tax implications. It is nice to have choice as to where to draw the money from. For example, RIF accounts are great for drawing regular income from, but, depending on your other income, they may not be appropriate for funding big ticket purchases like vehicles or vacations. Large withdrawals could in fact move you into a higher tax bracket or in some cases even result in Old Age Security claw back.

2. Taxation From a Family Perspective— Sorry to you single people, this does not apply to you. But for couples, having assets in the name of both spouses is extremely beneficial in the case of RSP and RIF assets. From a taxation perspective, the ideal scenario is that each spouse has a similar level of income in retirement. RIF income splitting at tax time can be helpful for those 65 and older, but having registered assets in the names of both spouses gives you even more flexibility by allowing you to chose who will have the additional income as a result of the withdrawal. Spousal plans can be a very useful tool in this respect.

3. Volatility—Having your various pots of money earmarked for various time periods can also provide choice. For example, in a year where there has been a substantial increase in the value of your more growth-oriented long term investments, you may choose to draw on those assets rather than on your shorter term more conservative assets. Conversely, if investment growth has been negative, your shorter term conservative money can provide the capital for your needs without selling the assets that have declined in value the most.

Important: Account Statement Changes

In January 2017, client investment account statements will include additional information. The new statements will include detailed information on fees and charges, as well as enhanced performance reporting.

Annual Charges and Compensation Report

This new section details both fees paid by the investor directly and compensation paid to the advisory firm by a third party (most often the mutual fund companies). We believe that this is a positive change. Making this compensation more transparent will be helpful to clients.

Please keep in mind that these are not additional or new charges, they are a concise disclosure of the existing fees and compensation pertaining to your accounts.

Investment Performance Reporting

These enhancements are twofold:

⇒ *Changes in the value of your account* Details are provided on the opening market values, deposits, withdrawals, changes in market value and the account's closing value for the period.

⇒ *Rates of return* Your personal rates of return as a percentage are provided. A money weighted calculation is used to provide this information. The performance of the fund, as well as the impact of investor activity is reflected here. In other words, the impact of deposits and withdrawals and their timing is taken into consideration.

Much of this investment performance information has already been included in the dealer statements you have been receiving during 2016, but you can expect to see some changes in the way the information is presented.

As always, if you have any questions or concerns regarding your statements please do not hesitate to contact us.

Over time the number of pages your statement includes has increased, largely as a result of the additional reporting requirements. Many clients find that receiving an electronic notification of their statement by e-mail, and then viewing the document by secure web access helps them to keep the paper documentation they receive at a more manageable level. Please let us know if you would like to receive your dealer statements electronically.

Give Yourself Choices in Retirement

Why do we go to such great lengths to organize client saving plans into the appropriate pots of money? One of the main reasons is that it provides choice as to where to draw from when funding various retirement income needs. So why is choice important?

1. Taxation— When redeeming from your savings plans, different account types have different tax implications. Withdrawals from RSP, RIF and LIF accounts are considered income in the year you draw the money out. Non-registered account withdrawals are not considered income, but they can trigger capital gains tax. TFSA withdrawals have no tax implications. It is nice to have choice as to where to draw the money from. For example, RIF accounts are great for drawing regular income from, but, depending on your other income, they may not be appropriate for funding big ticket purchases like vehicles or vacations. Large withdrawals could in fact move you into a higher tax bracket or in some cases even result in Old Age Security claw back.

2. Taxation From a Family Perspective— Sorry to you single people, this does not apply to you. But for couples, having assets in the name of both spouses is extremely beneficial in the case of RSP and RIF assets. From a taxation perspective, the ideal scenario is that each spouse has a similar level of income in retirement. RIF income splitting at tax time can be helpful for those 65 and older, but having registered assets in the names of both spouses gives you even more flexibility by allowing you to chose who will have the additional income as a result of the withdrawal. Spousal plans can be a very useful tool in this respect.

3. Volatility—Having your various pots of money earmarked for various time periods can also provide choice. For example, in a year where there has been a substantial increase in the value of your more growth-oriented long term investments, you may choose to draw on those assets rather than on your shorter term more conservative assets. Conversely, if investment growth has been negative, your shorter term conservative money can provide the capital for your needs without selling the assets that have declined in value the most.

Important: Account Statement Changes

In January 2017, client investment account statements will include additional information. The new statements will include detailed information on fees and charges, as well as enhanced performance reporting.

Annual Charges and Compensation Report

This new section details both fees paid by the investor directly and compensation paid to the advisory firm by a third party (most often the mutual fund companies). We believe that this is a positive change. Making this compensation more transparent will be helpful to clients.

Please keep in mind that these are not additional or new charges, they are a concise disclosure of the existing fees and compensation pertaining to your accounts.

Investment Performance Reporting

These enhancements are twofold:

⇒ *Changes in the value of your account* Details are provided on the opening market values, deposits, withdrawals, changes in market value and the account's closing value for the period.

⇒ *Rates of return* Your personal rates of return as a percentage are provided. A money weighted calculation is used to provide this information. The performance of the fund, as well as the impact of investor activity is reflected here. In other words, the impact of deposits and withdrawals and their timing is taken into consideration.

Much of this investment performance information has already been included in the dealer statements you have been receiving during 2016, but you can expect to see some changes in the way the information is presented.

As always, if you have any questions or concerns regarding your statements please do not hesitate to contact us.

Over time the number of pages your statement includes has increased, largely as a result of the additional reporting requirements. Many clients find that receiving an electronic notification of their statement by e-mail, and then viewing the document by secure web access helps them to keep the paper documentation they receive at a more manageable level. Please let us know if you would like to receive your dealer statements electronically.

John Armstrong is a CERTIFIED FINANCIAL PLANNER. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

John Armstrong CFP

STERLING MUTUALS INC.

Independent Financial Network

Newsletter Editor: Rich Weiler

Contact Us

279 Weber St. N
Lower Suite 3
Waterloo, ON
N2J 3H8

Phone: 519-576-5766
Fax: 519-576-0192

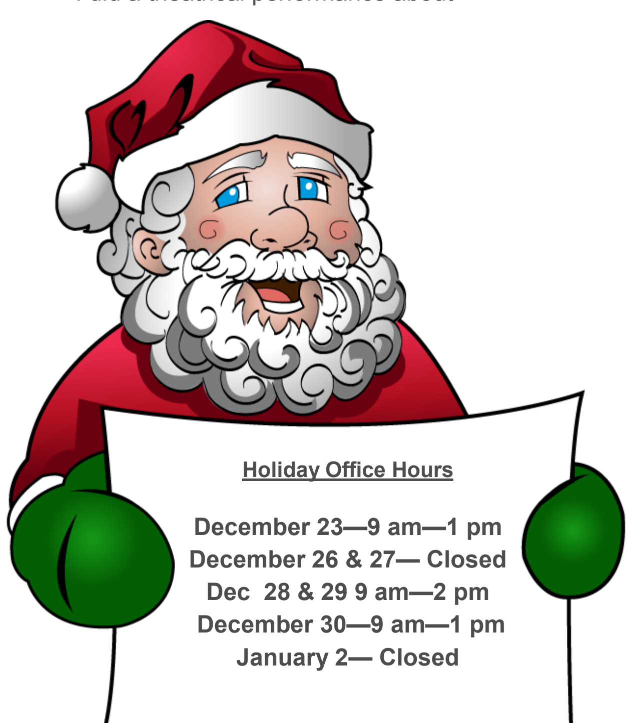
E-mail: johna@jarmstrong.ca

Website: www.jarmstrong.ca

Please note our current e-mail format. As of September our a-q.com addresses no longer forward to us. Thanks!

Short and Sweet!

- I know a guy who is addicted to brake fluid—but he says he can stop any time.
- This girl said she recognized me from the vegetarian club, but I've never met herbivore.
- I did a theatrical performance about puns. It was a play on words.
- I changed my iPod's name to Titanic. Now it's syncing.
- I tried to catch some fog, but I mist.
- What do you call a dinosaur with an extensive vocabulary? A thesaurus.
- I dropped out of my political philosophy course because of lousy Marx.
- I didn't like my beard at first. Then it grew on me.
- Venison for dinner again? Oh deer.



Thank you very much for your support in 2016!

Merry Christmas and Happy New Year!

John *Sharon* *Joe*

Rich *Cindy*

John Armstrong is a CERTIFIED FINANCIAL PLANNER. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

John Armstrong CFP

STERLING MUTUALS INC.

Independent Financial Network

Newsletter Editor: Rich Weiler

Contact Us

279 Weber St. N
Lower Suite 3
Waterloo, ON
N2J 3H8

Phone: 519-576-5766
Fax: 519-576-0192

E-mail: johna@jarmstrong.ca

Website: www.jarmstrong.ca

Please note our current e-mail format. As of September our a-q.com addresses no longer forward to us. Thanks!

Short and Sweet!

- I know a guy who is addicted to brake fluid—but he says he can stop any time.
- This girl said she recognized me from the vegetarian club, but I've never met herbivore.
- I did a theatrical performance about puns. It was a play on words.
- I changed my iPod's name to Titanic. Now it's syncing.
- I tried to catch some fog, but I mist.
- What do you call a dinosaur with an extensive vocabulary? A thesaurus.
- I dropped out of my political philosophy course because of lousy Marx.
- I didn't like my beard at first. Then it grew on me.
- Venison for dinner again? Oh deer.

Thank you very much for your support in 2016!

Merry Christmas and Happy New Year!

John *Sharon* *Joe*

Rich *Cindy*

Note: Mutual funds are sold by simplified prospectus only. Before investing , obtain a copy of the prospectus and read it carefully. Unit values and investment returns for mutual funds are not guaranteed and will fluctuate. Mutual funds are sold through Sterling Mutuals Inc. CFP® is a certification trademark owned outside the U.S. by Financial Planning Standards Board Ltd. (FPSB). Financial Planning Standards Council is the marks licensing authority for the CFP marks in Canada, through agreement with FPSB. Views expressed here are that of the advisor and are not necessarily shared by Sterling Mutuals Inc.