



John Armstrong CFP®

STERLING
MUTUALS INC.
Independent Financial Network

JA UPDATE

John Armstrong, CFP®

December 2018

A Bit of Timely Coaching

There is no doubt about it... 2018 has been a volatile year in the investment markets. Investment values are certainly down since the start of the year, with the most dramatic downward movement happening since the beginning of October. Here are a few things to keep in mind when reviewing your year end statements. Many of you veteran investors have heard these points before, but it never hurts to hear them again.

Corrections are a normal part of a market cycle. Most of us have been here before, and we will certainly be here again. As it is often said, while history may not repeat itself, it does usually rhyme. Periods of downward moving markets are inevitably followed by some sort of rebound. We just don't know when.

Things are often not as bad as you may think. The media loves to tell us that the sky is falling. On top of that, a well diversified portfolio usually weathers the storm in a way that the indices that media reports refer to often do not.

It seems to be human

nature to look at investment *growth* on a percentage basis and investment *loss* on a nominal basis. In other words, when your investments are up in value you might say something like "I made 4% last year", as opposed to when your investments are down in value and you say "I lost \$10,000". Viewing investment ups and downs on a percentage basis provides an important perspective that the nominal figure does not. The larger the size of the account, the larger the dollar value swing will be—in both directions. Keep this in mind.

This is going to sound like a bit of a pat answer, but alas, it is true. Keep investment time frames front of mind. Medium to long term money invested in a well diversified portfolio has time on its side. The main threat to financial well-being is often rash decisions made in the short term. View your investments in terms of your overall financial situation, not in isolation. A downward adjustment in investment values may make very little difference in your financial situation over time. Often a review of your Retirement Income Model is all

that it takes to put things in perspective. We're happy to help with that.

Investors still in the accumulation phase of their investment career should view times of correction as an opportunity. Investments made during periods when investment markets are down will prove to be very beneficial given time. These not-so-easy-to-make buys are helpful in boosting your average rate of return over the long haul. In fact, many investment fund managers relish these periods because of the opportunity they provide. Stocks that they liked but believed to be over-valued may now be available at attractive prices.

If you find periods like this to be excessively taxing, then it might be time to revisit your risk tolerance. It may be worth considering the option of reducing the risk of your investments over time, allowing you to sleep better. Risk tolerance is a very personal thing, and it is important to review your feelings on this periodically. This is one of the 'soft' money issues that is sometimes ignored.



2018 Holiday Office Hours

December 21—9 am—4 pm
December 24-January 1— Office Closed

Voicemail will be monitored for emergencies December 27 -31

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Irrational Exuberance

In January of 1980 gold prices surged to over \$670 dollars per ounce. In today's dollars (i.e. adjusted for inflation) that is over \$2,200. At the time I remember watching news coverage of people lining up to buy gold. Adjusted for inflation gold is currently trading at about half what it traded for in 1980. Over the years it seems there is a propensity for people to bid up the price of certain things. That pattern seems to repeat itself over and over.

In the time I have been in this business I have witnessed this irrational exuberance a few times. We had the tech bubble in the early 2000s, US real estate bubble in 2007, and last year people were talking about Bitcoin and pot stocks here in Canada. I imagine we will continue to see this kind of irrational exuberance around many different things.

What makes these bubbles or extreme increases in value of a certain asset seem so attractive? It seems there is a built in fear of being left out or left behind. Add to this the fact that we have all seen legitimate opportunities to invest that we "should have taken advantage of". Even a 1979 O-Pee-Chee Hockey, Wayne Gretzky rookie card is priced at \$2,075.00. Why did I not keep that card?

The same thing happens with stocks. We all think we should have bought Google, Microsoft, Amazon, Netflix to name a few. The best time to invest in those types of companies is close to the start-up of the new company. This is when the opportunity is the greatest, but there is also a lot of risk to investing in start-up companies. It is not wise to invest a significant portion of long term savings in start-ups due to the level of risk.

For example MP3.com raised \$370 million dollars in an initial offering of stock to the public in July of 1999 (start-up). Where is MP3.com now? It sure looked good at the time. How did we know it would be iTunes that would be the big winner?

Other high flying stock have also plummeted to earth. Corel, JDS Uniphase, Blackberry, have all seen much higher values than they trade at today. Companies, like Nortel, have actually gone bankrupt.

A professional money manager's job is to invest money with an acceptable level of risk. They achieve this by buying proven companies that have an opportunity to grow and then buying many companies, therefore reducing the risk.

Bitcoin hype is much harder to explain. Bitcoin is a form of block chain or cryptocurrency. Block chains may one day, far in the future, be a legitimate alternative to government issued currency. Bitcoin has been an interesting proof of the cryptocurrency concept. The point here is Bitcoin was just another high flyer that did come back to earth. There are many block chains now competing for cryptocurrency dominance. How will this play out over time? I do not think anybody has any clear idea of how cryptocurrencies will eventually fit into the existing economic framework. I do know there is a lot of risk in Bitcoin.



Canadian pot stocks have also seen a terrific increase in value followed by a substantial drop in price. Canopy Growth Corp. went from a high (no pun intended) of over \$73/share in October 2018 to \$41/share in December 2018. I do not know what the correct value is for this kind of stock. I am not sure if anybody knows at this time. I do know that it is a very risky investment.

Another asset that has had an unprecedented increase in value is real-estate. The real estate market is a com-

plex, segmented market. For our purposes we will look at the Toronto residential real estate market. From the end of 2013 to the beginning of 2017 the Toronto residential real-estate market almost doubled. That is a staggering growth rate when one contemplates the size and value of that market. Many experts do not expect that growth to continue. In fact since the beginning of 2017 to the time of writing, Toronto real estate prices are down about 14%.

With all of the opportunities for speculation and a good understanding of the concept of irrational exuberance, it is important to keep a good perspective. Speculation opportunities make good water cooler chit chat and good headlines. Speculation can be very dangerous. Speculative assets should be avoided in long term savings. The ultimate goals of long term savings is to have growth beyond inflation in a tax efficient manner and to avoid catastrophic losses of capital.

Recently the stock markets have seen significant correction as well. In January 2018 the S&P TSX (Toronto Stock Market) was trading around 16,000 points. At the time of writing the TSX is trading at 14,300. That is a drop of around 10% over that time, which is significant. A well diversified balanced type mutual fund is, generally, not down as much. The Stock market could go down further. If it does a well diversified, balanced type of mutual fund will not likely go down as much. That is what I do with my long term savings. Well balanced, diversified mutual funds have been able to achieve lower volatility, and that is achieved by diversification.

A good diversified investment will not only buy Canadian companies but US and International companies, Canadian and foreign government bonds, corporate bonds ... you get the picture. Recently we have witnessed again, in this time of market volatility, people who have diversified portfolios are being rewarded by suffering less volatility.

Joint Account Complications

In order to save estate costs, many families consider setting up assets jointly among family members. For example, a mother may decide to set-up an investment account jointly with one or more of her adult children. At first glance this strategy is appealing to many because joint assets transfer directly to the surviving tenant or tenants on the joint account, avoiding probate fees. In very simple situations where there is only one beneficiary to the estate this may be a good idea; however, if there are a number of beneficiaries, the drawbacks of the joint account may far outweigh the money saved in probate fees.

Firstly, let us establish how much the probate fees actually are. In Ontario probate fees are 0.5% on the first \$50,000 of the estate and 1.5% on the amount over \$50,000. The probate fees on an estate worth \$400,000 would therefore be \$5,500.00. This is considerably less than what many people expect.

So what complications can joint registration cause? Here are a few:

- Joint accounts bypass the will, with the asset becoming the prop-

erty of the surviving tenant or tenants. The distribution of assets prior to consideration of the will may mean that the estate is not divided per the wishes of the deceased.

- Assets held in joint accounts may complicate matters for the executor of the estate if these assets are needed to cover the tax liability of the estate.
- If there is a marriage breakdown situation with one of the tenants, that party's spouse may claim a share of the tenant's interest in the asset.
- If one of the joint tenants has financial problems, creditors may register a court judgment against their interest in the asset. This would be particularly devastating if the asset in question is the parents home.
- Joint tenancy on real estate means that all parties must agree to transactions regarding the asset. For example, if a mother holds her house jointly with one or

more children, the mother would require the permission of the children to sell the property and all would have to sign any documents pertaining to the property (ex. mortgages, sale agreements).

- A jointly held home can complicate the usual waiver of capital gains on the sale of a principal residence. If the child has their own principal residence, an increase in value of the jointly held home after initiation of the joint status will mean that sale of the property will trigger a capital gain on the child's share of the property.

The implications of tax, estate, and family matters should all be considered before assets are set up jointly.



Who is this Joe Shumka guy?

If you are contacted by our office, please don't be surprised if you hear the friendly voice of Joe Shumka on the other end of the phone or e-mail. Joe worked with us for many years in a branch compliance role, but starting late last year Joe became an important part of our client service team. He is often the one to get in touch regarding things like paperwork updates, client reviews, and transaction

follow-ups. Rest assured though, that John, Rich and Sharon are all still fulfilling their usual roles and are available for you. Joe's presence on our team just means that there is another person that you can get in touch with should you have questions or requests concerning your work with us.

We look forward to many more years with Joe as a member of our team!

Secure Online Client Portal

Did you know that Sterling Mutuals Inc. offers all clients secure online access to their account information? This portal also provides us with a very secure way to electronically exchange documents with clients. If you would like to discuss the benefits of the portal or you would like to get started with it, please let us know. The set-up is very easy!

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.



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Important Year End Reminders!

✓ **Charitable Contributions** deadline for the 2018 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!

✓ 2018 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is March 1, 2019.

✓ **Tax Free Savings Account** contribution

room increases by \$6,000 for Canadians over the age of 18 as of January 1, 2019. This is up \$500 from 2018. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSAs in 2018.

✓ 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. These may be included on a form identified as a T5008, but keep in mind that the T3 & T5 slips issued by the fund companies do not reflect the tax consequences of investor activity; 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.

✓ **2018 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.



Thank you very much for your support in 2018!

Merry Christmas & Happy New Year!

John

Sharon

Joe

Rich

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.