PERSPECTIVE

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Smith Falconer Financial Group

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Speaking Personally:

Volatility has returned to the markets. The breakdown of U.S./China trade talks and global trade tensions put significant pressure on equity markets in the spring. But keep in mind that volatility plays a common role in the equity markets. Since 1970, almost 60% of annual returns on the S&P/TSX Composite Index have been year-over-year changes (gains or losses) greater than 10%. Almost 30% of these returns have been year-over-year changes of greater than 20%.[1]

Worth repeating: corrections are a normal part of the markets and staying invested is important. Stick to your plan. Take time to enjoy the summer; before we know it, autumn will be here!

1. S&P/TSX Composite Index annual returns 31/12/70 to 31/12/18.

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MAJOR LEAGUE LESSONS

Baseball Hall of Famer Yogi Berra was known not just for being one of the greatest catchers in baseball history, but also for his straight-talking witticisms, which were often as astute as they were funny.

Known for the famed, “It’s not over till it’s over…” this Major League legend’s observations about the game of baseball may have considerable relevance when looking at the state of the equity markets today. Often called the “most unloved bull market in history”, the extended gains have continued despite many market commentators frequently announcing that the top had been reached in recent years.

These are unprecedented times. Never before have central banks held rates at such low levels for such lengthy periods. While the role of a central bank is not to stabilize the markets, equity markets have been calmed by recent decisions to hold interest rates steady. Along with low interest rates, bright spots in the labour market have provided support to an otherwise sluggish Canadian economy. In the spring, job gains spanned industries, geographies and demographics; and even wage rates posted increases. This mirrored the positive labour market news in the U.S. Unemployment rates are at 50-year lows, and job creation rates, as well as wage rates, have been trending upwards, and inflation has remained low — something many economists didn’t think possible.

Will the markets continue their climb? As Berra once said: “It’s tough to make predictions, especially about the future.” It’s true that a bull run can’t last forever, and we should not lose sight of the fact that low rates have led to a significant amount of indebtedness, which will eventually need to be repaid. But, there is little value in trying to predict the markets — after all, your plan’s financial success is not dependent on calling the top of the cycle.

Instead, a key determinant in the success of many investors is the ability to not fall prey to emotions. As Berra aptly put it, “baseball is 90% mental; the other half is physical”. Questionable math aside, investing can also benefit by maintaining a strong mental focus. Our challenge as investors is to ignore the noise. When times are difficult, it can hinder positive action: “it’s not a good time to buy now because…” Or when the market progresses, there may be cause for anxiety: “how high can it go?” And, when there may be temptation to chase the markets, Berra’s words offer sage advice: “Don’t always follow the crowd, because nobody goes there anymore. It’s too crowded.” For many of us, this involves a longer-term commitment to, and confidence in, the plan that has been constructed to achieve our goals.

The road ahead is a long one, filled with ups and downs. Building wealth is not about “swinging for the fences.” Success is likely to be reaped by investors who have a plan in place and maintain their discipline in good times and in bad, regardless of whatever pitches may be thrown.

GIFTING MONEY TO CHILDREN: 3 THINGS TO REMEMBER

Do kids today really have it harder? Economically speaking, life may have been easier 35 years ago. Back then, the average cost of a home was around 1.6 times the annual family income; today, it has climbed to around eight times the average income. Tuition costs have also risen faster than inflation. One thing in today's favour? A mortgage today comes with lower interest rates, if you can afford it! Given the financial challenges, we are often asked about gifting money to children.

The Difference 35 Years Can Make: Estimated Costs in 1984 vs. 2019

Average Cost	1984[A]	1984 figures in 2019 terms[F]	2019
Canadian home[B]	$76,214	$171,132	$480,000
Tuition[C]	$1,058	$2,376	$6,838
Family income[D]	$48,500	$108,902	$71,000
5-yr. mortgage rate[E]	13.6%	N/A	4.4%

A: 1984 figures: Globe & Mail "2012 vs 1984: Young Adults Really Do Have It Harder Today", R. Carrick, 12/18/12; B: cbc.ca/news/business/crea-house-price-march-1.5098120; C: Statistics Canada Table 37-10-003-01; D: Statistics Canada (after-tax) figures; E: Bank of Canada v122497, CANSIM 027-0015; F: Adjusted for inflation using Bank of Canada inflation calculator, www.bankofcanada.ca/rates/related/inflation-calculator/

There are many reasons to gift money, including:

· It can be fulfilling to see the funds put to work while you are alive;
· Helping adult children today may be more rewarding than in the future when funds may not be as needed;
· Gifting assets to family members during your lifetime may reduce the overall family income tax bill;*
· It may be an opportunity to teach adult children how to invest.

Unlike the U.S., Canada doesn't have a gift tax. However, if you were to gift money to minor children, most income (including interest and dividends, but not including capital gains) earned on the capital would be attributed back to you and taxed in your hands. This is not the only consideration when contemplating gifting funds. Here are three things to keep in mind:

1. Plan Ahead with Care. Before you consider gifting, it is important to ensure that you will have sufficient funds for your own retirement. It isn't unheard of to have a situation in which parents have suffered financial difficulties down the line because too much was gifted to

children. Planning sufficiently for longevity and its associated costs is something we can assist with. As life expectancies rise, this becomes more important than ever.

2. Let it Go. If funds are truly a gift, they should have no strings attached. One of the major concerns with married/common-law children is what happens in the event the couple splits? If there is a desire to try and protect funds in the family, this should be planned from the onset. Various arrangements, if executed properly, may be viable alternatives to a gift. For instance, if funds are to be used by a child to purchase a home, they may instead be gifted to a trust to purchase the home. Or, a loan may be chosen over a gift. As family law varies by province, seek legal assistance in the province where the child resides.

3. Clarify to Avoid Future Discrepancies. It may be beneficial to create and retain documentation to avoid future disputes. If the intention is to eventually equalize your estate between multiple beneficiaries, the gift could be structured as an advance of a beneficiary's future inheritance. Either way, this should be clearly communicated or documented. There have been situations in which family members question past gifts when settling an estate.

For a deeper discussion, we would be happy to provide an introduction to someone who can assist.

*e.g., if family members pay taxes at lower marginal tax rates than you, there may be income splitting opportunities. The tax rules for attribution of income and tax on split income should be considered before implementing income-splitting measures.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. Consult legal and tax advisors to understand the implications for your situation.

THE SLEEP HABITS OF THE HIGHLY SUCCESSFUL

Are you looking to catch up on your sleep this summer vacation?

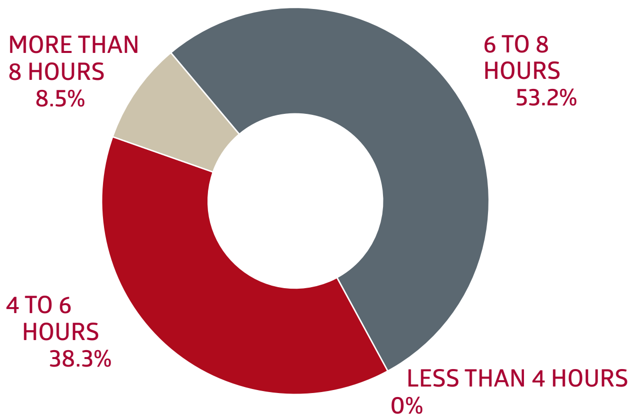
When revealing the long hours spent at the office, business magnate Elon Musk claimed that sleep is not an option, implying that big success is difficult to achieve unless you give up sleep.

But the stats may suggest otherwise. The graph (right) shows the sleeping habits of 50 billionaires, based on a poll conducted by Forbes magazine. Bill Gates and Tim Cook are both reported to spend around seven hours sleeping each night.[1]

While Canadians get around seven hours of sleep on average,[2] according to one ranking, we are the third most sleep-deprived nation in the world.[3] How much sleep do you get?

1. forbes.com/sites/alicegwalton/2015/11/13/the-sleep-habits-of-highly-successful-people-infographic/#22d708c6d7fb; 2. 150.statcan.gc.ca/n1/pub/82-003-x/2017009/article/54857-eng.htm; 3. ctvnews.ca/health/most-sleep-deprived-nation-study-ranks-canada-third-out-of-13-1.3136333
*Based on an anonymous poll of 50 members of the Forbes' Billionaires List.

50 Billionaires: How Many Hours Do They Sleep Each Night?*



FEDERAL BUDGET: HIGHLIGHTS FOR THE YOUNG & OLD

In late March, the Feds tabled their final budget prior to the election in October. While it was a collection of many different initiatives, here are some changes worth noting that may impact you or your loved ones. Specifically, these proposals target the young and the old.

The Young: Housing Affordability

While many children may be hoping for support from parents or grandparents when purchasing 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 could receive incentives of up to 10% of shared equity on a newly constructed home (5% on an existing home). No monthly ongoing payments are required but the buyer would repay the shared equity mortgage upon re-sale of the home. The participant's insured mortgage and the shared equity amount cannot be greater than four times annual household income. This program is expected to be operational in September.

Home Buyers' Plan (HBP) — As of March 20, 2019, 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 Enrollment — Starting in 2020, Canada Pension Plan (CPP) contributors who are age 70 or over will be automatically enrolled to ensure they are receiving their 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% of a registered holding* to be used to purchase an annuity that begins payments at latest by the end of the year in which the holder turns 85, for a lifetime dollar limit 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 worried about outliving their retirement income. *Note: this initiative was not passed in the spring Budget Implementation Act and will likely not be considered until after the fall Federal election.*

Improved GIS — For low-income seniors, basic earnings exemptions for Guaranteed Income Supplement (GIS) benefit eligibility will increase to $5,000 per year (from $3,500) beginning with the July 2020-21 benefit year. Earnings between $5,000 and $15,000 per year will receive a partial exemption.

For greater detail on Budget 2019, please call.

*Including RRSP, RRIF, Deferred Profit Sharing Plan (DPSP), Pooled Registered Pension Plan (PRPP), defined contribution Registered Pension Plan (RPP). This article is intended to provide general information only and should not be construed as specific tax or legal advice. Consult legal and tax advisors to understand the implications for your situation.

THE DEBT-TO-INCOME RATIO: REASON FOR CONCERN?

The debt-to-income ratio is a metric that the media often uses to show how indebted Canadians are. Recent figures indicate that it hovers around 178% (Q3 2018).[1]

What does this mean? Canadians owe $1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income (after taxes).

Why is this important? On a personal level, if you are thinking of buying a home or refinancing a loan, a bank will use this metric to determine whether your debt load is financially sound. To calculate your own ratio, add up your total debt (including mortgages, loans, amount borrowed on a line of credit, credit card debt) and determine what percentage of your annual after-tax income the debt represents.

More generally, the ratio is used by economists to provide a big-picture view on debt. In Canada, the ratio has risen over the decades. We place 8th in the developed world for high indebtedness.[2] In the U.S., this ratio peaked at 116% prior to the credit crisis of 2008, but is now under 90%. 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

Growth of Canadians Personal Debt-to-Income Ratio[3]

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 our debt will eventually need to be repaid. When interest rates 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 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.

RISK TOLERANCE SHOULDN'T CHANGE WITH THE MARKET

One of the questions we've had from clients during the prolonged bull market is: how often should I change my risk tolerance?

The answer is, likely not often, given that risk tolerance is the personal comfort level that you have with financial risk in the markets. In the most basic sense, it is your ability to stomach swings in the markets in exchange for potentially higher future returns. Risk tolerance doesn't vary greatly. Consider the answer to this question: how would you respond to a 15% drop in your investments? Most people's reaction and level of comfort in this situation would likely not vary over time.

With time and evolving circumstances, however, your capacity to take on financial risk may change. This is your ability to withstand a financial shock and it may have an impact on your risk tolerance. Here are some events that may impact risk capacity:

A major life event, such as a marriage or kids. Marriage or the birth of a child may lower your capacity for risk as you account for large expenses, such as a new home or a child's education. Often, spouses differ in their risk tolerance levels. Some studies have shown that men tend to have a higher risk tolerance than women, so common ground may need to be reached when managing finances.

A health crisis. Unexpected medical bills or your ability to generate income into the future may impact your timeline and ability to achieve your financial goals.

Changes to net worth or income. Your level of wealth may impact your capacity for risk. For instance, the greater your excess income, the easier it may be to weather a downturn without it affecting your lifestyle.

A GOOD REASON TO ADJUST RISK TOLERANCE: AGE

As you age, changes to risk tolerance levels should be expected. You may become more risk averse because you may not have the same sources of income and you will need to preserve your wealth for retirement. With a shorter time horizon, recovering from market volatility may be more challenging, which may prompt you to lower your risk tolerance level.

A BAD REASON: FLUCTUATIONS IN THE MARKETS

Your risk tolerance should not fluctuate based on market conditions. Changing your risk tolerance in response to market performance can be seen in a similar light to attempting to time the markets by buying and selling shares to predict future market price movements. It may be tempting to want to lower your risk after you have incurred a loss, just as you might want to raise your tolerance after benefitting from a gain. But the performance of your portfolio or the markets, and the emotions of fear or greed, should not be cause to reevaluate your tolerance to risk.

If you have any questions about this, or any other investing matters, please call.

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