PAGE and ASSOCIATES

WORLDSOURCE FINANCIAL MANAGEMENT INC.

MUTUAL FUND DEALER

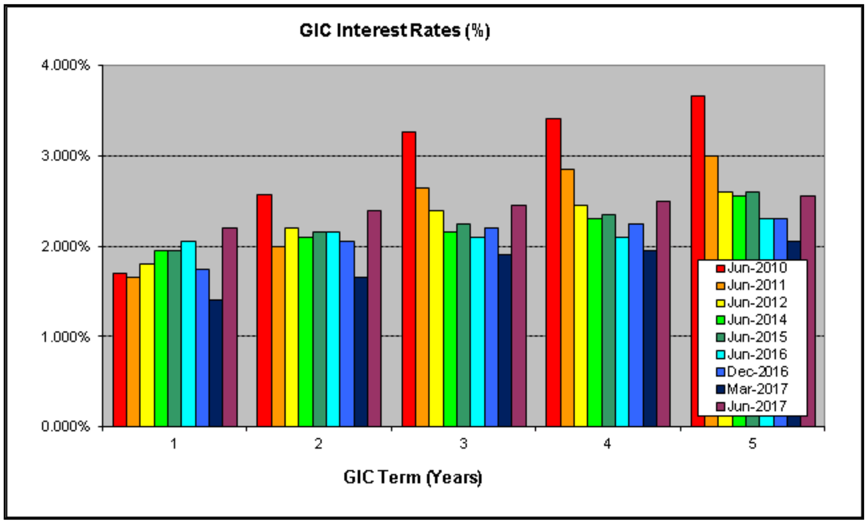
Wealth Matters – Summer 2017

Page and Associates Ltd.
95 Mural St., Suite 405,
Richmond Hill, ON. L4B 3G2
905-884-5563 ext. 243
www.askpage.com

In This Issue: Interest Rate Outlook, Currency, Investment Market Commentary, Tax Shelter Reminder

Interest Rate Outlook

At the end of the second quarter of 2017, it is widely expected that both the US Federal Reserve and the Bank of Canada will increase their benchmark interest rates for overnight funds in July. In anticipation of this, short term bond yields and GIC rates have increased sharply from their ultra-low rates in effect at the end of the first quarter.



The bar chart compares the top rates available from over 20 issuers which we have access to through Worldsource, but we have left out Home Trust due to their unique circumstances and resulting unusually high rates (Rates from Cannex Financial Exchanges).

GIC rates have generally returned to their highest levels since 2012, except for the 5-year rate which is just shy of 2012 levels. As a result, the spread between 1-year and 5-year terms has narrowed to produce the flattest yield curve we've seen since the summer of 2015.

By the time of publication of this newsletter, the Bank of Canada did raise its rate by ¼ of 1% on July 12th, but the Fed left rates unchanged.

Based on strong GDP and employment growth in Canada, we expect the Bank of Canada to raise rates again later this year, essentially reversing the ½% cut it made after the oil price crash in the fall of 2015. The US Fed is also expected to make at least one more rate hike in 2017, which would be their 5th since the 2008 financial crisis, all made since December 2015. Even after those hikes, rates will still be well below historical averages, but inflation (especially wage inflation) still also remains historically low. Until that changes, the outlook for further rate increases is limited.

Currency Effects

The Canadian dollar tends to lose value against other currencies when oil or materials prices drop (which make up much of our exports), or when our interest rates and economic growth lag those of the US. All three factors caused a large drop in our dollar in 2015, and the significant rebounds since then. For Canadian investors holding US and international assets (stocks, bonds, real estate, investment funds), these moves can significantly distort returns expressed in Canadian dollars. The rise from 75 to 77cents US over the second quarter is only 2 cents, but causes a 3% reduction in returns on US assets, offsetting almost all of the return on the S&P 500 index.

Investment Market Commentary

The second quarter saw decent gains in US and international equity markets, but the Canadian market lost ground, barely hanging onto a positive return for the year to date.

The Canadian energy sector turned in a second consecutive quarter of steep declines, with crude oil touching a low of just over US$40 a barrel in mid-June, down from almost $55 at the end of 2016, and $52 at the end of March. Gold and commodity prices also declined in the quarter, reversing strong gains made by these sectors in the first quarter. On a positive note for Canada, first quarter GDP growth figures released by Statistics Canada in May showed growth at 3.7% - the strongest growth of the G7 countries, and at the very end of June oil moved back above US$45 per barrel. These might have been our only high notes along with celebrating Canada's 150 years of confederation, as the TSX ended the quarter down 1.64%, but remained up 0.74% for the year.

Home sales in the GTA plunged after the Ontario government imposed a tax on foreign buyers in April, aimed at cooling the GTA market. The Canadian Real Estate Association notes that sales in the GTA were down 25.3% in May compared to April, which is the largest month to month decline in almost 5 years, and the number of residential properties sold nationwide fell 6.2%. Another decline reported in mid-July for the month of June may signal a top in this market.

April brought more investor angst when Home Capital Group, a leading Canadian alternative mortgage lender, responded to allegations by securities regulators that it failed to properly disclose falsified mortgage applications from 2014. Depositors fearful of a collapse withdrew over 90% of Home Trust's high interest savings account balances, forcing them to obtain expensive financing at high rates to support ongoing operations, and the value of their shares plunged. The fear of collapse seems now to have passed as fines were paid, employees who helped to create the issue have been terminated, and key management positions are being replaced. Renowned investor Warren Buffet, through his company Berkshire Hathaway, committed in late June to pay $153.2 million for an almost 20% stake in the company, with a second purchase of $246.7 million (subject to shareholder approval) which would take his stake to 38.4%. The share price recovered significantly on that news. Even if things don't work out for Home Trust and Home Bank, depositors are covered for up to $100,000 per individual through the Canada Deposit Insurance Corporation (CDIC), who say that in case of insolvency, they would ensure deposits up to that limit are honoured within a few weeks of any default.

Statistics Canada's June 30th report noted that real GDP expanded by 0.2% in April 2017 in line with expectations, putting the economy on track for growth of around 3% in the second quarter. This robust growth, after a strong first quarter and decent employment growth, gave the Bank of Canada confidence to announce its intent to reverse one or more of the two ¼% interest rate cuts made in late 2015 to offset the oil price collapse of that year. With this expectation, the Canadian dollar pushed above 77 cents (US) to a 9 month high at the end of June. The bank did hike ¼% on July 12th, and It is widely expected that another rate hike will be made later in 2017, reversing the other 2015 cut. Industrial and consumer discretionary sectors did well for the quarter, but not enough to offset the weakness in energy and materials.

The US market continued to make progress over the quarter, with the Dow Jones Industrial Average regularly hitting new records, and the S&P500 index rising over 3% in the quarter after posting a 6% rise in the first quarter. However, the strengthening of the Canadian dollar over the quarter by almost 3% left Canadian investors with only a 0.51% gain for the quarter, and 5.68% for the half-year. The US market continued to be powered by information technology and consumer discretionary sectors while returns in energy, financials and telecom services were a drag. The expectation of president Trump's proposed corporate tax cuts are likely responsible for part of the year's gains, but there has also been a recovery in corporate earnings after several quarters of slowing, and a weaker US dollar is likely to help exports. The tax cuts may not materialize anytime soon as the administration seems unable to make progress on amendments to the Affordable Care Act required before budget and tax measures can be tabled. The market may eventually lose confidence that the tax cuts will actually happen, and could give back some of its gains. US stock prices are at historic highs on a price/earnings basis, but near historic lows based on earnings relative to bond yields according to the BlackRock Institute. BlackRock also believes the US recovery may have some years to run when compared with the market level relative to prior recoveries, rather than the length in years, as the 2008 trough was unusually deep. The unemployment rate sits at 4.3%, a 16 year low, and wage growth is currently around 2.5%. The Federal Reserve would like to see stronger inflation before raising interest rates further, and continued wage growth may entice more unofficially unemployed back to the labour market despite the low official unemployment rate.

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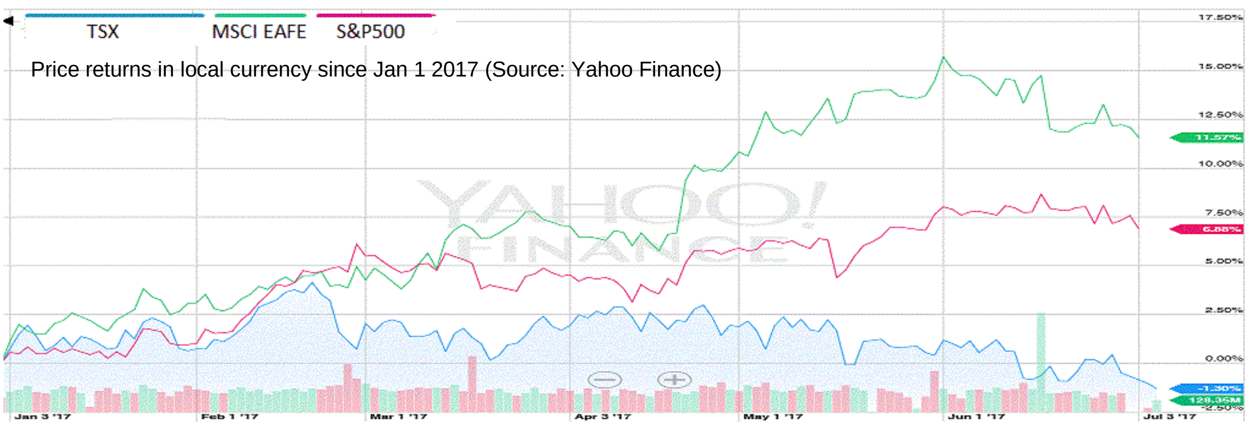
Trump's aggressive negotiating style saw the US withdrawing from various multilateral agreements including the Trans-Pacific Partnership, the Paris Accord on climate change, and the North-American Free Trade Agreement. NAFTA negotiations are expected to begin in August, and while complaints about Canada centre on dairy and softwood lumber, the lumber issue has been sent to dispute resolution several times over the decades, always ending in Canada's favour, and US-Canada trade overall is roughly in balance, so we would expect a reasonable outcome.

Outside North America, French electors rejected the far-right National Front party, and UK voters refused to give the governing conservatives a stronger majority. Both outcomes were seen as triumphs for moderation. Europe's economy has been recovering, and while both UK and German stock indices were up less than 1% on the quarter in their local currencies, they are up 4.7% and 7.4% respectively for the year. The MSCI Europe benchmark was up 7.7% for the quarter, and is up almost 16% year-to-date (12% in Canadian dollars). It is widely expected that the European Central Bank will raise interest rates soon, though the US decision to stay put right now could delay them. Emerging Markets, which had been feared would lose financing from the developed word on rising yields on US Treasuries, benefitted from the slowing of interest hikes there, gaining over 6% for the quarter, and over 18% year-to-date (14.6% in Canadian dollars).

Benchmark Returns



Total Returns CAD$ to June 30, 2017	1M	3M	6M	12M	2Y	3Y	5Y	10Y	15Y
Canadian Dollar ($US/$CA)	*4.03%*	*2.57%*	*3.46%*	*0.25%*	*-1.96%*	*-6.30%*	*-4.72%*	*-1.97%*	*1.05%*
Canada									
Canadian Fixed Income									
91 Day T-Bills	-0.01%	0.09%	0.19%	0.45%	0.47%	0.60%	0.76%	1.20%	
FTSE TMX Short Term Bond	-0.98%	-0.42%	0.25%	0.20%	0.88%	1.72%	1.94%	3.53%	
FTSE TMX Universe	-1.17%	1.11%	2.36%	0.02%	2.58%	3.79%	3.29%	5.11%	
FTSE TMX Long Term Bond	-0.66%	4.11%	6.06%	0.40%	5.04%	6.69%	4.88%	7.18%	
FTSE TMX High Yield	0.46%	1.70%	4.96%	14.98%	6.55%	4.34%	6.58%	6.94%	
Canadian Equity									
S&P/TSX Composite	-0.75%	-1.64%	0.74%	11.05%	5.27%	3.08%	8.74%	3.89%	7.95%
S&P/TSX SmallCap	0.49%	-5.51%	-4.12%	3.75%	6.72%	-1.62%	5.13%	0.64%	4.36%
TSX Sectors									
Cdn. Energy	-6.54%	-13.33%	-21.20%	-7.16%	-6.07%	-17.44%	-3.26%	-4.22%	4.62%
Cdn. Materials	-3.98%	-6.43%	-0.69%	-7.91%	4.82%	-2.57%	-4.19%	-1.15%	4.75%
Cdn. Consumer Staples	-3.29%	1.47%	4.60%	9.11%	11.22%	19.55%	21.28%	12.14%	9.62%
Cdn. Health Care	6.84%	4.02%	1.09%	-14.76%	-26.87%	-6.43%	3.32%	6.71%	3.06%
Cdn. Real Estate	-0.77%	1.23%	5.97%	4.45%	7.86%	10.05%	10.17%	7.00%	11.38%
Global Gold	-6.73%	-5.99%	0.74%	-22.33%	14.57%	0.64%	-7.45%	-2.19%	1.09%
U.S.A.									
S&P 500 (LargeCap)	-3.27%	0.51%	5.68%	17.61%	12.94%	16.98%	20.31%	9.34%	7.22%
Russell 2000	-0.55%	-0.10%	1.48%	24.29%	9.96%	14.58%	19.33%	9.07%	8.05%
International									
MSCI EAFE (Net)	-4.04%	3.46%	10.00%	19.97%	6.02%	7.95%	14.07%	3.06%	5.20%
MSCI Europe	-4.90%	5.04%	12.05%	21.51%	6.39%	7.08%	14.86%	3.26%	5.80%
MSCI Japan	-2.84%	2.59%	6.42%	19.28%	6.61%	12.99%	15.30%	3.46%	3.89%
MSCI EM (Emerging Markets)	-2.84%	3.72%	14.63%	23.87%	6.79%	8.26%	9.49%	4.30%	9.80%

Tax Shelter Reminders

With the RRSP contribution deadline just a faded memory at this time of year, it's easy to forget several other powerful tax shelters provided by the Income Tax Act.

The **Tax-Free Savings Account** (TFSA) was introduced in 2008 and initially got little attention because the maximum contribution was only $5,000 per year. But now, anyone who was 18 years or older in 2008 will have accumulated $52,000 of total contribution room. This is no longer a small benefit, especially since a TFSA can hold any type of investment, including stock and bond portfolios with much higher return potential than a savings deposit. If you have any investments outside a TFSA and have not maximized your contribution room, we should talk about which holdings make the most sense to move into this tax-shelter, and a strategy for moving more assets into the shelter each January when new contribution room becomes available.

If you already have a TFSA, and also have a spouse, you should make sure your spouse is listed as 'Successor Owner' and not beneficiary. Only the Successor Owner can take over the assets on your death AND maintain the tax-sheltered balance in addition to his or her own TFSA. A beneficiary would get the assets, but would lose the tax-sheltered status and your accumulated contribution room.

The **Registered Education Savings Plan** (RESP) was introduced decades ago, and the rules have changed many times over the years. The current rules allow for contributions up to $50,000 per child, but a maximum of $5,000 a year can be contributed. Not only are these plans a tax-shelter to defer investment income for many years, and legitimately place that income in the hands of the child likely to be in a lower tax bracket than his or her parents or grandparents, but the government also offers up to $7,200 in Education Savings Grants which do not need to be repaid if used for the child's education. Sadly, many parents are unable to afford to contribute the amounts needed to claim these grants. More and more often, we see grandparents setting up RESPs for their grandchildren. A child can have more than one RESP, and as with a TFSA, flexible plans are available in which the contributor can hold any type of investment, and maintain control of the assets until the child (or another child or grandchild) is ready to use the balance for his or her education.

Even if an RESP is not maximized each year, you can catch up grant amounts missed in past years. Talk to us to find out how to maximize the catch-up grants for your child or grandchild. (Catch-up deadline December 31)

Few people are familiar with the **Registered Disability Savings Plan** (RDSP). This plan was introduced in 2008, allows up to $200,000 to be contributed, and up to $72,000 of government grants to be claimed. It is a tax-shelter in which you can hold various types of investments, and income from the plan paid to the disabled child after age 60 does not count as income for the purpose of determining other disability benefits. If you have a physically or mentally disabled child or grandchild, this is a valuable investment tax shelter that you should discuss with us, to see how it might help that child's financial security with substantial government contribution and tax savings.

We have been able to recover tens of thousands of dollars in grants for years dating back to 2008 during a child's disability, even if the RDSP plan was not established until years later.

Feedback

We hope you've enjoyed this newsletter. Your comments are important, and they are very valuable to us. Please let us know any ideas you may have for improving the newsletter, or topics you'd like to see in future issues. Email us at contact@askpage.com. You can receive this newsletter by email – just ask!