The Prittie Perspective

Spring Edition 2017

Michael Prittie,
CFP, CIM, CPCA, FCSI, CIWM
Portfolio Manager
Senior Financial Advisor
Life Insurance Advisor

Mandeville Private Client Inc.
1565 Carling Avenue, Suite 610
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101
Fax: (613) 728-4075
Email: mprittie@mandevillepc.com

Janet Nunn
Executive Assistant
Telephone: (613) 728-0101 Ext.228
Email: jnunn@mandevillepc.com

INSIDE THIS ISSUE

Making a Call on the Peak of the Markets – Bloomberg's Ben Carlson

There's a simple reason the future always feels uncertain but the past seems relatively orderly: no one has any idea what the future holds, while hindsight allows us to assume that the past was more predictable that it actually was.

Take the Great Financial Crisis. The majority were completely blindsided by the worst economic and stock-market downturn since the Great Depression. Yet when we look back at that fateful 2007-2009 period, it seems many of them now believe that they knew it was coming and called it in advance.

It can be very lucrative to be right about major market events. Many who actually did see the crisis coming became household names in the finance industry and parlayed that success into book deals, keynote speeches, television appearances and "thought leader" status. Since so many people were cheerleading right up until the market crash, no one wants to get caught flat-footed again, leading to a steady increase in the number of people now calling for a market top.

Markets tend to go from one extreme to another, but tops are easier to see in the rear-view mirror than in real time. To get a sense of why, take a look at every bear market since World War II along with a number of different indicators and yields seen at prior peaks:
What jumps out is that there's no discernible pattern among previous peaks. The stock market has experienced bear markets with high valuations and low valuations, high bond yields and low bond yields, high dividend yields and low dividend yields, high inflation and low inflation.

The stock market has three main drivers -- trend, sentiment and fundamentals. The first two factors dominate the last one right up until investors decide it's time to start paying attention to fundamentals again. Sentiment tends to follow price, so at a certain point, the trend in the market is the only thing that matters. And when that happens the market turns into a confidence game.

There has to be some sort of trigger or event that will cause investors to lose confidence in the market's ability to keep going higher and ignore any underlying fundamental concerns. The power and magnitude of trends remains underappreciated in the investment world. As John Maynard Keynes said, "Markets can remain irrational longer than you can remain solvent."

There's no formula for forecasting market tops because you're really trying to predict human behavior, which can't be done. Trees don't grow to the sky, but that doesn't make it any easier for investors to guess when the inevitable mean reversion trade will kick in. Fundamentals matter over the very long term, but in the short-to-intermediate-term, the stock market is a confidence game. The market will top out and experience a bear market when investors lose their nerve for some reason.

Historically, that reason typically has to do with a recession, so there's a good chance the next market peak will be caused by a downturn in the U.S. economy. Unfortunately, predicting a recession is just about as difficult as picking a market peak. The next time the market tops out it will seem so easy to have predicted it after the fact. Getting there ahead of time is the tricky part that no one has quite figured out yet with any precision.

As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely, *Michael*

Behind the Scenes – Advisor Focus

This section was added to this quarterly newsletter in early 2015. It focuses on what advisors in this branch have done to go above and beyond the call of duty. Most of the time, our clients don't know how far we'll go to ensure advocacy on their part.

By Michael Prittie CFP, CIM, CPCA, CIWM, FCSI
Portfolio Manager and Senior Financial Advisor
Mandeville Private Client Inc. / Capital Wealth Architects

A professional we will call "Ms. Wise" was referred to me recently. She is the trustee of her late mother's estate and one of 4 beneficiaries to a $1.2M estate residual.

On the surface, this would seem fairly straightforward - $1.2M divided 4 ways would provide $300,000 to each beneficiary…but estates are often not that easily dispersed. In this case, it is because amongst other challenges, this case involved a disabled beneficiary who received financial support from the province in the form of Ontario Disability Support Program (ODSP).

This type of support is available to residents of Ontario who meet the definition of "disabled" and who are able to claim the disability tax credit. Rightfully so, ODSP only provides to those who are deemed to need it. If a recipient's income is high enough, the support ceases. If the recipient's assets are high enough, the support ceases.

In this case, the disabled beneficiary was set to receive a $300,000 inheritance – a large sum of money that would be treated as an acquired asset, thus surpassing the threshold and causing an end to her ODSP support payments. Another issue was the notion that this beneficiary would not be able to responsibly manage this sum of money, creating an additional level of attention.

One of the estate planning tools that is generally used for these types of scenarios is a Henson Trust – an arrangement that allows assets of an inheritance to flow into a discretionary trust. The trust is managed by a trustee and the assets are kept *separate and distinct* from the beneficiary (thus allowing the beneficiary to maintain ODSP payments.

Unfortunately, a Henson Trust can only be created by a legal Will, and these instructions were not left in the deceased Will. A Henson Trust cannot be created after-the-fact. I discussed the option of setting up a Discretionary (Testamentary) Trust to shield the assets from the ODSP, but the maximum allowable assets that can be shielded is $100,000. This would leave the remaining $200,000 to the beneficiary, allowing her to spend it (potentially irresponsibly) as well as putting an end to her ODSP since she would not qualify anymore due to asset level.

Another option was to move all $300,000 into a discretionary trust. Although this provides control over the assets to ensure it is managed responsibly, it also cuts off the ODSP payments. It also has higher annual tax implications compared to a Henson Trust. I suggested she might look at alternative solutions and discussed these with her.

To help consult with these issues, I sought a second opinion and brought in a legal expert who specializes in estates. It was agreed that Ms. Wise would not disperse the assets to her sister, but retain the assets in a separately managed account and instead provide an allowable $6,000 per year in gifts to help with added expenses.

Under the ODSP regulations, an ODSP recipient can receive up to $6,000 in gifts and this can help pay rent, etc. These gifts have no effect on ODSP payments. This arrangement would also allow for the assets to be managed responsibly and was the most cost-effective strategy for all parties involved.

Lastly, and equally important to avoid any issues in the future, we arranged for Ms. Wise to create a Henson Trust clause within her own will, naming her disabled sister as beneficiary to any remaining assets due to her. This will avoid any future problems should Ms. Wise predecease her disabled sister.

If there is anything to learn from this particular scenario, ensure you review your will and estate distribution plans with us *before* the need arises.

CRA - New Principal Residence Reporting

If you sold your home last year, this tax season you will be required to report some basic information on that sale on the newly-updated Schedule 3 "Capital Gains (or Losses) in 2016" of your tax return to be able to claim the principal residence exemption and have the gain be completely (or partially) tax-free. Information you are required to provide includes: the date of acquisition, proceeds of disposition and the address of the home that was sold.

You'll recall that this requirement came about in October 2016 and represented a change in the Canada Revenue Agency's longstanding administration position which didn't require you to report the sale of a principal residence if the entire gain was exempt from tax. But the CRA was concerned about, among other things, its ability to track frequent purchases and sales of homes by "flippers" and wanted a way to track and review principal residence exemption claims.

For an example of what the CRA can now more easily monitor, take the recent case, decided just last month, of a Toronto taxpayer who, in 2010, sold a one-bedroom, 560-square foot Yonge Street condo and didn't report it in his 2010 income tax return. The taxpayer took the position that the condo unit was his principal residence and therefore there should be no tax on the gain. The CRA, however, disagreed, and reassessed the disposition as taxable business income saying that the taxpayer "never resided at the condo … did not ordinarily inhabit the condo in 2010 … (and) at no time was the condo the (taxpayer's) principal residence."

Under the Income Tax Act, for a dwelling to be a "principal residence," one of the key conditions is that it must be "ordinarily inhabited in the year by the taxpayer, by the taxpayer's spouse or … by a child of the taxpayer." As the judge summarized, "(T)he key question is whether this was the (taxpayer's) principal residence."

To determine this, the judge reviewed the taxpayer's past real estate transactions.
As it turns out, the taxpayer and his spouse bought and resold a number of properties from 2007 to 2011 at a profit. On one of the properties, the taxpayer reported rental income in 2011 and a taxable capital gain on his 2011 T1 return for its disposition.

The taxpayer entered into an agreement of purchase and sale for the Yonge Street condo on Feb. 16, 2007 prior to the completion of construction of the building. He took possession of the property on May 11, 2009 and became the owner on Oct. 30, 2009 at the time of closing. One and a half months later, on Dec. 16, 2009, the property was listed for sale, with the taxpayer's wife, acting as the real estate agent. The property sold six days later on Dec. 22, 2009 and the closing date of that sale was Jan. 12, 2010.

The taxpayer testified that the family moved to the condo in June 2009 and left in early January 2010. During this brief period of time, the taxpayer explained that he was away for most of the time because he had to go overseas for the death of his father. His wife testified that she also had to travel back and forth overseas during this period because her mother became ill. The taxpayer's wife testified that in late 2009, the family's two older children had decided that "in order to be supportive … they should move back home. In order to do so, the family would need a larger condo unit" and thus the decision was to put the condo up for sale.

As a result, the family explained that it moved out of the condo in early January 2010 and went to live with some relatives until they moved into another condo, which was purchased in January 2010 which they moved into in February 2010.
The judge did not believe the taxpayer's testimony on the key point of whether or not the family actually moved to the condo for a variety of reasons. For one, it seemed that the "560 square feet one bedroom condo is pretty crowded for two parents and a university age son."

Secondly, in responding to a CRA questionnaire, when the taxpayer was asked: "Did you reside in this property?" His answer was "no." He was also asked for the names and ages of people who resided with him and left the answer to that question blank.
Thirdly, on the condo real estate listing, it read "Occup:", which stands for occupancy, and next to it the word "Tenant." As the Judge said, "if there was a tenant the family could not be living there."

Finally, there were inconsistences with the electricity bills submitted into evidence which led the judge to conclude that "there is either no consumption of electricity after July 1, 2009 and before Dec. 31, 2009 or, for that period, someone else is paying for the electricity and that person is being billed. In either case it is incompatible with the (taxpayer's) family living at the Yonge Street (condo)."

Since the taxpayer did not meet the requirement that he or his family "ordinarily resided at that property," the judge denied him the use of the principal residence exemption and upheld the CRA's reassessment.

http://business.financialpost.com/personal-finance/taxes/new-principal-residence-reporting-will-help-cra-home-in-on-condo-flippers

Boomers: When to Turn the Taps Off (or on) when it comes to Financial Assistance for your Kids

For many baby boomers on the cusp of retirement, the issue arises about what kind of financial assistance – if any – they should extend to their millennial (or Gen X) children. You may have heard the term "KIPPERS" used by retirement specialist Doug Dahmer. That acronym stands for Kids in Parents' Pockets Eroding Retirement Savings.

Now, kids will justifiably protest that they didn't ask to be born and parents do have a certain amount of obligation financially to "launch" their offspring into an increasingly complex work environment. There's much to be said for "giving with a warm hand rather than a cold one."

Some households view the family finances as a unit. So when it comes to keeping taxes to a minimum, they to fully fund our TFSAs to increase precious TFSA room for the family as a whole.

Winnipeg-based tax guru and author Evelyn Jacks advises to try to start funding Junior's TFSA when they turn age 18, and incent them to save by "matching" their contributions. So, if they can save $2,750, the parents would "match" that by adding another $2,750, thereby getting the $5,500 annual TFSA limit.

While there should be limits to parental generosity — luxury cars, world cruises and the latest tech gadgets are things the kids should fund on their own — the notion of maximizing family wealth as a unit also extends to debt. Children should be informed of the perils of compounding high-interest consumer debt incurred as the result of injudicious use of credit cards. Rule one is to pay off the entire balance every month, so not a penny of interest is expended. If that means dipping into a TFSA, then so be it: no stock investment can consistently top the savings that paying down 20-per-cent-interest credit card debt can achieve.

Also, parents should not jeopardize their own retirement just so the kids can live a higher lifestyle than they otherwise could afford. If you believe in your kids having no credit card debt, that goes double for parents near retirement and ideally having a paid-off home mortgage as well. Parents really shouldn't even fantasize about retiring if they are themselves still in debt.

The foundation of Financial Independence is a paid-for home, so if the parental retirement finances are sound, they can if they wish help the kids scrape up a down payment for a first home. We all know home prices in Vancouver and Toronto are sky high. Those who espouse tough love may prefer to see the kids renting, in hope of a major correction in pricing. That may be a long wait, however, and the beauty of the TFSA is the proceeds can be used to help come up with that hefty down payment without taking a tax hit.

The other area that parents can help financially is in education. Ideally, parents can begin a Registered Education Savings Plan (RESP) after the birth of each child. Eighteen or so years later, the child should be able to attend higher education without financial pressure, which will make it all the easier to fund their TFSAs at 18, with or without the parental matching program.

As for graduate school, this may be one place parents can draw the line, depending on their own retirement preparedness. It's true that many undergrad degrees may not be automatic tickets to full-time employment. If it's clear a specialist degree or certificate can make the difference in the job market, then this is a type of "good debt" can be condoned. Help if you can, or suggest Junior borrow and/or work part time.

Is there an age when parental largesse must end? There was a CBC documentary a few years ago on Boomerang kids that used the Italian phrase "big babies" to describe adult children still living at home in their 30s. Some parents may decide a particular age like 25 or 30 is the time to financially throw the little birdies out of the nest but, of course, every case is different.

http://business.financialpost.com/personal-finance/managing-wealth/when-boomers-should-turn-the-taps-off-or-on-when-it-comes-to-financial-assistance-for-their-kids

Estate Planning: Where Raw Emotion Meets Dry Calculation

There is a quiet scene in the 1953 film Tokyo Story that could be required viewing for everyone thinking about estate planning.

In depicting the subtle, unspoken disunity of a family in mid-century, post-war Japan, director Yasujiro Ozu shows an elderly couple making a long journey to visit their grown children. Shortly upon returning, the wife dies, and the family grieves. Yet one daughter is surprised and then angered by an older sibling, who talks so soon after the funeral about wanting one of mother's linen kimonos.

Estate planners see this kind of thing a lot, and much worse, and in far more complicated financial terms. But it gets at the core complexity of dealing with raw emotion, matched with doling out property and the dry calculation of tax and probate fees.

Toronto estate lawyer Rachel Blumenfeld once dealt with a family fixated on who would get one of grandmother's blankets. Jewellery is usually contentious, as well as cottages and vacation homes for all the family memories and property value wrapped up in them.

Here's the first order of advice lawyers give to clients: With a clear head, select the executor of your will, choose a person who will have power of attorney over your finances, and a person who will have the ability to make decisions for you if you no longer can. These tasks might not be suited to just one person.

But even then, problems can arise under the simplest, most innocent of circumstances. A single-document will may not be enough if the family's assets are complicated, such as owning a family business, or if it's a blended family.

For instance, if a will stipulates that everything is being left to the kids, yet if the home and assets are actually jointly owned by the other spouse, then the will generally won't cover all of those jointly held assets.

What do people own, how do they own it, and what are the tax consequences that on death? If everything is going from one spouse to another, usually there aren't going to be a lot of tax issues. But as soon as you're going to the next generation, or to other people, there will be capital-gains tax on any increased value in assets – other than a principal residence. Now, capital gains on the principal residence is tax exempt, but other assets and other property, including a cottage or vacation home, aren't.

So, beyond merely deciding who should get what, capital-gains tax is a key factor when considering the transfer of assets to children, because it's the estate that gets hit with the tax. So, those who get the estate also get the tax burden. This makes it important to think not only of how one's assets and property are divided, but also how any taxes are shared.

Another factor is probate fees, which is basically the provincial fee for handling the will and the estate. These vary by province, but are comparatively higher in Ontario at 1.5 per cent and in British Columbia at 1.4 per cent. A way to circumvent the fee is to set up joint ownership of the assets, in which the other owner automatically gets the assets, avoiding probate fees. But there are significant risks.

When one spouse dies, the assets simply pass to the remaining spouse who already had joint ownership. That's a fairly straight-forward process. But what if a parent, say, an aging widow or widower, decides they'd like to hold the home or other assets jointly with a grown child, not only to save fees, but also for convenience?

It can become vague what the parent intended by setting up the joint ownership. This intention needs to be clearly documented. Was it done for convenience and to avoid taxes? Was the property just for this one child, or was it supposed to be shared with others in the family when the parent died?

Another pitfall is that this process can put the jointly held property or assets potentially at risk with creditors. What if that adult child runs into financial trouble, his business fails, or she goes through a divorce? There's a question of whether the divorce might pull that parent's property into that whole equation, and that can make things more complicated.

The misconception is that jointly holding property with an adult child diminishes the importance of a will. In fact, it does the opposite. It makes a will all that more important.

There's also a white elephant in the room these days in estate planning, more than mixed feelings about a kimono or grandmother's blanket. It's the soaring property values across Canada, which are central in piecing together estate planning, and have a major impact on whether or not to jointly hold the property with an adult child. This can be a huge tax hit to the joint owner.

With increased property values, there's a lot to fight over. And the other thing that creates a lot of business for us is second marriages, blended families. It's amazing how people say, 'Oh well, I just trust my spouse to look after my kids.' Most agree that it hardly ever works out that way. Given family tensions, that's probably better done after making sure the planning is firmly in place.

http://www.theglobeandmail.com/globe-investor/retirement/retire-family/estate-planning-where-raw-emotion-meets-dry-calculation/article33658442/

Health and Wellness: What's so Super about Superfoods?

Though there is no legal or medical definition, superfoods are nutrient powerhouses that pack large doses of antioxidants, polyphenols, vitamins, and minerals. Eating them may reduce the risk of chronic disease, and prolong life, and people who eat more of them are healthier and thinner than those who don't. Read about several foods that are considered super, what health benefits they offer, and how to fit them into your diet.

You may have seen news reports, fad diets or ads touting the health benefits of the latest super food — everything from slowing aging to promoting weight loss. The glut of information can be overwhelming. Most myths about super foods are perpetuated by marketing efforts, which is why most nutrition experts prefer not to use the term.
The Skinny on Common Super Foods

Salmon is a fatty fish that's low in saturated fat and high in omega-3 fatty acids, which can decrease the risk of abnormal heartbeats, reduce triglycerides (the chemical form of fats in most foods and in your body) and slow the growth of plaque in the arteries. The American Heart Association recommends eating at least two 3.5 ounce servings of fish a week.

Turkey is a leaner substitute for beef that can be grilled, roasted or ground.

Nuts, legumes and seeds are good sources of protein and polyunsaturated and monounsaturated fats when eaten in moderation. Choices include unsalted almonds, peanuts, pistachios and walnuts. The American Heart Association recommends getting four servings a week.
Berries like blueberries and strawberries have high levels of phytochemicals called flavonoids. One study showed that women who consumed more blueberries and strawberries had a lower risk of heart attack. The American Heart Association recommends nine servings of fruits and vegetables a day, about 4.5 cups.

Soy products like tofu, soy butter and soy nuts are high in polyunsaturated fat, fiber, vitamins and minerals but low in saturated fat. They could replace other high-fat proteins in the diet, although it's unknown exactly how soy affects heart disease risk factors.

Pumpkin is low in calories, high in fiber and high in vitamin A.
Kale provides vitamins A and C, potassium and phytochemicals.
Low-fat or nonfat yogurt, which provides calcium, vitamin D and protein, can be a good substitute for sour cream in recipes.

Dark chocolate is high in flavonoids, but fat and calories too! Treat yourself in moderation to avoid weight gain.

Red wine in moderation may have some health benefits, but the American Heart Association doesn't recommend drinking alcohol to get them. High alcohol consumption can have negative effects on health, such as increased triglyceride levels, high blood pressure, and liver damage.

As healthful as superfoods might be, the use of the term is largely a marketing tool. Scientists do not use the term. For example, a search for "superfood" on PubMed, the repository of most peer-reviewed biomedical journal articles, yields fewer than a dozen results. And several of these studies actually warn of dangers of superfoods, such as arsenic and pesticide residue in imported foods.

The first general criticism of the use of the term "superfood" is that, while the food itself might be healthful, the processing might not be. For example, green tea has several antioxidants. But green tea sold in the United States is generally cut with inferior teas and brewed with copious amounts of sugar. The Japanese and Chinese generally do not drink green tea with sugar. Many kinds of super-juices — acai berry, noni fruit, pomegranate — can be high in added sugar.

In all, research has shown that the ideal diet is one that is largely plant-based with a wide variety of fruits, vegetables, whole grains and healthful animal products. Superfoods might be a good entry into healthy eating, and understanding the nutritional value of the food you eat can be enlightening, but there are lots of healthy foods out there to explore, even if no one is calling them "super."

http://www.heart.org/HEARTORG/HealthyLiving/HealthyEating/Nutrition/Whats-so-super-about-superfoods_UCM_457937_Article.jsp#.WL8l12_yvIU

Spring Activities

Bon Appetit Ottawa
May 2nd
http://bonappetitottawa.ca/

CN Cycle for CHEO
May 7th
http://cncycle.ca/en/

Ottawa Comicon
May 12th – 14th
http://www.ottawacomiccon.com/

Tamarack Ottawa Race Weekend
May 27th – 28th
http://www.runottawa.ca/

Ottawa Ribfest
June 14th – 18th
http://sparkslive.com/

Upcoming Events:

Client Seminar:
How to Read Your Portfolio Statements
Wednesday, April 26th, 2017
1525 Carling Avenue, Lower Boardroom

Client Seminar:
Millennials: How to Get Started
Saturday, May 13th, 2017
1525 Carling Avenue, Lower Boardroom

Family Movie Day!
Cars 3
Saturday June 17th, 2017
Cineplex Coliseum

Doors Open Ottawa – Explore Ottawa's culture, history, and architecture for FREE

On June 4 and 5, 2016, 132 historically, culturally, and functionally significant buildings opened their doors for free for the public's viewing pleasure. From Carp to Cumberland, over 73,000 visitors explored some of the city's most interesting places during the event's 15th consecutive year in operation.

Doors Open Ottawa continues to be the second-largest Doors Open architectural event in North America. Since its inception in 2002, over 920,000 visitors have discovered some of the city's most prestigious buildings including Earnscliffe: Official Residence of the British High Commissioner, the Supreme Court of Canada, the Embassy of the United States, and the Sir John A. Macdonald Building....just to name a few.

Whether you're a resident or visitor to the nation's capital, take advantage of the Doors Open Ottawa Shuttle Bus, operating within walking distance of over 50 participating buildings. Or, take the opportunity to enjoy the summer sun and cycle your way around the city on a Doors Open Ottawa bicycle tour. No bike, no problem! Visitors can visit many buildings by making their way around the downtown core on foot.