Investment Matters

Bringing Clarity to Your Financial Concerns

(An Independent Broker Team)

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Highlights

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A Word From Your Advisory Team

The second quarter of our evolution as an independent broker has brought on new challenges but more new benefits for our clients. Of note is the advantage of access to financial products from almost every major insurance and investment group of significance in Canada. One critical component of our model portfolio has always been a component of cash equivalents to act as shock absorbers for sudden financial market shocks and more importantly a reserve to buy assets low when markets correct (buy low sell high theory). What has consistently bothered us is that assets in money market accounts earn close to zero return each year while any other cash equivalent that has higher rates of return are generally not as liquid (like GIC or term deposits). As brokers we now have access to high interest savings account mutual funds. Two of note are the Renaissance High Interest Savings account and the Home Trust high interest savings account paying 0.75% and 1.0% each year respectively.

These two accounts allow us to hold cash equivalent assets with no maturity term (other than the 30 day short term trade limits imposed by the Canadian government) pay interest monthly and both pay higher interest than typical big bank high interest savings accounts while still being Canadian Deposit Insurance Corporation protected. This means that while we hold a cash component in your portfolio we can earn more than placing the money in the bank and we are liquid enough to move quickly into the market when corrections occur. All this just means is more flexibility for you and more money for you!

In terms of the markets Brexit was a concern for some analysts worldwide but from our experience we suggested it would be 1-2 days of panic followed by full recovery much like what had happened after the Paris bombings. We actually believe that after a short term of instability and weakness, this move will be positive for Britain as they recover a sense of control over they destiny and lower social economic class moods improve as the competition for jobs in this sphere reduces as immigration slows down.

As such our model portfolio is favoring US investments, infrastructure and global health sciences all areas right now that have more ability to weather an economic failure in Canada.

Now that we are using Investia as our clearing house, our portfolio has changed to include components previously blocked when we were using Sun Life as our investment clearing house. So let's book a meeting soon to review the investment portfolio and get it moved over to our new model portfolio.

Until next time
The DC Complete Financial advisory team

Family Tax Credit Loss

Many of you have enjoyed the income splitting tax advantage of the family tax credit. Currently that credit has been retracted by the Trudeau government. As a result, please do not count on this credit for your tax planning this year. That said, traditional income splitting techniques using dividend splits, or proper payroll splitting of income for family members actually doing duties of the family business are still viable ways to split off income and reduce the total amount of taxes a family has to pay.

As cash flow is becoming a more important consideration in this crazy real estate and rental housing market where it is estimated the average family loses $2500 a year in financial group due to the cost of housing, those with children 18 and under in a household, can still apply for a families with children property tax deferral program to combat the cash flow problem in the short run. Be aware however that this is only a short term solution and proper debt management of the mortgage long term is still required to keep things moving in the right direction without losing further ground financially.

BMO Insurance "Seat Sale"

Being a broker brings new advantages. One we did not know about when previously associated with Sun Life Financial is a "seat sale" of insurance products.

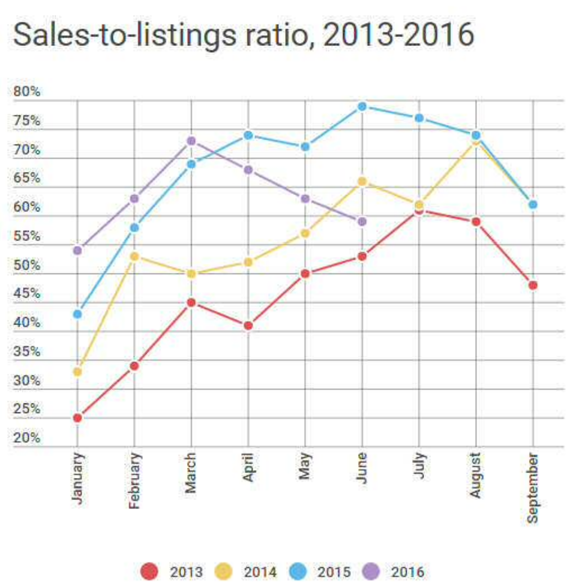
BMO Insurance is currently running a seat sale until the end of August where the annual policy fee will be waived on term insurance products. While this fee is small each year, the long term savings will add up. If we have discussed a risk management solution as part of your financial plan, this might be a good time to take advantage of this seat sale.

We see continuing strength in US markets both from an economic output and a currency strength perspective. The looming election will shake markets a bit but now with Sanders out of the race the US is sort of on a win-win scenario track. Should Trump win, he would encourage corporate growth through tax benefits and quantitative easing measures all things very beneficial to stock market growth. His weakness would be international policy, potentially putting the US at threat of really bad foreign policy actions. We do believe however, he would focus on business and economic growth as that is what he would be better suited to handle.

Clinton on the other had would be less beneficial to corporate growth but her strength would likely lie with foreign policy actions. With the US currently increasing presence in the south China Sea and rattling sabers with the Chinese, wrong moves here have the potential to explode into serious international aggression which would destabilize world markets. Keeping a respectable distance from this tipping point would keep world markets on a status quo track for extended periods of time.

Locally, we don't see much economic growth as the Fort McMurray fires damaged serious amounts of infrastructure and the displacement of people has worsened the already flattened oil patch sector there. OPEC continues to keep pressure on oil prices so no near term spikes in oil prices are expected and as such no economic growth or currency strength is expected in Canada this year.

The industry of serious concern is the real estate and housing development industry. With prices at seriously unsustainable levels and a variety of actions by the Chinese government to stop the flow of currency out of China including a recent propaganda blitz on the negative credit risk of Canada and its housing industry, we are likely heading into the beginning of a significant cooling off and potentially a huge corrective cycle. Recent data shows the number of sales have decreased as sales versus listing ratios decrease. Average prices in West Vancouver, and North Vancouver have inverted approximately 5% according to the charts. Condo sales remain strong as those outpriced from detached homes panic and buy what they can afford.

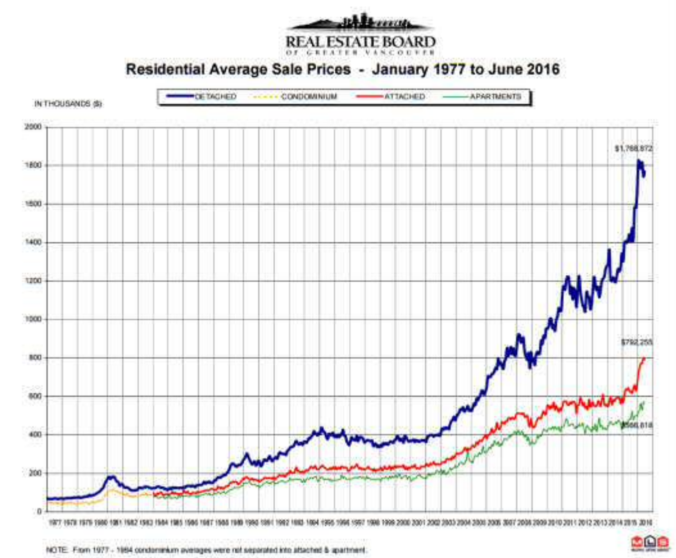


Insider signs show a coming deterioration of development markets. A significant local developer has done two things of note, one contrary to a strong real estate market and the other a sign of the impending peak of real estate prices. First, they have reduced down

payments and offered to pay up to 6 months to a year of the first year's mortgage payments on development pre-completion sales of units. This tactic is contrary to what an ongoing strong real estate market would need but as things slow, it would encourage a contractual close of unit prices 3 years in advance of the actual close insuring that if there is a correction 3 years from now, all of these units would sell at a higher price than the local fair market value of the units at that time.

The second action this group is taking is they are suddenly trying to sell off unsold parking spaces in their old development projects. The last time this happened was when the HST came in. With no looming change in prices that would suddenly cause these parking spot prices to literally go up in price overnight, this action suggest they know the end of crazy prices is coming and that it is a good idea to sell off all of the unsold parking spots now before the fall in prices comes.

As it is a matter of time to a significant collapse to local real estate markets, such a correction would be very destructive on local economies. Banks would be largely unaffected due to CMHC coverage but development and construction would grind to a halt, renovation companies and home supply companies like Home Depot would be challenged in maintaining sales. People losing homes could lose businesses as well in order to try to maintain possession of their homes in a failing mortgage market. Lenders bankrolling developments would lose significant assets even after seizing developments from development companies facing bankruptcy.



Unemployment would rise significantly as layoffs from the development industry occur and this would create an environment of economic despair which would also put the brakes in local economies.

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