The Francis

Spring Edition

Duane Francis, 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: dfrancis@mandevillepc.com

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

INSIDE THIS ISSUE

Welcome to Spring!

The first quarter brought us all proof that equity returns are not linear. After nine years of upward growth, equity markets pulled back twice – once in early February and again mid March as a reminder to all, that geopolitical and economic events can cause sharp and rapid sell-offs.

Temporary declines are nothing to be afraid of as equites are held in the “long term silo” meaning they are designed for long term growth over a ten plus year time horizon. The two additional silo’s include mid-term holdings of five to ten year and short term; meaning one to five years. It is the short and potentially mid-term silos that contain investments for emergencies and other needs such as buying a car, paying out income needs or even buying additional stocks when they fall in value. There is always a great and distinct difference between a temporary decline in a stock such as Royal Bank or Berkshire Hathaway and a permanent loss…Nortel comes to mind. Despite oil prices having nearly tripled from their lows in January 2016, related energy stocks have not followed suit. These can represent excellent opportunities for those who see value in the current fundamentals (undervalued) and are patient. Like equity markets in general, not every sub sector within an equity market runs at full steam at the same time. Energy is a sub sector trying to break out of multi year lows. The companies themselves recognize their own predicament and many are using this opportunity to buy back their own shares. That is a classic signal of good value and one of interest to experienced investors. Suncor, Canadian Natural Resources and Paramount Resources are three of many names. These companies say their shares are so inexpensive, that it is cheaper to buy back their own stock to improve performance than to invest in new development. That in itself is indicative to investors that a ‘good deal’ is out there. Most accounts have some exposure to energy, however in recent reviews our clients have far less exposure to energy than the typical Canadian mutual fund or Exchange Traded Fund, which are holding anywhere between 20 – 30 % on average. Recall the adage “buy low and sell high”. Facebook investors likely missed the chance to sell high and many investors are missing the chance to buy low into solid energy names.

Blockchain, Marijuana and other investment trends tempt many retail investors and most times these quests for a quick gain are painful. Look at the hype over Blockchain (Bitcoin in particular) a few months back. After demand and people trying to pile into this trend as the price climbed towards $20,000 USD, the price now sits at less than $8,000. Who really understands this investment? Marijuana has made money for some but also has been very volatile. Again, most pile on after the news of gains hits the main press and are disappointed with actual results. In one week this winter, the sector fell over 30%! Thanks, but no thanks – I prefer Cymbria, Berkshire, WSP Global, TD Bank, Brookfield Asset Management, Timbercreek, Stabilus et al because I understand what they do, how they do it and the proven track record in management, profitability and barrier to entry. If these falter, I know it is temporary and changing laws or hacks won’t impede my path to financial reward. While we cannot control markets, we can control our reactions and emotions when it comes to investment management. We don’t let either corrode our framework for investment success.

Insofar as asset allocation goes, we are tilting towards high quality names in EAFE (Europe, Australia and Far East) where valuations are more reasonable than here in North America. Canada is saddled with growing debt, and with what some will say is an unfriendly business environment these days. The US market has many, many wonderful businesses; however, many are simply too expensive to consider right now. In the fixed income arena, we are increasing exposure in registered accounts (non-taxable) and tilting to private/alternative income to obtain superior risk adjusted returns. To remain in traditional bonds is simply not good enough given the poor yields. Attempting to gain more yield by utilizing high yield or long bonds contains additional credit risk, duration risk or both. We find we can obtain more yield with less risk in Timbercreek Financial, Portland Private Income, Lending Arch Financial and others to name a few. These will still provide non-correlated returns and protection when equites falter and in my opinion are a great addition to traditional fixed income held in the aforementioned first or second silo.

April brings with it the necessity to visit your tax situation. There has never been a more important time to ensure you are not paying more than your fair share. There are tools to mitigate tax and I urge you to speak to us should you feel disenchanted with the outcome once you file. I understand taxation very well and this is one area where a dollar saved is worth as much as two! Guaranteed returns and profits forever in your pocket when you can reduce the tax bite through proven and effective strategies. For those of you who prefer to have a professional handle your income tax return, we offer that service and have done so for over 12 years now. Lisa Bailey processes over 200 returns (clients only) each year and this is a growing part of our branch offering at Capital Wealth Architects due to lower costs and quality results. Please reach out to me or Kyle Taylor should you have interest in this service. If you would like to meet with Lisa…let us know and we will arrange that as well.

In the second quarter, I will be publishing an article that breaks down how Resource Flow-Through Limited Partnerships work complete with a case study showing actual results over a seven-year period. These are fairly complicated and as such even some accountants do not understand the inner workings and tax implications. I look forward to illustrating how these can be an effective way to reduce tax and avoid OAS claw back for seniors.

To close off, keep in mind our upcoming seminars; April 24th highlights outdoor Gardening and Ponds/Aquaria "Seasonal Gardening and Aquatic Landscaping". In mid May we have a new theme on fashion design "Refreshing our Wardrobe in the Spring" and in June we will host our 12th Annual Family Movie Day.

Until then, we remain open to suggestions and feedback on how we can increase the level of value we bring to you, our client. We continue to advocate on your behalf, wherever possible and never forget the trust you place in us as stewards of your capital. This means we will never invest your hard-earned money in anything we don't buy of ourselves or our immediate family. We eat our own cooking!

Sincerely,

Dave

Why risk is a good four-letter word

Risk is one of the most misunderstood words in investing. Consider the different interpretations. Large financial institutions define risk as volatility. They worry about short-term ups and downs in the stock market and have designed their risk management systems accordingly.

Some investment managers believe risk is the amount their returns deviate from the index. Too much dispersion, or tracking error, is bad. Indeed, it can be career-ending if the gap is to the downside. Individual investors too are shaken by market volatility, but their biggest worry is permanent loss of capital. Before addressing what risk is to you, let's eliminate a couple of possibilities.

THINGS THAT SHOULDN'T BE SEEN AS 'RISKS'

First off, high tracking error is not a risk. This one strictly belongs to investment professionals, who are rewarded for how they do relative to an index. Beating the benchmark without significantly deviating from it is their holy grail, although it means little to you. Positive absolute returns build wealth, not relative returns.

Personally, I shy away from Canadian equity managers who target a low tracking error. Our market is skewed to a handful of industries, so hugging the index leads to an undiversified portfolio.

For investors who are properly diversified, loss of capital is also not a risk. A few poor stock picks aren't going to devastate returns. Neither are declining oil prices or debt issues in Greece.

I say this knowing that many Canadian investors get carried away with what's popular at the time. Portfolios were dominated by foreign stocks in the early 2000s (do you remember Clone Funds?) and were all-Canada 10 years later. Along the way, there's been oversized holdings in technology, oil and gas, precious metals, banks and since 2008, cash.

There's a reason why diversification is called the only free lunch in investing. If you have broad exposure across industries, geographies and asset categories, the ride will be smoother without sacrificing returns. Negative events will impact your portfolio in the short-term, but a full recovery is all but assured.

RISK IS PERSONAL

If tracking error and capital losses aren't risks, what about volatility? On this one I can't be as unequivocal. The answer depends on your stage in life.

A decade ago, I stepped away from the business for a short time and learned what it's like to be retired. A friend told me at the time, "Tom, living off your wealth is very different than building your wealth. It's a whole new ball game."

He was so right. Retired investors must think long term, but also need to account for regular withdrawals. This brings volatility into the equation. Down markets always go back up, but when the weakness is prolonged, withdrawals chew into the capital needed for full recovery. Retirees must manage their cash flow with volatility in mind.

For investors who won't touch their money for at least 10 years, short-term market gyrations are not a risk. Indeed, they're a blessing. Volatility creates opportunities to buy at reduced prices. This requires, of course, that investors stay on plan through market tops and bottoms, both of which are breeding grounds for return-crushing mistakes.

It might surprise you, but I believe the biggest risk for accumulators is not taking enough risk. By this I mean having too conservative an asset mix and/ or not having every available dollar invested to benefit from the power of compounding. It seems perverse, but holding secure, savings vehicles is a highrisk strategy. It doesn't in any way match the time frame (long term) or goals (building wealth and slaying inflation).

YOUR FUTURE WITH RISK

Risk has four letters, but it's not a dirty word. When combined with time, it's the fuel that drives your portfolio. Without it, you're destined to achieve returns accorded "risk-free" assets like GICs and government bonds.

But risk is a personal thing. It may be different from what others are worried about. To build a portfolio that fits your needs for growth and income, you need to allocate across all four types — interest-rate risk (bonds); default or credit risk (corporate bonds); equity risk (stocks); and liquidity risk (private investments). Your risk management system is getting the mix right, and resisting the temptation to deviate from it for short-term, emotional reasons.

https://www.pressreader.com/canada/ottawa-citizen/20180113/282299615571654

"I'll pay you $20 for each cutting", he explained. "How quickly or slowly you do the work, I don't care. Just get the job done right."

House Works: Manual labour for kids earns them more than just money

In the mid-1970s, my mom and dad hired a builder to add a garage onto our cookie cutter bungalow.

The man's name was Andy Steier, a Hungarian Jew from Budapest who had stories about riding on a Nazi prisoner train as a boy during the Second World War.

Mr. Steier created ABP Construction here in Canada, and watching him work as boss was my first introduction to the entrepreneurial life.

I was 12 years old at the time and I'd never before seen a man earn money in direct proportion to his efforts and effectiveness. Work well and he thrived. Work badly and he'd starve.

Mr. Steier didn't have a job so much as he was the ruler of his own kingdom, and he soon let me experience this same sense of rulership in my own small way.

It happened one day as I was riding my bicycle down the street I grew up on. A friend's father flagged me down with a question: "How's that garage project going at your place?".

"Really good, Mr. Abernathy. The workers start early and finish late. They'll be done the roof this week. My parents are happy."

A few days later, Mr. Steier drove up and handed me an envelope with my name on it. Inside was a cheque for $100. "That's your commission money", he said in his thick European accent. "You earned it. Your neighbours chose me to build their pool because of what you said."

It was the sweetest $100 I've ever earned.

Later on Mr. Steier went on to make me into my own contractor of sorts.

He lived on a country property with five acres of grass to mow and leaves to rake. He taught me how to use his John Deere lawn tractor, how to back up a trailer full of leaves to dump into a ravine, and the enormously motivating sensation of being paid for results, not for time on the clock.

I cut Mr. Steier's grass and raked his leaves for a couple of summers, and my days at work there never went so quickly as when I rushed around trying my best to get quality and speed to meet.

My record time for a grass cutting was six hours 20 minutes, delivering me an unheard of $3.17 per hour. I was a wealthy boy, but there was a flip side, too.

One particularly wet summer, I got a little lazy and didn't cut Mr. Steier's grass one week in the short window of sunny weather I had.

By the time the skies cleared and I got back to it, the lawn looked terrible. Large clumps of grass marred what was usually the golf-green look I created.

That meant a couple of days of raking and hauling trailer loads of clippings. Mr. Steier paid me for that raking, but I felt badly about it.

I never should have let things get out of hand. If I had been on the ball, I never would have had to push that rake around so much.

At the time, the only reason I worked for Mr. Steier was money.

But looking back on it now, I can see big value in learning to happily do manual labour while growing up.

It's a lesson I teach my kids whenever I can now too, though it doesn't seem very fashionable these days among parents.

Am I the only one who thinks more kids would benefit from the kind of lessons I learned by working for Andy Steier?

Five credit habits that can boost your score

Your credit score is essentially your passport to financial opportunities. With a possible range of 300 to 900, your score tells lenders what kind of a risk you are likely to be as a borrower. A low credit score can prevent you from getting the lowest mortgage rate, or even from getting a mortgage at all. But here's the thing, this important factor in your mortgage negotiation is entirely within your control. That's why it's important to know the key credit behaviors that can boost your score or keep it high:

1. *ON TIME, ALL THE TIME.* The single biggest factor in your credit score is having a timely bill payment history. Never let a bill get past due. That one habit is your single biggest game-changer. Set up automatic payments if that will help.

2. *KNOW YOUR LIMITS.* Your credit score is based on your balances relative to your available credit. Look at your credit limits and try not to use more than 30 per cent of the available amount. If your limit is $10,000, try to not let your balance go higher than $3,000.

3. *HISTORY IS IMPORTANT.* Make sure you do have a credit history. You may have a low score because you do not have a record of owing money and paying it back. You can build a credit history by using a credit card.

4. *DON'T LET IT HAPPEN.* Don't ever let any bill go to Collections, even if it's for a small or disputed amount. These black marks on your credit are hard to erase. If it's happened, be prepared to explain why, and be sure it's paid in full and reported to Equifax.

5. *BE SELECTIVE.* When you're asked – would you like to apply for our Store Card to save $X dollars on your purchase today – don't do it; the high rate that goes with that card isn't worth your savings on that particular purchase.

http://www.mortgageexpertise.ca/index.php/articles/viewarticle/1310/five-credit-habits-that-can-boost-your-credit-score

15 Ways Budget 2018 will affect your wallet

What's not to love? Whether you're a woman, child, family, veteran or student hitting the books to retrain, the Trudeau Liberals' second federal budget has something for everyone. But before you get too excited, note that there are no show-stopping measures. Here are 15 ways Budget 2018 will affect your finances:

1. The government is turning the Working Income Tax Benefit into a new **Canada Workers Benefit** (CWB). The changes mean that if you are single and earn $15,000 or less in 2019 you may earn an extra $500 per year. In the past you had to check a box on your return to apply, but this is no longer the case. You will now be automatically enrolled.

Individuals who are eligible for the Disability Tax Credit may also receive Canada Workers Benefit Disability Supplement. The budget also proposes that the maximum amount of this supplement will be increased to $700 in 2019. It will be phased in at $24,111 for singles without dependents and will disappear at $36,483 for families.

2. The **Canada Child Benefit** will be indexed to inflation starting July 2018.

3. In the previous budget you were able to take additional time off for parental and caregiver care and get the **EI Caregivers Benefit**. This has now been extended to include maternity and sickness benefits.

4. You will be able to open an RESP and claim the $500 Canada Learning Bond grant **at the same time that you apply for a birth certificate for your child**. This will automatically enroll children born into low-income families for the grant.

5. As of June of 2019, the government will offer five additional weeks of **"use-it-or-lose-it" EI Parental Sharing Benefits** when both parents commit to sharing parental leave. It's available to all two-parent families, including adoptive and same-sex couples. If you're going for the standard parental leave option of 55% of EI benefits over 12 months, you'll have a total of 40 weeks of leave instead of just 35. As well, where families have opted for extended parental leave at 33% of earnings for 18 months, the second parent would be able to take up to 8 weeks of additional parental leave.

6. Canada Student Grants and Loans has expanded eligibility for part time students, as well as full and part time students with children, and introduced a three-year pilot project that will provide adults returning to school on a full-time basis after several years in the workforce with an additional $1600 in grant money starting Aug 1, 2018.

7. A new **Apprenticeship Incentive Grant for Women** would give women in male-dominated trades fields $3,000 per year of training (or up to $6,000 over two years). Almost all Red Seal trades are eligible.

8. The government will invest $90.6 million over the next five years to **combat tax avoidance**.

9. The government is going to **lower taxes on small businesses** from 10.5% to 9% in 2019, while making sure the small business tax rate is not being used for personal advantage. Going forward, there is a $50,000 threshold on passive income held in corporations. When passive income reaches $150,000, a business owner will lose the Small Business Tax Rate. They'll be taxed as a large corporation at that time. The government numbers show that it's only the top one per cent of income tax filers whose corporations will be affected by the changes but this change will still reap a windfall for federal coffers. With recently announced changes to income sprinkling, the government expects to raise $925 million per year by 2022.

Who should worry about the passive income thresh holds? Anyone who has over $1 million in passive investments in their corporation because they will no longer receive the full benefit of the small business tax rate. (Note, this $1 million in passive investments is the accumulated value in your corporation.)

10. The **CPP death benefit** is now $2,500 for all eligible contributors (whereas before it was pro-rated.)

11. The **Medical Expense Tax Credit** is extended to psychiatric service dogs in order to help Canadians cope with conditions like post-traumatic stress disorder (PTSD). This is directly aimed at benefitting veterans and others in the disability community who rely on psychiatric service dogs.

12. The government will introduce legislation for the **Pension for Life plan**, which will include benefits to support Canada's veterans. The benefit would recognize pain and suffering caused by a service-related disability up to a maximum amount of $2,650. Another option is income replacement for veterans who are facing barriers returning to work after military service at 90% of their pre-release salary. Pension For Life means that a 25-year-old retired Corporal who is 100% disabled would receive more than $5,800 in monthly support, a 50-year-old retired major who is 100% disabled, monthly support would be almost $9,000.

14. As expected, there will be a tax on cannabis as well, which depends on whether the plant product is a seed, flower, trim or seedbag. In the meantime cannabis growers and manufacturers will be required to obtain a cannabis license from the CRA and remit the excise duty where applicable. Details to come at the time when non-medical marijuana becomes available for legal retail sale.

15. If you have a **Health and Welfare Trust** you need to convert it to an Employee Life and Health Trust by the end of 2020.

http://www.macleans.ca/politics/ottawa/federal-budget-2018-means-for-you/

Weight loss can be finicky

Carbs, fat, DNA? Weight loss is finicky, new study shows

Weight loss averaged about 13 pounds over a year, regardless of genes, insulin levels or diet type

The Associated Press Posted: Feb 20, 2018 2:46 PM ET

A precision nutrition approach to weight loss didn't hold up in a study testing low fat versus low carb depending on dieters' DNA profiles.

Previous research has suggested that a person's insulin levels or certain genes could interact with different types of diets to influence weight loss.

Stanford University researchers examined this idea with 600 overweight adults who underwent genetic and insulin testing before being randomly assigned to reduce fat or carbohydrate intake.

'In any weight loss diets, adherence to the diet and the overall quality of the diet are probably more important than any other factors.'- Dr. Frank Hu

Gene analyses identified variations linked with how the body processes fats or carbohydrates, which the researchers thought would make them more likely to lose weight on a low-fat or low-carb diet.

But weight loss averaged about 13 pounds over a year, regardless of genes, insulin levels or diet type. Also, some people lost as much as 60 pounds and others gained 15 pounds — more evidence that genetic characteristics and diet type appeared to make no difference.

- **Why eating quickly could accelerate weight gain**
- **Is losing weight your New Year's resolution? You might want to rethink that**

What seemed to make a difference was healthful eating. Participants on both diets who consumed the fewest processed foods, sugary drinks, unhealthy fats and ate the most vegetables lost the most weight.

The results suggest that "precision medicine is not as important as eating mindfully, getting rid of packaged, processed food" and avoiding unhealthy habits like eating while watching television, said lead author Christopher Gardner.

The study was published Tuesday in the **Journal of the American Medical Association**.

Participants had 22 health education classes during the study and were encouraged to be physically active, but the focus was on what they ate. They were advised to choose high-quality foods but were not given suggested calorie limits nor were they provided with specific foods. Results are based on what they reported eating.

During the first two months, dieters in each group were told to limit carbohydrates or fats to 20 grams daily, about the amount that's in 1 ½ slices of whole wheat bread and a handful of nuts respectively. They were allowed to increase that to more manageable levels during the rest of the study.

Diet adherence key

Fat intake in the low-fat group averaged 57 grams during the study versus 87 grams beforehand; carb intake in the low-carb group averaged 132 grams versus 247 grams previously. Both groups reduced their daily calorie intake by an average of about 500 calories.

The study was well-conducted but because participants were not provided with specific foods and self-reported their food choices, it wasn't rigorous enough to disprove the idea that certain genes and insulin levels may affect which types of diets lead to weight loss, said Dr. David Ludwig, a Boston Children's Hospital obesity researcher.

Dr. Frank Hu, nutrition chief at Harvard's School of Public Health, has called precision nutrition a promising approach and said the study wasn't a comprehensive test of all gene variations that might affect individual responses to weight loss diets.

"In any weight loss diets, adherence to the diet and the overall quality of the diet are probably more important than any other factors," Hu said.

http://www.cbc.ca/news/health/diet-precision-1.4543617

Spring Activities

The Ottawa International Writers Festival
April 26th– May 1st
http://www.writersfestival.org/

Ottawa Children's Festival
May 11th – 15th
http://ottawachildrensfestival.ca/

Canada Tulip Festival
May 12th – 22nd
http://www.tulipfestival.ca/

Gatineau Park
Full site access mid-May to late October
http://ncc-ccn.gc.ca/places-to-visit/gatineau-park

Tamarack Ottawa Race Weekend
Saturday, May 26th
http://www.runottawa.ca/

Ottawa Italian Week Festival
June 7th – 17th
http://www.italianweekottawa.ca/

Upcoming Events:

Stay tuned for the latest happenings

Client Seminar:
April 24th : Gardening and Ponds

Client Seminar:
Mid May: Fashion Design

Children's Movie Day:
June TBD

Client Seminar:
Paused for summer months

Client Seminar:
September TBD

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