The Francis Forum

Winter Edition 2020

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INSIDE THIS ISSUE

The Value of Advice

Working with an experienced, knowledgeable investment/financial advisor has its benefits. As market valuations become stretched or volatility creeps in, such advisers can help an investor avoid mistakes. Mistakes like buying overvalued securities, or selling during pullbacks. Just as important, advisors can help to keep you focused on your long term written financial plan, your road map to financial success – especially when the adviser has additional recognized credentials such as the Certified Financial Planner (CFP) designation.

Several studies have been conducted in recent years as to how much value having a financial advisor can add to your portfolio. In reviewing many of these studies it is evident that having access to consistent and reliable financial advice can add between 1.5% and 4% to an investment portfolio's growth over extended periods. Envestnet publishes annual reports centered around "Capital Sigma: The Advisor Advantage" which details the added value an advisor can provide. By their estimations, the combination of financial planning, asset selection and allocation, systematic rebalancing, and tax management provide an added value of approximately 3% annually (Source: Envestnet; Morningstar; Vanguard). While some studies have published varying degrees to how much value is added by having a financial advisor, it is clear that having access to one can provide a material difference in an investment portfolio.

One trait you may have recognized over the years is the difference between "being in the business" and having "the business in you". The latter candidates are usually those with passion for their education and ability to "do what's right versus easy". Most often they work to obtain numerous recognized credentials that took time and effort to obtain from recognized institutions – because they love what they do and strive to be the best they can be while doing it. Credentials like the aforementioned CFP, designations like the Chartered Investment Manager (CIM), Chartered Life Underwriter (CLU), Certified International Wealth Manager (CIWM) and of course Fellow Canadian Securities Institute (FSCI) are good examples. These prove a commitment to continuous learning…to be among the best in their field.

An advisor's role is to guide you towards reaching your financial objectives, given your risk tolerance, time horizon and abilities. By asking a lot of questions and seeking information about you and your lifestyle needs, a caring advisor likely knows more about you that anyone outside you and perhaps your partner. To be a trusted advisor, your advisor *must* exhibit a caring and disciplined approach. A fee-based approach ensures transparency when it comes to investment costs as does an advisor who is willing to show you what is is the “social contract” between you and your advisor on how your money will be managed and what limitations apply. A detailed Financial Plan revisited annually allows for any adjustments and often helps avoid emotional decisions. Both documents are valuable and if you don’t have these you may wish to ask for them.

Studies repeatedly show advisors can add value. The right ones most assuredly do.

Sincerely,

Duane

News and Noteworthy Items

I hope that you and your family had a wonderful Christmas and a Happy New Year! We would also like to wish you a healthy, happy and of course, prosperous year ahead. As we enter the New Year there are several newsworthy items that we would like to bring to your attention.

Christmas Cheer Fundraiser;

Part of doing well is doing good and I am pleased to have continued my support to a number of different charities in 2019, the largest of which is the Christmas Cheer Breakfast. The 68th annual Christmas Cheer Breakfast fundraiser took place on December 6, 2019 at the Shaw Center. My colleague Michael Prittie and I are major sponsors of the breakfast, and it is our honour to help give back to the community during the holiday season. As a community we were able to raise $106,685 to ensure that those less fortunate are able to have what they need during the Christmas season. You may also have heard one of us that day on either CFRA or CTV Morning Live.

Capital Wealth *Partners;*

Some of you may notice a slight change to our branding that we feel better reflects what we do and who we do it for. For years we were known as Capital Wealth Architects...designing portfolios and plans to meet the objectives and risk parameters of clients. However, in many ways we felt that we were in fact *partners*. Partners in wealth creation, partnering with those seeking advice to create wealth through prudent financial, tax and estate planning and well constructed portfolios. Recently to better reflect our branch personnel and our work with you the public, we felt exchanging Architects for Partners was a better choice. Therefore, as of January 1st our branch name will be **Capital Wealth Partners**. A subtle but important change to our co-branding with our dealer name Mandeville Private Client Inc.

An update regarding Janet Nunn;

Many of you continue to enquire about Janet's health and recovery. Janet has authorized me to report that her struggle to recover continues. She still suffers severe migraines and a lack of energy. Doctors continue to try new prescriptions to bring about positive relief and a return to normal well being. Janet is also undergoing another thyroid biopsy in the new year but says this is viewed as a precaution. At this point doctors are not able to say when Janet will return to work although the hope is that it is in 2020.

Additional team support for RRSP and Tax Season;

We are pleased to report that we have hired Tess Robertson – initially under a term contract. Tess is a recent graduate of Acadia University's finance program and has just returned to Ottawa. Some of you may well recall that family member Leah Robertson worked with us in 2013-2015. Their mother was an advisor with our firm as well. Tess will assist Kyle Taylor with his research and taxation duties and help Natalie with Private Equity subscriptions amongst other work with Michael and I. We are pleased to have Tess join our team effective January 6th.

Additional Insurance and Estate Planning Support;

We are pleased to report that we are in the process of securing an insurance specialist to join our team. Having worked in high net worth cases alongside accountants and lawyers, this individual is well versed in permanent life, buy/sell, estate bond insurance strategies. Insurance is often an integral part of estate planning and business agreements and although I and most others in the branch have long been insurance licensed (Level II the highest) and knowledgeable on the topic, we feel a greater focus on this cornerstone in the financial planning process will be beneficial – esp. to business owners.

Tax Preparation

Although it may seem early in the New Year it is never too early for you to start thinking about taxes! In my role, I think about them all the time and will be sending out a more formal email in the coming weeks. In the meantime, we want to let all clients know that we are once again offering our tax preparation services for the 2019 tax year. It is important to note that *personal* tax returns must be filed by April 30th while *trust* tax returns have an earlier deadline of March 31st and we kindly ask that you provide us all documentation at least two weeks prior to the appropriate deadline.

Beginning in 2005, as a means to provide an additional and convenient service at a reasonable cost, we have seen steady growth in this service over the past 14 years given the overall cost/benefit derived by our clients. If you will be taking advantage of this value-added service this year, please try to consolidate your documents in an organized fashion, as this will greatly reduce the time and ultimately the cost to you. We will, of course, review and check for missing items/opportunities.

All this said, please do not bring in your tax documentation until you have received <u>all</u> tax slips. T3 and T5 slips will not be issued until the first week of March with the notorious T5013's being as late as early April. This is especially to those who own Flow Through Resource LP tax shelter investments like Probity. If you have any questions about utilizing our tax services for the 2019 tax year then please feel free to reach out to Natalie (nnunn@mandevillepc.com) or Kyle (ktaylor@mandevillepc.com)!

Millennials face risk, none of the reward

The milestones individuals experience throughout their lives come in many forms. Looking back to previous generations, milestones for all individuals were similar, regardless of personal situation: obtain employment, purchase a home, raise a family and retire.

Today, the milestones that individuals strive to achieve vary based on a range of life choices and financial realities. The traditional path that was once the norm is now rarely the path individuals take, given the increased mobility of today's generation. Other financial milestones, such as long-term travel, humanitarian work, saving for a vehicle or other large purchases, are being prioritized before home ownership.

Millennials in particular — the largest generation of Canadians — are at a disadvantage

This shift means that the skills and tools required to be successful in the past have become outdated. The key to achieving success today involves providing the right education and tools at the appropriate times throughout an individual's life. It's simply not enough to provide training in the form of a seminar or lecture at a single point in time. Financial education, or access to unbiased, personalized information, needs to follow the individual throughout their life.

As old concepts of financial success give way to new realities, the importance of financial literacy and what it means, has evolved, making it a life skill that should be recognized and addressed in the classroom. Some jurisdictions are already taking action: Ontario, for example, announced in July that a new career studies program for Grade 10 students will include financial literacy.

Matching education to life's realities

The general education individuals receive in high school, university and adulthood holds different value based on their life stage. This is also true of financial education. The financial decisions and realities of a 16-year-old high school student will look much different when compared to an individual that is mid-way through their career.

Millennials in particular — the largest generation of Canadians — are at a disadvantage. The housing market, lagging incomes and tighter regulations are requiring young people today to work more to gain access to less. In 1985, the average home price in Toronto was $109,094 and average family income was $31,965, meaning a home cost roughly 3.41 times the median family income. By 2015, the average home cost rose to $622,121 and family income only increased to $70,336 — meaning homes now cost approximately 8.82 times the median family income. Old concepts of financial success continue to influence younger savers, however, home ownership may no longer be the benchmark for financial success that it once was. Having access to tools and financial advice early on can better prepare young people for the challenges they will face throughout their adult lives.

Facing financial challenges

Beyond real estate, millennials are faced with a number of financial choices and trade-offs early in their career, yet they often don't have access to unbiased financial advice or the tools to support making the right decisions. Data shows that millennials choose to prioritize experiences such as travel over long-term savings, however, the financial advice they receive today is traditionally focused on paying down debt or contributing to a retirement plan.

When millennials do contribute to a retirement plan, they are most likely to be in a registered savings or defined contribution arrangement. In these cases, their long-term savings potential is affected by low interest rates, volatile markets and increased longevity — meaning they are taking on all the risk. From an organizational standpoint, employers are typically contributing a lower level of savings to these plans for employees as they no longer expect the individual to remain with the company throughout their career, especially as we move towards a gig economy (an economy based around short term jobs, rather than long stable careers). This can result in less security and increased anxiety among younger generations as it relates to their personal finances.

Beyond millennials, we are seeing more individuals affected by the financial burden associated with having children, which often results in people working reduced schedules or taking time off during critical times in the lives of their families. While the cost of childcare or taking time off for maternity or paternity leave is significant, organizations often don't provide the financial tools to help them adjust their financial plans accordingly.

Strategies for success

Though the financial realities of each generation may differ, better education and access to tools is as important in all stages of life. To take control of your financial well-being, consider the following:

Set personal goals. We all know how quickly life moves. If you don't take the time to set and assess your short-term financial goals, you'll likely find that they don't match your end game.

Take action. Even the most educated individuals with the best financial plans won't reap the benefits unless they take control of their finances. Whether this means making monthly contributions to an RRSP, taking advantage of employer-match programs or simply redirecting dollars from your monthly paycheque into a savings account, delaying action only means lost time.

Automate. Speak with your financial institution to redirect a portion of your paycheque to a savings vehicle before it even hits your bank account. Take advantage of the options available through your employer. Pay yourself first!

Seek out multiple points of view. Talk to a financial advisor, colleagues, friends and family to test your plan. Use the data points from your conversations to inform your own view on how your finances are performing.

These strategies are only a starting point, but they provide a sound framework for improving your financial well-being. Whether you begin by implementing one or all of them, you are getting closer to financial success.

Kate MacDonald is the senior vice president and Ontario region leader and Philip Mullen is vice president and retirement solutions lead for Western Canada at Morneau Shepell.

https://business.financialpost.com/personal-finance/millennials-are-facing-all-the-risk-and-none-of-the-reward-in-todays-financial-realities

Worried about your credit rating? Avoid these 5 credit card mistakes

Believe it or not, paying off your credit card too fast can hurt your credit rating.

by Scott Hannah Oct 1, 2019

You don't think about your credit rating opening doors for you—until it abruptly swings one shut. However, in order to appreciate what you could do differently to improve your credit rating, it helps to understand what, exactly, that is.

Your credit rating is actually made up of two parts of information—your credit report and your credit score—and each plays a specific role. Along with some personal information (your name, address, birthdate, employment details and when you last applied for credit), your **credit *report*** contains a list of companies that have inquired about your credit history, and that you've obtained credit from. This list of your credit obligations shows how you use credit on an ongoing basis, including when you opened the account, your credit limits, the outstanding balance, if you pay on time, how often you make late payments and if anyone is joint on the account. If any of your debts are in collections, they will show in a different part of your credit report with more detail.

If you're curious to see what's on your own credit report, take a look. In fact, everyone should check their credit reports (yes, you have two of them in Canada) once a year for accuracy. You can get your own credit report for free (and you might be surprised by these 7 things that are not on your credit report).

As strange as it may sound, your **credit *score*** is not on your credit report. Your score is only needed when you apply for credit, and it is based on what is on your credit *report* at that minute. Your score is actually a ratio that indicates to a potential lender how likely you are to repay any new loan they give you, based on how you've handled credit in the past. For example, if your score is 680, that tells a lender that for every 680 out of 900 people whose situation is scored the same as yours, 680 are likely to repay the money they borrow. It stands to reason that the higher your score, the more likely a creditor will lend you money with favourable terms and conditions. As such, your credit score is very sensitive to changes in your financial situation and in how you use credit.

Avoiding these five credit card mistakes will give you less to worry about when it comes to your overall credit rating:

Making your payments late

Have you ever lent money to a friend, only to have to chase them down to get back what they owe you? Credit card companies are often in that same position—and while they might not feel like a friend, they most definitely want to be paid as you had agreed to do.

Late payments with credit cards will cost you big-time. In addition to interest charges at the current rate in your credit card agreement, depending on how late you pay and how often it happens, your interest rate can go up, fees could be tacked on and your balance owing can quickly grow out of control.

The fix: Debt payments shouldn't be something you get around to after spending on non-essential items. Instead, make a list of the payments you need to make each month and ensure you are able to pay the required amount using the money you have coming in (ideally more than the minimum, where applicable). Then, set up calendar reminders so that you make your payments on time. If you're very disciplined, you could go a step further and set up automatic payments through your online banking system. By setting up the payment yourself, rather than allowing your credit card company to take the payment on your due date, you maintain control over your bank account should an unexpected expense, like a car repair, come up.

Using too much of your available credit

A close second on the list of credit card no-nos is using more than about 75% of your available credit on an ongoing basis. This means that if your credit card's limit is $5,000, on an ongoing basis you do not want to owe more than about $3,700, even if you are "just" collecting points or if you pay it off in full every month by the due date.

The reason for this is simple: The more you owe, the more trouble you would have paying it off should something unexpected happen to your source of income. When we apply for credit, the application is processed using our gross (before-tax) income. When we use the credit granted to us, we only have our net (after-tax) income, which is considerably smaller, to work with.

The fix: We know what you're probably thinking—but not so fast. Raising your credit card limit is fine only if you can afford it and if you don't plan on applying for additional credit any time soon. When you apply for credit, lenders know there is only so much you can afford to repay. They reduce how much they're willing to lend you based on the overall limits of credit products you already have. For example, if it's a mortgage or car loan you're applying for, you might be offered a smaller amount of principal than you requested, meaning that you'll have to shop at a price-point lower than you'd anticipated.

The real fix is working on paying off your debt so that sticking to below that 75% usage mark on each credit card still lets you buy what you need, and a few well-considered things that you want.

Treating your credit card like an ATM

Did you know that if you take a cash advance from your credit card, the interest rate is higher than if you charge items to your card at a point of sale? What's more, there is no interest-free grace period with cash advances (interest is charged right away), you don't collect reward points on cards that have a loyalty program, and you might even have a limit for how much cash you can take versus charging purchases within your overall credit limit. Taking cash advances can also signal to potential lenders that you have a cash-flow problem with your household budget.

The fix: The simple answer is not to do cash advances on your credit card. If you didn't realize how they worked, check your credit card terms and conditions to find out more, because each card can be a little different.

However, if you routinely find yourself falling short with expenses that must be paid in cash (for example, daycare or rent), it's time to take a serious look at your budget; your credit rating might be the least of your worries. You likely need more help with your money and debts than this five-point tip list. You can get more information and some guidance by contacting a non-profit credit counselling organization in your area.

Applying for more credit cards than you need

Have you ever applied for a credit card at the till to save 10% on your purchase, or walked through a store and filled out an application to get the free gift? Every time you apply for credit, an inquiry is registered on your credit report. While a few inquires at different points in your life are only natural, and acceptable, continually shopping for credit is not.

When you apply for a lot of credit cards in a very short period of time to see what you might get approved for, that is considered shopping for credit. All of the inquiries work *against* your overall credit rating and, worse, the credit cards granted to you can lead to an unaffordable amount of temptation spending.

The fix: Apply only for what you need and can afford. Accurately determining what you can reasonably manage requires a household budget that accounts for all of your monthly, occasional and annual expenses; long-term savings; and debt payments and obligations.

Paying your credit card off too fast

Is that really a thing, paying credit cards off too fast? It certainly can be. If you are worried about getting into debt with a credit card you might decide to pay it off as soon as you use it. From a money management perspective, that works; however, in terms of using the credit card to build a credit rating, you're not doing yourself any favours.

The fix: Wait until the bill comes and pay it in full before the due date each month. This allows the credit scoring system to see that you're using the card, and by paying it off before the due date you aren't charged any interest.

There are a few ways to ensure that you have the cash ready to pay your bill. One is to set up a separate bank account for payments. Rather than paying off your credit card immediately, set the money aside in the separate account. Then, when the bill comes, you've got your payment ready.

A second easy way to use a credit card and not end up in debt is to pre-authorize a recurring bill payment to your card (for example, a monthly subscription) and then tuck the card away at home. This way, you'll know how much of a bill to expect every month, you can account for it in your budget, and you could even set up a recurring credit card payment from your bank account to ensure it's paid on time every month. It is essential to use a credit card if you want to build or re-build your credit rating with it, but there's nothing that says you need to use it a lot.

If you're concerned that your credit is hurting you, just be aware that there is no "hack" for fixing a credit rating fast. So rather than worry about what you can't control, focus on what's within your control and on what you can change. It's never too late to establish a spending plan or break up with your credit cards for a few months to help yourself get on track again.

Scott Hannah is the President and CEO of the award-winning, non-profit Credit Counselling Society, which has helped more than 600,000 Canadians since its inception in 1996.

https://www.moneysense.ca/save/credit-card-mistakes-to-avoid/

12 steps for the year ahead to fix your finances

These small New Year's resolutions have big results.

I love the start of a new year, and yes — I'm that person who makes New Year's resolutions every year! I like to embrace small yet stretchy goals, and I always have good intentions that don't always translate into the desired results. But, I keep trying — and financially speaking — I believe if you commit to do one thing differently each month in 2020 you will be in a better financial place by 2021.

I broke tasks down month by month, but I appreciate you might decide to take things in the order that makes sense to you. It doesn't matter how you do it, as long as you do something. Bottom line, it is all about improving your financial status by recognizing that small changes can lead to big results. Creating wealth is rarely about doing one big thing right; it is more often about doing a lot of little things right.

Here's a list of monthly goals that you can tackle in the new year:

January – Commit to taking control of your financial situation. Set financial goals that matter to you. Get excited about saving money.

February – Pay down debt. The holiday bills are rolling in and debt has piled up. Pay off the most expensive debt first – the one with the highest interest rate. Put away your credit cards and begin the financial detoxification process.

March – Focus on other elements of your financial plan. Explore insurance options, estate planning or begin developing an investment strategy.

April – The tax deadline is right around the corner. While it's a little late in the year to get strategic about this, take the time to ensure you are getting the biggest bang for your tax buck. Set yourself up for success next year.

May – Spend less and save more. Enough said here.

June – Become an automatic millionaire. Okay, there is nothing automatic about becoming a millionaire, but you can increase the odds of becoming one. Make sure you pay yourself first by having money come directly out of your account to pay off debt or into investments.

July – Review your portfolio to ensure your asset allocation is aligned to who you are as an investor. Make this a year of balance and take the time to figure out your required rate of return, versus your desired rate of return.

August – Get insured. Not everyone needs insurance but everyone needs to ask the question, "What would happen to my family if something happened to me?" How you answer that question will dictate the type of insurance you should explore.

September – Create a will. No one likes to think about their demise, but sadly things happen when you least expect it. My father passed away at 36 from a heart attack. He had a plan in place and while it clearly didn't replace him, getting through the financial elements were easier than they would have been without the will.

October – Amp up your earning potential if that is important to you. What will it take to advance your career to the next level? No one wants to be unbelievably average at what they do.

November – Be mindful of holiday spending.

December – Review, reflect and revise your last financial year. Start thinking about what you can repeat and improve in the upcoming year.

You might not believe in New Year's resolutions, so you might prefer to refer to this as an action plan. The only thing I know for sure is, if we don't try to make some changes, there is a 100 per cent chance we will be starting all over again in 2021.

Pattie Lovett-Reid

Chief Financial Commentator, CTV

https://www.bnnbloomberg.ca/pattie-lovett-reid-12-steps-for-the-year-ahead-to-fix-your-finances-1.1350033

Winter Activities

Winterlude
January 31st to February 17th
https://www.ottawatourism.ca/events/winterlude/

Ottawa Home and Remodelling Show
January 23-26
https://ottawahomeandremodellingshow.com/

Capital Wedding Show
January 18th to January 19th
https://www.capitalweddingshow.com/

TD Winter Jazz Festival
January 30th to February 1st
https://ottawajazzfestival.com/

Client Seminars

Interactive Presentation: Making the most of your RRSPs and TFSAs
January 22nd
Please RSVP though Natalie Nunn at nnunn@mandevillepc.com or by calling (613) 728 – 0101 ext 221

New World of Income Investing
February 19th
Please RSVP though Natalie Nunn at nnunn@mandevillepc.com or by calling (613) 728 – 0101 ext 221