The Francis Forum

Summer Edition 2019

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INSIDE THIS ISSUE

Inflation – the silent villain that costs dearly over time.

When saving for retirement or any other long-term objective, there are really only three things that determine the outcome; amount invested, time and the rate of return you earn. However, two other components determine the purchasing power of that future sum of capital, whether it be for a capital expenditure or regular income; inflation and taxation.

Taxation can be controlled somewhat by choosing the right account in which to save within (TFSA vs RRSP vs Insurance etc.) Inflation however varies over time and can have a devastating effect on your future purchasing power. Let's take a look at how to combat this silent destroyer of wealth.

If you save/invest in familiar fixed income products like GICs, Government bonds or bond funds, you likely do so because you feel they are safe. Recall though that interest is affected by taxes (non-registered account) and even with a 3% rate of interest over time – your net return can be *negative*. If you earn $55,000 per year, your marginal tax rate is 30% and you will lose about 1% of your interest to tax. Most are aware of that reality. However, few think about or even realize that if the consumer price index (inflation) was increasing at a rate of 2.5% per year, your money would have decreased in "real terms" by that amount. Since tax has already taken 1% out of the 3% return, we now see your after-tax return of 2% is reduced by another 2.5% which means a negative (0.50%) return. Compound this out over 20 years and your $1 today only buys 90 cents worth of goods. Put another way, your standard of living will take a step back instead of forward down the road.

To drive this point home, ask yourself or someone else - what did a postage stamp cost 30 years ago? How about a Big Mac? Answer; 38 cents, $2.15 respectively. Want another example, what did Netflix cost five years ago? And today? This is inflation!
When you see the damage inflation does over time, you quickly realize most fixed income investments only offer the *illusion* of safety and should be used only for shorter term investment goals. Alternatives such as bank stocks or the parent company of our Big Mac example, McDonalds, or a Real Estate Investment Trust all have provided dividend payouts that *increased* to keep pace with inflation whilst enjoying an increasing share price over time. What about risk you ask? Certainly over a few years (where you should use a GIC or bond) stocks can and do fluctuate in price. However, if you are investing for the longer term, then the risk declines exponentially.

Have your cake today and be sure you can afford another one at your retirement party by paying attention to inflation and matching the objective to the investment – whether they be public or private in nature. An accredited and experienced independent advisor can help ensure the right match is made.

Duane

Enjoy this video link: https://www.youtube.com/watch?v=a2lv_Xl1e4U

Tax Season Accomplished

As many will already know, we offer tax preparation services year after year and for the 2018 year alone prepared over 250 personal, corporate, and trust tax returns! In the past month we took the time to survey those who utilize this service to get feedback and see how we could continue to improve for next year. Of those surveyed, 93% felt they received better value than services they had previously used and 91% stated as being satisfied with the service they received. All that being said, there are always ways to improve and we have read your feedback and will continue to strive to offer the best service we can!

Looking ahead to next year, if anyone is interested in using our tax preparation services for the first time in the 2019 year we are happy to discuss further!

- Kyle & Lisa

In and Around the Branch

Janet Nunn – Recovery Update

We are thankful for the inquiries regarding Janet and we pass along your thoughts when speaking with her. As authorized by Janet, we can report Janet continues to improve but still struggles with severe migraines and fatigue. Janet is still undergoing tests, awaiting a thyroid biopsy and other medical intervention to best determine the care she requires to recover fully. Janet would tell you she is very bored at home and desperately wants to return to work. However, her current condition is preventing that. A recent MRI apparently confirms her brain surgery was a complete success. New medication has been prescribed and there is hope that this will help with some of the current symptoms.

Thanks kindly. Michael

Team Client Support Structure

- Natalie Nunn – Branch Administrator; Client Services/Administration.
- James Hickman CFP, CIM – Investment Advisor; Client Financial Planning and Investment Advice
- Kyle Taylor – Investment Advisor; Investment Research, Trading and Tax Filing
- Steven Aubin – Client Services and Investment Research
- Adam Prittie – Investment Research/Trading (May – August)
- Lisa Bailey – Client Tax Specialist; Tax Return Preparation

The Value of Financial Advice

My grandfather came over to the U.S. from Ireland in the early 1900s. As a kid, I always remember him telling me, *Nothing in this world is for free and if someone tells you otherwise, walk the other way.* I was reminded of this when I recently saw online ads for free financial planning and free *no cost* ETFs.

Can something as important as wealth planning be offered for free? How could a company pay its employees when it offers free ETFs?

My grandfather believed in a good deal, but it becomes a problem when cost becomes the primary factor in decision making and when we don't understand what we own nor the consequences that can lead to. I believe it's critically important to understand the price you pay, to know what you own and to understand why it's important.

Understand the price you pay

The airline industry was deregulated in 1978. With deregulation comes competition and innovation. The airline industry continued to evolve, expanding with more airlines, more routes and cheaper pricing. Then came a tipping point in the late 1990s: The technology boom created an online *real time* marketplace for purchasing airline tickets. The race to the lowest price was underway. According to Capt. Sullenberger's book, "Highest Duty: My Search for What Really Matters," to stay price competitive, regional airline carriers began hiring college graduates at entry level wages and trained them to get their commercial pilots license. Prior to 2013, the FAA requirement to become a first officer in the cockpit was 250 hours of flight time. This was the only way for regional airlines to stay price competitive. In fact, overseas, commercial airline pilots still (in 2019) can fly today as a first officer with just 200 hours under their belt.[1]

So, what are we paying for when we buy an airline ticket? When a flock of Canadian geese flew into the engine of U.S. Airways Flight 1549 on a cold January day in 2009, Capt. Sullenberger had already logged over 20,000 flight hours. I'd say we're paying for the experience of the pilots and the quality of the aircraft. The FAA changed the required number of flight hours for a first officer from 250 to 1,500 in 2013 due to a tragic crash in Buffalo, New York, in 2009.[2] Even though today's planes benefit from technology and automatic pilot, I want an experienced pilot at the controls when I'm flying through a storm or a flock of birds fly into the engine. Understanding what you are getting for the price you pay is crucial for your safety.

In the last decade, the financial services industry has gone through a lot of change. Technology and modern business models have given more investors direct access to markets. Today, there are thousands of investment options for investors with even the most modest amount of assets. These solutions come in the form of robo-advisors. The robo solutions are getting many investors started at a younger age and are teaching them the importance of saving and being disciplined. However, robo-advisors are not a replacement for a full-service financial advisor. Robo-advisors provide the basic building blocks of investment management which are asset allocation, security selection and portfolio construction. Robo-advisors that deliver investment-only management and no financial plan, ongoing service, or guidance have set prices at approximately 0.33%—for annual statements, online access and a phone number to call in case of questions.[3] In addition to the 0.33%, the investor is responsible for paying the underlying costs of the ETF investments.

Certified Financial Planner

In the case of a full-service financial advisor, many focus on goals and objectives that take time, planning and ongoing coordination to accomplish. If a financial advisor is a Certified Financial Planner®, they must meet every requirement of the CFP board. To begin, a candidate must have 6,000 hours of professional experience or 4,000 hours of apprentice experience. The exam process can take up to seven years to complete. The exam spans over two days of testing. In 2018, the pass rate on the exam was 60%.[4] It's interesting to think that prior to 2013, the airline industry only required 250 hours of experience to fly a plane when the Certified Financial Planning board requires 24 times that amount to sit for their exam. Planning is a complex and specialized experience personalized for the individual. The following topics cover the various areas of planning:

How many hours of meetings, preparation and follow-up would it take to cover these topics appropriately? How could a company offer this for free? More importantly, what is the cost of not instituting an appropriate plan? In this regard, we believe a financial advisor is priceless.

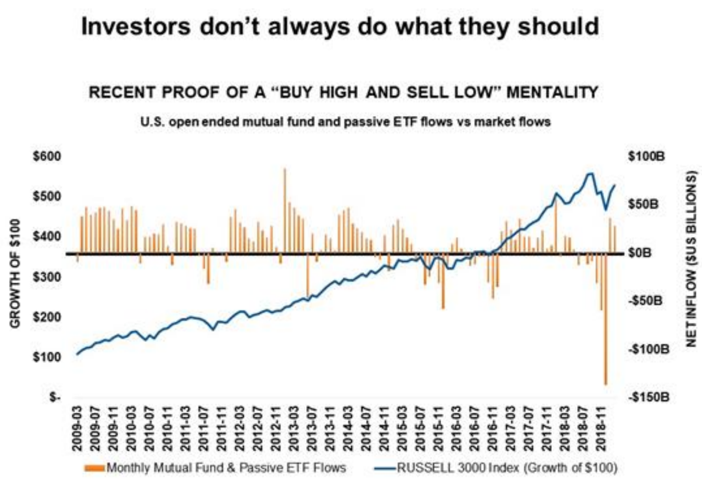
Know what you own

It's important to know what you are getting for the price you pay. In the investment world, many investors are buying low-cost investment solutions to save money on fees.

But before we get teased by free, there are a lot of questions that must be answered when it comes to investing …

- Do investors understand what they own?
- How much risk is in the investment they own?
- What is the return expectation?

It may be fair to say that many investors don't completely understand the amount of risk they are taking during given points in the market cycle. From December 2007 to December 2018, investors withdrew more money from U.S. stock mutual funds than they put in. All the while, a hypothetical $100 constantly invested in the Russell 3000® Index more than doubled in value. And those who chose to stay in cash during that period would have missed a cumulative return of more than 200%, based on the Russell 3000® Index. You can visually see a pattern of investors buying high and selling low. These mistakes can be very costly over time.



In 2018, we saw peak investment outflows of over $125 billion in assets at the bottom of the December market pullback, according to Morningstar Direct. At the end of Q1 2019, the Russell 3000® Index was up 14%. These numbers reinforce the importance of knowing what you own and the importance of a financial advisor as a behavioral coach and risk manager. Helping clients avoid pulling out of markets at the wrong time and sticking to their long-term plan is one way we believe advisors provide substantial value.

Understand why it's important

In Malcolm Gladwell's book "Outliers," he dedicates a chapter to what researchers have come to identify as the 10,000 hour rule. The rule states that for an individual to achieve a level of mastery, they must dedicate 10,000 hours of practice to the subject. To put 10,000 hours into perspective, most people only work 2,000 hours year. So, any professional working in a field for more than five years would be considered a qualified expert. In my mind, five years isn't a lot of time—however, many investors are taking on the responsibility themselves with little to no experience.

And when it comes to delivering value, we see that planning, managing investor behavior and helping clients keep more of their after-tax wealth are key ways advisors are able to contribute value. We believe wise advisors educate investors on understanding the products and services they receive for the price they pay. We also believe it's important for investors to understand the value they are receiving and the process you're providing in helping them achieve their outcomes.

The bottom line

I've learned that goods and services are priced a certain way for a reason. The most important thing to discover is WHY they're priced that way. Sometimes, a bad purchase based on price is a learning experience. However, some bad decisions based on the price of a good or a service can leave irreparable damage that cannot be undone. Next time a deal seems too good to be true, remember to do your due diligence. Spend extra time analyzing why the deal is so good and be sure that the consequences aren't devastating.

Joe McNally, CFP®, AIF® is a Regional Director at Russell Investments.

[1] Source: https://www.inc.com/.../sully-sullenberger-just-made-chilling-statements-about-boeing
[2] Source: FAA.gov
[3] Source: Based on the average fee charged for investment-only management by 10 robo advice offerings for a client portfolio of $135,205 as accessed on the companies' websites on 3/11/2019.
[4] Source: CFP.net

Four Creative Ways to Teach Kids About Finance

As fascinating as I personally think finance is, I get that maybe the average eight year old isn't begging their parents for more financial education. And when most parents think about teaching finance to their kids, they may imagine a structured, sit down lesson on budgeting - which sounds like torture to all involved. Not only will your child be bored to death, but they won't retain this type of information because it doesn't mean anything to them at this point. Whether it's finance, science or history - kids learn best when they are engaged and having fun. Creative methods of teaching make the information more interesting and relevant to kids, leading to better focus and retention of information in the long term. Shara Nadler, founder of iPiggiBank, an organization dedicated to teaching financial literacy to kids, created her company based on this approach to education. "Everyone learns in a unique way. When teaching finance to kids, it's important that you reach all learners, and it's not taught in a cookie cutter way." Nadler explains. iPiggiBank provides financial literacy workshops that focus on keeping kids engaged, on-track and motivated. She gives four examples of unique and creative activities the teachers use during their workshops that can be easily implemented at home by parents.

1. **Literary Connection:** They read a book together that ties the financial lessons together, then engage in conversation after about why the characters made specific decisions and whether the students agree with those decisions. A favorite book of the students is *A Penny for Piggy,* by Trish Wilson, which teaches the concepts of saving, spending and sharing. Using books when teaching kids about money makes it more relevant to them, because it's entertaining and they can identify with the characters.
2. **Partner Activities:** Students pair up and engage in active conversations about times they've earned money, or examples of things they want to save for. This shows the kids that each person has their own unique fingerprint, and what works for one may not work for someone else. A discussion with the group after provides the opportunity to introduce values, by explaining that each person may want to save for something different because we all have different values and beliefs. These kind of conversations help children develop healthy financial attitudes and learn not to judge each others differences.
3. **Art Activities:** Each child gets a workbook filled with multiple activities and games. While the focus of an activity may not be centered specifically around art, Nadler explains that some kids may not be comfortable writing about their savings goals or other financial concepts, so they provide ample opportunity for the kids to express themselves through art. The kids are provided with pencils, markers, crayons, scissors, magazines and glue sticks to allow the students to learn and communicate in the way they are most comfortable.
4. **Experiential Play:** Once the kids have learned all about saving, spending, budgeting and goals, they get to put all of that knowledge to use by shopping in the iPiggiBank store. Each child gets $0.30 to spend, and before shopping they review the list of items for sale so they can plan what they want to buy. Everything in the store is less than $0.30 so kids can buy multiple items, which encourages them to put their new budgeting skills to work, and make smart spending decisions. During the discussion afterwards, teachers talk about how similar this activity is to real world. Adults can't just go into a store and buy whatever they want. They have to make a plan, create their list, determine their budget and prioritize needs versus wants. Whether it's playing store, restaurant or house, role playing activities are a great way to bring financial concepts to life for kids, making it relevant and fun.

https://www.forbes.com/sites/lizfrazierpeck/2019/06/10/four-creative-ways-to-teach-kids-about-finance/#7fd144e631a8

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Create Wealth, Achieve Freedom

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Are electric vehicles the new economy cars?

You may have noticed there are a lot more electric vehicles on the road today than there were only a couple years ago. While EVs account for fewer than 3% of all vehicles driven around the world, they no longer stick out like they once did. Yet, many drivers are still hesitant to consider an EV for their next set of wheels—and in many cases their reservations are rooted in misconceptions rather than actual facts.

A common one is that electric vehicles may be better for the environment, they're just too pricey for most Canadians to consider. But the reality is there's plenty of evidence EVs are not only kind to the environment, but kind to your pocketbook as well.

While EVs do, indeed, have a higher sticker price—as much as 40% higher, in some cases, compared to equivalent gas-powered vehicles—there is an economic offset that comes from the fact that operating an EV tends to cost much less on an ongoing basis. In fact, when you look at and compare the ongoing costs of owning a gas vehicle versus an EV, the higher purchase price of electric powered vehicles is mitigated or even nullified by the savings incurred on everything else. (And, in the shorter term, available government EV rebates help offset the higher purchase price.)

One of the largest ongoing expenses associated with driving is—wait for it—fuel. Gas prices across Canada have been floating around historic highs recently, with the average ranging from $1.38 per litre in Alberta at the lower end to as much as $1.66 in B.C., according to GasBuddy.com. At these prices, gassing up even a fuel-efficient small car can put a hefty dent in your wallet over time. By comparison, charging up your EV can be significantly less expensive, and the savings between the two can often be substantial.

Given that both gas prices as well as energy prices across the country can vary, it's hard to put an exact figure as to just how much you'd save by charging up instead of gassing up, but the results of a B.C. Hydro survey gives us a good idea of the potentially significant savings awaiting EV drivers in that province. B.C. Hydro determined that charging up an EV would cost the equivalent of $0.25 per litre, then, using this figure, determined that a commuter who regularly drove between Vancouver and Surrey, a distance of 80 km round-trip, in a Nissan Leaf EV would spend $409 a year. By comparison, someone driving the same route in a gas-powered Honda Civic would pay an estimated $2,200—or about $1,700 more a year. Driving a Toyota RAV4 would set someone back $2,519, or $2,000 more, and a Ford F-150 owner would spend $3,779 or $3,200 more.

Maintenance is another significant ongoing cost of automobile ownership, and EVs have a notable advantage here as well. The overall design of an EV powertrain is far simpler than that of an internal combustion engine. The drivetrain in a gas-powered vehicle typically contains 2,000-plus moving parts, whereas the drivetrain in an EV contains around 20. With fewer moving parts, the lack of a multi-gear transmission and no mechanical lubricants such as engine oil to change, the maintenance schedule of EVs is less cumbersome and costly by comparison. Proof can be found in the recommended maintenance schedules for a variety of EVs such as the Tesla Model 3, Nissan Leaf, Chevy Bolt and Hyundai Ioniq. The schedules recommend service every 12,000 to 24,000 kilometres, compared to about every 5,000 kilometres for most gas-powered vehicles. On top of the reduced frequency, most EV maintenance checks involve simple inspections and basic fluid top-ups only.

Perhaps the biggest benefit is that, according to a report by vehicle maintenance information firm CarMD, of the Top 10 most common automotive repairs in 2016, only one would apply to EVs—but a missing fuel cap (or charger cap), which came in at No. 4, is by far the cheapest repair item on that list to fix at around $15. The most common repair was replacing oxygen sensors that would set you back around $250, while the most expensive repair on the list, coming in at No. 2, was catalytic converter replacement, which costs $1,150 to complete.

Automakers who produce both gas-powered and EV variants of the same vehicle, such as the Hyundai Kona or the Kia Soul, either haven't done any calculations yet as to how much one would save on maintenance with an EV or, if they have, they aren't willing to make the figures public. However, an informal survey of EV owners on dedicated Facebook groups indicated that they have almost universally enjoyed significant savings on maintenance with their EV compared to their last gas-powered vehicle.

Another place where EV drivers can save money is insurance. While the costs to repair EVs is still proportionally higher compared to gas-powered vehicles, mostly due to the relatively few numbers of EVs on the road today, many insurers are still willing to offer discounts for making a greener choice. Providers such as TD Insurance, Aviva, Desjardins, Intact and others indicate on their websites that they offer premium discounts ranging from 5% to 20% for electric cars and hybrids.

Electric vehicles are fun to drive and offer all the features and benefits that consumers want in their vehicles. Many automakers have also committed to offering a greater selection of EV models for Canadians to choose from in a variety of sizes and styles. When you factor in that EV owners can rack up thousands in savings each year through a greatly reduced cost to operate, it's becoming increasingly clear that EVs can meet the needs of Canadian drivers while being especially kind to both the planet and your wallet at the same time.

https://www.moneysense.ca/spend/shopping/auto/are-electric-vehicles-the-new-economy-cars/

Summer Activities

RBC Bluesfest
July 4th – 14th
https://ottawabluesfest.ca/

Lebanese Festival
July 17th – 21st
https://www.ottawalebanesefestival.com/

Ottawa International Chamber Music Festival
July 25th – August 8th
http://www.chamberfest.com/

Chinatown Royal Gateway
June 26th – 28th
http://www.ottawaasianfest.com/

Ottawa International Buskerfest
August 1st – 5th
https://ottawabuskerfestival.com/

Casino du Lac-Leamy Sound of Light
August 10th – 24th
https://feux.qc.ca/feux-et-spectacles/

Upcoming Events:

Stay tuned for the latest happenings

Client Seminars will pause for the summer and restart in September