
# Looking Back and Looking Forward

As we turn the corner on another year, as your financial advisor I feel it is important to reflect on the past and the future as it relates to your financial goals. As your financial advisory partner I recognize and respect that we both may have our hands on the steering wheel that is your finances, and in particular you may feel that I hold the map and the compass. I take this responsibility very seriously.

Most of your financial future you control – you control what you save, what you spend, when you retire, how long you support your children, the type of career you have, how much insurance you carry, if your Will is up to date and more. But there are aspects of your financial future that no one controls: inflation, investment returns, tax rates, your health, how your life unfolds and how long you will live.

And we all have goals. Money for retirement. Helping the kids. Mortgage free. You can loosely combine them all to say that you want to go through life with enough money that you don't have to worry about money. I get it. You get it. We just need to produce it together.
I'm writing this year end letter to speak to all three sets of factors – with a perspective from a senior planner with twenty five years of experience, living in the trenches and doing our best to manage your finances everyday – and I mean everyday – financial management is not a Monday to Friday job.

**Looking Back**

2014 was a wild ride in the stock market – there were four stock market declines in Canada during the year. Returns that approached 15% in Canada and the US at one point, only to see it all quickly fade back to near zero for the year and end the year with the Canadian TSX finishing up 7.42% and the US S&P500 market finish up 11.39% (source: Bloomberg). Gold continued to decline. Interest rates stayed low. Housing prices in Canada rose a little. Tax rates didn't' change much. Inflation finished at 1.95% (source: www.inflation.eu) for the year. The price of a barrel of oil dropped more than 40% out of the blue – we loved it at the gas pumps but hated what it did to the TSX and oil stocks.

There are lots of lessons to be learned from one year of data like this:

- If you tinkered a little too much with your portfolio (meaning you or we guessed too much and traded too much on speculation, fear, greed) then you could have ended up the year with returns that varied from -10% to +10%. Missing the market for only a few days in 2014 cost you big. LESSON #1: Hold high quality securities and don't get overly focused on daily market noise. It is time in the market not timing that works best.

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LESSON #2: Owning bonds, even if they pay 2%, are good for stability and peace of mind. Even a GIC paying only 2% can still mean the overall balanced portfolio can generate 6% to 8% a year in total return, but with a lot less downside risk. If the October 2014 correction had ended up falling 25% instead of stopping at -9.9%, your financial goals could have been compromised and you would have wished you owned more bonds.

- Our sixth year in a row of record low interest rates is good news for homeowners with mega-mortgages and bad news for retirees who like to invest in GICs and bonds but cannot live comfortably off low interest earnings anymore. In our opinion this won't change much over the next five years. LESSON #3: People with mortgages should take advantage of the low rates and be in a hurry to pay down debt aggressively. People heading into retirement may have to work longer than they want to, to avoid having to live off low interest bonds. People in late retirement who invest in low paying bonds need to watch their spending and may need to downsize homes to create a larger investment base.

- In 2014 we had one disability insurance claim from a car accident and we had five clients pass away. None of us know the turns that life will take but we do know that we need to prepare for the worst and hope it never happens to us. LESSON #4: No one likes to spend money on car or home insurance, nor do we wish to buy disability insurance or life insurance. Yet when bad things happen it is this same insurance that can be the lifeline to a changed financial future. Ahead of saving, ahead of spending and ahead of most other financial costs make sure you have proper insurance in place. No one likes this stuff – not even me the agent offering it. But we need to take care of you and if not you, your family. Spend the money – none of this personal insurance will be in place as long as your car and home insurance yet, arguably, is more important.

- In 1969 when Neil Armstrong stepped on the moon, he said "one small step for man, one giant leap for mankind." In many ways, growing your savings towards goals like retirement or children's educations is the same thing. Investment returns you earn are the small step. The capital that you add to your portfolio each year is the large step. Put another way, you will move slowly towards retirement if you are waiting for the stock and bond market returns to get you there. But if you take charge and add significant amounts of new capital to your portfolio each year you amplify and accelerate the progress towards your goals and amassing wealth. This is even truer after age 45 when your time period of investing is now too short to benefit from the power of compound investing.

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It will take big, new savings amounts to move you towards your goals fast. And if you are not really contributing to your savings until you are 40ish, then you need to expect to save aggressively from the start. LESSON #5: The stock market results year to year will have less impact on progress towards generating a large investment portfolio than if you plan to save large amounts of new capital yearly. And with four down markets out of every ten years of returns (on average) you can easily be set up for disappointment if you time it wrong and you don't add to your savings enough.

- We've had another year of seeing our home values rise in value. In our opinion we will continue to see home values rise as long as market interest rates stay low. For most of us our homes have been the best investment over the last ten years – far better than stocks and bonds – such that now the largest percentage of your net worth may be your home value. In our practice, we are seeing this creating issues for new retirees who may not have enough of a savings base to live off while a lot of money is tied up in their home. This creates the debate about whether to downsize, move to what and live where. With the home being your most valuable asset, unlocking the value tied up in your home contains the clout to materially change the quality of your retirement cash flows. But you need to downsize. And you need to move somewhere much cheaper. The real question is "are you prepared to do that"? MESSAGE #6: Maintain balance between portfolio savings and your home value if you plan to stay in your home longterm – we need money for you to live off and if it won't come from a meaningful home downsizing then you need the savings base. LESSON #6: If your home will be sold to create money for your retirement, don't wait until the night before. If we see higher interest rates in 2015-2020 it may also trigger a fall in real estate value – something you don't want to have happen the night before you retire.

- I mentioned earlier that we had several clients pass away in our practice in 2014. As always, we offer to help the family as much as possible with the estate management. We have deep and broad expertise in guiding Executors and families with the financial work of estate management during a difficult time. Few financial advisors do this work. We do it for free. LESSON #7: If your Will is out of date, if you haven't left a copy of your estate documents with us, if we haven't met your kids or more – take a few moments and let's deal with these loose ends. It's important.



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**Looking Ahead**

Let's start with the basic financial deadline data that most of us need to tackle each year. Here are the 2015 stats:

- Tax Free Savings Accounts – you can put another $5,500 into your TFSA this year. You can send us a cheque payable to Manulife Securities or contact us to e-transfer the money directly into your TFSA with us.
- RRSP – the maximum contribution amount is $24,270 for 2014 and $24,930 for 2015; your personal contribution level should be based on a number of factors that we will be happy to review with you. You can contribute for 2014 up to and including Monday March 2, 2015.
- RESP for kids – you max out the grant of $500/year/child when you put in $2,500/year/child.
- RRIF payments – call us to set up or revise any monthly RRIF withdrawal payments you want. If you don't need the money we will be in touch in December 2015 to deal with the minimum payment.
- RRSP to RRIF conversion – if you are turning age 71 in 2015 we will be touch this year to convert your RRSP to a RRIF.
- Personal tax return filing deadline – this year it is April 30, 2015. You will get your tax slips from Manulife Securities in February and March ahead of the deadline.
- If you would like to stop our paper investment statements and convert to emailed statements contact us at your convenience to convert.
- Let us build our files on you – send us copies of your insurance policies, tax notices, Wills and Powers of Attorney and investment statements for money held in employer group plans and elsewhere. The more we know about you the better our advice can be!

Early indications from researchers, market pundits, economists and gurus are that the stock market in 2015 is poised to be similar to 2014. Expectations are for good single digit returns in Canada and the US. There is talk about interest rates in the US finally moving up 0.25% - an amount that arguably is too small to impact anything. In our opinion we need to see Canadian rates rise a good 2% before it will change Canadian behavior towards credit and this kind of increase is no where in sight. In our opinion the price of oil (and gasoline) will not stay this low. US equities are expected to lead the world and we could see the US dollar continue to appreciate against most currencies, including the Canadian dollar. European growth is expected to continue to slow and some countries face recession. With so many moving parts and predictions the safe answer is to diversify, diversify, diversify. If any of these predictions are wrong you don't want to get caught with all your money in one basket.

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2015 will also be the launch of Phase two of CRM. CRM or the "Client Relationship Model" was launched nationally in 2014 by the Canadian investment regulators and the investment dealer network. It signaled the start of greater transparency in Canadian financial services. In 2014 it started with pre-disclosure of compensation before specific trades occurred in your portfolio. In 2015 and 2016 you will start to get investment portfolio statements that disclose fees and rates of return. In our practice we have always strived to deliver this information to you in our meetings. But across Canada many advisors at many dealers often hide returns and fees from clients. We have always been proud of our transparency and worked hard to improve it. It appears now the rest of the Canadian financial advisor community will be forced to catch up and clients will be the winners. Disclosure of fees and returns is long overdue and we are glad to see it coming.

Let's plan our communication in 2015. I prefer face to face meetings but we know in a busy world you may prefer phone call updates or email our newer email briefings. No matter what you prefer we want to stay in touch – we want to know how your goals may change, brief you on investment performance, revisit retirement, estate, insurance, taxes and other planning needs, be there for you during emergencies like job change and divorce and make sure you are in control of your finances the way you want to be. So we would ask that you do the following for us now – I know Laura on my team would appreciate hearing from you:

- Email Laura at laura.collins@manulifesecurities.ca or call us at 416.628.5761 Ext 239 to book our review meetings, calls or emails in 2015 for the entire year. Laura is in the office between 9am and 5pm week days and is the master planner of our meeting schedule. We have no rules about frequency and type of communication with you. Our preference is to speak a few times a year on standardized topics but the final decision is yours. If there is an essential need for us to speak to you, count on us to push hard to reach you.

It's healthy as we look forward on your finances to remember that it's all about your goals. We always remind ourselves that you have hired us to help you reach your goals. Investment returns are a detail towards your goals. To this end, send me an email anytime to say "Hey Kurt, I have added this goal to my list or changed an old goal and wanted to get this on your radar screen". Our partnership is more effective when I have up to date news about your goals so we can properly model your cash flows and update strategies, products and even fee approaches to reflect your goals. I start every meeting agenda by asking the question "what's new with your goals"?

I'd also like to tell you about our new social media initiative. For years I have written newsletters and emailed them to you – in 2014 we wrote five. They are also posted on the newsletter page of my website at www.kurtismycfo.com. Social media has never been a part of how we have communicated with you because

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it was largely banned in Canada for financial advisors to use. This changed in 2014 and since July I have been part of a pilot program to communicate through Linkedin, Facebook and Twitter with clients and friends. We added links on the bottoms of our emails for you to click through and join my network. Since July I have emailed, posted and tweeted more than 100 financial tips to the social media network. While I will continue to write newsletters and send them to you (by email or mail) we will be doing more on social media. If you like to get my financial tips or get links to articles about me in the newspaper and other media I would encourage you to follow my profile on social media.

**The Evolution of Our Team, our services and our dealer**

In our office at 3 Church Street in Toronto we have eight full time professionals in place to assist you daily. Offsite we have another three people. Our team has grown over time as we have offered a broader array of services. For example, you may not be aware we offer high interest cash savings products for corporations, travel insurance, retirement plans, business consulting, divorce planning and post-death estate management. Banking products and services are offered through referral. If you would like to read the bio about each of our young professionals just contact our office and we will send you our biography brochure with a picture and description of each team member.

In July 2014 we were pleased to have Jordan Campbell, Financial Advisor Associate, join the team. Jordan is a recent graduate of Western University and is a CFA charter holder. The CFA is one of the most sophisticated credentials related to investing in the world. Make sure to say hello to Jordan the next time you call the office.

Manulife Securities continues to be one of Canada's leading investment dealers and a solid home for our practice and your business. Across Canada in 2014 we saw brokers from the bank owned brokerages join Manulife Securities and move their clients from the banks to our dealer as they realize the significant advantages of lower fees for clients, unbiased product choice, a financial planning culture and entrepreneurial approach that better serves clients and advisors.

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Like many of my writings, I can go on and on and this letter is getting long – but there was a lot to share! I'm pretty passionate about personal finance and in particular, your goals and finances. I am incredibly grateful for the ability to work with you each year. My team and I take your finances very seriously. Your goals are our goals and we work hard to advise you properly and communicate with you. We strive to stay educated as a team and keep our fees value priced. We are happy to discuss all of this at any time.

On behalf of the entire team (Laura, Steve, Jordan, Angela, Frank, Mathew, Cherry, Ken, Shannon, Vern) and myself, best wishes for the year ahead. We look forward to seeing you soon.

Warm regards,

Kurt Rosentreter

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