RAYMOND JAMES | ISABEL OLIVEIRA
WATERFRONT WEALTH MANAGEMENT

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Special Points of Interest:

- Going Into Cash
- Thank You
- From Loretta's Desk
- How Do I Protect That Inheritance?
- Current Market Observations

MAYBE CASH ISN'T ALWAYS KING

Recent news has reported close to record amounts of cash being held in Canada by investors - in fact approximately 75 billion dollars. In times of market turmoil, this is a characteristic occurrence and essentially arises from two different causes.

First is the playing out of the concept that markets are driven by "fear and greed," particularly amongst unsophisticated investors. Many individuals simply don't understand that a falling market is a natural occurrence usually triggered by negative economic news – and generally compounded in current times by investors' ability to sell much more quickly at a falling price than was possible even 20 years ago. Current negative news is, concern over the Chinese economy. Increases in the market are just as natural, but they rarely receive the dramatic and stimulating news coverage that declines garner. Consequently, many investors experiencing "unusual" declines, act out their fear by selling off their holdings for cash which they then can safely house in a money market fund while waiting for future opportunities.

The second cause is market timing, which produces a great deal of bravado amongst its advocates. They often characterize this investment philosophy with a picture of simplicity. Many investors or their agents feel they have the skill to time markets, that is, to anticipate drops in the market, surrender holdings to cash, and then reinvest in anticipation of potential gains. They promote this approach using the time-honoured concept of "buying low, selling high." The thought is simple, but in reality, the application of market timing is fraught with challenges.

Mitch Goldberg, a financial advisor, President, and CEO of Dix Hills, New York-based ClientFirst Strategy states, "The big issue is that when you go to cash, you have to be right twice. First, you have to be right about getting your timing correct when you sell. If you are selling because it is your panic reaction in a down market, I think it's fair to say you probably got that part of the decision wrong. The second part you have to get right is the timing of your buy orders. And if you are waiting for the perfect time to buy, you'll never pull the trigger."

So if you sell too late, that is a problem, which is only exacerbated by the challenge of buying back in at the right time. Will you get the second timing right? And just as intriguing, will you buy the right things? If you can successfully execute this process, then you deserve all the appropriate accolades. However, there is a contrary approach that it is simpler, has a great deal of merit, and entails much less risk. That is "simply staying the course."

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MAYBE CASH ISN'T ALWAYS KING - continued

If we go back to the largest downturn in the market in the last 15 years, we can see the 36% drop the S&P took in 2008. If the market timer missed this 36% drop, or bailed somewhere along the way, they were probably also late in reinvesting in 2009, which produced a gain of 26%. So the likely scenario for investors who tried to get into the market was late getting out and late getting back in. This would have brought returns closer to flat, which is unfortunate because from 2008 to 2012, the S&P 500 generated a cumulative return of 8.6 percent.

Jeff Tjornehoj, head of the American Research Section of Lipper's, a financial firm developing analytical data states that, "It's a rocky ride, but the do-nothing investor would have been fine and avoided headaches," He added, "If you know precisely how to move between stocks and bonds and everything else, you would have done better, but how many investors know how to do that?"

From my experience, there are more claims of successful market timing than can be documented in reality. Market timing is really challenging as it requires not missing the very best days in the market. If you have basically flat returns in your investments, the best days were probably missed by you or your advisor who has this timing philosophy. These "big day" misses compound over the years. We have to remember that the markets should always perform better than cash over the long term. Historically speaking, patient investors who have been willing to endure the volatility of the markets have been rewarded.

I do not suggest that investors only have two courses of action – staying in the market or opting for cash. A properly run portfolio is constantly in the process of being rebalanced according to the needs of the investor, their risk tolerance and anticipated market conditions. This includes the option of a cash position. In most cases, having some sort of cash position is prudent so we can take advantage of market declines or definable opportunities. However, holding a large portion of your assets in cash will undoubtedly expose your account to loss of opportunity. If you are holding quality investments within a properly structured portfolio, stability and growth are a great deal more achievable.

If we listen to the sage advice of investment billionaires such as Warren Buffet, founder of Berkshire Hathaway, and Jack Bogle, founder of the Vanguard Group (a good starting point for most of us), then accepting their mantra of "staying the course" is a little more reassuring. It is even more reassuring if your investment portfolio is managed responsibly.

If you have any questions about how your accounts are structured or actively managed, please call.

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YOUR REFERRALS ARE TRULY APPRECIATED

Over the last year, many clients have paid me the honour of referring friends, relatives and other significant people in their lives to me for financial advice. I believe it is very important to recognize all of you who have shown confidence in us as a trusted advisor. Thank you so very much for seeing our worth and merit in your financial well-being and for having the good graces to allow us to represent your faith in us with people you value.

We would never take a referral lightly because we fully understand; that not only are we representing ourselves with the people you refer to us, but we are also representing you – because you are vouching for us as a viable and competent source of sound and responsible advice. Receiving this confidence from you is one of the most fulfilling aspects of my role as an advisors.

The variety of concerns I have addressed are quite extensive and the outcomes rewarding. Many referred individuals simply need to know their pension roll over options and the resulting life planning involved to make the most of those assets. Others have floundered with endless years of lethargic returns and need to understand why and what to do about redressing this deficiency. Yet others need to know if their assets are properly invested, will they not only last the rest of their life, but also provide a legacy for family members.

On every occasion, I do my utmost to offer the very best advice, to listen compassionately and to be proactive about generating the best outcomes. Meeting your expectations of me is the very least I can offer for your belief in me.

Again, thank you for your confidence. It is truly appreciated.

FROM LORETTA'S DESK… HOT TIPS THAT MIGHT SAVE YOU TIME!

My function is to work alongside Isabel and ensure that all administrative aspects of client accounts are managed properly. Because I am constantly involved with addressing administrative issues in a timely fashion, I can often quickly resolve inquiries without the need to address Isabel.

For your convenience, here is a list of questions I can readily address and client needs I can quickly fulfill.
Please have a look and let me help provide the type of client servicing you should expect from our office:

- Statements; Portfolio Reports; Tax Receipts
- Banking & Address updates
- RRIF plan information; Changes to your RRIF payments
- Setting up PACs or Systematic Withdrawal Plans and changes
- Opening a new investment account
- Scheduling appointments
- Contributions to your RRSP or TFSA
- Deposits & Withdrawals from any of your accounts
- Estate settlements (co-ordinating documents)
- Transfers from another financial institution to Raymond James Ltd.
- Administration fee information

Please do not hesitate to contact me with any questions and I will do my best to assist you with your requests. My direct line is 905-333-1955.

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HOW DO I PROTECT THAT INHERITANCE?

Many of us think of an inheritance as the "simple" movement of assets from parents or relatives who have unfortunately passed. It could be a very disquieting time in our lives and the fact that the inherited assets may be greatly beneficial is generally bitter sweet.

My experience with clients and their relatives facing these circumstances over the last several years; has shown me the importance of proper planning, because in some cases, family members might have different agendas and viewpoints.

Fortunately, despite these challenges, the majority of financial issues can be resolved if considered rationally in advance.

In essence, there are two parties vested in any transition of wealth through inheritance: the first, of course, are those wishing to see the accumulation of their lifetime financial worth go to their choice of individuals, charities, or institutions. The second, are the recipients of these proceeds.

Individuals planning to leave an estate want to be certain who will receive their assets, and as important is that they receive as much of those assets as possible after taxes, probate costs, fees, and other expenses. Their intentions are outlined in a will with an executor being appointed as the managing force. The executor's duty is to make the proper legal applications, to make sure the actual intentions of the will are implemented and to dispense the proceeds accordingly.

Although this sounds like it should do the trick, for many cases, having a will is the "simple" part. Making sure the intentions are actually met can be a challenge for an executor.

To outline all the possible obstacles would be a book length effort, rather than the contents of a single article, but, what is clear is that these obstacles take time and money to resolve.

There is, however, a process that can be implemented to resolve the majority of these issues long before they become points of contention. Most people have heard of "estate planning", which is the preparatory work involved in planning the future disposal of an estate while the individual is still living. Traditionally this is done to address probate and tax issues as well as other predictable expenses. The estate planning process can also make provisions for recipients who are under-protected, and in some cases, provide specific criteria for charitable donations. This process generally provides relief to individuals passing on their assets. However, sometimes estate planning might not address the more personal concerns of both the person leaving the estate and those receiving the proceeds. In my view, an estate plan is more of a rational list of tax and legal concerns to be considered, and as it is a great first step in planning, but need additional steps that consider the more personal and emotional issues.

My past experiences dealing with estates have given me examples of good planning ending in frustration with the estate being depleted while the issues are being settled.

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HOW DO I PROTECT THAT INHERITANCE? - continued

Here is a brief list of some of the most recent challenges:

- Inequities in the financial well-being of the recipients. A person struggling with debt always wants their share of the proceeds as quickly as possible, causing assets to be sold at inappropriate times. As the receiving participants in an estate, do you really want stock holdings liquidated in a down market or a house sold at the lowest market price?

- Conflicting or competing opinions from a variety of well-intentioned professionals. Each professional involved in the settlement of an estate is an expert in their field. For example, a financial advisor is the best source of information and advice on the handling of financial assets. However a financial advisor is not the best source of legal opinions; although they may be able to recommend an appropriate lawyer. In the same sense, the accountant who is dealing with the tax reporting aspects of settling an estate should not be giving advice on how investments can be handled unless they are a qualified financial advisor.

- The influence of people with other agendas can also be very disruptive to an organized process. Two of the biggest are new people entering personal relationships and requests to fund new business ventures, both of which seem to require immediate release of funds at the expense of the estate.

- Also quite sadly, personal animosity among siblings that is released with the loss of parental management.

To help alleviate these kinds of problems, I propose a pro-active approach. In many cases, the issue tends to be a lack of effective communication among those involved and a lack of understanding of the consequences if matters are not handled with real consideration.

As with estate planning, communication and understanding among the parties should be developed before the estate holder is deceased. The ideal scenario is one where everybody – including their financial advisors – are on the same wavelength, knowing what to expect and being fully aware of timelines. This can be achieved either through one-on-one meetings or as a group. Through proactive communication and understanding, the advisor in charge of estate planning can design a transitional format that addresses contingency requirements and offer financial guidance on handling assets. This format also allows the estate to address contingencies without the fire sale of assets. It makes little sense to sell a home well below market value just to meet a $10,000 dollar short-term need by one of the inheriting parties.

This is a subject that I will be discussing with greater detail in the following newsletters. However, if you have current questions or concerns, please contact me.

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CURRENT MARKET OBSERVATIONS

Equity markets around the world posted mixed results in the first quarter of 2016. Despite volatility early in the period, the global economy's slow growth estimates, low interest rates and controlled inflation gradually supported investor confidence and resulted in an increase for many by quarter-end.

- **Eurozone:** Even before a potential knock to economic sentiment from the Brussels attacks, confidence across the 19-country Eurozone was already on the decline. A survey from the European Union's executive arm showed that economic confidence across the union fell in March for a third month running to a 13-month low, the latest in a run of figures to indicate that the recovery is losing pace. Deterioration in sentiment was due to lower confidence among consumers as well as managers in the services and construction sectors. It was also fairly broad-based across countries, with Italy and France faring particularly badly. Germany, the region's biggest economy, held up better.

  Factors that are currently weighing down confidence are the uncertainty in financial markets, worries over the Chinese economic slowdown and a rise in U.S. interest rates. The European Central Bank may have "more work to do" in light of the further fall in Eurozone consumers' inflation expectations. This month, the ECB announced a further stimulus package in an attempt to get the Eurozone economy going and to push inflation, in particular, back up toward its target. The ECB wants inflation to hover just below the 2 percent mark, but it's been way below that for years. At last count, in the year to February, it was minus 0.2 percent.

- **China:** The death of China's growth means, by many measures, a drop of gross domestic product (GDP) improvement to under 6%, well below the government's roughly 7% forecast. Purchasing manager's index (PMI) contraction has partially caused this concern. However, PMI measurements, after signaling this contraction for months, have started to move positive. China is the world's largest consumer of imported oil, moving ahead of the United States two years ago. So a better Chinese economy risks a greater hunger for crude.

  The Chinese government reported that PMI rose to 50.2 in March. Anything above 50 means expansion. Services PMI reached 53.8 this month. Of course, oil price movements rely on much more than China. Decisions by Middle East nations and Russia can flood the market with supply or choke it off. Many of these nations have seen their treasuries drained because oil prices are so low. Additionally, the fracking industry in the United States has been partially destroyed by lower oil, which has curtailed its production.

- **US:** The US economic expansion isn't ending anytime soon. At the start of this year you couldn't go without hearing someone call for a recession. People pointed to weakness in the manufacturing sector centered on the crash in oil prices as a place of stress that could spill into the broader economy.

  The unemployment rate rose slightly to 5**%,** driven up by a larger number of people looking for work. In January the unemployment rate dropped below 5% for the first time since 2008 and had remained there for the first two months of the year.

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CURRENT MARKET OBSERVATIONS - continued

The news is likely to bolster the Federal Reserve's case for further interest rate rises, although the Fed chairwoman, Janet Yellen, said this week that the central bank is likely to slow the pace of rate hikes this year.

The sustained robust pace of job creation and accelerating wage growth should in theory bolster the Fed's commitment to normalizing policy with at least two further rate hikes this year While Yellen urged caution in her speech and hinted at "gradual increases" in interest rates later this year, other members of the Federal Reserve have hinted that another interest rate hike is not far off. Economists now expect only two interest rate hikes in 2016.

- **Canada**: The Canadian markets have been the standout performer of the first quarter with a gain of 3.7%. The better performing sectors have been energy and materials, while industrials and financials had smaller increases. Despite the recent moderation in the housing market, elevated household leverage and house prices remain a key vulnerability. With inflation low and downside risks looming, monetary policy should remain accommodative until growth gains further traction.

I feel that the current volatility in the markets is a reminder that capital market investments typically do not take an upward path; we usually tend to experience declines or corrections before moving forward again. For that reason, I believe it is important to take a longer-term approach, and to invest in a portfolio that is well diversified amongst asset classes, geographies and sectors based on your individual investment goals and objectives. For the coming months, I am advising clients to expect more conservative returns until global growth rates again start to increase.

If you have any questions regarding your accounts or my thoughts on the current economic markets please do not hesitate to contact me.