T.F. 1.844.549.1900 | T. 905.333.1920 | Isabel.oliveira@raymondjames.ca | www.raymondjames.ca/isabeloliveira

JANUARY 2016

In This Issue:

BANKING ON THE BANKS

As a financial advisor I am often asked my opinion of banks and their services. I wish the answer was straight forward because banks are such an integral part of our financial circumstances and our economic well-being. Short of stuffing money under the mattress, they can be very handy. Everybody uses a bank or credit union to orchestrate their day-to-day money management.

Despite the advertising about service excellence that banks seem to generate in their competition with each other and for our business, it is very hard to discern an unblemished favourite. So it is best to simply put them into perspective and judge their performance on that basis.

A stable banking system is crucially important to any country's economy. We need only look at the current circumstances in Greece to see what happens when the banking system becomes stressed. Canada's banking system is often considered to be one of the world's safest. Yet in 2009 when the world economy was taking that well remembered financial down turn, financial assistance for Canadian banks from a variety of Canadian government sources totalled $114 billion. Incredibly at the time, that worked out to $3,400 for every man, woman and child in Canada. Not only was that 7 per cent of Canada's gross domestic product in 2009, but it was also more than many individuals actually had on deposit in banks. Interestingly, this was also 10 times the amount Canadian taxpayers spent on support of the auto industry, an industry that seemed in great disarray and jeopardy at the time. A senior economist at the Canadian Centre for Policy Analysis, David Macdonald, concluded after an in depth study that Canada's major lenders were in a far worse position during the downturn than previously believed. It could be that sometimes we are a little mislead by those seemingly huge profits that are announced quarterly.

However when the dust settles, we must remember banks exist not only to facilitate our economic system, but also to make a profit which they tend to do consistently. Every shareholder, and there are many individuals and institutions in Canada holding bank shares, who receives a dividend or a capital gain on the shares they own will attest to this. Every credit card holder who pays upwards of 20 per cent interest on their overdue balances and every account holder and investment client who complains about bank fees and services will also affirm this. Banks are clearly a two sided coin for most people.

BANKING ON THE BANKS - continued

Money management and financial advice are two of the most profitable segments of banks and credit union activities. This business flows naturally from already established relationships with depositors. In that the client is already involved with the bank, banks have focused on generating comprehensive all-inclusive services that now not only include traditional lending, but also investments, mortgages and a multitude of other interrelated services including insurance. The complication is that despite the dialogue to the contrary, many clients get lost in the sheer size of the business. Gaining a client or losing a client has relatively little significance in the overall scheme of things. In investing for instance, it is very unlikely that any individual ever enjoys the same adviser, regardless of good or bad, for any extended length of time.

In contrast, independent financial advisers wanting to be responsible to their clients and wanting productive long term relationships spanning generations, extended family groups and happy referrals must focus on their personal service skills and obligations. Meeting expectations is paramount. The “buck stops with them;” there is no bureaucracy to absorb uncomfortable issues or to diffuse responsibility.

So my opinion of banks –everybody needs to own some – but clearly understand the value they have to you, your financial well-being and your financial progress. Banks are big, but not every service they offer is the most appropriate solution to your needs.

GOOD TO KNOW…

Through Raymond James Financial Planning, we can take of your personal and corporate insurance needs. Whether it is for – Life, Disability or Critical Illness protection

Do you have any concerns that you may not have enough coverage for your children, family or spouse if something happens to you?

What happens to you, your income, your lifestyle, if you are single and you get sick or disabled.

Please feel free to contact Jeff Meier our Raymond James Estate Planning Advisor to help and assist you with any questions or concerns you may have. We are here to help.

Tel: 519.883.6056 | Toll Free: 877.642.6408 | F: 519.883.6079 | jeff.meier@raymondjames.ca

RAYMOND JAMES | ISABEL OLIVEIRA WATERFRONT WEALTH MANAGEMENT

T.F. 1.844.549.1900 | T. 905.333.1920 | Isabel.oliveira@raymondjames.ca | www.raymondjames.ca/isabeloliveira

WORKING HARD AT WORK WORTH DOING

Several days ago, I got home at 6:30 in the evening after a full day's work in the office and after visiting a client who had unfortunately been confined to the hospital. Thankfully, the prognosis for the patient was good, but still, the event was stressful for everyone involved, particularly the family. My first act after entering the house and calling to my spouse was to flop down on my couch and just relax. I let out one of those huge "**phews**" that sometimes escapes us and simply says we have had enough for one day. My spouse overheard that sound of relief from the other room and called out, that's what happens when you **"work hard at work worth doing."** I had never heard him say this before, so I asked where he had heard this and he answered, "My mother, of course."

My mother in law was a wonderful lady and wise in many ways, but I just couldn't envision her being the originator of that particular thought; not because she wasn't mentally capable, but because English was not her first language. That many words starting with "w" would have been a real challenge for her to formulate, but certainly not for her to repeat and promote once she understood the real meaning. She was without question a hard worker and a person who expected others to also be hard workers. It was what you did.

At the office the next day it took only seconds on the computer to discover who had first expressed this thought. In a 1903 speech to the New York State Agricultural Association, the American President Theodore Roosevelt had said to the assembled farmers,

"Far and away the best prize that life has to offer is the chance to work hard at work worth doing."

As today, farmers were some of the hardest workers in the nation helping to fuel the huge economic growth the US was experiencing. This was the second year of Roosevelt's presidency. He was seeking to call on the strength of the people of his nation to help take their natural place as one of the most dynamic nations in the world.

I am not sure how many of those hard working individuals had the energy at the end of the day to let out one of those house rattling **"phews,"** but my suspicion is not many, as every day required a full commitment to the tasks at hand. Dairy cows, crops and chores don't take days off and have little respect for the concept of hard work.

I start my day early checking the markets for trends and economic indicators. Then I overview client accounts to assure myself that they are performing as expected. I make any necessary changes. Just like the dairy cows, there is always attention needed. I then spend time examining economic forecasts and the latest economic news to see if these will influence what I am formatting for clients. I answer calls and make calls. I solve problems and give advice, and if I have a client who needs to know I care, I visit the hospital or go to their home.

So despite how full my day might be, just like you, I have to keep my eye "**on the best prize life has to offer"** and that is **"working hard at work worth doing."**

PUTTING DEFERRED SALES CHARGES INTO PERSPECTIVE – DOES THE CLIENT BENEFIT?

There is an unfortunate circumstance that many investors encounter when making the decision to either withdraw funds from their mutual fund investments or to change financial advisers. This is a Deferred Sales Charge (DSC); or more historically termed a back end loaded fund. Essentially, this is a charge for surrendering the investment before a proscribed length of time. This period can vary from four to eight years, depending on the particular mutual fund company. Some of these mutual fund companies will allow switches between their families of funds with stipulations that relate to asset classes. In other words, realignment between equity funds may have no charge, but from an equity fund to an income fund will. This, of course, can penalize an investor wishing to rebalance their investment assets; an inevitable necessity with a properly managed portfolio.

The original logic for these charges was twofold. First, the fund companies wanted to discourage investors from treating their funds like stocks – that is buying and selling them as a speculative investments or surrendering them in a panic when markets took a downturn, and secondly, they needed to pay the advisers selling their funds immediate commissions. Essentially by locking the client into their funds, they could over time recoup these up front commissions. Generally, these same funds or parallel funds were also available with the option of either no-load or an upfront charge. In either case, there was no penalty for surrendering the funds under those circumstances.

In the first case, if proper management of assets was the priority of those managing the funds, it was essential to have a stable capital base that allowed the fund managers to use both their investment expertise and the factor of time. The managers did not want non-professional investors, arbitrarily pulling their money out of their funds to reinvest in another company's funds. Nothing could be more challenging for the fund managers than to have redemptions with a downturn in the market or investors changing their fund preferences. This monetary outlay tended to marginalize their ability to purchase new investments because their un-invested capital was being paid out, or in some cases, their preferred holdings were being liquidated to cover redemptions. Needless to say, these forced circumstances dramatically influenced even the best management's ability to manage.

Consequently, paying a commission up front and engaging a DSC status was deemed an efficient practice for encouraging advisers to get clients to invest in mutual funds, particularly advisers who were new to the business of mutual fund sales and perhaps not financially stable themselves, and for discouraging redemptions and switches.

Before the advent of mutual funds, investors had to deal almost exclusively through brokers who had securities licenses allowing the trading of stocks, bonds and other investment vehicles. Brokerage firms charged a fee for both buying and selling. The broker's security license assured the investor that a level of financial investment education had been achieved and specific advice given was relevant to the quality of the investment. Unfortunately brokers offered no essential financial planning or estate planning advice, a decided disadvantage to less sophisticated investors and anyone focused on future planning. With mutual funds, the fund managers were considered the experts and the advisers, simply the method of bringing the funds to the managers. This was perceived as a practical method of bringing investment expertise to unsophisticated investors.

T.F. 1.844.549.1900 | T. 905.333.1920 | Isabel.oliveira@raymondjames.ca | www.raymondjames.ca/isabeloliveira

PUTTING DEFERRED SALES CHARGES INTO PERSPECTIVE – DOES THE CLIENT BENEFIT? - continued

Initially, the multitude of advisers (mutual fund sales individuals) could sell funds with a very minimal level of accreditation or knowledge and often under the guise of being financial planners, despite the reality that the majority of their income came from sales and the planning was formulated to generate sales. At that time with a mutual fund license, an individual could call themselves a financial adviser or planner having completed only a rudimentary qualifying program. This practice generated some very real abuses in the system and a culture of chasing commissions over real planning or investment advice. Exacerbating this circumstance was zealous competition between fund companies resulting in the proliferation of incentives to encourage the advisers to direct monies to specific mutual fund companies.

In 1995 a former Commissioner of the Ontario Securities Commission, Gloria Stromberg, released a report outlining the extent of these wayward practices. Fortunately, this resulted in dramatic changes in how advisers are paid and their responsibility to clients. Over the last 20 years there has been a significant drive to provide full disclosure of fees and the ramification of those fees to the clients.

Some advisers maintain that not only does a DSC charge help a new financial adviser fund their career, but it also acts as a deterrent to younger investors pulling out funds from their investments prematurely. Others suggest this is the only way for smaller investors to obtain good financial advice without inordinate costs.

In reality, DSC charges are very hard to justify and in fact, their days may be numbered. The deciding factor for investing should always be the welfare and the best interest of the client. Investors are becoming much too sophisticated to find themselves punished for withdrawing funds and new investors should never face the arrogance of being disciplined in their savings by their financial adviser. Fortunately, there are very few fund companies that function primarily with DSC funds, although the option is still open with most mutual fund companies. Always check and understand first before committing to a financial proposal.

The original logic that mutual funds combined with a responsible and knowledgeable adviser can provide a very effective method of furnishing low cost investment expertise to a multitude of investors is still very valid. The key, as always, is choosing a reputable and responsible adviser.

If you any questions about any of these issues or have to address this circumstance, please contact me for clarification on your best options.

T.F. 1.844.549.1900 | T. 905.333.1920 | Isabel.oliveira@raymondjames.ca | www.raymondjames.ca/isabeloliveira

CURRENT MARKET OBSERVATIONS

Happy New Year! I hope you and your families had a safe and happy holiday season.

The global economy in 2015 saw some economies strengthen, while others—particularly emerging and developing economies—were pressed by plummeting commodity prices and by tightened financial conditions.
For 2016 the world will face economic challenges on multiple fronts. As the US Federal Reserve begins its monetary tightening, Europe is still struggling with ongoing debt issues that have been exacerbated by the recent migrant crisis. China's financial stability is continually weakening and now, the fear of nuclear weapons in the hands of North Korea is initially very unsettling to both markets and governments.
The Canadian markets with declining oil and resource prices over the year became the worst performing markets of 2015. These impacts will take time to balance out leaving some challenges for those markets going into 2016. The continued depreciation of the Canadian dollar will undoubtedly assist this balance as exports of manufactured goods should respond to the relative lower cost of production in Canada.

Below are my views on the world broken down by geographical regions:

China: This juggernaut economy is slowing as it transitions from investment and manufacturing to consumption and services. But the global spillovers from China's reduced rate of growth, through its diminished imports and lower demand for commodities, have been much larger than anyone would have anticipated. Growth below the authorities' official targets could again spook global financial markets—but then again, historic methods of enforcing growth targets could simply extend economic imbalances, spelling possible concerns down the road.

Europe: Europe is facing the worst refugee crisis since World War II. The U.N. estimates 1 million people crossed the Mediterranean to escape war, poverty and persecution in their home countries in 2015. Unfortunately, the New Year started with a series of terror threats in Europe. New Year's festivities were canceled in Brussels, Europe's political capital, after authorities' uncovered plans for suicide attacks. In Paris, fireworks were canceled following multiple terrorist attacks in November that left 130 dead. And in Germany, several train stations were shut because of terror alerts. Fears of terrorism and stepped-up security are likely to remain commonplace in Europe in 2016, as most countries increase their defense spending. All of these activities tend to defocus the economy.

However despite all these tensions, Europe could finally see an economic revival in 2016. The continent has suffered from low growth and deflation, and its leaders are hoping 2016 could mark a change.

The value of the euro has fallen dramatically against the US dollar, making Europe more attractive for investors and tourists. The ECB has stepped up its stimulus program, and the threat of Greece dropping out of the Eurozone has passed, at least for now.

T.F. 1.844.549.1900 | T. 905.333.1920 | Isabel.oliveira@raymondjames.ca | www.raymondjames.ca/isabeloliveira

CURRENT MARKET OBSERVATIONS - continued

US: The U.S. economy continued its solid growth and job creation in 2015 triggering the US Federal reserve to start tightening its monetary policy and begin interest rate hikes. Going forward into 2016, the economy should be driven predominantly by a healthy expansion of consumer spending, plus gains in residential investment as the housing market continues to tighten. Business investment growth should remain relatively quiet, held back by, among other factors, a strengthening dollar, election-year uncertainties, subdued corporate earnings growth, and in the longer term, tightening financial conditions. As a result however of the global fragile economies, I suspect that the Fed will raise rates slightly less rapidly than anticipated in the most recent meetings.

Canada: Canada is headed for a rocky year as low oil prices continue to drag on economic performance. Many economists believe the loonie, which has plunged as the price of oil has declined, has further to fall. This may be somewhat mitigated by export expansion triggered through more competitive pricing.

The negative outlook for oil, the differing policy directions between the Canadian and American central banks, and the strengthening American economy might mean the loonie could fall below 70 cents US before it begins to recover. Because of the faltering performance of the rest of the world, including the European Union and China, Canada will need to depend even more than ever on its largest trading partner for export growth. The full impact of that relationship hasn't materialized yet, partially because the US still has existing manufacturing capacity and because of the delayed response of wholesalers and manufacturers to the advantage of purchasing discounted goods manufactured in Canada. However given economic adjustments, this discrepancy should become increasingly apparent to US wholesalers and retailers providing the expected impetus to Canadian exports.

In closing, many economists see the global economy picking up modestly in 2016 because of growth in the US economy. Needless to say there will be many challenges to these projections – both known and unexpected. As is my practice, I will consider all the factors and indicators affecting Canadian and global markets when positioning client's investments and make the best decisions possible given their specific needs. This is the role of a responsible adviser regardless of economic or global circumstances.

I look forward to the challenge of meeting your expectations. As always, I am a phone call away if you would like to discuss your accounts in greater detail.