

September Client Communication

Although it is difficult, or even impossible to predict the short term direction of global markets we offer three primary factors that have led to recent market volatility.

- 1) Concerns over China, the world's second largest economy appears to be slowing down. Specifically, the Chinese government released a report revealing manufacturing was at a six year low.
- 2) On August 21st, crude oil prices fell below \$40, down from approximately \$100 per barrel just one year ago, resulting in the S&P 500 Energy Index declining 9% during that one week.
- 3) Interest rate uncertainty...historically markets become jittery with the anticipation of a looming interest rate hike by the Federal Reserve in the U.S.

Market corrections (a market decline of more than 10%) should be expected approximately once per year. The last correction for the S&P 500 was in 2011. It is worth noting that last fall the S&P 500 declined 9.8%, but recovered in a short period of time.

As we know markets will overreact on good or bad news, and loathe uncertainty. We strongly believe it is more important to focus on the longer term picture and consider the large recovery we have experienced in global markets since the credit crisis of 2008/2009 as opposed to recent volatility.

The month of August saw a broad based global equity sell-off with the S&P 500 and S&P TSX ending the month down over 6% and 4% respectively. After six years of approximately 20% returns on the S&P 500 a pause in the upwardly market direction is healthy, and long overdue...

Despite average intra-year declines on the S&P 500 of -14.2%, annual returns have been positive in 27 years out of the last 35 (source: J.P. Morgan Asset Management).

Fidelity Market Outlook 08/24/15

Is this the end of the bull market that started in 2009 or just a normal correction?

For this to be a much bigger correction, the key assumption would have to be that the U.S. economy is close to recession or we are at risk of a significant global financial crisis.

Unlikely that we are entering recession: Global growth has certainly slowed, but we continue to be on a positive trajectory. We do expect regional issues to continue in particular China and Emerging Markets.

We have recently attended several money manager meetings (Sprott Asset Management, CI Investments, Front Street...) and a consistent theme exists:

One can be a long term growth investor, or a conservative income investor or anywhere in between...the consistent theme is that flexibility for selecting securities is crucial in avoiding risk, and taking advantage of pricing opportunities. Flexibility for security selection is important right across the broad spectrum of asset classes available including geographic regions.

We believe the chart below courtesy of Fidelity illustrates nicely the value of global exposure. As one example only, last year U.S. equities (23%) were the top performing asset class clearly trouncing Canadian equities (10%), and Canadian Small Cap equities (-3%).

The Simplest of Financial Plans for Tax Free Retirement Income

Regardless of what you are saving for...a car, house, vacation or retirement income, the Tax Free Savings Account (TFSA) is a wonderful vehicle to take advantage of. As previous newsletters have clarified, this should be considered a **TAX FREE INVESTMENT ACCOUNT** as numerous investment strategies exist similar to an RRSP account.

The Simplest of Plans...

Earlier this year the annual maximum contribution for the TFSA was increased to \$10,000 (it is possible that the NDP or Liberals may reduce this).

HERE is the plan...

40 year old commits to investing \$833 per month to max out the annual contribution limit of \$10,000. Assuming a 6% average annual return over 25 years, at the tender young age of 65 the TFSA will have grown to \$577,000.

A 5% systematic withdrawal plan (5% of \$577,000) for income would provide just over \$28,000 of tax free income.

Times two for a working couple and this would be \$56,000 of tax free income!!!.

Conversely...assuming a 30% marginal tax rate one would need \$80,000 pre-tax, to generate the \$56,000 of tax free income.

At a 5% withdrawal rate, one would need \$1,600,000 invested to produce \$80,000 of pre-tax income...

From an estate planning perspective...there are no conversion requirements for a TFSA meaning the account can be left untouched and passed onto respective beneficiaries (an RRSP must be converted to a RIF at age 71).

As always we welcome your comments, questions and/or feedback and are always available for telephone, email, or face to face conversation.....