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From the Desk of Laszlo

Winter 2015

Perspective and Change

Happy New Year everyone! Before I discuss some of the changes we can all expect for 2016, I wanted to briefly go through 2015. It was one heck of a year for change. We had major changes in government, tax rules, economy, the price of oil, the dollar and expectations. While the last few years have actually been very good for everyone, people wanted change in many things.
I have a chart in my office waiting area, dating back 70 years, that predicted some of the political changes. You see, in North America, people vote for political change every 8 to 12 years. It is curiously regular. It reminds me that some things are very predictable.

So what immediate changes do we all have for 2016 that apply to planning?

Tax Free Savings Account (TFSA) limits have been reduced back to $5,500 per year from $10,000. The new 2016 limit is $46,500.

Registered Educational Savings Plan (RESP) and the Alberta Education Savings Grant (AES Grant). While the 20% from the federal government on contributions remains in place, the Alberta Government eliminated the AES Grant altogether. Any grants paid to RESP accounts from Alberta will stay and will be treated as "growth" for tax purposes when withdrawn, but no new Alberta Grants are available going forward.

Income tax rates have changed. This means if you have RRSP receipts and your income is under $90,000, you will definitely want to use them to maximize your tax refund for 2015 as tax rates are falling, albeit marginally. Those in the higher brackets may want to hold off until 2016. While all the details are still being worked out for 2016 and beyond, tax rates for the higher income earners have gone up dramatically. In fact, they are now higher now than in the 1990's when rates topped out at 46.1%. While this may seem equitable, governments will discover a simple truth of tax collection: the more you ask for, the less you will receive as individuals, and businesses adjust their earnings down, or move. This happened in the 1980's and 1990's as professionals, such as doctors and other business individuals, moved to other provinces or countries. This is something to watch for post 2017. The small token tax reduction to those earning less than $90,000 is ridiculous however. All the more ridiculous when you realize that increases in fuel, heating, and new carbon taxes will take that money right back from most of the middle and lower income families, even accounting for rebates. It saddens me to see politicians buying votes on ANY end of the political spectrum and then saddling future generations with ever greater amounts of debt. Ultimately, higher taxes on everything translate to higher prices for basic goods, and ultimately higher inflation.

Written by Laszlo Szojka

2015 RRSP DEADLINE IS FEBRUARY 29, 2016

OIL, the Canadian Dollar and Change

The "story" of the year was the price of oil and the Canadian dollar. If anyone wants a basic economic lesson, this is the one to watch. Two years ago, I mentioned that oil was going to go through a major correction *unless* oil producers slowed their production. This is a basic supply and demand equation. Instead, every country that produces oil, including Canada, increased production! Demand is actually going up steadily but not enough to use up the extra supply. Basic economics here is that if supply is out-pacing demand, prices will fall and supply should fall in response. We are all eagerly awaiting this supply fall response. At present, there are hundreds of super tankers around the world (2 million barrels each) parked in the oceans with no buyers. The direct impact on Canada is a lower dollar not just because of oil, but due to increases in taxation, and a total disregard for investment dollars flowing to regions that, in the past were major economic drivers. Canada and Alberta represent such a SMALL percentage of the world economy that any drastic change of taxation or government policy makes investment dollars go elsewhere. Investors dislike policy and taxation uncertainty, and we are seeing this as money leaves Canada.

When it comes to investment suggestions, over the last two years, I have suggested people hold more and more assets outside of Canada. Essentially, this is a statement on the realities here. This has helped greatly as you are getting the positive effect of the Canadian dollar depreciating while owning assets not in Canadian dollars. I have also suggested global income assets. These are the strategic income and balanced funds that provide consistent income from hundreds if not thousands of sources. Remember the Chart I mentioned in my office? It has currency trends too. In about 2 years, currency might start to creep up but right now, unless oil stabilizes and goes up, our dollar won't either.

2016 might be a test year. China is one of those ridiculous economies that everyone can watch but ultimately, not directly participate in. China is transitioning from an export economy to that of a consumption economy. What does that mean ultimately? It means that they are relying less on exporting manufactured goods, to an economy that depends on its own people buying goods and services.

So what does a Communist country do to expedite this change to a domestic wealth creation economy and ultimately transition to a consumption economy? Remember Western economies took 50 years to do this, and China wants to do it in 2 to 5 years! It encourages the average citizen and city to borrow newly printed money and invest it into their real estate (that they can't own by the way) or their stock market (which has thousands of fake companies on it with no assets). No kidding! They do this in such a way so as to make the Capitalist system look tame. To watch a government encourage its' citizens to actively borrow money, invest it, then restrict the ability to sell it or trade it, is a recipe for disaster. While we watch this with distant fascination, you have to wonder if their experiment with extreme Communist/Capitalism will implode.

Will it have ramifications for the rest of us? There is no easy answer. As every economy transitions from building infrastructure to maintaining it, the requirement for less and less raw material is a natural progression. This is the last piece of the puzzle for the economies that export raw materials like Canada. The very fact that a country like China is going to need less of everything should be a wakeup call to our governments here, while we Canadians VOTE to raise taxation, borrow more and ultimately get the change we are asking for.

CRM2 or Client Relationship Model 2.0

Over the last few years, the investment industry has been moving to change how things are reported to investors. In the month of April, starting with the March 2016 statement, there will be a breakdown of what fees are paid to the advisors' firm from accounts. I have welcomed this change as I have always explained how I personally get paid from the investments in your accounts. What will be shown is the total number, but not what gets paid to me directly. As in all businesses, there are expenses, licenses, insurance, taxes, staffing and all the other things associated with running a business. While the number will be highlighted, it will not represent the cost of running a business and the actual compensation an advisor receives.

Other changes in the near future will be rates of return on statements and initial deposit information. While this might seem a simple task, in a highly regulated industry, one cannot simply perform random compound calculations and put them on statements. These must be exact and the data must reflect it. If you consider the large volume of transactions per account, the volume of financial institutions and the number of accounts, you can see that this is not a simple calculation.

I welcome this change as many people have confused BOOK VALUE with their initial value. Book value is used for Accounting and the CRA, but it was never meant to show what someone initially invested. Book Value means the total amount paid to purchase an investment, INCLUDING any transaction charges related to the purchase, adjusted for reinvested distributions, return of capital, and corporate reorganizations.