MARKETS & ECONOMY - OUTLOOK

Equity markets continued to march higher in the first half of 2019, despite the trade disputes and recession fears. The Canadian economy has slowed down with real GDP growth growing at just 0.4% in the first quarter. Canada’s major stock market index the S&P/TSX increased over 15% since the start of the 2019 and reached an all time high in April 2019 of 16669. However, since the high the index has been fairly volatile in the last couple of weeks and is expected to be volatile for the second half of 2019.

The U.S. markets rebounded from their lows achieved at the end of the fourth quarter in 2018. The U.S. unemployment rate is at its lowest level in decades and the economic expansion is nearing the longest ever. While credit markets remain reasonably healthy, the demand for credit is declining. Another sign of a late-cycle environment – and one that is heavily debated – is the inverted yield curve. An inverted yield curve means that the yield for short term bond is higher then the yield for a longer term bond (10 years). While many may find reasons why the yield curve is not a useful predictor of recession in the current environment (mostly due to distortions from quantitative easing), in the past analysts have wrongly dismissed yield-curve inversions and recessions ultimately followed. Taking these indicators together, we gauge that the risk of recession is higher and that more caution is required in developing client portfolios.

The real estate market has strengthen over the past year. According to the reports released by the Toronto Real Estate Board. Sales have increased by 10.4% in June 2019 from a year ago, and at the same time the prices have increased by 3% for the same period.

The Canadian Dollar has weaken against the US dollar and is expected to continue to do so. Stronger US economic growth has led to a strong US dollar, however further gains to the US dollar will be limited as these cyclical factors may be fading.

Last year we saw a steady increase in interest rates. It was projected that would have continued into 2019, however the FED has become extremely dovish and the market is pricing in a interest rate cut in the short term. When that happens, the Bank of Canada is usually not to far after to follow suit.

The global economy has shifted to a more mixed picture from earlier this year after negative impacts from the U.S. government shutdown and China’s economic slowdown gradually diminished. The trajectory for global GDP looks positive and senior economist at RBC forecast 3.5 percent global growth for both 2019 and 2020. This outlook suggests a stabilization in growth after two straight years of deceleration.

Markets will go up and down, the most important factor for investors is to stick to their long term plan. The theme we have here at Shah Financial is to ensure we do our best to protect our clients from losing their hard earned money with sustainable long term growth. When markets are down it’s the expertise of our financial advisors that will help you weather the storm by remaining invested throughout your time horizon. Its imperative to meet with your Financial Advisor at least annually, if there are any material changes in your personal life, or whenever you have financial or investment concerns, so that they can assist you with your Financial Goals.

By: Dipesh Chauhan, Vice President of SFP.
1) Source: RBC Insights 2019 2) TREB.com 3) TD Economics

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WHEN SHOULD YOU TAKE CPP?
Successful investing means buying low and selling high. But predicting the right timing is impossible to do when markets go up and down every day. When is the right time to buy? Or sell? Very few investors are successful at timing when to buy an investment or when to sell it. There is a way to benefit from market highs and lows without having to get the timing right. It’s called Dollar-cost averaging.

In order to answer this question I would like to look at it mathematically to see what is the break-even point. Here’s an example;
Should you take CPP early? Break-even point. For me, the starting point to answering the question is looking at the mathematical break-even point. Here’s an example of twins Beth and Janet.
Janet and Beth are twins. Let’s assume they both qualify for the same CPP of $1000 per month at age 65. Let’s further assume, Beth decides to take CPP now at age 60 at a reduced amount while Janet decides she wants to wait till 65 because she will get more income by deferring the income for 5 years.

Under Canada Pension Plan benefits, Beth can take income at age 60 based on a reduction factor of 0.6% for each month prior to her 65th birthday. Thus Beth’s benefit will be reduced by 36% (0.6% x 60 months) for a monthly income of $640 starting on her 60th birthday.

Let’s fast forward 5 years. Now, Beth and Janet are both 65. Over the last 5 years, Beth has collected $640 per month totalling $38,400. In other words, Beth has made $38,400 before Janet has collected a single CPP cheque. That being said, Janet is now going to get $1000 per month for CPP or $360 per month more than Beth’s $640.

The question is how many months does Janet need to collect more pension than Beth to make up the $38,400 Beth is ahead? It will take Janet 106 months to make up the $38,400 at $360 per month. In other words, before age 74, Beth is ahead of Janet and after age 74, Janet is ahead of Beth.

If Beth or Janet can provide their date of death, making the right decision would be easy. Another way to phrase this question is, “How long do you expect to live?”

If you live past age 74, the one could argue the math says take CPP later. If you don’t live to 74, then you should have taken the money early. Unfortunately, no one knows when they are going to die.

When will you most enjoy the money?
Because it’s impossible to accurately predict your date of death, another important question to ask is when are you most likely to enjoy the money? Before age 74 or after age 74? Even though the break-even point is three years sooner, for most people, they live the best years of their retirement in the early years. I call these the ‘go-go’ years.

Many people like the idea of taking CPP early to use it in the early stages of retirement and even if they don’t need it, they can invest it for the future.

Some believe it’s better to have a higher income later because of the rising costs of health care. Whatever you believe, you should plan for. It might be worthwhile to look around your life and see the spending patterns of 70, 80 and 90 year olds to assess how much they are really spending. Are they spending more or less than they did when they were in their active retirement years?

What happens if you leave money on the table?
Let’s go back to Beth who could collect $640 at age 60. Let’s pretend that she gets cold feet and decides to delay taking CPP by one year to age 61. What’s happened is that she “left money on the table.” In other words, she could have taken $7680 from her CPP ($640 x 12 months), but chose not to, to be able to get more money in the future. That’s fine as long as she lives long enough to get back the money that she left behind.

Again, it comes back to the math. For every year she delays taking CPP when she could have taken it, she must live one year longer at the other end to get it back. By delaying CPP for one year, she must live to age 75 to get back the $7680 that she left behind. If she delays taking CPP until 62, then she has to live until 76 to get back the two years of money she left behind.

Why wouldn’t you take it early given this math? The main reason is that you think you will live longer and you will need more money the older you get. The idea is that a bird in your hand is better than two in the bush.

The other perspective
For some people, the argument of not taking CPP early also lies in a little math. Let’s say you are 60 and you delay taking CPP for one year, your CPP income will increase by 7.2% (0.6% X 12 months). When you look at interest rates, the markets and investment returns, most people will agree it is tough to guarantee a 7.2% return these days.

Once you are over the age of 65, delaying CPP enhances the benefit by 0.7% per month or 8.4% per year. Many will argue that delaying CPP is a great investment (as long as you live long enough). As you can see, there are two different mathematical ways to look at the same problem.

Compiled by Ekta Chauhan, Chief Compliance Officer of SFP
Source: retirehappy.ca

PRACTICING PATIENCE AND PLANNING IN VOLATILE MARKETS
Investing for the future can be challenging at the best of times, but when markets are volatile, it gets even more difficult to invest with confidence. It’s natural for investors to want to make decisions based on short-term market fluctuations. Unfortunately, those decisions often hurt the success of their long-term investments. That’s why we encourage patience and planning.

While it is difficult for investors to watch the value of their portfolios drop, it is important for them to keep a long-term view that recognizes fluctuations are the norm. History has shown that the most severe market declines are always followed by dramatic recoveries. Those that pull their money out of a down market, take a loss as well as miss out on the upside.
Unfortunately, avoiding volatility isn’t possible, timing the markets is extremely difficult and risky – even for the most sophisticated and experienced investor – and panic is not a great option. So, what can an investor do?

Here are a few simple strategies that help mitigate the risks associated with market volatility:

- Diversification of a portfolio across asset classes minimizes the impact of any asset class fluctuation caused by varying market conditions.
- Dollar cost-averaging by investing a fixed amount of money at regular intervals regardless of the state of the market, allows investors to benefit from purchasing at lower prices when markets fall and lowering their average price to benefit when markets ultimately rise again.
- Rebalancing portfolios by selling asset classes that have performed well and reinvesting in asset classes that haven’t performed as well helps keep a portfolio on track, while locking in growth during up markets and minimizing the impact of the next market downturn.

Volatility is the norm today, and those that have successful investment portfolios will learn to use volatility to their advantage, while being patient and planning with a long-term view.

Most importantly working closely with your advisors they can let you focus on the bigger picture and allow them to successfully navigate even the most challenging and volatile markets.

By Dipesh Chauhan, Financial Advisor of SFP

Source: CI Investments

POTATOES, EGGS AND COFFEE BEANS

WHICH ONE ARE YOU?

“Once upon a time a daughter complained to her father that her life was miserable and that she didn’t know how she was going to make it. She was tired of fighting and struggling all the time. It seemed just as one problem was solved, another one soon followed.

Her father, a chef, took her to the kitchen. He filled three pots with water and placed each on a high fire. Once the three pots began to boil, he placed potatoes in one pot, eggs in the second pot, and ground coffee beans in the third pot.

He then let them sit and boil, without saying a word to his daughter. The daughter, moaned and impatiently waited, wondering what he was doing.

After twenty minutes he turned off the burners. He took the potatoes out of the pot and placed them in a bowl. He pulled the boiled eggs out and placed them in a bowl.

He then ladled the coffee out and placed it in a cup. Turning to her he asked, ‘Daughter, what do you see?’

‘Potatoes, eggs, and coffee,’ she hastily replied.

‘Look closer,’ he said, ‘and touch the potatoes.’ She did and noted that they were soft. He then asked her to take an egg and break it.

After pulling off the shell, she observed the hard-boiled egg. Finally, he asked her to sip the coffee. Its rich aroma brought a smile to her face.

‘Father, what does this mean?’ she asked.

He then explained that the potatoes, the eggs and coffee beans had each faced the same adversity—the boiling water.

However, each one reacted differently.

The potato went in strong, hard, and unrelenting, but in boiling water, it became soft and weak.

The egg was fragile, with the thin outer shell protecting its liquid interior until it was put in the boiling water. Then the inside of the egg became hard.

However, the ground coffee beans were unique. After they were exposed to the boiling water, they changed the water and created something new.

‘Which are you,’ he asked his daughter. ‘When adversity knocks on your door, how do you respond? Are you a potato, an egg, or a coffee bean?’

In life, things happen around us, and things happen to us. The only thing that truly matters is your choice of how you react to it and what you make of it. Learn, adapt and choose to make the best of each experience.

By: Narendra Shah, President of SFP

Source: Unknown

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The following professional has joined our team at Shah Financial Planning Inc., as a Financial Advisor.

Jigna Jani, of Scarborough, Ontario is a Financial Advisor who joins us with experience in the industry for over 10 years. Her objective is to help clients make the right financial decision for their future. Jigna joins us with industry experience from Sterling Mutuals, Fundex & Investors Group.

Mrs. Medha Pathak, of Scarborough, Ontario is a Financial Advisor who joins us from Desjardins. She works closely with clients to determine financial needs and goals. Megha has achieved a Masters in Statistics from the School of Commerce Ahmedabad, India. In her spare time she likes to practice Yoga, where she has become a certified Yoga Instructor.
Our Services:

Shah Financial Planning Inc. ("SFP") is a registered mutual fund dealership founded by Mr. & Mrs. Narendra and Hardip (Dipa) Shah in 1999. Since then SFP has continuously grown with great support and cooperation by clientele, financial advisors, and the Mutual Fund Dealers Association ("MFDA"). Our financial advisors offer financial related services to individuals and businesses at the listed branches and Head Office. Our services are primarily focused on clients' objectives and their best interest, with the following plans and products.

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