Macdonald, Shymko & Company Ltd.

Fee Only Financial Advisors/Portfolio Manager

Since 1972

WEALTH MONITOR

FALL 2015

FEDERAL BUDGET 2015 - TAX UPDATES

Some of the key items included in the April Federal Budget:

- **Increase to TFSA Limits:** The annual TFSA (Tax-Free Savings Account) contribution limit was increased from $5,500 to $10,000, effective immediately, and this applies to 2015 and future years. However, the annual limit will no longer be indexed.
- **Reduction to Minimum Annual RRIF Payments:** The minimum annual RRIF (Registered Retirement Investment Fund) payments for ages 71-94 have been reduced. While the size of the reduction varies based on age, the reductions are in the 25% range for the early years. For example, under the old rules, the minimum annual payment factor at age 75 was 7.85%, which has been reduced to 5.82% under the new rules. For retirees that have other resources to fund their annual expenses (and can therefore consider smaller RRIF withdrawals), the lower required minimums provide flexibility for additional tax planning. (Note: Extra steps may be required to take advantage of the changes for 2015, as minimum payments at the higher rates may have already been paid.) This topic has received a lot of attention in recent years as longer lifespans, combined with record low interest rates, have created concerns that RRIF assets will be depleted earlier than desired and will not meet one's needs later in life. While the changes are welcome, one must also keep in mind that while reduced annual withdrawals will minimize current taxes, this may actually result in higher taxes later (as the RRIF assets may incur a higher level of tax on the account holder's demise, or the subsequent demise of the spouse). Your Financial Advisor is available to discuss how this change may affect your situation.
- **Small Business Tax Rate and EI Premiums:** The small business tax rate will be reduced by 0.5% each year, from 2016 to 2019. Starting in 2017, EI premiums (employer and employee portions) will be reduced.
- **Foreign Reporting:** The reporting that is required with the annual tax filing will be streamlined for individuals with less than $250,000 in foreign property (details have not been provided yet).

I finally know what distinguishes man from the other beasts: financial worries.

- Jules Renard

INSIDE THIS ISSUE:

MSC IN THE PRESS

MSC Advisors were quoted in the following articles:

February 13, 2015 - *The Globe amd Mail* Financial Facelift: "Couple Planning For Children Advised to Sell Rental Property" (Ngoc Day)

February 18, 2015 - *The Georgia Strait*: Ian Black was quoted in this article by Gail Johnson, "Buy Now or Wait: New Lower Mainland Home Buyers Eye Interest Rates"

June 11, 2015 -*The Globe amd Mail*: Keith Copping was quoted in this article by Ian McGugan, "Four Unexpected Events That Can Derail Your Retirement"

June 12, 2015 - *The Globe and Mail* Financial Facelift: "Is It 'Mad' to Buy a House and Take On a Mortgage at 79?" (Ian Black)

July 24, 2015
The Globe amd Mail Financial Facelift: "Can This B.C. Couple Afford to Upsize and Rent Out Their Current Home?" (Ngoc Day)

You can monitor our MSC website or Facebook site to read our latest articles.

MSC NEWS

- We are pleased to announce that **Ngoc Day** has been selected as the runner-up winner of this year's Global Financial Planning awards for the Americas (the awards are for three regions: the Americas, Europe, and Asia: http://gfpa.planplus.com. An excerpt from the article by Alexandra MacQueen, "Here's What an Award-Winning Financial Plan Looks Like" (*The Globe and Mail*, August 6, 2015), summarizes:

  The results of the 2015 contest were announced in July after a multi-round assessment process that evaluated submissions for technical competence, and for how well they helped clients achieve their goals. Contestants participated from around the world…The winning plans were assessed on their clarity, how well they "explain the numbers" for clients, and evidence of the planner's in-depth knowledge – as well as on the specifics of the plans, which ranged from risk and liability management, cash-flow analysis and management, to investment planning, retirement planning and more. Highest-scoring plans are those that are "overwhelmingly clear and concise" while demonstrating financial planning knowledge at a standard that is "head [*sic*] above the crowd."

  We want to thank you, our clients, for your support, as we are continuously challenged to sharpen our skills by helping you reach your goals. You can be proud to share in our success. Thank you!

- Upholding our firm's commitment to professional development, several of our advisors attended the annual conference for STEP (Society of Trust & Estate Practitioners) held in Toronto in June.

- Earlier this year, **Clayton Brown** earned the CFP® (Certified Financial Planner) designation. Congratulations!

- Congratulations to **Charles Chandler**, who passed his Level II CFA Exam in June.

- **Gina Macdonald** recently earned her CIM (Chartered Investment Manager) designation and has returned from maternity leave. In September, Gina celebrated her 20th anniversary with MSC.

Investment Matters

Connecting the Dots

No one wants to spend their days checking the financial headlines or watching BNN, but sometimes it is too easy to get hooked. The confidence with which news anchors speak makes you feel as if the cause and effect of events they are reporting on must be correct. It gives us the feeling that we can predict the future with accuracy, when we know this is impossible. In excerpts from his *Connecting the Dots* article below, Jim Parker of Dimensional Fund Advisors discusses this issue:

Human beings love stories. But this innate tendency can lead us to imagine connections between events where none really exist. For financial journalists, this is a virtual job requirement. For investors, it can be a disaster.

"The Australian dollar rose today after Westpac Bank dropped its forecast of further central bank interest rate cuts this year," read a recent lead story on Bloomberg.

Needing to create order from chaos, journalists often stick the word "after" between two events to imply causation. In this case, the implication is the currency rose because a bank had changed its forecast for official interest rates.

Perhaps it did. Or perhaps the currency was boosted by a large order from an exporter converting US dollar receipts to Australia [*sic*] or by an adjustment from speculators covering short positions. Markets can move for many reasons.

(….). Sometimes, journalists will throw forward to an imagined market reaction linked to an event which has yet to occur: "Stocks are expected to come under pressure this week as the US Federal Reserve meets to review monetary policy settings."

For individual investors, financial news can be distracting. All this linking of news events to very short-term stock price movements can lead us to think that if we study the news closely enough we can work out which way the market will move.

But the jamming of often-unconnected events into a story can lead us to mix up causes and effects and focus on all the wrong things. The writer and academic Nassim Taleb came up with a name for this story-telling imperative: the narrative fallacy.[1]

The narrative fallacy, which is linked to another behavior called confirmation bias, refers to our tendency to seize on vaguely coherent explanations for complex events and then to interpret every development in that light.

These self-deceptions can make us construct flimsy, if superficially logical, stories around what has happened in the markets and project it into the future.

The financial media does this because it has to. Journalists are professionally inclined to extrapolate the incidental and specific to the systematic and general. They will often derive universal patterns from what are really just random events.

Building neat and tidy stories out of short-term price changes might be a good way to win ratings and readership, but it is not a good way to approach investment.

Of course, this is not to deny that markets can be noisy and imperfect. But trying to second-guess these changes by constructing stories around them is a haphazard affair and can incur significant cost. Essentially, you are counting on finding a mistake before anyone else. And in highly competitive markets with millions of participants, that's a tall order. (….).

1. Nassim Nicholas Taleb, The Black Swan: The Impact of the Highly Improbable, Penguin, 2008.

ODDS & ENDS

POLITICAL DONATIONS

A reminder that Federal Political Donations qualify for tax credits (maximum tax credits were $650 in 2014) to reduce income taxes paid or payable (non-refundable tax credits). The maximum tax credits are prorated based on 75% of the first $400 in donations, 50% on the next $350, and 33.33% on the next $525, to reach the maximum credits allowed of $650. Therefore, in 2014, a donation of $1,275 reached the maximum tax credit allowed of $650. Note: Given the tiered limits, you can maximize the political contribution tax credits by making smaller annual donations versus larger amounts in a single year (since only the first $400 qualifies for the 75% credit), or having each spouse make a donation.

FAMILY LAW

As noted in our previous newsletter, the new B.C. Family Law Act that came into force March 18, 2013 provides an expanded definition of "Spouse" (unmarried spouses, including same sex couples, have the same property rights as married spouses, if they have been living in a "marriage-like relationship" for two or more years). The objective was to provide more clarity, and avoid disputes and inconsistencies, for these situations. However, an article by Manjit Grewal in *CPABC* highlights a separation case that challenged this issue in B.C. Supreme Court; defining a "marriage-like relationship" appears not to be a simple matter. It seems there will continue to be future litigation in these areas which may further define these issues going forward.

BCTESG

The provincial government recently announced a new grant, the BCTESG (B.C. Training and Education Savings Grant), which is available for B.C. resident beneficiaries born on or after January 1, 2007. After the beneficiary turns six years of age, the grant (lump sum of $1,200) is paid into the beneficiary's **RESP**.

The applications started in August 2015 (though some institutions may not have the forms available until Fall 2015). As this is the first year, there is a catch-up process for beneficiaries born from 2007-2009. Going forward, while applications can be made from the day the beneficiary is age 6, the application must be submitted before the day they are age 9.

THANK YOU FROM MSC

MSC is a client referral-based firm and we thank you for referring your family, friends and coworkers to us. We appreciate our clients' ongoing loyalty and trust in our services; we are fortunate to have many long-term client relationships that have continued for decades, some more than 40 years!

Please feel free to send this newsletter to others you think may benefit from a Fee Only Financial Planner. Our newsletters can also be viewed on our website:

www.macdonaldshymko.com/financial-resources/articles-and-newsletters

MS&C Since 1972

Macdonald, Shymko & Company Ltd. ~ Fee Only Financial Advisors/Portfolio Manager

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