

2017 has been a successful year!

Canadian equities (S&P/TSX Composite Index) are up 4.8% this year to date (December 15, 2017) and economic growth is evident in the 2.9% rise in GDP.

This is the first time we have written an annual letter to our clients, but we thought it would be nice to share some of our observations over the past year. Your feedback, thoughts, and questions are always welcome. We thought this inaugural letter to our clients would be a great way to update you on some of the highs and lows for the year.

What would we have done differently?

If we could go back to January 1, 2017, we would have allocated more money to equity since all equity indices were up over the past year (MSCI World is up 19% this year to date).

## Interesting Stories of 2017

### Home Capital

One of Canada's alternative lenders almost went under due to a run on their bank deposits following a rumor about some wrongdoing by Home Capital's mortgage brokers combined with tweets from someone shorting their stock. The world's greatest investor, Warren Buffet, noticed the stock was "on sale" and stepped in to buy up shares, which seemed to calm depositors and investors and prevented failure of the bank. It was interesting to watch all of this from the sidelines. A key take home point of this story is you should never overexpose yourself to one institution's GICs. In other words, always stay within the CDIC limit.

An investor exceeds CDIC limits with the hopes of achieving a higher yield. For example, perhaps they can get an extra 0.5% with one particular issuer and then they invest all of their GICs with the one high paying issuer instead of finding another GIC issuer to invest in. The result is that they get the higher rate (the extra 0.5%), but any amount over the \$100k is no longer protected by CIDC. An extra 0.5% on a GIC is never worth risking all of your capital. I think this applies to many other scenarios where the same logic can be used: is it worth taking on any extra risk? Not usually!

### Tax Changes

It was also interesting to watch the government change the way corporations are taxed. After a lot of discussion, the major impacts were:

- The corporate tax rate went down
- If you are paying dividends or a salary to family members, they now have to be reasonable

We will continue to watch this issue develop throughout 2018.

## Advisory

The advisory world is changing significantly. We have been advising clients on their wealth for 14 years and the biggest items of discussion we hear about today involve tax and estate planning.

Many of our clients have introduced us to their children so we can help educate the next generation on financial planning and to get their own investment plans started. We find that the best way for someone to learn is to just start doing it!

I put together a discussion specifically for students and young families that covers the important financial planning concepts in easy to understand terms and it has been well received according to the feedback.

## Education

Heather is working on her Wealth Management Essentials course, which should be completed in June, 2018.

I completed the Family Enterprise Advisor course, which helped me to better understand the unique challenges that family enterprises face. Much of what I learned can apply to any family (not just families running a business) so I am looking forward to sharing this with you. Many of the issues involved communication between family members, preparing the next generation, and decision making.

Aside from that, I've been taking accounting courses at Carleton as I figured these course would help me view our portfolios from a different perspective. University has really changed since I graduated back in 2003. My classes are all online so I can watch them any time on my phone. I only have to show up on campus for my written exams!

I will continue the accounting courses in 2018 and I will also write the LLQP so we can help our Quebec based clients with insurance and annuities.

## Portfolio Lowlights and Highlights

Our worst performers are our real return bonds (XRB), which were down 2.15%, and our Treasury Inflation Protection bonds (TIP), which were down 2.34%. However, we will be thankful that we owned these assets when we see signs of inflation as they thrive in inflationary environments.

Our top assets were the BMO MSCI Emerging Markets ETF (ZEM), which is up 28% this year to date, and the First Asset International momentum ETF (ZXM), which is up 24% year to date. Global equities (PDN) were up 26% and US stocks (VFV) were up 15%. On the fixed income side, our preferred shares (PPS) were up 16%, which is a significant increase for a fixed asset.

Our long-term goal is to grow our balanced portfolios (50% equity; 50% fixed income) by 4-6%. That was an easy task this year since everything was up. The key is to protect your money when the market drops and I am confident that our portfolios are well positioned with our diversified basket of fixed income ETFs.

## Modifications

The ILB ETF provided us with exposure to inflation-linked bonds. As ILB closed in 2017, we replaced it with TIP and VTIP, which also provide us with exposure to inflation-linked bonds. We also moved out of our small cap funds as I saw that we had enough exposure to small cap stocks through our ETFs. This move helped us reduce costs and streamlined our holdings.

On another note, we welcomed Heather to our team. This was an important step in our goal to provide you with the highest level of service and we will continue to look for ways to add value.

Thank you for your trust and we look forward to serving you in 2018 and beyond.

Merry Christmas and here's to a successful 2018,

Michael Kirkpatrick