PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Fall 2016 - 4th Edition

Important Dates and Numbers

Client Webinar How to Pay Down your Mortgage More Quickly Friday, November 25 at 12pm Webex details on our website

Maximum RRSP limit for 2016: $25,370

TFSA limit for 2016: $5,500

Pedro and Nik's Tips and Tricks

- **Pedro:** Did you know that your statements now indicate the performance of your accounts, as well as our program costs? If you don't know where to find this or would like to discuss your statements in more detail, please give me a call!

- **Nik:** Did you know that you can set yourself up on the CRA website to see what TFSA contribution you have available? CRA updates this once a year and pulls information from all of your financial institutions. Go to http://www.cra-arc.gc.ca/esrvc-srvce/tx/psssrvcs/menu-eng.html and sign up for "My Account"!

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I'm a Star!

Wow! I can't believe I did that!!

Well, I didn't take home the highly coveted Mirror Ball trophy (congratulations to Ellen McGregor!) but I did get all 10's from the judges, had the crowd on their feet cheering and enjoyed an amazing experience. Most importantly, we helped raise over $85,000 for the Community Foundation of Mississauga!!!

As much fun as the dancing was, this was really all about helping a huge number of organizations across our city: the staff and volunteers at the food banks, the brave ones who answer the help lines and counsel people in distress, the cultural associations who bring such richness to our community and all those other quiet heroes who help our neighbours every day. These are the folks we were really dancing for. I'm so very humbled to have been asked to contribute. I'm also so very grateful for your support, both financial and in spirit!

The entire night was professionally filmed and a video will be coming shortly. As soon as I have it, we'll post it on YouTube and send you the link. I can't wait to share it with you!!

Thank you again for helping to make the evening an outstanding success!!

To find out more about the Community Foundation of Mississauga, visit http://www.cfofm.org/.

Investing Like a Boss…

I've noticed lately that some of our new clients are walking in thinking that if their portfolio does not earn 10% in any given year, we are underperforming. I addressed this in my latest webinar, but I wanted to make sure that everyone saw my explanation as to what is a REASONABLE expectation for your portfolio to earn in any particular year.

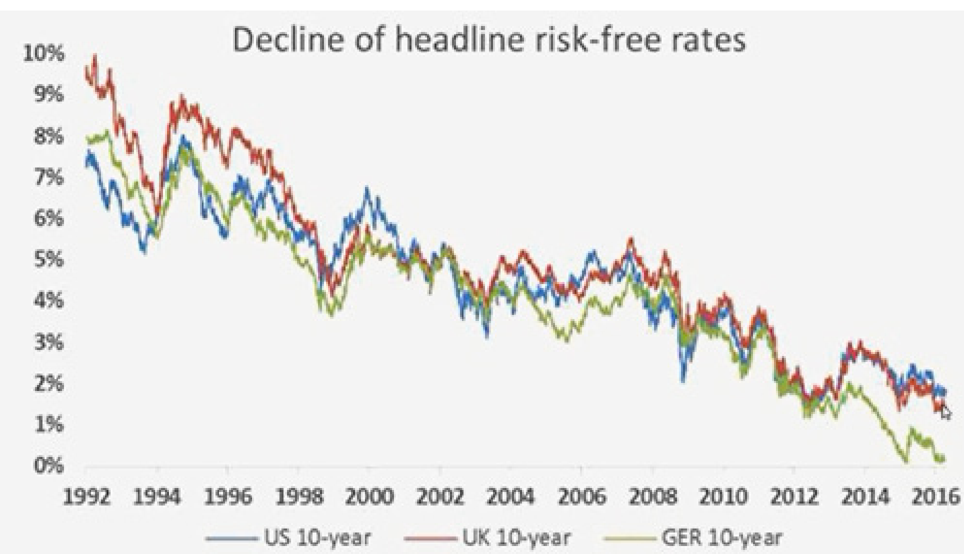
This is important. My favourite definition of RISK is: "not knowing what you are doing." This applies equally well to repairing electrical wiring and barbecuing as it does to investing. If you don't know the reasonable rate of return a portfolio can generate at any given time, then you will make mistakes by asking it to do more, or less, than it can actually do. And that misunderstanding adds risk. It's an amateur mistake that many investors make – and it can be fatal to their retirement plans.

To explain what 'reasonable' means, let me bore you for a minute and go back to finance 101. There's something called the capital asset pricing model, which explains the relationship between risk and return. Risk and return are tied together; if you want more return, you must accept more risk.

Very simply, if you wanted to take absolutely no risk, you would buy a Treasury bill (T-Bill). Whatever a T-Bill pays you is risk free and therefore referred to as the "risk free rate". T-Bill's yields are directly tied to interest rates. Since interest rates are so low today, you can expect to earn 0.5% on a T-Bill.

Now let's say you want to earn more than 0.5%, which means making an investment that has some inherent risk. If you take on any risk at all, you should expect to earn more on that investment for taking on additional risk. Seems logical enough, right? We should get paid for taking risk.

Now here's the problem! Over time, the risk free rate has been declining as interest rates have been falling. The risk free rate used to be around 8% in the early 90s (can you imagine, getting 8% without taking any risk at all!). Add in some riskier investments to your portfolio back then and you can see how it might be pretty easy to get (and expect) at least 10%! However, given that our current risk free rate is around 0.5%, we need to realign our expectations as to what a portfolio can deliver.



What you can expect to earn from any market-based investment is DIRECTLY tied to the risk free rate. This is something called the equity market risk premium. The concept is that the markets will compensate investors for taking on more risk than a T-Bill by investing in stocks.

An estimate of the current equity market risk premium can vary slightly depending on the source, however it is commonly agreed upon that investing in stocks should earn you around 5% to5.5% more than a T-Bill.

Let me rephrase that here….

What you should expect from a stock portfolio = T-Bill rate (0.5% today) + 5-5.5%
This equals about 6% in today's world.

If you add in any fixed income (bonds or GICs) to your portfolio, this should reduce the risk (and therefore the expected return) of your portfolio.

If interest rates were to increase, then we should anticipate that the return that we get from our portfolios should also increase! Again, the relationship between interest rates and what we can expect from our stock portfolios is directly linked.

I hope this makes some sense to you if you're wondering why 10% is not reasonable! That's not to say it's impossible, but a probable expected return from a well diversified, risk managed portfolio today should be around 4% to 6%.

When Andrea runs the planning projections for your accounts, she is using numbers that we think are highly probable and that reflect the world as it is, not as we want it to be.

If you'd prefer we lie to you, and sell you on a higher number that doesn't reflect reality, please let us know. We have some competitors we can refer you to.

The Marriage of your Portfolio and Plan

Andrea is working on a new quarterly report that aims to marry two very important pieces of information together: what does your plan say that you need to be targeting, and how is your portfolio performing relative to that target?

Instead of tracking your portfolio's numerical performance in a vacuum, we will begin tracking your progress relative to YOUR most important financial goal. In our view, beating a random benchmark, like the TSX, NASDAQ or Hang Seng is not a financial goal. Retiring comfortably, and ***staying comfortably retired***, for example, IS a primary financial goal.

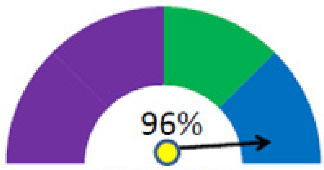
Shown below is the reporting that she will be working on developing for each of you who have engaged in planning, which will be updated every quarter. It is intended to track the assets that you have at Raymond James as well as any external investment assets or material accounts that will factor into funding your primary financial goal. How your portfolio performs relative to that financial target is what we are trying to track!

YOUR OBJECTIVES

Mrs. Client will retire at age 60. You would like to maintain an income target of $5,600/month net of tax throughout retirement. You are maximizing contributions your tax sheltered retirement plans.

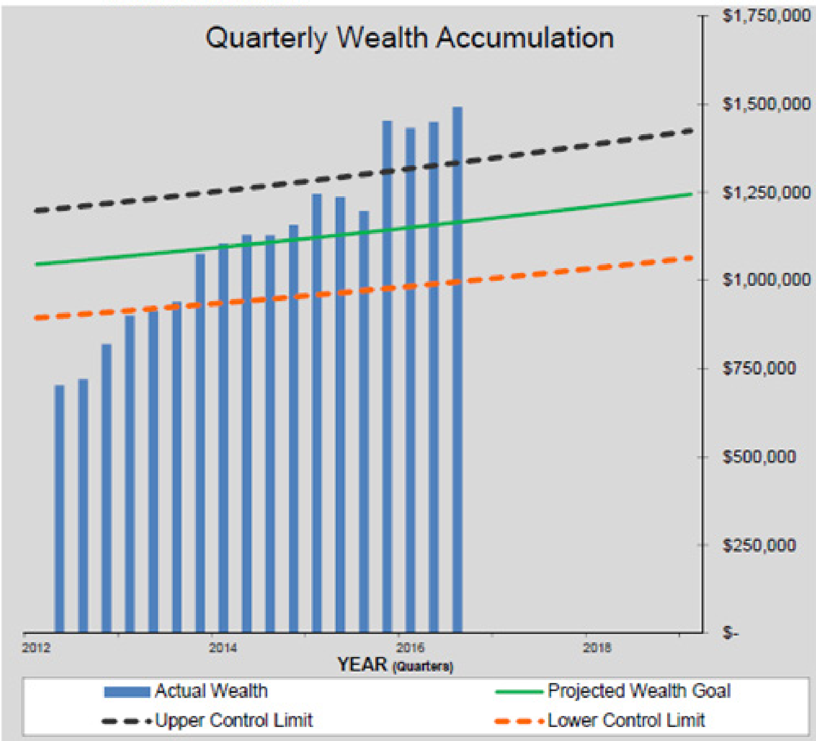
YOUR QUARTERLY DASHBOARD

Quarterly Performance	RJ Portfolio Value	Retirement Goal	Cumulative Portfolio Gain
↑ $42,829	$1,276,777.00	$1,244,383	$418,438.00



Probability of Success
Above Confidence Zone

The most important metric of all is being able to reach your financial goals. We have run 500 scenarios based on normal portfolio variability before and throughout retirement to determine your likelihood of success.



Based on a 5.4% target return and a +/- 14.5% upper and lower control limit based on portfolio variability.

Along with defining the target rate of return we need to meet your objectives, we will also define the level of
volatility around that goal that is reasonable and acceptable. Nothing moves in a straight line, so we
need to know what "normal" volatility looks like based on your portfolio.

This will really help you to focus on the long term picture. Wealth creation is not a short term endeavor. We want
our clients to focus on continuing to view their wealth through the right lenses by understanding what you are trying to achieve.

If you want to jump to the front of the line, please contact Andrea! We feel that this will provide you with a lot of added value as you continue to build and/or distribute wealth throughout your lifetime.

Coleman Wealth

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