

Wealth DIRECTIONS

SUMMER 2018



Market Outlook - Prepare for a Possible Recession

I believe a recession could be around one of the next few corners. We have benefited from a prolonged expansion and at some point, the economy will need to pull back and catch its' breath. The last global correction was in March 2009. The stock market is a barometer for the economy. This means the stock market usually goes down before the economy is acknowledged as being in a recession and it starts to increase before the signs of the economic recovery are present.

Having said this, I do **not** expect a significant correction to the equity stock markets. Generally speaking, the stock markets are only slightly overpriced compared to historical. I do however anticipate a 10-20% market correction (at some point). The markets may continue to climb further before this occurs. There are 7 economic indicators that both Manulife Investments and I watch for to anticipate a recession. A few of these are starting to appear!

Signs of a Recession	What this means	Present Status - commentary
Inverted Yield Curve	Short term interest rates are higher than long term rates.	Not yet – but the curve is 'level' or flat.
ISM Manufacturing PMI Below 45	This measures data from the purchasing executives of a large number of industrial companies. A reading of 50 or higher is generally a sign of economic expansion.	No. Currently over 50.
Positive Inflationary Trends	Inflation (the cost of things) starts to increase at a higher percentage.	Yes – slightly. We are starting to see inflation which will be accelerated with the 'Trump tariffs' on Canada and other countries which will generate tax revenue and increase the cost of goods.
Capacity Utilization Above 80% and Peaking	Measures economic activity and if above 80%, it implies businesses are nearing full capacity which plays a role in the cost of production and profit.	No. Currently between 60-70%.
Housing Starts Declining	Fewer new homes being built than before.	Yes. The US saw a 12% decrease in new housing construction in July.
Labour Market Weakening	An increase in the unemployment rate	USA – No. USA is at an 18 year low unemployment. Canada – Yes. Canada saw unemployment increase from 5.8 to 6% this summer.
Leading Economic Indicators Negative	Look for metrics such as GDP (gross domestic product), PE Ratio's (price to earnings)	No.

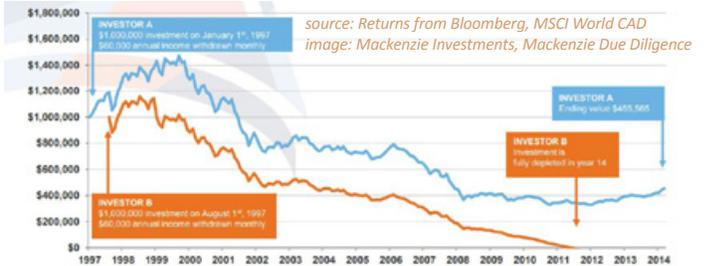
This publication is solely the work of Len Colman for the private information of his clients. Although the author is a Manulife Securities Advisor, he is not a financial analyst at Manulife Securities Incorporated or Manulife Securities Insurance Agency ("Manulife Securities"). This is not an official publication of Manulife Securities. The views, opinions and recommendations are those of the author alone and they may not necessarily be those of Manulife Securities. This publication is not an offer to sell or a solicitation of an offer to buy any securities. This publication is not meant to provide legal, accounting or account advice. As each situation is different, you should seek advice based on your specific circumstances. Please call to arrange for an appointment. The information contained herein was obtained from sources believed to be reliable; however, no representation or warranty, express or implied, is made by the writer, Manulife Securities or any other person as to its accuracy, completeness or correctness.

TIMING OF A BEAR MARKET

I wish there was a perfect crystal ball. It is impossible to predict market corrections and rallies on a consistent basis. We all want to invest at the bottom (buy low) and take profits at the top (sell high). Given, no one can accurately and consistently predict this, instead, one should gradually shift portfolios along the way in anticipation.

Going forward, I expect to continue to reduce energy exposure and have less cyclical exposure. I expect interest rates to continue to rise (more so in the USA than Canada). I also anticipate there could be a real estate correction in Canada - especially in BC). You should anticipate I will be recommending a continued gradual shift into what will hopefully be more conservative investments to protect the asset base. For those who are drawing down on their assets, I want to have the security and liquidity to meet your income requirements without having to sell investments when they are down in value. What this also implies is that you should anticipate lower returns.

Below is a chart which (see below) demonstrates how the timing of a bear market can greatly impact the duration of your funds. Ideally, people should retire with a small (and sustainable) withdrawal rate on their investments and if we have a period of better than expected returns, this is when you can treat yourself. A 6% withdrawal rate is far more than most people can expect to receive without running out of funds. I would suggest a 2.5-3% rate is more appropriate given indexation of withdrawals.



Debt

The average Canadian owes over \$8,500 in consumer debt, excluding their mortgage! (Source Global News) There is \$1.70 in credit market debt for every dollar of household disposable income. The Bank of Canada looks to this as a key risk to the Canadian economy. (Keep in mind many people (especially seniors) have no mortgage or debt. So those that are carrying debt, are significantly burdened. Canadians have 1.7 times debt/income. This is hovering around the highest ever! Back in 2008, the US people had 1.4 times and now they are down to 1.0.

A recent survey (by Manulife Bank) indicated that:

- 71% of Canadians would like to be more confident about financial decisions.
- 63% do not know who to talk to about managing debt.
- 1/3 are too embarrassed to talk about debt management .
- 2 in 10 married/common law Canadian couples confess their significant other does not know how much debt they are in.
- 12% of Canadians with debt have hidden a large purchase from their loved one.
- 4 in 10 Canadians with debt confess their level of debt is negatively impacting their mental health.

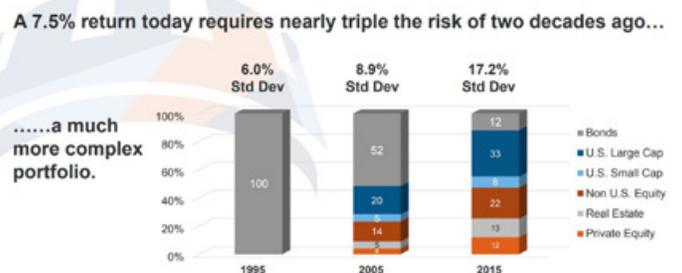
It is important to talk to a qualified Certified Financial Planner (such as me!) about your debt management to see how it can be optimized.

REAL ESTATE

The new mortgage qualifying rules in Canada (qualifying at the posted rate rather than the discounted rate preventing people from switching institutions and reducing the amount of mortgage debt people qualify for on new purchases) should temper real estate prices. Consumer debt levels coupled with rising interest rates means real estate has a strong head wind before it. In addition, British Columbia has introduced (some only regionally) vacant property tax increases (speculators tax), a new school tax on properties over 3 million, and now a foreign buyers annual tax should the owner not pay BC income taxes. This includes people from other provinces.

Accepting RISK

Today, it take 3 times more risk to earn a 7.5% return than it did 20 years ago! (see graph below) This highlights the requirement of a more complex portfolio. This also emphasizes the importance of working with a seasoned and experienced advisor. Conservatively invested clients should anticipate reduced returns.



source: Wall Street Journal. "Pension Funds Pile on Risk Just to Get a Reasonable Return". May 31, 2016
image: Mackenzie Investments, Mackenzie Due Diligence

Business Owners

A recent survey indicated that many business owners are concerned about credit protecting their personal assets. If you fall into this category, please contact us. We have solutions!



Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Mutual funds, stocks, bonds, GICs, and financial planning services are offered through Manulife Securities Incorporated.

*Insurance products and services are offered through Manulife Securities Insurance Agency (a licensed life insurance agency and affiliate of Manulife Securities) by Manulife Securities Advisors licensed as life agents.

The Manulife Securities logo and the Block Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

Manulife Securities Incorporated is a Member of the Canadian Investor Protection Fund and a Member of the Investment Industry Regulatory Organization of Canada..

Holistic Wealth® is a registered trade mark of Len Colman and is used by his affiliates in the Summerland office.

Our Current Allocation Outlook

Below is a chart of different asset classes and sector exposure with our current outlook compared to the normal North American weighting. Based on the economic outlook, we will want more or less than our normal exposure to each category. Each individual investor will have a different investment portfolio depending on their personal circumstances considering their: Risk Tolerance, Income requirements (both current and anticipated), Time Horizon, Taxation, and of course Temperament (investor behavior). We then look for opportunities to tax optimize the holdings based on which plans hold which investments. You should consult us to determine the ideal asset mix and asset selection given your circumstances.

		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
FIXED INCOME						
Government	Long-term	●				
	Mid-term	●				
	Short-term	●				
Corporate	Investment Grade				●	
	High Yield				●	
	Floating Rate				●	
EQUITIES						
Canadian	Dividend Focused					●
	Large Cap				●	
	Small Cap			●		
US					●	
European				●		
Asia				●		
Emerging Markets			●			
	BRIC		●			

Sector		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary			●			
Consumer Staples					●	
Energy			●			
Financials	Banking			●		
	Insurance			●		
	Asset Managers		●			
	REITS		●			
Materials					●	
Utilities				●		
Telecommunications				●		
Healthcare					●	
Industrials				●		
Information Technology				●		

Who is HOLISTIC WEALTH?

This is the trade name that the Summerland office of Manulife Securities Incorporated operates under. We call ourselves this as most traditional stock brokers and investment advisors do not take the same holistic wealth approach in working with clients. We prefer to take a financial planning approach when advising clients incorporating their debt, insurance and investment portfolios into consideration. We use solutions that people understand and avoid 'synthetic' investment products (such as hedge funds).

We currently advise clients throughout BC, Alberta and Ontario. We are still growing our practice and welcome new clients. If you or someone you feel would benefit from a confidential and complementary consultation, please contact our office.

Len Colman, BA, CFP, CLU

Senior Investment Advisor,
Manulife Securities Incorporated
Insurance Representative,
Manulife Securities Insurance Agency
len.colman@manulifesecurities.ca

Holistic Wealth

Manulife Securities Incorporated

(office) 250.494.1130
(toll free) 1.888.403.9392
www.HolisticWealth.ca

P.O. Box 840
103-9523 Main Street
Summerland, BC V0H 1Z0

THANK YOU

We thank you for your incredible loyalty as a client. We strive to provide our best advice and service. We also continue to grow our business and want to thank those who have encouraged their families and friends to work with us. We continue to appreciate your introduction of us to anyone you believe would be a good fit within our financial planning and investment practice.