

Wealth DIRECTIONS

SPRING 2017



Market Outlook The TRUMPification of America – Just Deal With It

Prepare for Trump Protectionism. This is when there is a shift and pressure to focus on more domestic American business. There are four predictive steps that Mr. Trump and the Republicans may implement to attempt to ‘Make America Great Again’.

Corporate tax cuts. They may cut taxes to corporations in attempt to stimulate corporate spending and thereby create jobs. This creates upward pressure on wages. Currently, there is very low unemployment in the US and if immigration is discouraged as Trump plans, the labour supply will diminish and wages may increase. It could become hard to find people to do the work.

De-regulation. Corporate USA is incredibly burdened with excessive compliance, regulations and legal paperwork. Trump wants to make it easier to do business in the USA.

Repatriation of foreign profits. Currently, if a corporation repatriates its foreign profits to the USA, they have to

pay 35% tax. Many companies (especially those in the technology sector such as Microsoft and Apple) have enormous funds off-shore and if there was a temporary relief or tax holiday, those companies may bring those assets to the USA and pay out dividends (on which the US government would then collect taxes). The companies may use these profits also to grow their business and operations in the USA and create jobs.

Fiscal spending. Here the government would spend on areas such as infrastructure to create both interim and long term jobs. While this initiative is expected to start in the next year, it may not be in the scale that Trump has proposed until there are signs of a recession. This initiative has also been promoted by Justin Trudeau which would result much greater deficit but as of yet has to announce any substantial new infrastructure projects.

These programs will drive large deficits and inflation. Interest rates will likely rise in the US. Trump’s ‘Make America Great Again’ campaign is focused on strengthening the domestic economy and companies. From an investment perspective, it may be advantageous to invest in mid-sized US companies rather than larger ones as the mid-size tends to be more domestically focused. If inflation increases dramatically, and if the USA starts to impose import tax on Mexico and China, then the US dollar may weaken. We are considering the merit of allocating a portion of a portfolio in gold and silver bullion.

P/E – Inflation Relationship Implies Fair Valuation CPI YoY & S&P 500 Trailing P/E Ratio (1970-current)



Source: Manulife Investments, Bloomberg. As of November 30, 2016. After Nov 30, 2016 Capital Markets and Strategy Chart Book Q1 2017 – page 44.

Market Outlook *(continued)*

mid-range and a range of about 16-25 is expected. When it is below 16, this is a buying opportunity. When the P/E multiple over 25, this is a signal for a probable correction. Today, the index multiple is around 23 (slightly above average). To maintain a fair valuation of the stocks in the market, if inflation increases, corporate earnings needs to increase so as to sustain the current price of the stocks.

In Canada, it is said that we have a petrol-loonie. Our dollar is highly correlated to the price of oil. There are no global shortages of oil currently and it is not expected that the oil price will increase and stay above \$55 a barrel

in the near term. The media points out that the Toronto stock market index recently surpassed 15,700 which was the previous high of Sep 3, 2014. What this really means is that the index return excluding dividends, for this 30 month period has been flat.

One thing we should anticipate is increased volatility. So don't panic, look for opportunities to be contrarian, and hang on tight. There are typically seven leading indicators of a recession. At present, only one is starting to develop. Please let me know if you wish to discuss this in greater detail.

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A THREE-LEGGED STOOL APPROACH TO FINANCIAL PLANNING

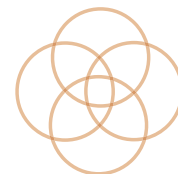
Balancing one's financial plan is as simple as sitting on a three legged stool. If one leg is missing or too short, you tumble off. The three things that we need to prepare for in life: (1) the possibility of a longer life, (2) suddenly dying too soon, or (3) something happens along the way. If you live too long, you may run out of funds and our job is to help you save and invest and plan for this. If you die too soon, you may not create sufficient wealth, and you leave loved ones dependent on you with a problem if not properly insured. And if something happens along the way and you become disabled or critically ill, this can impact your income and ability to manage and to achieve necessary savings for your retirement.

TAX TIP

It is that time of year and people often forget or are not aware that if you have to travel more than 40 kms for medical treatments, the mileage may be deductible. This is more common for people living in smaller communities than in the big cities.

HOW (MUCH) DO YOU PAY YOUR ADVISOR'S INVESTMENT DEALER AND HOW ARE YOU DOING?

The industry has determined that the compensation investors pay to their advisors firm should be disclosed on an annual basis along with personalized returns for each portfolio. Many investors are finding this enlightening and many financial advisors are scrambling to justify their value to their clients. Traditionally, their compensation has been embedded in the fund's management expense ratio 'MER' and clients may not really understand how or how much their dealer is paid. This includes investment accounts at banks, credit unions, mutual fund firms and full service brokers. Our office, for many years has had a strong bias towards a fee-based arrangement where fees paid to the dealer (Manulife Securities Incorporated) are transparent and not embedded and hidden within the MER of the products they own. There are a few examples when this is not the case as there are certain minimums to qualify for fee-based accounts (we call this The Premier Investment Program). Clients also benefit from the savings on open (non-registered or CASH) accounts, since the dealer fees are normally deductible as an expense for income tax purposes.



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.

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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	●	NEW!			
Corporate	Investment Grade				●	
	High Yield				●	
	Floating Rate				●	
EQUITIES						
Canadian	Dividend Focused					●
	Large Cap				●	
	Small Cap			●		
US					●	
European			●	NEW!		
Asia			●	NEW!		
Emerging Markets			●			
	BRIC		●			

Sector		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary				●		
Consumer Staples					●	
Energy				●		
Financials	Banking			●		
	Insurance			●		
	Asset Managers		●			
	REITS		●	NEW!		
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.

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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.