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Perspective

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U.S. Equities Poised to Outperform

The Canadian equity market has gone from leader to laggard in recent years, and the TSX has languished in the company of Italy, Spain and China this year. Canadian equities have also posted a woeful performance relative to their U.S. counterparts, shedding about 10% since the end of 2010, while the S&P 500 has racked up a double-digit advance. With five of the biggest factors that have weighed on relative TSX performance in mind, the U.S. market could again produce better returns for equity investors in 2013.

1. The TSX is built to outperform when the global economy is gaining momentum and risk appetites are on the rise, but global growth has slowed from more than 5% in 2010 to an expected 3.5% pace this year, and Europe's crisis and the U.S. fiscal cliff have kept defensives in favour. Relative to the TSX, the S&P 500 carries more than twice the weight in defensives and half the weight in cyclicals, and this lack of defensive exposure will remain a problem for Canadian equities amid near-term economic uncertainty. However, as U.S. economic growth picks up toward 3% by the second half of the year, and momentum improves in China, this headwind should ultimately fade.

2. The Canadian energy sector has shed nearly 20% since the end of 2010 even as its U.S. counterpart has advanced, and a key reason has been a widening discount in the price of oil received by oil sands producers relative to WTI. Limited pipeline capacity has been one reason for the wider discount, an issue compounded by surging U.S. output. Uncertainty still surrounds Keystone, and prospects for Northern Gateway continue to dim, leaving the Canadian energy sector susceptible to further underperformance in the near term.

3. Canada's technology sector (i.e., RIM) has shed more than 50% since the end of 2010, while Apple at one point surged to become the world's most valuable company. But, with RIM now carrying an index weight of just 0.3% and Apple losing steam, this factor is likely a remnant of the past.

"Of the five major factors weighing on the relative performance of Canadian stocks in recent years, about 2 ½ look to persist in 2013. That leaves return prospects still higher south of the border."

4. The Canadian banks have simply not matched the stellar performance of their U.S. counterparts in the past year, with gains running at half the pace seen south of the border. In Canada, the housing recovery was early and exuberant, driving much stronger credit growth trends than in U.S., where a depressed market and deleveraging plagued much of the 2009-11 period. But that tide turned in 2012, and is likely to persist in the year ahead. While household debt in Canada is elevated and the surge in housing demand is largely tapped out, rising U.S. home prices have the potential to spur a positive feedback loop and a wave of pent-up demand.

5. The TSX was at a notable valuation disadvantage in mid-2010, but the subsequent weak performance has improved relative valuations to about an even level. As a result, it's safe to scratch valuations off the list of factors working against the TSX.

The Bottom Line: Of the five major factors weighing on the relative performance of Canadian stocks in recent years, about 2½ look to persist in 2013. That leaves return prospects still higher south of the border, but the gap shouldn't be quite as wide as during the past 2 years.

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The Benefits of Consolidating Investment Accounts

While many of us are familiar with the "don't put all your eggs in one basket" golden rule of successful investing, it may mean different things to different people. For some, it means minimizing risk by spreading their investments across multiple financial institutions. Contrary to this belief, diversification is really about managing your portfolio risk and increasing your potential returns over time by dividing your investment portfolio among a variety of asset categories (e.g. cash, stocks and bonds) and also within each asset category by investing in a variety of companies, industries and sectors. Consolidating your assets in "one basket" with one financial professional can make it easier for you to manage your portfolio and achieve true portfolio diversification.

Save time and reduce statements

Combining your investment accounts in one place can add convenience to your financial life and save you valuable time without having to worry about multiple log-ins, passwords and websites. It also means you'll receive consolidated statements on a regular basis instead of multiple statements at different times throughout the year and you'll also cut down on the number of tax slips you will receive at tax time.

Save money

Financial institutions generally levy administration fees on certain types of accounts. By consolidating your accounts with a single trusted advisor, you can avoid paying multiple administration fees for the same type of account.

More control of your investment strategy and reduced risk

Consolidating your investment accounts can give you a clearer picture of your wealth, how your assets are allocated and to determine when to rebalance your portfolio. It provides a snapshot of your total portfolio, ensuring that you have not duplicated your holdings or are not overexposed in one sector.

"Regulations governing retirement plans can be complex, and when your assets are consolidated in one firm, it allows your financial professional to give you more comprehensive advice to help you achieve your desired retirement lifestyle."

Get the right retirement advice to maximize your retirement income

As you approach and enter retirement, you'll have big decisions to make from ensuring you have saved enough to managing your retirement income from a variety of sources. Regulations governing retirement plans can be complex, and when your assets are consolidated in one firm, it allows your financial professional to give you more comprehensive advice to help you achieve your desired retirement lifestyle.

Easier estate planning and administration of assets

Having your accounts in one location makes it easier to plan your estate, including keeping track of your estate inventory and maintaining your beneficiary information current. Having all your accounts in one place can make it easier for your executor (or liquidator in Quebec) to administer your estate, potentially also saving them time, money, and frustration at a time of grief.

Preserve your wealth

It's not uncommon for people to move, and perhaps open accounts in a new neighbourhood, while forgetting to advise the former financial institution about a change of address, particularly if the account was relatively small. This may help explain why The Bank of Canada is holding millions of dollars of unclaimed property from dormant Canadian bank accounts. Additionally, the risk of leaving accounts orphaned can be exacerbated by the individual losing mental capacity and their spouse, unaware of the existence of these accounts, stepping-in to manage the money. By consolidating your accounts, you minimize the risk of forgetting about some accounts.

Get started today

If you are holding investment accounts at multiple financial institutions, consider consolidating them. It can help you manage your money more efficiently and effectively, thereby simplifying your life and providing you access to more comprehensive advice to give you confidence in your future financial security. Consult your BMO Nesbitt Burns Investment Advisor about the consolidation process.

Potential benefits of consolidating accounts:

- Save time and money
- Cut down on statements and tax slips
- Easier to achieve portfolio diversification
- More comprehensive retirement advice
- More control over investment strategy and reduced risk
- Simplify estate planning and estate administration

Estate Considerations

Spending time with family and friends over the holidays often escalates the need of individuals to put their financial affairs in order. Indeed the "what not to do" lessons in estate planning abound and circulate among friends and relatives, mostly depicting anecdotal stories of things gone wrong and worse-case-scenarios. The lessons usually point out mistakes such as failing to prepare or update a valid Will prior to death or failing to grant a valid Continuing Power of Attorney for Property prior to becoming unable to manage financial affairs. These are important lessons to heed. Consider making a new year's resolution to expand the list of things to watch out for when embarking on your estate plan.

Below is a list of actions that, depending on your circumstances, could have negative consequences for you and your beneficiaries:

- Registering assets in joint tenancy with someone other than your spouse
- Taking shortcuts in the estate planning you are contemplating to simplify the plan
- Writing a Do-it-Yourself-Will
- Designating your estate as the beneficiary of life insurance policies and registered plans
- Appointing an individual who resides in the U.S. as Executor of your estate or attorney under your Continuing (Enduring) Power of Attorney for Property
- Neglecting to appoint a guardian of your minor children, in your Will
- Relying on your beneficiaries to pay your estate's probate tax (especially if you reside in B.C., Nova Scotia or Ontario) and income tax, out of pocket or out of their inheritance
- Gifting more than you actually have, by way of legacies and residuary gifts, in your Will
- Ignoring the rights of dependants, common-law spouses and former spouses, when contemplating your estate plan
- Creating Trusts for your beneficiaries, the terms of which are inconsistent with your goals, or, with your beneficiaries' lifestyles and needs. For example, creating Trusts with terms that are too fixed or too discretionary
- Relying on your beneficiaries to know which of your valuable personal effects each should inherit
- Creating a succession plan for the benefit of your loved ones that is based in equality but perhaps is not equitable, or, not fair
- Gifting to married adult children without the proper documentation to ensure asset protection

Make 2013 the year you put your affairs in order, and, when doing so, heed the lessons learned by those who have made mistakes before you.

Your BMO Nesbitt Burns Investment Advisor is familiar with your financial circumstances and can help you identify the need for estate planning services and help you locate an estate planning lawyer to review your current estate plan.

Tax-Free Savings Accounts

In 2013 the annual TFSA contribution limit will be $5,500, an increase of $500 from previous years.

The Tax-Free Savings Account (TFSA) was introduced in 2009 and provides a tremendous opportunity for Canadians to save for their financial goals. Your TFSA savings can be used at any time and for any purpose – it's completely up to you. Whether you are saving for a new car or a home purchase, your child's education or your own retirement, a TFSA can help you reach your goal sooner. TFSAs have broad appeal to many and their role in your financial plan will depend on your age, taxable income and financial objectives.

In 2013 the annual TFSA contribution limit will be $5,500, an increase of $500 from previous years. Any unused contribution room can be carried forward for use in future years. If you do not already have a TFSA, you may be eligible to contribute up to $25,500 ($5,000 per year from 2009 to 2012 plus $5,500 for 2013).

TFSA contributions are not tax deductible for income tax purposes; however your savings grow tax-free inside your account. In addition, there is no tax payable when you make a withdrawal from your TFSA.

Withdrawals from a TFSA are tax-free. Amounts withdrawn in the current year will be added to your contribution room at the beginning of the following year. For example, assume you make a $5,500 contribution in January 2013, followed by a withdrawal of $5,900 ($5,500 contribution + $400 gain) in October 2013. On January 1, 2014, an additional $5,900 will be added to your TFSA contribution room.

Planning Opportunities

- TFSAs provide an opportunity to split income with family members. You can give or loan your spouse, common law partner and adult children funds to make a contribution to their own TFSA. The income earned within their TFSA would not be attributed back to you.
- Consider holding investments in a TFSA that would otherwise be taxed at high rates outside a registered account, such as interest income.
- Consider contributing any surplus RRIF or pension income into your TFSA. Neither the income earned nor withdrawals from a TFSA will affect your eligibility for federal income-tested benefits and credits such as the Old Age Security, GST credit and age credit.

As taxpayers, we take one step forward when we earn income and half a step back when we pay taxes. With a TFSA, we take a full stride forward and keep going each year without the loss of value due to taxation. Contact your BMO Nesbitt Burns Investment to discuss how a TFSA can fit into your financial plan and complement your overall wealth management needs.

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