HollisWealth®

WealthBUILDER

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These FAANGs make a deep impression on the market.

Innovations in technology have changed everything from how we shop and bank to how we watch TV and movies to how communicate with family and friends. And many of the companies that have driven these innovations have gone from being unknown start-ups to household names. Consider how Facebook went from being a project of Harvard students in 2004 to a publicly-traded company in 2012 valued at $104 billion US.

As a result, technology companies have come to dominate the best known stock indexes. But just five companies represent most of that dominance. These are the so-called FAANG stocks.

FAANG is an acronym for five of the most popular and best-performing tech stocks: Facebook, Apple, Amazon, Netflix and Google. Each company has been known to move markets and transform not just their own industries, but also how we all live.

Together, these companies make up approximately 13% of the S&P 500 index with a collective market cap as of July 2018 of nearly $3.8 trillion.[1] It's been noted that if FAANG was a country, and its market cap was its gross domestic product, it would be the fourth-largest economy in the world.

What does this mean for investors? What are the opportunities to profit but also what are the risks?

First of all, keep in mind is that while all five are technology innovators, they are very different companies with products and services in different sectors of the market. Apple, for instance, produces devices like iPhones and runs services like iTunes. Amazon is one of the largest online retailers in the world and a big player in corporate web services. Facebook is a social media and advertising colossus.

Each of these companies also has very different financial characteristics. Apple has historically produced products with high price tags and high profit margins. Amazon, by contrast, has concentrated on revenue growth rather than profitability.

With such diversity, it's important not to oversimplify your view of FAANGs as a whole.

So, are FAANGs worthy of your investment dollars? With their size and scope, it's likely most investors already have some exposure to these giants directly or indirectly. Like utilities and manufacturers of past decades, these technology companies have become a core holding of many portfolios as well as a part of our everyday lives.

One thing that remains true: a diversified portfolio tailored to your investments goals offers the chance to benefit from trends of today and shelter you from the downsides as our technology habits evolve. ◄

Source: [1] ***MarketWatch***, July 17, 2018.

Why RRSPs need a growth focus whatever the markets are doing.

It's no wonder Registered Retirement Savings Plans (RRSPs) remain one of the most popular ways for Canadians to save and invest: generous tax incentives make RRSPs a great way to build wealth over the long term.

Tax-deferred returns on your investments, along with the tax break you receive on your annual contributions, give you far greater growth potential than you can realize on investments outside a registered plan. But beyond the tax breaks, what's the best way to maximize your RRSP's potential?

Searching for safety?

With the RRSP season upon us, it's a good time to revisit some important investment strategies. It's certainly true that financial markets, especially the stock market, have provided good growth over the last several years. With the bull market so mature, you might be tempted to gravitate toward "safer" lower-return investments in your retirement plan.

However, that tactic could have a detrimental long-term impact on your accumulated wealth. Being overly conservative with lower-return or cash-type investments for too long can strip your RRSP of potential; low returns can mean less wealth accumulation.

It's also important to keep in mind that as Canadians are (thankfully) living longer, the retirement we need to fund may now last longer too. The need to generate income for retirements of 30 or more years means that building wealth in our savings years is more important than ever.

A role for equities

To take maximum advantage of the tax-sheltered compound returns your retirement plan offers, you need to look to investments that have the potential for higher returns. Equities and equity mutual funds have historically been the best route to higher long-term returns.

While stock market investments are more volatile than other types of assets, over time, they have historically outperformed other asset classes. And while volatility can be unsettling, it offers an opportunity to invest in stocks at more attractive prices and potentially increase returns further.

Whether you believe the stock market will continue to perform well or that it's likely to see an overdue correction, it's important to stay the course. Your asset class targets should reflect your investment goals and your time horizon, not the short term fluctuations of the market cycles.

If you are making a new RRSP contribution or topping up your regular savings plan, let's talk. Together, we can explore options for your contribution and position your investments to meet your retirement objectives. ◄

PORTFOLIO STRATEGIES

Here's a tax-smart way to rebalance.

The Canada S&P/TSX Toronto Stock Market Index reached an all-time high of 16567.42 in July of 2018, just one example in a series of record-setting returns in equity markets around the world. Indeed, the MSCI World Equity Index added $8 trillion in value in 2017.[1] For equity investors, that represents a reason to celebrate, but it also means that it may be time to rebalance your portfolio.

Suppose, for example, that your portfolio target was 50% equities and 50% fixed income. The outperformance of equities may mean that your portfolio no longer has the 50/50 split that aligns with your objectives and risk tolerance.

Options to rebalance

You could rebalance by taking profits in select equity holdings and reinvesting in fixed income. However, that could leave you with taxable capital gains to report on your next income tax return, unless your holdings are in a registered account. A more tax-friendly way to rebalance is simply to direct new funds to underweight areas in your portfolio.

This strategy has an added benefit in that underweight asset classes may be undervalued and thus represent a good investment opportunity.

Stay on top of changing markets

A regular investment program, where you automatically direct cash to your portfolio, is an ideal way to take advantage of current market conditions and keep your portfolio on track. If you're adding to your non-registered investments soon, let's review the areas that are outperforming and consider the best places to allocate new cash. ◄

Source: [1] ***Trading Economics***; Financial Post

Skip RRSPs this year? Count the cost first!

March 1, 2019 is the last day on which you can make a contribution to a Registered Retirement Savings Plan (RRSP) that can be deducted on your 2018 tax return. If you're thinking of skipping your contribution "just this once," you might want to think again.

Opportunity cost

If you are now 55 and skip a single $5,000 contribution, you could end up with nearly $9,000 less in your RRSP by age 65, assuming an average annual return of 6%. If you skip a $10,000 contribution, that lost opportunity may rise to more than $17,900. The younger you are, the higher the potential cost. Using the same 6% assumption, skipping a $5,000 contribution at age 45 could cost you about $16,000 by retirement.

Skipping a contribution at age 35 has an even greater impact on retirement funding. A single $5,000 contribution missed could see you lose out on more than $28,700; skipping a $10,000 could mean missing out on nearly $57,500.

Tax cost

Opportunity cost is only part of the story. Not contributing also means not being able to claim a tax deduction that could reduce your tax bill or maybe even result in a refund. And the higher your earnings, the more valuable that deduction becomes.

Your options

Perhaps the biggest cost of all is shortchanging your own retirement plans. If you have conflicting demands on your finances keeping you from an RRSP contribution, it may be time for a review. We can help you find an approach that keeps you on track to meet your retirement goals. ◄

REGISTERED PLANS

These are the rules for 2019.

Staying on top of the rules and deadlines for your registered plans, such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) can help you maximize the considerable benefits they offer. So, here are the rules to keep in mind for 2019:

RRSP Contribution Limit. The maximum RRSP contribution limit for the 2018 tax year is $26,230 or 18 per cent of your pre-tax earned income from the previous year. Keep in mind that any unused contribution room carries over to future years so your individual amount may differ.

TFSA Contribution Limit. The TFSA contribution room limit for 2019 has increased to $6,000. The actual amount which can be contributed by an individual includes both the current year limit and any carryover of re-contribution amounts from previous taxation years. Keeping track of TFSA contribution room can be complicated, especially if you have made withdrawals from your TFSA in the past.

RRSP Deadline. The deadline for RRSP contributions for the 2018 tax year is March 1, 2019.

TFSA Deadline. There is no deadline for TFSA contributions. You can contribute to your plan anytime.

Your information. You can obtain your individual limits through the Canada Revenue Agency's (CRAs) *MyAccount* service. ◄

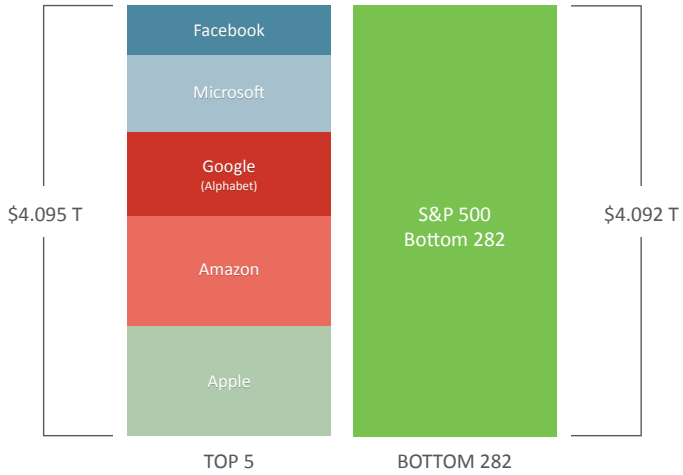
INVESTING TRENDS

Tech "giants" really are giant.

Much is made of the role of so-called tech "giants", not just in their remarkable performance in the stock market run of the last few years, but also in shaping everything from our media habits to the political climate.

So, just who are these giants and how big are they really? This chart shows that top five companies in the S&P 500 -- all tech companies -- combined are worth $4.095 trillion versus $4.092 trillion (all US dollars) for the bottom 282 companies.

Market Cap, S&P 500 Top 5 vs Bottom 282 (July 17, 2018)



How unusual is this? A little historical context may be helpful here. Former market giants AT&T and General Motors represented 14.5% of the S&P 500 during their heyday in 1965. Nevertheless, this market dominance speaks to the increasingly important role of technology in our lives and the economy. ◄

Source:
Michael Batnick, Ritholtz Wealth Management,
reported in ***MarketWatch***, July 19, 2018.

Out of sight, out of mind can hinder your investment potential.

Have you accumulated a number of financial services providers over the years, with your savings and investments spread over a number of banks, brokers, fund companies and others? Consider this: when you hold investments across a number of different accounts or at multiple institutions, you may leave yourself open to a host of potential shortcomings that can hinder your financial progress – and could cost you money.

Consolidating your investments not only shines a light on any shortcomings or oversights in your holdings, it can also help us capitalize on opportunities. Taking a scatter-shot approach can result in duplication, lack of diversification, portfolio sprawl, excessive fees, and less-than-optimal tax efficiency.

In addition, managing more than one account can eat up your personal time as you grapple with multiple statements, tax slips, and account representatives.

A fuller picture

Having all of your investments under the same umbrella, on the other hand, offers the following advantages:

- We can more easily track and manage your holdings and keep your weightings in alignment with your goals.
- We may have a clearer line of sight to potential tax-saving strategies, such as tax-loss selling and determining when to crystalize capital gains.
- It makes it easier to allocate your investments to the most tax-friendly account (for example, holding income-producing securities in a registered plan).
- Being able to see all of your securities at a glance means we can fine-tune your portfolio as your needs change.

Let's talk about how we can ensure that all of your investments are working together as efficiently as possible. ◄

Should you act when markets hit new highs?

While experts may disagree on how and when to measure a bull market's run, there is no doubt that the recovery in stocks since the 2008 financial crash has represented the longest bull market run ever and a spectacular comeback from those dark days.

These kinds of market peaks and valleys present a challenge to the commitment of long-term investors. When markets hit new highs, investors wonder whether they should take some profits. But for those who are in it for the long haul the answer is: proceed carefully.

Taking profits is tempting

Let's admit it — when investment holdings substantially increase in value, it's tempting to lock in those profits. Consider that the US S&P 500 booked a gain of more than 320% from its bottom in March 2009 to August 2018.[1] However, the short-term satisfaction you get may have a downside.

First off, sales of equities outside of registered plans could spark tax consequences (see article this page). Any increase in the value of the securities since purchase may trigger a taxable capital gain.

Furthermore, the most effective investment strategies are longer-term in nature and rely on a proper balance between asset classes. These strategies are founded on the dictum that you can make more money through "time in the market, as opposed to market timing."

Beware market timing

When seasoned investors sell a particular stock holding, they know they need to replace it with another or shift those assets to other asset classes such as fixed-income investments.

Attempts to "time" the market, however, can be costly. Market timers try to sell off equities at or near market highs, move into fixed income, and then re-enter the market when equity prices have dropped, in order to profit from the next upswing.

History shows that this is a difficult strategy to enact in real life. Upsurges in equity prices are unpredictable and can happen suddenly. Those who shift too often risk missing out on key upwards movements.

Few good parking spots

The other problem facing investors who want to take profits when markets hit new highs is to figure out where to "park" the proceeds. Right now, returns on "cash equivalent" instruments are generally unattractive, because the rates they offer are so low. Even with the Bank of Canada signaling that rates may rise, the return on these types of investments is likely to remain low for the foreseeable future.[2]

That does not mean you shouldn't hold any conservative — quite the contrary. Maintaining a balanced portfolio is crucial. It just means that there are few compelling reasons to shift funds from the equities portion of your portfolio right now — unless you are underweight in other asset classes.

If you feel that stock valuations are getting frothy and are tempted to book profits, let's talk. We can review your portfolio, calculate gains to date, explore the income tax implications of taking profits, and look at where you might reinvest gains if you do decide that it's time to sell. ◄

Sources: [1] ***CNBC***, August 14, 2018. [2] ***Bank of Canada***, September 5, 2018