MERCATOR Financial *Awaken Your Wealth*

# Market Commentary

## Mercator Monthly Market Watch

January 31, 2016

### Putting January's turbulence into perspective

How well or poorly January performs means you either have a head start or a handicap going into February. But in the years when January lost ground, there was only a 33% success rate in predicting a losing year.

That seems to have been an issue with the January barometer; a harbinger of how well the market will do for the year. Over the last 10 years, 2005, 2009, 2010 and 2014 began on the wrong footing but finished in the green.

There are plenty of reasons why markets go up or markets go down. So we don't believe January necessarily sets the tone for the year. Over the long term, it's more about corporate profits, which are heavily influenced by the economy.

Last November, analysts were forecasting a rise in Q1 profits of 3.6% (Thomson Reuters). As January came to a close, the increase had evaporated and analysts now foresee a drop of 2.7%. If we lose ground in Q1, that would make it the third straight quarterly decline. Put another way, it's a profit recession that adds to short-term uncertainty in the market. Yet, a sizable chunk of the weakness has to do with the near collapse in profits in the energy sector, which factors into overall corporate profits.

For consumers, it has been a windfall at the gas pump. But the beleaguered energy sector has been a net negative for the economy, creating steep cutbacks in oil and gas projections, which have in turn roiled manufacturing.

More over, the strong dollar continues to create headwinds for sales at U.S. firms that do a big chunk of business overseas. While a strong dollar is a gift for Americans vacationing in a foreign land, it works against revenues of homegrown firms because sales in local currencies must be translated back into a stronger dollar.

We get it. It's human nature. This is why we consistently advocate a disciplined investing approach - one that takes emotions out of the equation.

We always stress the importance of being comfortable with your portfolio and the risk you are taking. Market volatility is a normal part of investing. While it can be managed, it can unsettle some investors. It's why we subscribe to a time-tested philosophy of finding the right mix of assets for your situation and adhering to that mix.

If your goals or personal situation changes, we can revisit your target. One factor we use: your tolerance for risk and volatility. When markets are rising, some investors miscalculate how much risk they can handle and opt for a bolder approach. Let us add - resist the temptation to make buying and selling decisions solely on the current market environment.

We continue to stress - the long term approach requires discipline, and has historically been the best path to reach one's financial goals.

| *Stock Exchange* | Year to Date Jan 31, 2016 |
|---|---|
| TSX (Toronto) | -1.44% |
| DOW (U.S.) | -5.50% |
| S&P (U.S.) | -5.07% |
| NASDAQ (U.S.) | -7.86% |
| CAC (France) | -4.75% |
| FTSE 100 (London) | -2.54% |
| DAX (Germany) | -8.80% |
| NIKKEI (Japan) | -7.96% |
| HANG SENG (Hong Kong) | -10.18% |

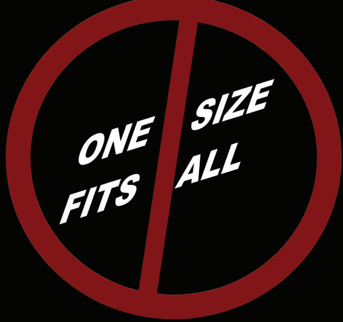
***Rates as of January 31, 2016 ****

| *Term* | *GICs* | *RSPs* |
|---|---|---|
| 1 year | 1.80% | 1.45% |
| 2 Year | 1.95% | 1.76% |
| 3 Year | 2.02% | 1.86% |
| 4 Year | 2.12% | 1.96% |
| 5 Year | 2.25% | 2.25% |

*** Rates subject to change without notice.**

| *DAILY INTEREST ACCOUNT* |
|---|
| 1.00% |

| *TAX FREE ACCOUNT* |
|---|
| 1.00% |




# Beware of the one-size-fits-all advice

Although RRSPs are the most popular choice for Canadians and their retirement savings, they may not be the best choice - especially for business owners. Like many financial decisions, beware of the one-size-fits-all advice that may not be right for you after all.

Incorporated business owners have a few more arrows in their quiver than employees because they can control their compensation and where they retain their corporate income. If corporate income is not needed for personal living expenses, for example, it can be retained in a corporation to defer income taxes.

According to Paul McVean, a tax partner at Anklesaria McVean Professional Corporation: "Our calculations and projections often show that the tax benefits of withdrawing dividends from the corporation in retirement result in business owners being able to spend more, have a larger estate or a combination of both. This is because the tax cost of withdrawing dividends (in retirement) could be significantly lower than the tax cost of withdrawing RRSP or RRIF dollars, which would be fully taxable."

As a result, the default advice to take a salary and make RRSP contributions for a business owner may not be the best advice. Instead, retaining savings in a corporation may provide a higher retirement income.

Furthermore, corporations can be more flexible than RRSPs. In particular, corporate savings:

- Do not have minimum withdrawals like RRSPs
- Can be paid out to other family members to accomplish income splitting
- Can be invested directly in real estate, private companies and other investments
- Allow for more sophisticated estate planning strategies.

JP Laporte, CEO of INTEGRIS Pension Management says that "the RRSP is ill-suited to business owners who want a true pension plan for themselves - a plan that replicates what teachers and civil servants in Canada have come to depend on for retirement security. For that, they would need to set up a Personal Pension Plan."

If you are a business owner, it may be advisable to avoid RRSPs in lieu of alternatives not otherwise available to employees. Despite the many great features of RRSPs, like all financial choices, sometimes there are better opportunities available for you.

Information Source: Jason Heath - fee only Certified Financial Planner (CFP) and income tax professional for Objective Financial Partners Inc.

## RRSP vs TFSA
## Things to consider

As you review your investment strategies with your Advisor this year, make sure you aware of the benefits and differences of an RRSP and TFSA. They are both great savings tools for Canadians but they are very different. By sitting down with your Advisor and having a clear understanding of how and when they produce income you will be able to use them for your short and long term goals in life.