# Fernhill Financial Corporation
## The Fiscal Estate

### A Message From The President

Market volatility, consumer debt and fluctuating real estate values are not the only things Canadian investors should be worried about over the next few years. Regulators across Canada, including the BC Securities Commission, have been looking at eliminating the choice you currently enjoy with regards to how your advisor is compensated for the work he or she does for you.

Today, consumers can choose to work with an advisor that is compensated by commission, a percentage of financial assets under management, or an hourly fee for service. The proposal is to eliminate the commission model effectively forcing clients to compensate their advisor directly. This proposed model would be similar to the one used by lawyers. While there may be a case for direct compensation in relation to larger portfolios, the average account size in BC is only $78,000.


A ban on commissions in Canada would be similar to what has taken place in other jurisdictions. In both the United Kingdom and Australia, findings indicate that the banning of commissions has resulted in a major advice gap – where high-quality financial advice is increasingly unobtainable for those who need it most; typically average account sizes and below. As a result of regulatory changes, advisors in the United Kingdom are charging £300 to £400 ($618 - $825 Canadian) an hour to dispense advice.*

Despite recent regulatory changes (these will come into effect mid-2016) to increase transparency and provide clarity for investors regarding their mutual fund costs, Regulators are still moving forward with their draconian proposal. In an effort to support their pre-determined position, Regulators commissioned three studies; Mystery Shopping; the Bondesbury Report; and the Cummings Report. **Interestingly, these studies didn't focus on how consumers felt**. As a result, Advocis, The Financial Advisors Association of Canada, commissioned research firm PMG Intelligence to survey consumers across Canada to provide a clearer picture of how clients view the value of the advice they receive and to understand whether investors have an issue with the manner in which the advice is incorporated into the overall cost of mutual fund products.

*With so many views on the issue, what is the real story?*

**Myth:** If the government regulates how consumers pay their financial advisors it will lead to better outcomes.

FACT: 88% of consumers surveyed said the impact of removing consumer choice in how they pay for financial advice **WOULD HAVE A NEGATIVE IMPACT** on their investments.

I believe it is now more important than ever to stand up on behalf of consumers and their access to financial advice . To that end I have asked my fellow Advocis members to meet with their local MLAs, as I am doing, to discuss the findings of our Consumer Survey.

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**Inside this issue:**



*Since these changes were implemented, the negative impact on consumers in the UK has caused the UK government to review the changes they put in place.

## Making Money Fun for Kids!

In today's society, it is more important than ever to help our kids understand the value of money and the "ins and outs" of cash flow. Some of the most successful teaching methods incorporate principled lessons, hands-on activity and most importantly, fun! If you're thinking of giving your children an allowance or have already started, the following ideas may help them understand fundamental elements that will help them be financially independent.

**Step 1 – The value of a dollar**

While there's no right way to determine if, or how much, of an allowance should be given, a good starting point would be to give a dollar amount equivalent to the child's age. For example, if your child is 7, then a weekly amount of $7 would be their allowance. This allowance could be freely given or tied to chores or various activities around the house. If you would like to encourage some entrepreneurial spirit, you could also increase their weekly amount based upon pre-determined additional chores or activities your children might take on to earn extra money.

**Step 2 – Goal setting and budgeting**

A fun and creative way to teach your children about goal setting and budgeting is to give them ideas on how to divide their hard earned money between short term and long term goals. We recommend the following breakdown:

10% goes to charity
15% is set aside for long term goals (car, education, house)
25% is set aside for short term savings (new video game, hockey stick, etc.)
50% is to be spent on whatever they like, whenever they like

You could use 4 different containers for each category to help your kids physically divide their allowance. This will further reinforce the ideas of budgeting, goal setting and paying yourself first. They could even decorate each container for fun!

***President's message continued...***

I would like to thank everyone who took the time to complete the Consumer Survey. The results show what we have known all along - consumers value financial advice and don't want the way they deal with their financial advisor to change. You can download a copy of the full Consumer Survey report at: www.advocis.ca/pdf/Consumer-Voice-2015.pdf.


One final note, after 16 years with Fernhill, Mike Worobel retired (for the second time) and we wish him, and his new dog, all the best. I would also like to thank you for making Fernhill Financial your primary choice for financial advice and at the same time extend a warm welcome to John Crisp CFP who joined the Fernhill advisory team last year and like John, we look forward to a wonderful 2016.

Regards,

David

David B. Webb - President

## Thank You For Your Donations!

Fernhill Financial once again accepted non-perishable donations for the Mustard Seed.

Thank you to all our clients who dropped off donations. It was greatly appreciated and we look forward to doing it again next year!



## Due Diligence Trip 2015

For 2015, Fernhill attended the CI Investment Due Diligence conference in Dallas, Texas. It was an excellent opportunity to personally meet the portfolio managers that invest on your behalf. We heard from a variety of them including Brandon Snow and Stephen Groff, PMs for Cambridge as well as the Signature team and many others.

Of special note was the opportunity to hear from a few of the CEO's that run the very companies that your money is invested with. This was very unique and something we have never seen before. That type of access was unprecedented for us and helped to reinforce our analyses of the investment teams.

We put a lot of weight on 'in person' interviews as part of our due diligence research and have scheduled a visit in Chicago with Manulife at the end of May.

## 2016 Tax Tips

2016 Federal Tax Brackets

First $45,282.................... Bottom

$45,283 - $90,563 .......... Middle

$90,564- $140,388 ......... Top

$140,389+ ...................... Over-the-Top

**Monday February 29th** is the deadline for 2015 RRSP contributions.

2015 RRSP contribution room limit is 18% of earned income to a max of $24,930

TFSA contribution room limit for 2016 is $5,500. ($46,500 accumulated room as of Jan 1, 2016)

Reminder: Capital Gain/Loss Summaries are normally found on your Year-End Statements from the fund companies. These are good to keep for tax time!

If you have not provided us with a copy of your 2014 NOA, please feel free to send us a copy or bring it to your next meeting.

**RRIF Minimum Withdrawals Changes in 2015**: For those clients who have RRIF Accounts and are between the ages of 71 and 94, the new lower minimum withdrawals are designed to let individuals preserve more of their retirement savings. The new amounts were based on the Dec 31, 2014 balance of your account. As a result of this mid year change, one has up to February 29, 2016 to re-contribute the difference back into your RRIF.

**CRA Telephone Scam:** This year a number of individuals were the victim of the CRA phone scam. Please be cautious with any call that seems suspicious as it could result in identity and financial theft. These calls are still very active and on-going. If you do receive a call from someone claiming to be from the Canada Revenue Agency and the person demands payment because you have an outstanding balance, hang up and call the Canadian Anti-Fraud Centre at 1-888-495-8501 to report the call. You can always call CRA directly to see if you do indeed have an outstanding balance at 1-800-959-8281.
CRA will normally send out letters to your mailing address if there is ever an issue or amounts owing for your current or past years tax returns.


# What Are The Odds?

**It's Saturday night and you and some friends** decide to have some fun at the local casino after a tough work week; nothing big, just a little fun. When you arrive, the place is packed and there are only 4 slot machines available. As you look at each one, you realize that each has a different set of odds for winning. The odds for the first machine are 1 in 1200, the second is 1 in 240, the third is 1 in 3 and the fourth machine has odds of 1 in 2. Which machine would you choose? Why did you choose that machine? While the question may seem a bit elementary the important thing to remember is that if you chose the machine with a 50% chance of paying out, it was probably because it had the best odds of paying out. In other words, the likelihood of a win occurring was with the machine touting 1 in 2 odds. However, what if we applied these odds in the context in which they actually exist?

Here are the odds in their actual context:

**1 : 1200** - The probability of using your home insurance

**1 : 240** - The probability of using your auto insurance

**1 : 3** - The probability of developing a critical illness such as cancer

**1 : 2** - The probability of requiring long term care

Most people that we come across consider their homes and vehicles among their greatest assets. Because of this, they typically want to insure them for their respective replacement value (home) or fair market value (vehicle) should anything happen to them; however, as we've just learned, the odds of utilizing that insurance is 1 in 1200 and 1 in 240 respectively.

Alternatively, did you know that the cost for cancer treatment in BC can range between $20,000 and $80,000 per year depending on the type and severity of the cancer? These are not the costs covered by BC Medical. These are the costs that the patients and their families pay for out-of-pocket as they seek treatment. Could you afford an extra $20,000 or $40,000 in addition to not being able to work? Given that the odds are significantly greater than using your home or auto insurance, would you agree that it's worth insuring against the financial impact something like cancer can have on your life?

And what about long term care? Did you know that long term care can cost upwards of $5,000 per month, even if you're still living in your own home? This is in addition to your regular, everyday expenses. There is a 50% chance that you'll require some form of long term care, therefore your retirement plan should include a contingent to cover this likely eventuality.

When the odds involved slot machines and money, it was an easy decision to choose the most likely payout; after all, why wouldn't you? However, changing the subject to less appealing subjects such as our own frailty can cause us to avoid the subject altogether. Unfortunately, ignoring the subject does not negate the statistical probability of facing that fragility in our lives. While insuring your tangible assets, such as homes and vehicles, is a prudent and recommended action; be sure to protect you and your family from the financial impact that an illness and long term care can have on your financial objectives. After all, the odds are you'll be better off for doing so.

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If you would like another copy of this newsletter or think a friend may be interested, please let us know and we'll gladly send one!