



## WHY WE ARE BETTER OFF THAN EVER



Whenever there is volatility in the equity markets, the pundits of pessimism emerge. But here is why you should be more of an optimist about the economy and the markets. Take a look back at the last 50 years in Canada. In 1968, Gross Domestic Product (GDP) per capita, a measure of economic performance, was around \$27,600 (in 2018 terms) when adjusted for inflation. Fast forward to today, where the latest GDP per capita figures sit at around \$60,000.<sup>1</sup>

Here's what happened during this period...

- Annual inflation exceeded 5% in 13 of those years.<sup>2</sup>
- The stock market fell in more than 232 of those 600 months, or 39% of the time.
- The stock market lost a quarter of its value at least seven times.
- There were nine bear markets lasting a total of 75 months.
- We had five recessions, cumulatively lasting over five years.<sup>3</sup>

...and yet our standard of living more than doubled after adjusting for inflation and the S&P/TSX Composite Index appreciated over 5.9% on an annualized basis.<sup>4</sup>

Being an optimist doesn't mean believing that short-term setbacks won't happen. But having a longer-term view of the markets reminds us that things have continued to improve over time.

We are living in one of the most prosperous times in the history of the world. Income and quality of life have improved; disease, violence and even child mortality have fallen. Though the world is far from perfect, necessities and luxuries alike are getting cheaper. Here's a curious statistic: there are almost as many cell phone subscriptions as there are people on earth.<sup>5</sup> We are also living longer. Back in 1968, a Canadian's life expectancy was 72 years. In just two generations, it has increased by almost a full decade. This means that many of us will enjoy a longer retirement.<sup>6</sup>

Despite the pessimism that has come with market volatility, Canada's economy remains relatively strong. Jobless claims are some of the lowest in decades. The manufacturing sector has performed well and our lower loonie has helped to support exports to the U.S., which hit a record high in April. Our resource-based economy may benefit from rising oil prices, which have reached their highest levels since 2014. Across the border, corporate earnings growth has been impressive.

However, economic challenges remain. Growth has slowed this year. Canada's global competitiveness, an engine for economic growth, continues to be threatened. Despite higher oil prices, our energy industry has faced difficulties in building new pipelines. For now, NAFTA negotiations are ongoing and the U.S. continues to impose tariffs globally, adding to trade uncertainty. As interest rates rise, Canada's debt load, and that of individual Canadians, becomes more worrisome.

Regardless of what happens in the shorter-term, consider that having a wealth plan in place and participating in the markets offers an advantage. While history has shown that you are likely to experience recessions, pullbacks and perhaps even a market crash, participating in the stock market has turned out to be one of the greatest wealth generators over time. And, as a longer-term investor, if you can persevere through the ups and downs, in due course you are likely to reap the returns.

1. Statistics Canada, Thomson Reuters, IMF WEO, CIBC Asset Mgt calculations; 2. inflation.eu/inflation-rates/canada/historic-inflation/cpi-inflation-canada.aspx; 3. cdhowe.org; 4. At 4/30/18; 5. worldbank.org; 6. statcan.gc.ca/eng/help/bb/info/life

### Speaking Personally:

Although volatility has returned to the markets in 2018, especially in early spring, Canada's economic position hasn't seen any distinct adjustments to cause significant concern. We continue to keep an eye on how ongoing trade tensions will affect the Canadian economy. Stick to your plan and continue to look forward. And, as always, please call if you have concerns.

As summer vacation time rolls around, may you find rest, relaxation and enjoyment in whatever activities you choose to pursue over the coming months.

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# WHEN SHOULD YOU START RECEIVING CPP PAYMENTS?

The Canada Pension Plan (CPP) provides eligible individuals with a partial replacement of earnings in retirement. If you are approaching retirement, you may be asking: when is the best time to start taking CPP benefits? For some, the timing decision is based on a “collect now and think about it later” approach. But, if you are in good health and can afford to live without CPP in the short term, did you know that delaying payments can make a significant difference in the amount received?

The standard age to start receiving the CPP pension is 65. However, you can start collecting as early as age 60 at a reduced pension amount, or as late as age 70 for an increased pension. By starting early, payments are reduced by 0.6% for each month that the pension is started before the age of 65 (reducing the pension by up to 36%). By waiting, payments increase by 0.7% for each month that the pension is delayed beyond the age of 65 (increasing the pension by up to 42%).

## HOW INVESTING CAN IMPACT THE DECISION

Knowing when to start collecting your CPP pension would be made easier if you knew exactly how long you were going to live. Of course, like most things in life, hindsight is 20/20. There are many other factors that can influence the decision, including your immediate/future income needs, the preservation of other income-tested benefits (e.g., Old Age Security), your current/future income tax bracket – perhaps even the longevity of other family members. While an analysis specific to your situation should include these factors, a simple optimization exercise can show how certain factors can change the timing decision.

Generally, if you believe you will live to age 83 and don't need the money, a rough rule of thumb says that waiting until age 70 to start may be optimal. But this analysis ignores the “time value of money”, the concept that a dollar today is worth more than in the future due to its potential earning capacity. When this factor is included, the outcome may tell a different story. The table below includes this factor, and estimates the age that an individual, who turned 60 years



old at the start of the year, could start collecting CPP benefits. It assumes (s)he is entitled to receive the maximum monthly pension amount in 2018, a 1.5% rate of annual inflation and a 5% annual discount rate to account for the time value of money.

The analysis also shows that starting to collect too soon may be costly. Based on the assumptions, if you expect to live to age

If you think you'll live until age...	Consider starting CPP at age...
71	60
72 to 74	61
75 to 77	62
78 to 79	63
80 to 82	64
83 to 84	66
85 to 87	67
88 or above	68

The above is based on an illustrative model using the maximum pension amount as of Jan. 2018, 1.5% inflation, 5% discount rate.

88, the value in today's terms of the cumulative CPP benefits would be \$154,628 if starting at age 60, compared to \$184,228 if waiting until age 68, a lower overall benefit of \$29,600.

Of course, many factors will come into play; the chart

shows how only certain factors can impact the timing decision. For a review of your situation, please get in touch or consult a tax advisor.

Note that the comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

# YOU ASKED ABOUT RISING U.S. TREASURY YIELDS

If you've been paying attention to financial news, you may have heard talk that the U.S. 10-year Treasury note yield recently reached 3% for the first time in four years. This has some investors asking: what are the market implications?

## FIRST, A LITTLE BACKGROUND...

The U.S. 10-year Treasury note yield is seen as an economic indicator. It influences interest rate movements and borrowing costs for governments, consumers and corporations. The note is auctioned by the U.S. Treasury Department, which sets a fixed face value and interest rate.

When there is a lot of demand for the note at the Treasury auction, investors may bid above the face value. The rate of return, known as the “yield”, becomes lower when investors pay more than face value. However, in times of such significant demand, they are willing to accept the lower yield in return for lower risk. During strong equity

markets, investors may feel confident in other investment opportunities and are only willing to pay less than face value, thus making the yield higher.

## IS A RISE IN YIELDS GOOD OR BAD?

There is some relationship between the Treasury yield and the direction of equity markets. Simply put, if bond yields rise, bonds become more attractive. If investors believe that the bond yield is more attractive than the “yield” (return) on equities, they may shift funds from equities to bonds. As such, the recent rise in yields has caused some worry of an impending bear run on equities.

But a look at what is driving yields higher may tell a different story. Stronger economic growth may have helped to push up yields, and if so, this may confirm the staying power of the recovery after the 2008-09 financial crisis. Keep in mind that yields are currently low by pre-crisis standards and historical levels.

# PROTECTING YOURSELF ONLINE: YOUR DIGITAL FOOTPRINT

It was just over 20 years ago that the internet was being dismissed as a fad. An article published in Newsweek in 1995 ridiculed the invention: “The truth (is) no online database will replace your daily newspaper, no CD-ROM can take the place of a competent teacher and no computer network will change the way government works. ...How about electronic publishing? Trying reading a book on a computer: at best, it’s an unpleasant chore: the myopic glow of a clunky computer replaces the friendly pages of a book.”<sup>1</sup>

How times have changed! Canadians now spend an average of 24 hours per week online.<sup>2</sup> Given that the internet has become pervasive in modern society, we need to manage our digital footprint with care.

## YOUR DIGITAL FOOTPRINT: WHAT IS IT?

Your digital footprint consists of the record or trail you leave behind as you use the internet through a smartphone or computer. When you pay bills or make online purchases, do a web search or participate in social media, you disclose information including where you are (a computer IP address or phone location), the websites you visit and your social circles.

Many people understand that when using online services, you relinquish a certain level of privacy. But recent privacy scandals have highlighted that organizations may be using more of our information than we realize. This is a good reminder that everything has a price. What may appear to be free can have hidden costs: if you aren’t paying for the product, consider that you may actually be the product. Many companies build profiles based on our digital footprints and monetize that information.

While this data is frequently used for commercial purposes to track, customize and market to you, there is also the risk that criminals can use this information for unscrupulous purposes, such as to attempt to steal your identity. Even the most careful individuals are at risk of having information exposed or stolen.

## MANAGING YOUR DIGITAL FOOTPRINT

While completely eliminating your digital footprint may be difficult, if not impractical, there are ways in which we can better manage it.



- 1) Develop basic “digital hygiene”.** Don’t post sensitive information. Create boundaries for your online presence, such as using a separate credit card specifically for digital purchases.
- 2) Close or delete old accounts.** Search for yourself online: you may find old profiles or accounts that you have forgotten about.
- 3) Check privacy settings.** If these are not enabled, personal data may be more accessible to others. Privacy-enhancing tools can be purchased to help protect you from surveillance or data profiling.
- 4) Delete system cookies.** Online sites can leave cookies that track your movements and allow targeted ads. You can delete these to prevent this type of exposure.
- 5) Keep antivirus software updated.** This helps prevent your information from being stolen.
- 6) Make changes to your data.** In situations in which you can’t delete information, consider using pseudonyms or making modifications to help conceal your personal identity.
- 7) Unsubscribe** from unused email lists or text alerts. This may help to prevent further dissemination of your information.

A good resource with information on managing digital footprints is the Internet Society, a non-profit organization that educates individuals about the internet: <https://www.internetsociety.org/>  
1. newsweek.com/clifford-stoll-why-web-wont-be-nirvana-185306; 2. theglobeandmail.com/news/national/concerns-raised-as-report-suggests-canadians-spending-more-time-online/article34360751/

# RISING OIL PRICES: HOW DO WE FARE AT THE PUMP?

Global oil prices have soared recently and with this has come higher gasoline prices. Why are oil prices rising? Recent increases are largely the result of a draw down in oil inventories, meaning there is less supply. The Organization of Petroleum Exporting Countries (OPEC) has indicated that a glut in supply over recent years has ended.<sup>1</sup> Oil prices have also been supported by production outages in Venezuela and increasing tensions in the Middle East, which are expected to continue to put downward pressure on supply.

While rising oil prices may be good news for Canada’s resource-dependent economy (although other challenges remain), many of us will be complaining about higher gas prices at the pump. But how

bad do we have it? Compared to the rest of the world, Canadians pay a lot less for gas. In fact, we rank 19<sup>th</sup> globally for the lowest price of gasoline, at \$1.50/L<sup>2</sup>, and 10<sup>th</sup> in the nation’s affordability ranking, as only 3.39% of a day’s wages is needed to afford a gallon of gas (equal to 3.79L).

Here are six countries with the highest gas prices globally (CAD)<sup>2</sup>:

- |                        |                          |
|------------------------|--------------------------|
| 1. Iceland: \$2.74/L   | 4. Monaco: \$2.51/L      |
| 2. Hong Kong: \$2.70/L | 5. Netherlands: \$2.50/L |
| 3. Norway: \$2.61/L    | 6. Denmark: \$2.47/L     |

1. bloomberg.com/news/articles/2018-04-13/opec-near-mission-accomplished-as-oil-glut-vanishes-iea-says Source: bloomberg.com/graphics/gas-prices/; 2. Prices as of 5/14/18. USD/CAD: 1.2771

# ADVICE FOR NEW (AND OLD!) GRADUATES

About 500,000 students will walk across the stage in graduation ceremonies at Canadian colleges and universities this summer, and another 350,000 students in high schools.<sup>1</sup> Chances are, you may know one of them. Congratulations graduates, and welcome to the real world!

Here is some simple financial advice for new and not-so-new grads alike:



**Building wealth has little to do with your income, and a lot to do with your savings rate.** Wealth is the accumulated difference between what you spend and what you bring in. You can build wealth without a high income but you have no chance without a high savings rate. **Takeaway:** Consider making a budget to track your sources of income and your expenses. A budget can reveal whether you are spending more than you make, and can help you to be a better saver.

**The value of wealth is relative to what you need.** People require vastly different amounts of funds to get by each month. A dollar of savings to one person is worth something completely different to another. **Takeaway:** Quit comparing yourself to others — especially on social media — it can not only steal your joy, but your paycheque!

**Time is on your side.** As new graduates, you have one of the greatest assets available to you: time. Add in the power of compounding, and you have the ability to grow significant wealth into the future. Consider that if you invested each month for 20 years, you would need to invest almost 2.7 times more at age 45 than at age 25 to end up with the same amount at 65 years old.<sup>2</sup> Retirement may seem far off, but it will creep up faster than you think! **Takeaway:** Invest in your retirement today. Even small contributions can build up a TFSA or RRSP.

**Debt can be paralyzing.** We are living at a time in which spending money has become increasingly easy — for many things, buying is just “one click” away. But if you can't pay for it, don't buy it. When you are not burdened by debt payments, you are more likely to be agile. Of course, some debt may be necessary. The phrase: “it takes money to make money” has some merit. Good debt can help you generate income and increase your net worth, such as debt associated with funding an education or a real estate property. **Takeaway:** If you have student loans, focus on paying down your debt responsibly. If you use a credit card, pay your bills on time. But most importantly, live within your means.

One of the most important lessons we've learned throughout our time working in the investment industry is that the basic principles of successful investing remain timeless. Wealth comes from choices, not chances: choosing to save wisely and pay yourself first, living within your means, eventually putting in place an investment plan that encourages value, quality, and diversification, and having the patience to understand that your plan is working for you over the long term.

It's a big world out there, but it's a good one. Best wishes to our new graduates (feel free to pass this along!), and enjoy the journey ahead.

1. [statcan.gc.ca/daily-quotidien/171103/t002c-eng.htm](http://statcan.gc.ca/daily-quotidien/171103/t002c-eng.htm); [statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/educ69a-eng.htm](http://statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/educ69a-eng.htm); 2. Based on a compounded annual return of 5% per year. Assumes 25 year-old invests \$500 per month for 20 years (or \$120,000) to achieve \$545,297 by age 65. To achieve a similar return by age 65, a 45 year-old would have to invest \$1,327 per month for 20 years (or \$318,480).

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