2014 Second Quarter Update

Markets continue to do well in the second quarter of 2014. The TSX continued its' leading position and was up 11.2% on a year-to-date basis. This was helped (once again) by an increase in the price of oil which is up 12% so far this year.

The Canadian dollar rose almost 4% against the U.S. dollar. Since all investments must be reported in Canadian dollars, this tends to mute the gains in foreign market returns. As our dollar rises against other currencies our goods become more expensive for other countries to buy. Canada is still mainly an economy of exports, so in a highly competitive world market, a rising dollar has a negative impact. As a result, our economic growth was not as robust as was predicted six months ago.

Last week I read a prediction from one of the big U.S. banks estimating that the Canadian dollar could go as low as .85 cents U.S. within the next year. Usually these forecasts end up being wrong but it made for an interesting read! Foreign returns in Canadian portfolios will perform very well if this prediction is correct.

Interest rates have actually dropped since the end of last year. The 10 year U.S bond rate has declined from about 3% in January to 2.62% at the end of June. Typically after a recession interest rates normalize within 2 to 3 years. However, it has been 6 years now and rates are still low. The low interest rate environment and the fact that the U.S. central bank is printing money have been very helpful to stock markets. Investors move money into the market because they are looking for better yields than bonds can offer.

Many money managers have increased the cash weighting in their portfolios but bargains are harder to find as money continues to flow in. This is both defensive and strategic. Managers are prepared to act quickly if they find a good quality investment. They are also in a good position if there is a down turn in the market.

Our balanced portfolios are up between 5-6% for the 6 months ending June 30.

	Market	Dec 31 2013	Mar 31 2014	June 30, 2014	YTD
Canada	TSX	13621	14335	15146	11.20%
U.S.	DOW	16577	16458	16827	1.50%
U.S.	S&P 500	1848	1872	1960	6.00%
U.K.	FTSE	6749	6598	6744	0.00%
France	CAC	4296	4392	4423	2.90%
Germany	DAX	9552	9556	9833	2.90%
Japan	NIKKEI	16291	14288	15162	-7.00%
Canadian $		$98.42	$90.47	$93.62	-4.90%
Oil (US$)		94.00	101.55	105.37	12.00%

*** Source: CNN Money*

"Life is like a bicycle. To keep your balance, you must keep moving."
~Albert Einstein

Did You Know?

More Canadians are reaching age 100. The number of centenarians has increased 25.7% in the past five years.

Eight out of 10 Canadians don't have a written financial plan.

Only one in four Canadians make saving for retirement their top finanical priority.

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"The secret to success, is to know something that nobody else knows."
~Aristotle

Mortgage Mantra – The sooner it's paid for the better!

The best kind of mortgage to have is one that is paid for in full. For most of us the biggest purchase we will ever make is buying a home. How you pay for that purchase will have a major effect on your financial well-being. The length of time you owe the money has a huge effect on the amount of money you pay in interest, as seen in the chart below.

Mortgage Amount	Average Interest Rate	Amortization Period	Monthly Payments	Total Interest Paid	**Total Amount Paid for House**
350,000	4%	25 years	$1841	$202,321	**$552,321**
350,000	4%	20 years	$2114	$157,567	**$507,567**
350,000	4%	15 years	$2,583	$114,964	**$464,964**

Here are some key points to consider before purchasing a house:
Keep in mind that you are paying for your home in after tax dollars. If your marginal tax rate is 36% (annual income above $87,000), you must earn a $1.60 to pay one dollar on your mortgage. If your income is between $44,000 and $87,000 you have to earn $1.50 to pay one dollar on your mortgage. The 50 cent difference goes to tax. Once again the sooner the mortgage is paid for, the better.
We always recommend a down payment of at least 20%. This allows you to avoid paying the CMHC fee, which is $8,400 on a $350,000 mortgage (with 10% down). CMHC refers to this fee as insurance and it is **added** to your mortgage to protect the lending institution from default. Anything less than 20% down automatically makes you a higher risk to the lender. Do not start shopping before you have saved 20% of your budget.
Explore the options available to you to reduce the timeframe in which you pay back your mortgage.

1. Weekly or bi-weekly payments
2. Make double payments when you are able
3. Annual lump sum payments
4. Start with a lower amortization period (i.e: 20 years instead of 25 years)

A Word of Caution:
Mortgage rates are at a 50 to 60 year low - this will not last forever. Five year mortgages are currently around 3%, the long term norm is closer to 5-6%. If rates rise on a $350,000 mortgage it could mean an extra $600-700/month in payment. The message here is to buy a house well within your means to accommodate for possible interest rate increases.
Lending institutions are in the business of making money and do not necessarily have your best interest at heart. Ask your financial advisor for objective advice.

Are you interested in receiving our Quarterly Newsletter by e-mail? Send your request to maudefin@incentre.net. Please ensure that your full name is clearly marked on the e-mail.

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