

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

OAS STRATEGY DELAYING OAS BENEFITS CAN HAVE A BIG IMPACT FOR SOME

Canadians have been able to defer receiving their Old Age Security (OAS) benefits by up to five years since July 2013. Your monthly OAS pension payment will be increased 0.6% for every month you delay receiving it, up to a maximum of 36% at age 70.

For those who expect to receive full OAS benefits at age 65 (i.e. no clawback), the ages you must live beyond to make deferral worthwhile are detailed below:

Take OAS at...	Age 66	Age 67	Age 68	Age 69	Age 70
Breakeven Age	80	81	82	83	84

Considering the average life expectancy of a 65 year old male is 81 there is practically no incentive for males to delay OAS benefits. Conversely, the average life expectancy of a 65 year old female is 85, so it is conceivable that a healthy 65 year old female with a family history of long life could benefit from delaying OAS benefits.

For those who expect their OAS benefits to be partially clawed back, the breakeven ages shift significantly in favour of deferral. OAS benefits are clawed back at a rate of 15% for income above \$73,756 (2016) such that someone who retires at age 65 has all of their OAS benefits clawed back once their income hits ~\$119,500 (2016). That said, by deferring your OAS benefits to age 70, you increase the OAS amount to be clawed back and you increase your maximum threshold to ~\$136,000 (2016).

For those who expect to see full OAS clawback throughout retirement, it makes sense to defer OAS benefits to age 70 to allow a higher chance of receiving OAS benefits somewhere down the line, potentially in old age when investment asset levels and associated investment income have declined.

For those who expect to see half of their OAS benefits clawed back at age 65 and throughout their lifetime, the breakeven ages are detailed below:

Take OAS at...	Age 66	Age 67	Age 68	Age 69	Age 70
Breakeven Age	73	74	75	76	77

Given the numbers in the table above, it is easy to conclude that deferring OAS benefits makes sense for most individuals who expect to experience some OAS clawback and who are in good health.

As forecasting one's retirement income can be complicated and incorporate many factors and assumptions, please do not take these generalizations as directly applicable to your specific situation. We will assist you in making an OAS deferral decision when the time comes.

Current Rates & Data

Govt of Canada

90 day	0.49%
1 year	0.53%
2 year	0.52%
5 year	0.68%
10 year	1.31%
30 year	1.96%

U.S. Treasury

90 day	0.24%
1 year	0.50%
2 year	0.71%
5 year	1.20%
10 year	1.75%
30 year	2.61%

Canada Prime Rate

2.70%

U.S. Prime Rate

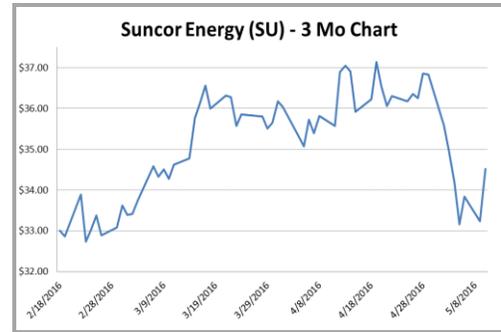
3.50%

Exchange Rates

CAD/USD	0.774
USD/EUR	1.137
JPY/USD	109.3

ECONOMIC TIDBITS FORT MAC WILDFIRE PUSHES CANADIAN RATES LOWER & CHINESE EQUITIES DROP

- The Fort McMurray wildfire, possibly the most costly disaster in Canadian history, triggered a drop in Canadian interest rate expectations. Economists lowered their 2016 economic growth outlook as a result of shut-in oil facilities and lower spending due to the displacement of Fort McMurrans. Canadian GDP growth could be as low as 0% in Q2 but should rebound when oil production resumes.



- While global equities rallied in March/April, Chinese equities quietly declined and sit only ~6% above their January lows. This weakness was driven by economic data that came in below expectations and comments from a Chinese official stating that the recovery will be L-shaped as government response will be limited. Chinese growth has a meaningful effect on global growth.



LE JIT A “JUST-IN-TIME” RUNDOWN OF OUR CURRENT INVESTMENT THEME

Lots of Value in Select Consumer Staples Stocks Affected by Low Oil Prices

- **Empire Company (EMP.A)** and **Alimentation Couche-Tard (ATD.B)** are two ideas related to this theme.
- **Empire** is down ~40% since early 2015 while peers Loblaw and Metro are up over 10%. Empire currently trades at ~11x downgraded forecasted earnings for the upcoming year compared to Loblaw at 18x and Metro at 17x. While Empire has more western Canadian exposure, the negatives related to this exposure are already baked into analyst forecasts. We believe the long term effects will be minimal and that Empire should experience full margin recovery within one to three years. We see a 10%-20% discount as reasonable and rational but a 33% discount as excessive.
- **Alimentation Couche-Tard** is down about 15% since late 2015 and now trades at a reasonable valuation of 20x trailing earnings versus its average valuation of ~25x over the past few years. We believe Couche-Tard should continue to grow at an above average rate as there remains plenty of room to grow through acquisition. We believe this growth will offset any near-term negative effects related to lower gasoline prices and retail gasoline margins. In the long-term, we believe convenience store revenues will be more resilient than grocery store revenues due to competition from online retailers (e.g. Amazon, Wal-Mart).
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH **Raymond James Cares**

It has been almost two weeks since the news of the fires that forced thousands to evacuate their homes in Fort McMurray, AB. Many colleagues, clients and their families have been impacted and fortunately the Raymond James Canada Foundation was quick to respond by supporting fire relief efforts by matching donations. We are pleased to announce that we raised \$100,000 to be directed to the Red Cross, Alberta Fires Appeals. Thank you to the caring spirit and generosity of so many!

This newsletter has been brought to you by Steele Wealth Management

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