ISSUE 55 | NOVEMBER 2015

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.

WHEN SHOULD I TAKE MY CPP? THE CASE FOR ONE SPOUSE DELAYING THEIR CPP

Conventional wisdom states that individuals should apply to receive CPP benefits when they retire to help supplement their retirement income. For most individuals, particularly lower and middle income retirees, conventional wisdom holds as CPP income is necessary to satisfy every day expenses. **But what about the more affluent?**

With the 2012 CPP changes in full effect starting in 2016, individuals now receive a 7.8% boost to CPP benefits for each year that CPP benefits are delayed age 60 and 65 and an 8.4% boost to CPP benefits for each year that CPP benefits are delayed age 65 and 70, for a maximum boost of 122% between age 60 and 70. Assuming an aggressive 3% short-term real rate of return, the breakeven age of delaying CPP to age 70 is about age 80. Given the life expectancy of a 60 year old male and female is 80 and 85, it makes sense for females to delay their CPP benefits if possible.

In addition to this tangible and predictable return, **the female spouse can boost potential CPP spousal benefits** (i.e. CPP benefits received following the death of a spouse) **by delaying her CPP benefits**. As the maximum combined CPP benefit (i.e. CPP retirement pension + CPP spousal benefit) one can receive is the maximum CPP retirement pension at age CPP benefits are initiated, a spouse can boost her "CPP spousal benefit room" by delaying CPP benefits if she has contributed enough to CPP to receive at least 40% of the maximum retirement benefit. For example:

- The male spouse takes his CPP pension starting at age 60 and receives 100% of the maximum
- The female spouse has contributed enough to CPP to receive 80% of the maximum
- If the female spouse took her CPP pension at age 60, she would only have $1,636 (2015 figures) in spousal benefit room available
- If the female spouse took her CPP pension at age 70, she would boost her spousal benefit room to $3,630 (2015 figures)
- Statistically, as the female spouse is expected to live five years longer than the male spouse, this creates cumulative additional expected benefits of $9,970
- This $9,970 figure is in addition to the boost to her CPP income of 122%

Expected CPP benefits are affected by things such as a worker's number of low earning years and the child-rearing dropout provision. This example may not be representative of your unique situation. That said, **we believe most dual-income households could benefit from at least partially delaying the female spouse's CPP benefits**. We invite you to make us a part of your CPP decision-making process and we can help pinpoint the ideal age to take CPP benefits.

Current Rates & Data

Govt of Canada

90 day	0.41%
1 year	0.53%
2 year	0.68%
5 year	1.04%
10 year	1.73%
30 year	2.43%

U.S. Treasury

90 day	0.08%
1 year	0.43%
2 year	0.89%
5 year	1.75%
10 year	2.34%
30 year	3.10%

Canada Prime Rate

2.70%

U.S. Prime Rate

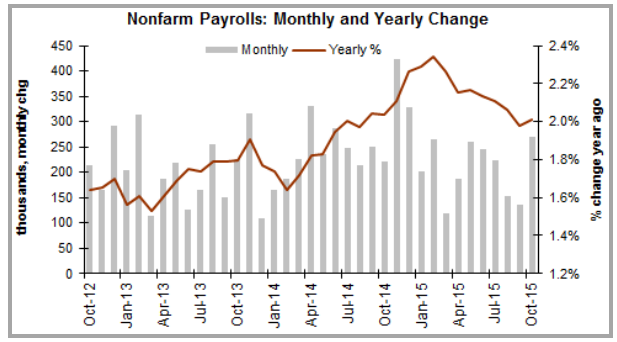
3.25%

Exchange Rates

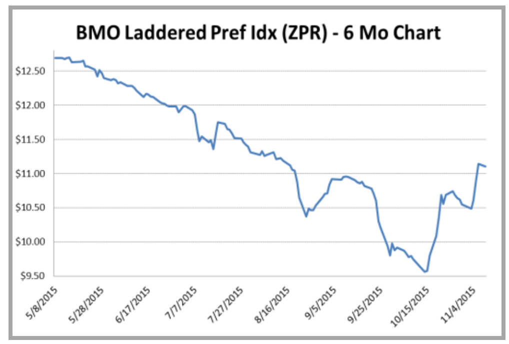
CAD/USD	0.753
USD/EUR	1.076
JPY/USD	123.1

ECONOMIC TIDBITS SCHORCHING HOT U.S. JOBS REPORT & LIBERAL VICTORY = HIGHER INFLATION?

- After a blockbuster October payrolls report in the U.S. (and Canada), the odds of a U.S. interest rate hike in December jumped **from ~20% in late October to ~80% in early November**. This jump in interest rate expectations triggered a decline in long-term bonds and equity markets. Despite much in managing expectations, it appears rate hikes will have a negative effect on equity and credit markets.



- After wallowing in third place for much of the campaign, the Liberal Party won the Canadian federal election with an overwhelming majority. **Canadian inflation and interest rate expectations rose as a result of the Liberal victory** due to their pro-corporate platform of infrastructure spending and income redistribution. Going forward, the odds of another interest rate cut are now negligible.



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

Higher Odds of a U.S. Interest Rate Hike Should Push Fixed Reset Preferreds Closer to Par

- The current mix of widening corporate credit spreads and low interest rates have created a rare opportunity in the fixed reset preferred share market. The Canadian fixed reset preferred share market crashed after the September FOMC meeting when FOMC Chairwoman Janet Yellen hinted that the Fed would not raise rates until 2016. Some bank issued fixed reset preferred shares fell by over 20% in the week following the meeting. As of today, the market once again expects an interest rate hike in late 2015 yet most bank issued preferred shares do not reflect this likelihood.
- **Royal Bank of Canada Preferred J (RY.PR.J)**. At $22.40, RY.PR.J yields 4.02%, has a high reset yield of 2.74% plus the 5 Year Government of Canada (GoC) bond rate and resets in May 2020. The shares have a yield-to-call of 6.06% and we believe could be realized if the 5 Year GoC rate is in the 1.1%-1.3% range on the reset date.
- **TD Bank Preferred D (TD.PF.D)**. At $22.50, TD.PF.D yields 4.00%, has a high reset yield of 2.79% plus the 5 Year Government of Canada (GoC) bond rate and resets in July 2020. The shares have a yield-to-call of 5.67% and we believe could be realized if the 5 Year GoC rate is in the 1.1%-1.3% range on the reset date.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH **Raymond James Named Among the Top 100 Employers in Canada for 2016**

"We always view ourselves as being a unique firm. And what sets us apart is our deep conviction to our core values -- integrity, independence and conservatism all centred around our intense client first focus. It is amazing how our employees continually go above and beyond in making their communities, our country and the world a better place, not only financially, but also through their volunteer efforts." - **Paul Allison, Chairman and CEO of Raymond James Ltd.**

This newsletter has been brought to you by Steele Wealth Management

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All rates mentioned within this newsletter are as of November 12th, 2015, unless otherwise stated. Rates have been sourced from Bloomberg.