

# 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.*

## TAX PLANNING ONTARIO BUDGET 2014 HIGHLIGHTS

Following the Ontario Liberal Party's victory in June, the Liberals re-tabled and passed their 2014 Ontario Budget. The Budget includes a personal income tax increase on high income earners among other changes.

### Provincial Personal Income Taxes on the Rise

Prior to 2014, Ontario personal tax rates between \$79,449 and \$509,000 were 11.16% and 13.16% thereafter. The new budget creates a new tax bracket between \$150,000 and \$220,000 at a rate of 12.16% and the top bracket, at 13.16%, begins at just \$220,000. This results in additional taxes payable of \$700 for those making \$220,000 and \$6,480 for making over \$509,000. These taxes go into effect **retroactively** and will apply to the entire 2014 tax year. If you're in these brackets, you will notice your employer remit an extra 3-6% of your salary from October to December to catch up.

### Ontario Pension Plan On Its Way

The 2014 Budget paves the way for the new Ontario Retirement Pension Plan (ORPP) to start in 2017. Participation in the plan is mandatory for employees and employers without workplace pensions. The contribution rate is expected to be 1.9% for each the employee and employer up to \$90,000 in earnings. How the ORPP will be coordinated with the Federal Government's PRPP will need to be addressed in coming years.

### Dividend Tax Credit Change to Offset Benefit in Federal Budget (neutral)

The 2013 Federal Budget proposed a reduction to the Dividend Tax Credit calculation for non-eligible dividends, which when combined with Ontario's surtax, high income tax payers would receive an unintentional benefit. The 2014 Ontario Budget removes this unintended benefit to improve the fairness of dividend taxation.

## RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

### Brookfield Asset Management Preferred G (BAM.PR.G)

- Brookfield is a global asset manager with \$175+ billion in assets under management
- The shares reset at 2.84% + the 5-year GofC bond (~1.60%) on June 30<sup>th</sup>, 2020
- At \$25.00, the issue has a yield-to-call (soft) of 4.50% and is rated Pfd-2L

### Stuart Olson Debenture A (SOX.DB.A) Maturing December 31<sup>st</sup>, 2019

- Stuart Olson is a Canadian diversified engineering and construction company
- This is a 5.2 yr debenture with a conversion price of \$14.15 (current price of \$8.55)
- This debenture yields 5.65% until maturity at a current trading price of \$101.00

### Current Rates & Data

#### Govt of Canada

90 day	0.87%
1 year	0.97%
2 year	1.04%
5 year	1.48%
10 year	2.00%
30 year	2.55%

#### U.S. Treasury

90 day	0.00%
1 year	0.08%
2 year	0.44%
5 year	1.54%
10 year	2.30%
30 year	3.04%

#### Canada Prime Rate

3.00%

#### U.S. Prime Rate

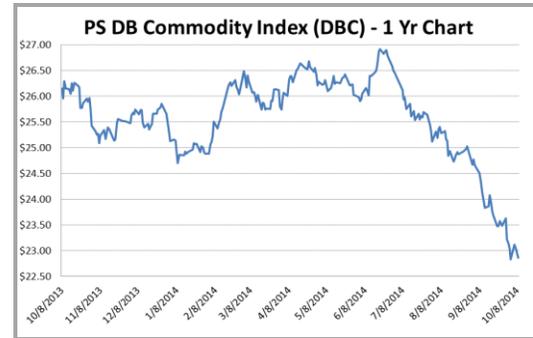
3.25%

#### Exchange Rates

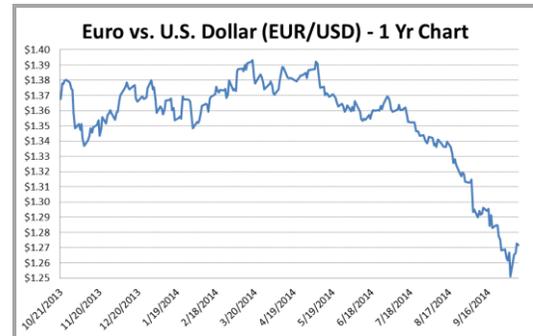
CAD/USD	0.895
USD/EUR	1.269
JPY/USD	107.8

## ECONOMIC TIDBITS *COMMODITY MARKET ROUT & THE EUROZONE FIGHTING FOR LIFE*

- Equity markets (and the TSX in particular) turned decidedly lower since our last newsletter as the Energy and Materials sectors finally began to track their underlying commodities lower. Concerns over economic growth in Europe and China reduced expected demand for commodities. Evidence continues to pile up that **the commodity supercycle has ended**.



- In early September, the ECB lowered its interest rate to 0.05% and its deposit rate to -0.2%, expanded its LTRO program and announced a program to purchase asset-backed securities in order to support prices and economic growth in the Eurozone region. This action, combined with slowing growth and falling inflation, **pushed the Euro to a 2-year low versus the U.S. dollar**.



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

### Mid-Cap Energy Stocks Looking Oversold; Buy Stocks with Property in High Demand

- Legacy Oil + Gas (LEG)** and **Trilogy Energy (TET)** are two investment ideas related to this theme.
- Legacy** has been one of the worst performing stocks during the Energy sector selloff, falling almost 50% from its June 2014 highs, and now trades at a 0.5x its 2P NAV. Legacy is a light oil producer with operations focused in SE Saskatchewan, one of the lowest cost oil operators in Canada and has one of the most attractive undeveloped land portfolios in the Canadian oil sector. Interest in light oil projects appears to be growing as Crescent Point recently announced its intention to acquire Lightstream's light oil assets in SE Saskatchewan (which are very similar to Legacy's assets). We believe it is only a matter of time before consolidation in the Bakken puts Legacy's assets in play.
- Trilogy** has also been weaker than average, falling over 25% from its May 2014 high. Trilogy is a low-cost oil and liquids-rich natural gas producer with operations in NW Alberta. Trilogy trades at 1.2x its 2P NAV but has a massive undeveloped land base in one of Canada's most attractive liquids-rich natural gas plays, the Duvernay. KUFPEC Canada recently agreed to buy Chevron's Duvernay assets at a valuation that is far ahead of the value the market gives Trilogy for its Duvernay assets. We expect Trilogy to continue adding value by aggressively increasing its reserves while it awaits a suitor with deep pockets.
- Feel free to ask a member of our team for more information on these securities.

## JEANNINE'S TIP O' THE MONTH WILLING WISDOM

Thank you to all who attended.

**This newsletter has been brought to you by Steele Wealth Management**

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CPCA  
Kelly Edmonds | Matthew Bell, CFA | Keith Gummow, CFP, CLU, Ch.F.C.

Phone: (519) 883-6030 Toll-Free: 1 (877) 642-6408

Email: [steelewealthmanagement@raymondjames.ca](mailto:steelewealthmanagement@raymondjames.ca)

Address: 1001-20 Erb Street West | Waterloo, Ontario | N2L 1T2

Website: [www.steelewealthmanagement.com](http://www.steelewealthmanagement.com)

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