

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.

LIFE INSURANCE REGULATORY CHANGES EFFECTIVE JANUARY 2017

Starting January 2017, new rules relating to the tax treatment of life insurance policies will take effect. Those policies issued in 2016 or earlier will be grandfathered and unaffected by the changes. As a result, if you are in the market for life insurance, it is worth considering the acquisition of coverage now before the rules change.

What is changing?

The most significant change relates to a policy's tax exempt status. A life insurance policy remains exempt from annual taxation if its cash value never exceeds the cash value of the benchmark "exemption test policy", as outlined by the Income Tax Act. The calculation for the cash value of the benchmark exemption test policy is changing and will lower the tax benefits of cash value life insurance policies.

For the vast majority of readers, the specific rule changes will have little meaning.

We have made the following conclusions:

- For **individuals** looking to enhance their legacy using a universal life policy, buying a policy before 2017 may allow for potentially greater growth in cash values.
- For **corporations**, buying a policy before 2017 may provide greater capital dividend account credits.
- For **all applicants**, universal life policies are likely to become more expensive in 2017 and beyond.

If you are considering a whole or universal life policy and wish to explore whether purchasing a policy is advantageous now, please reach out to our Estate Planning Advisor Jeff Meier. Policy applications should be completed in October to ensure the old rules apply as policies generally take several weeks to be officially in force.

Specifically, the new rule changes include:

- The exempt test policy changes from a 20-pay endowment at age 85 to an eight-pay endowment at age 90.
- A reduction in the additional deposit option for participating whole life insurance.
- Lower net cost of pure insurance and a lower collateral insurance deduction.
- Higher ACB, for longer, meaning an ability to withdraw more out of the policy tax-free but also a lower Capital Dividend Account ("CDA") credit for corporations.
- Changes in computing the applicable amount of investment income tax.
- A reduction in the maximum amount that may be paid into a universal life insurance policy.

Current Rates & Data

Govt of Canada

90 day	0.48%
1 year	0.57%
2 year	0.59%
5 year	0.75%
10 year	1.19%
30 year	1.82%

U.S. Treasury

90 day	0.32%
1 year	0.67%
2 year	0.85%
5 year	1.28%
10 year	1.75%
30 year	2.48%

Canada Prime Rate

2.70%

U.S. Prime Rate

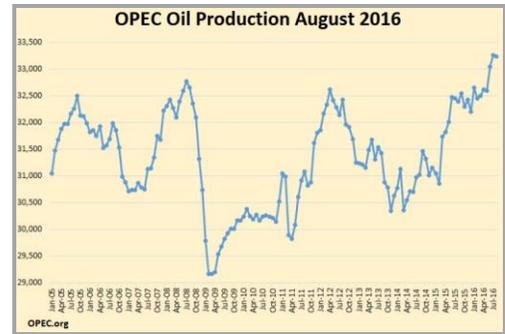
3.50%

Exchange Rates

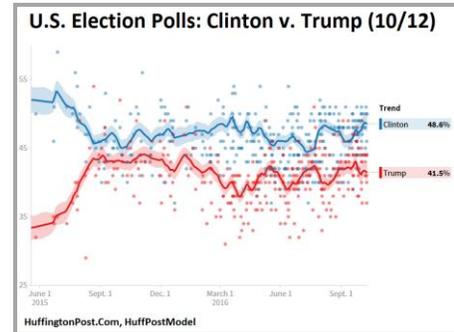
CAD/USD	0.755
USD/EUR	1.104
JPY/USD	103.5

ECONOMIC TIDBITS OIL PRICES RALLY ON OPEC DEAL & CLINTON PULLS AHEAD ON TRUMP'S PAST

• Since our last newsletter, oil prices rallied over 15% as OPEC agreed to cut production by about 740,000 barrels per day. Despite the rally, investors remain skeptical of the deal considering OPEC has had a production target in place since 1998, and this target has not been obeyed for the last five years. It will be difficult to reign in production in Iran, Iraq and Nigeria who wish to grow production.



• Recent polls show that Clinton has pulled ahead of Trump following the first two presidential debates. Trump's performance in the polls was also impacted by the release of audio footage wherein he made lewd comments about women. In response to the footage, several senior Republicans, including the highest ranking official, Speaker of the House Paul Ryan, have withdrawn their support of Trump.



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

Discount Retailers Trading at Relatively Low Valuations Despite Weak Economic Growth

- **North West Company (NWC)** and **Dollar General (DG)** are two ideas related to this theme.
- **North West** is multinational retailer with operations concentrated in northern and western Canada, Alaska and the Caribbean under the banners Northern, Giant Tiger, AC Value Center and Cost-U-Less. North West trades at ~17x trailing earnings, a discount to larger peers at ~18x. We believe North West should trade at a premium to peers given the lack of competition in the remote areas North West serves and in turn the pricing power North West maintains. The federal Liberal government is expected to boost infrastructure and social spending in northern and aboriginal communities which should increase the discretionary income of North West's key customer base. Further, we see North West as being safe from online competitors Amazon and Wal-Mart/Target.com which pose a real threat for traditional grocery stores.
- **Dollar General** is the largest value retailer in the U.S. offering products priced between \$1 and \$10 and targeted at low- and middle-income consumers. Dollar General trades at 16x trailing earnings relative to other dollar store chains at ~25x. While Dollar General does not have much fairway to grow its store count domestically, its relative valuation combined with Wal-Mart's recent announcement that it will be slowing store expansion, to the benefit of Dollar General and others, should result in limited downside going forward. Dollar General's price point should result in limited revenue losses to online competitors.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH Steele Wealth Management is On the Move in October!

We will be up and running at our new location at 595 Parkside Drive (at the NE corner of Weber and Northfield) in Waterloo in the Waterloo Corporate Campus on October 14. Please give us a call if you are scheduled for a visit and don't know how to find us. We look forward to serving you in our modern, elegant and conveniently located space!

This newsletter has been brought to you by Steele Wealth Management

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As the investment products listed in this newsletter may not be appropriate for everyone, a recommendation would only be made following a personal review of an individual's portfolio and risk tolerance.