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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.

RETIREMENT INCOME PLANNING HOW EXACTLY DO I DRAW INCOME IN RETIREMENT?

When our clients decide to retire, it is important that we take them through an income withdrawal planning process. Determining and executing the right retirement income strategy can result in a major improvement in your after-tax retirement income. We consider your annual income, retirement income needs and outstanding account types to determine which strategy is best suited to you.

Below we will outline one of the more typical client situations.

John and Jane Johnson, living in Ontario, both retiring at age 65

John and Jane need ***$96,000 per year after-tax in retirement*** to live comfortably.

- Jane will receive $40,000 pre-tax per year in employer pension income at age 65.
- John and Jane will receive $26,000 pre-tax per year in CPP benefits at age 65.
- John and Jane will receive $14,000 pre-tax per year in OAS benefits at age 65.

This amounts to *$80,000 per year in pre-tax income and after-tax income of ~$71,000 per year*. They will need to draw another $25,000 after-tax per year from their investments to meet their after-tax income goal of $96,000.

Let us assume John and Jane have RRSP assets totaling $1,000,000, TFSAs totaling $140,000 and non-registered accounts totaling $500,000.

Which accounts should John and Jane harvest first?

The number one goal of retirement income planning is to maximize after-tax income throughout retirement, not just in year one. Seeing as John and Jane produce investment income beyond their after-tax income needs, they may benefit from drawing down their RRSPs early, prior to the mandatory RRIF conversion at age 71. Withdrawing from the RRSPs early results in higher income and taxes in the early years of retirement but lessens their lifetime taxes payable. The bulk of the tax savings is from reducing RRSP income on their terminal tax bill.

John and Jane could draw ~$37,000 from their RRSPs each year to generate the additional $25,000 after-tax to meet their $96,000 after-tax income goal. *Their non-registered and TFSA assets would generate annual taxable investment income but we assume this income is reinvested within those accounts.*

Other client situations…

- For those with modest RRSP balances or meaningful non-registered account values, it typically makes sense to draw down your non-registered accounts.
- For those with large RRSP values but small non-RRSP values, it may make sense to delay pension/CPP/OAS payments and draw down the RRSPs aggressively in the early years to smooth tax rates over time.

Current Rates & Data

Govt of Canada

90 day	1.17%
1 year	1.59%
2 year	1.79%
5 year	2.01%
10 year	2.21%
30 year	2.34%

U.S. Treasury

90 day	1.43%
1 year	1.76%
2 year	2.05%
5 year	2.42%
10 year	2.61%
30 year	2.88%

Canada Prime Rate

3.45%

U.S. Prime Rate

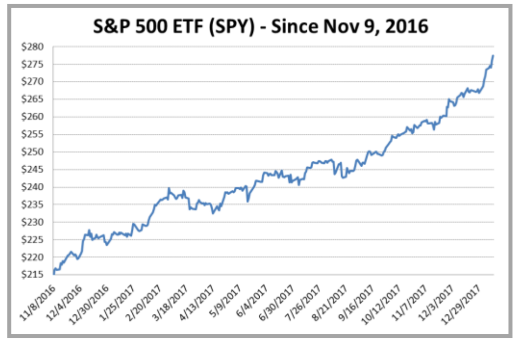
4.50%

Exchange Rates

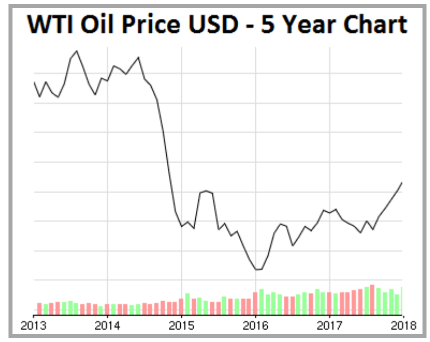
CAD/USD	0.804
USD/EUR	1.229
JPY/USD	110.3

ECONOMIC TIDBITS US TAX BILL SIGNED INTO LAW, US STOCKS SPIKE & OIL PRICES AT 3-YEAR HIGHS

• The US tax bill was signed into law by President Trump on December 22. The tax bill is a clear win for the top 1% of income earners and corporations. Investors focused on the reduction in corporate taxes from 35% to 21% and continued to push US stocks to higher highs, as they did for much of 2017. US stocks appear to be pricing in significant economic growth and inflation as well as tax cuts.



• Oil prices hit a three-year high in January, as OPEC and non-OPEC nations agreed to extend production cuts to the end of 2018. Further, previously excluded Libya and Nigeria, agreed to limit production. The oil market remains in a deficit and it is likely that global oil inventories will normalize by mid-2018. Rising prices could spark new US shale production or results in lower OPEC compliance.



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

Pipeline Stocks Not Feeling the Love Despite Rallying Crude Oil And Natural Gas Liquids Prices

- **Keyera (KEY)** and **Enbridge (ENB)** are two ideas related to this theme.
- **Keyera** is one of the largest pipeline and energy processing companies in Canada, focused on natural gas and natural gas liquids transportation and refining in Alberta. Keyera trades at ~12.5x forward EV/EBITDA (based on Raymond James estimates), a ~10% discount to peers. We believe Keyera should trade at a premium to peers due to its lower debt levels and its stronger and more defensible market position, which allows for greater earnings stability and visibility. Due to Keyera's superior financial flexibility and earnings stability, we believe Keyera can find ways to grow in any energy price environment.
- **Enbridge** is the largest diversified utility company in Canada with operations throughout North America. Enbridge currently trades at 13x forward 2-yr EV/EBITDA (based on Raymond James estimates) versus TransCanada at 12.5x. We believe Enbridge should trade at a significant premium relative to TransCanada as a result of its recent acquisition of Spectra Energy, which should be highly accretive to Enbridge's earnings and provide it with additional investment opportunities. Moreover, we believe Enbridge could increase its dividend yield by ~30% within a few years. Given its income-oriented investor base, we believe investors may bid up Enbridge shares such that its dividend yield is unchanged over time.

Both Keyera and Enbridge could be affected negatively by higher interest rates or lower energy prices.

JEANNINE'S TIP O' THE MONTH Showcasing Kelly Edmonds of Steele Wealth Management

Kelly Edmonds, Senior Service Assistant. I have worked with Steele Wealth Management since 2004 and am licensed to trade equities, mutual funds and bonds. My primary roles within the team include scheduling and preparing client reviews and reports, processing account documentation and liaising with our back office, servicing clients' general day-to-day requests, and other special projects as necessary.

This newsletter has been brought to you by Steele Wealth Management

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