

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.

FEDERAL BUDGET 2018 CORPORATE TAX CHANGES LESS DRASTIC THAN FEARED

Corporate Tax Changes

Throughout 2017, the federal government proposed corporate tax changes that would have resulted in meaningfully higher taxes payable by many small business owners. The federal government often derided small business owners for not paying their fair share of taxes despite following the tax laws the government put in place. Intuitively, small business owners and their advisors were active in making submissions to the finance department. It appears the government tried meeting business owners half way, as seen below:

- The government focused on limiting access to the small business tax rate.
- The budget proposes to reduce the \$500,000 small business limit amount by \$5 for every \$1 in passive investment income above \$50,000 so that the small business limit would be reduced to zero at \$150,000 in passive income.
- Passive income includes investment income and non-exempt life insurance income and excludes business related capital gains/losses and capital loss carry-forwards.
- Federal small business tax rate will fall to 10% in 2018 and 9% in 2019 as planned.
- Minor changes to refundable taxes on investment income, starting in 2019.
- Income sprinkling rules, initially detailed in December 2017, have been maintained. Family members must prove they are significantly involved in the business to qualify for exclusion from the new rules.

While the changes are not as punitive as initially proposed, many business owners may consider changes to their remuneration strategies.

Individual Tax Changes

No proposed changes to individual tax rates. See the proposed changes below:

- Donations to a university outside Canada qualify for the charitable donation tax credit, if the university is registered with the Canada Revenue Agency on the Government of Canada website. The university no longer needs to be prescribed in the income tax regulations.
- The Quebec Pension Plan (QPP) will be enhanced in the same manner as the Canada Pension Plan (CPP) and the contributions to the enhanced portion of the QPP will be deductible from income starting in 2019, as is the case for the CPP.
- Trusts will be required to report the identity of all trustees, beneficiaries, settlors and the persons who have the ability to exert control over trustees, with some exceptions. Certain trusts that were previously exempt will need to file a T3 return. New penalties have been introduced for failure to file a T3 or beneficial ownership.

Current Rates & Data

Govt of Canada

90 day	1.05%
1 year	1.55%
2 year	1.78%
5 year	2.01%
10 year	2.17%
30 year	2.31%

U.S. Treasury

90 day	1.79%
1 year	2.07%
2 year	2.32%
5 year	2.67%
10 year	2.88%
30 year	3.11%

Canada Prime Rate

3.45%

U.S. Prime Rate

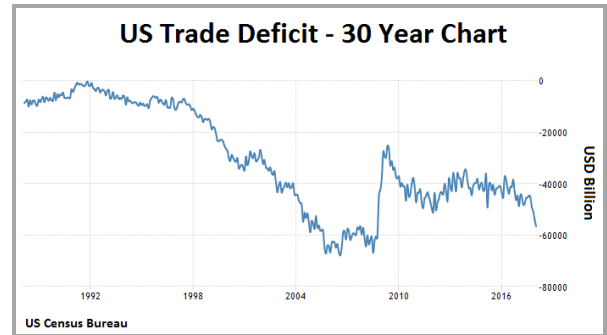
4.50%

Exchange Rates

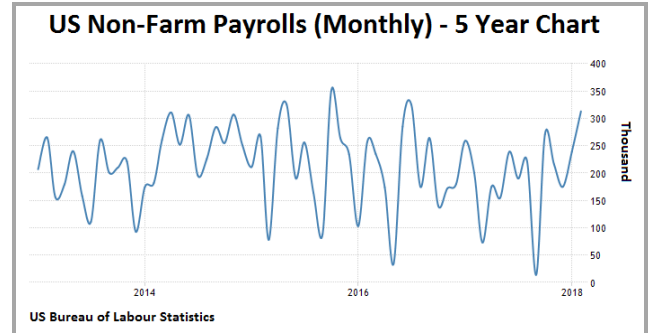
CAD/USD	0.765
USD/EUR	1.227
JPY/USD	106.4

ECONOMIC TIDBITS TRUMP'S TARIFFS CAUSE MARKET TANTRUM & BLOCKBUSTER US EMPLOYMENT GROWTH

- On March 1, President Trump announced tariffs of 25% and 10% on steel and aluminum imports respectively. Stock markets declined almost immediately. The market decline was reinforced by a comment from Trump that “trade wars are good, and easy to win”. Markets rebounded as Canada and Mexico were later exempted from the tariffs and investors assume cooler heads will prevail in time.



- The US economy added 313,000 jobs in February, the most in a single month since July 2016. The US unemployment rate lingered at 4.1% as discouraged workers entered the workforce in droves. Average hourly earnings only rose 2.6% year-over-year despite the US economy near full employment. The US economy should start to see higher wage growth and inflation with jobs numbers like these.



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

US Energy Stocks Go Up Then US Energy Stocks Go Down + Oil Price Still Elevated = Opportunity?

- **Exxon Mobil (XOM)** and **Occidental Petroleum (OXY)** are two ideas related to this theme.
- **Exxon** is the world’s largest publically traded energy company. Exxon trades at a ~20% discount to its historical average valuation (based on trailing earnings) despite improving oil price dynamics. Global oil inventories are approaching historically normal levels and by summer 2018, this should have a lasting, positive effect on oil prices. Exxon provides significant diversification within the energy sector operating in the extraction, refining and distribution of oil and oil products. As a result, Exxon was able to remain profitable throughout the 2015-2016 energy market downturn and we think this durable profitability is worth a premium to peers in most environments. XOM is down ~16% from its recent highs despite the price of oil only being down ~7% from its recent high.
- **Occidental** is the largest US shale oil producer in the largest US oil-producing region – the Permian Basin. Occidental has one of the highest weightings toward crude oil of all US large cap energy stocks and should provide some of the highest leverage to oil prices. OXY is down ~18% from its recent highs.

Key risk points: Both stocks could see their valuations detach from oil prices and are reliant on oil prices. Both stocks are expected to meet stated production targets – OXY in particular.

JEANNINE’S TIP O’ THE MONTH Showcasing Jeannine Campbell of Steele Wealth Management

Jeannine Campbell, Senior Service Assistant and Branch Administrator. I co-founded Steele Wealth Management in 1998 and am licensed as an investment representative. As senior service assistant, I am dedicated to bringing exceptional service and an overall positive experience in all aspects of client servicing, from daily requests to comprehensive financial needs. I provide broad operational oversight and experience to both the team and our clients.

This newsletter has been brought to you by Steele Wealth Management

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