EPISODE 29

Clearing Up the Holiday Back-Up: Podcast Housekeeping and Round Up

[INTRODUCTION]

[0:00:05.3] Benjamin Felix: This is the Rational Reminder podcast, a weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix, and Cameron Passmore.

Just Cameron and Ben Solo episode today.

[0:00:20.3] Cameron Passmore: Happy new year.

[0:00:21.6] BF: Happy new year, yeah.

[0:00:22.4] CP: We've had so many guests lately. Just a quick intro, we covered a lot of topics, we backed up for a few weeks, talked about update on ETF marketplace in Canada.

[0:00:32.3] BF: Yeah, I mean, we went through a bunch of stuff, we chatted a bit about some of the guest that we had recently that we're going to be releasing over the next few weeks but there's lots of stuff, like Cameron said, backed up over the holiday so it's good to –

[0:00:43.3] CP: Crazy idea of going to cash.

[0:00:45.8] BF: Yeah, should you go to cash, we answered that question. Anyway, good opportunity for us to talk because we've been mostly listening to guests for the last few episodes.

[0:00:53.9] CP: They've been good, we've had some really great people and more coming up.

[0:00:57.0]BF: Yeah, hopefully people still find us interesting.

[0:00:59.0] CP: We'll see.

[0:01:00.7] BF: All right, here you go.

[INTERVIEW]

[0:01:08.2] BF: Welcome to Episode 29 of the Rational Reminder Podcast. It's just Cameron and I today. We had a bunch of guests including two that we recorded today that won't be released for a while but this is our third recording for the day.

[0:01:24.8] CP: Yeah, we had great interviews earlier today with Larry Swedroe from Buckingham in the US and then the head of iShares in Canada, which is a great interview. This is after three weeks of superb guests so we thought we'd better have some of our home grown content today.

[0:01:40.0] BF: Yeah, anyway, we wanted to start off just throwing it out there that we are hiring for a position here in our team in Ottawa. Anyway, just throwing that out there.

[0:01:51.4] CP: Yeah, we're always looking for good people so the jobs are posted on the website so if you're interested, drop us a note.

[0:01:57.8] BF: We have had a couple of people that I know listen to the podcasts that I only know through the podcast that have actually reached out and applied for positions we posted in the past, which is kind of neat. We just on the podcast, our plan is still to start filming them, we just haven't actually filmed that yet. That's coming hopefully.

[0:02:15.9] CP: If anyone cares, like the people cared so why just do this? That's beyond me but –

[0:02:19.3] BF: Apparently it's a thing. Anyway.

[0:02:23.3] CP: You want to kick it off by talking about ETF and index investing, some updates that you came across?

[0:02:28.5] BF: Yeah, well, the big one is that RBC and iShares have formed an alliance and we learned today in talking with the head of product for iShares Canada that it's an alliance and when I noticed reading the article later on that that was very specifically stated.

[0:02:46.3] CP: But what a huge alliance, I mean, two monster companies.

[0:02:49.6] BF: Yeah, well, it came out of our conversation, it comes down to scale, right? They're sharing resources and that's the name of the ETF game is gather assets, which is a fee competition because it's a commodity at this point. So you are required to scale and what's better for scale than combining something like RBC with something like iShares.

[0:03:11.0] CP: I guess they're going to be combining the sales force but they're not rationalizing products of course. They're each keeping their own product line, no rationalizing on the sales side.

[0:03:20.3] BF: Well it sounds like the whole back end, it sounds like they're going to be combining, which makes sense like of course you need to do stuff like that if you're going to continue to be competitive.

[0:03:28.7] CP: Yeah.

[0:03:30.4] BF: It seems like an obvious move, I guess the other big thing is that RBC has this massive distribution channel and iShares, they don't have that. That's an obvious synergy as well.

[0:03:41.5] CP: Also with Vanguard ramping up, I would think you know, bigger competition is only a border away. I know Vanguard's here now and they have some impressive asset growth by compared to the US, they're not really that big a player in Canada yet.

[0:03:54.2] BF: No, you know what I learned recently is that the – you know how Vanguard, one of the big benefits people talk about is that they're mutually owned. That's only true in the US, their international subsidiaries are not mutually owned.

[0:04:06.1] CP: I didn't know it.

[0:04:06.8] BF: Yeah. They are for profit companies setup by the US entity in other countries.

[0:04:14.0] CP: I have to dig into that a bit.

[0:04:15.2] BF: Yeah. I didn't verify that but I heard it. Thought it was pretty interesting.

[0:04:21.3] CP: Pretty amazing how [inaudible] picked up half a billion dollars in new assets last year.

[0:04:26.3] BF: You believe that?

[0:04:27.0] CP: That's a lot.

[0:04:27.7] BF: That's a ton of assets, 25 bases points too, that's the fee. Pretty good business I'd say for a year, less than a year, they launched in what? February last year I think?

[0:04:39.0] CP: Yes, [inaudible] is the one taking solutions offered by Vanguard. Get a diversified portfolio.

[0:04:44.4] BF: Yeah 80/20. They launched three, I don't know what they other one's group, anyway, a couple of other things on Canadian ETF space, BMO was the biggest last year in terms of growth, they brought in five billion, Vanguard was second, I don't know who is third but –

[0:05:02.0] CP: Where's Black Rock in that?

[0:05:03.3] BF: I don't' know, that's why I'm saying O don't know. I said that I thought, I wonder if – iShares was third. There are 140 new ETF products launched in 2018, which is –

[0:05:13.5] CP: Just what we need.

[0:05:13.6] BF: Crazy, exactly what Canada needs is more ETFs. There's a lot of growth in thematic ETF's like HMMJ, the marijuana ETF from Horizons, it's got you know on the guest. It's going to be all over a billion.

[0:05:28.1] CP: It's a billion. Incredible.

[0:05:30.5] BF: It is incredible.

[0:05:31.9] CP: For the first time, ETFs gathered more assets than mutual funds.

[0:05:36.0] BF: Yup.

[0:05:37.1] CP: This past year. The tide is turning and I remember the day when nobody knew what an ETF was.

[0:05:41.6] BF: Tide is turning and I read some commentary on this but it seems like, because it did this happen once before in '08, '09 and the commentary that I read was talking about how there's this paradoxical effect when markets go down, ETFs actually tend to gather assets because markets drop, people get nervous selling the mutual funds.

Then when they get ready to go back in, they look for a lower fee option. That's apparently what we saw, that's what this commentator hypothesizes that we saw in 08 and 09 and also last year obviously where we did have some market volatility.

[0:06:14.7] CP: You had a question that, we got a question this week from a listener talking about something that I actually saw in an article in Barron's as well, which is, does it ever make sense for a long term investor to go to cash and this is something again I saw in Barron's, which drives me crazy, this simple survey in a big launch of financial advisers, investment advisers who were actually planning in adding to the cash position. Oh master, does it ever make sense for someone to go to cash?

[0:06:40.5] BF: Oh master. No, well, as long as we all understand that the context is, we're talking about a long term investor who does not need the cash at this time, should they go to

cash for market timing purposes. Should you time the market, is what it boils down to. The answer is no, if you're making a data based decision, if you're really scared.

[0:07:00.0] CP: Boy, do people want you to say yes.

[0:07:01.8] BF: Of course. There's no good argument. I mean, you look at the studies that Vanguard has done in the past and AQR has done a study as well to show the predictive power of any model. You can find whatever metric you want, I think Vanguard found that the Shiller Cape is the best one and even then, you only get 43%, you explain 43% of the difference in future returns using the Shiller Cape, when prices are relatively high, you might I guess 43% chance you're going to get lower feature returns.

[0:07:31.1] CP: Get this, 45% of advisers in the survey. That wasn't a huge survey but still, they told the investment news that they plan to increase cash allocations based on the performance of the past six months in the economy.

[0:07:43.3] BF: Sell low, buy high.

[0:07:45.7] CP: Prices went down on your equities, therefore, if you believe in capitalism you have a higher expected return, so that's the time to sell. I don't get it but I understand why people have the question.

[0:07:54.9] BF: Yeah, I get it too. I think we looked at the past evaluation data and I think it was Raymond, our director of research at PWL and he made a comment to me, it was long time ago, must be around when I started here.

He said something along the lines of the only time that he and not that he actually thought about going to cash but the only time that he was really starting to feel like things were getting crazy was in the tech.

[0:08:16.8] CP: In 99 – 2000.

[0:08:18.6] BF: Evaluations were like totally whacko relative to the past. But I mean Raymond, our director of research, even though he thought that this is crazy, we still don't go to cash.

[0:08:28.8] CP: Yeah, it's easy in hindsight to say that.

[0:08:30.2] BF: Right, that's also true. We did get another listener question on home country bias and I guess multinational companies. The questions, the S&P 500 derives 43% of its revenue from foreign countries, which is pretty interesting in and of itself. The question is, do I need to look any farther for global diversification, in other words, can I just invest in the S&P 500 because it has international exposure anyway.

[0:08:55.1] CP: Yeah, you hear that argument a lot and I mean, the fact of the matter, the global markets are not correlated especially when things – they get highly correlated when markets go down, that's been correlation goes up quite a bit where markets are negative.

There's still a merit and owning multiple countries and multiple countries and multiple currencies in your portfolio. Just have to look at the performance of these countries over time and how different the returns are and even inside each country, small cap and value can perform very differently as well. You want to get the spray of outcomes inside your portfolio.

[0:09:28.6] BF: What did Larry say today? I think he said that there had been three 13 year periods where US stocks have underperformed treasuries.

[0:09:37.4] CP: 13 year periods.

[0:09:38.1] BF: 13 year periods, that's right. Pretty sure.

[0:09:41.4] CP: Well, we live here in Canada, right? People want –

[0:09:42.8] BF: Absolutely.

[0:09:44.2] CP: You go through 10 years of Canada performing and people wonder, why don't I have more Canada than we go through a decade and like we just went through with Canada underperformed. Why do I have so much in Canada, they always flipped depending the recent performance.

[0:09:54.6] BF: I think on this question, you have to think about the country specific stuff like there are countries pacific factors that are going to affect the price of all the stocks in the country regardless of how much revenue those stocks are deriving from foreign countries.

[0:10:06.8] CP: Right.

[0:10:07.8] BF: Just stuff like interest rates, something as simple as that that's going to affect stock prices regardless of where they're deriving their revenue from.

[0:10:15.5] CP: The fact that you cannot predict the future so you want to own, we believe you want to own it all.

[0:10:19.8] BF: That's another piece of this actually is if you only own stocks in one country, even if they're deriving revenue from other countries, that's not truly a bet on capitalism, you have to be globally diversified to bet on capitalism, you can't bet on capitalism in a country because that might not work out correct. Totally different from betting on global capitalism. Anyway, it kind of ties in to the one of the things that we want to talk about, which is the standard reports. They released their persistence score card, did you see that?

[0:10:47.5] CP: Every year it never changes.

[0:10:49.6] BF: They've been releasing the [inaudible] report, the act of passive comparison for years, I don't know how long they've been doing the persistence score card, been doing that forever too?

[0:10:59.3] CP: That I'm not certain.

[0:11:01.1] BF: They came out with an update for September, recently and they only do this for US stocks presumably because that's where they've got the most data. What it does is it takes the best performing funds in the US over a period of time and then it takes those funds and looks at them over the following period of time.

It's kind of that test for luck versus skill or if a fund manager's skilled, they'll do well in a past period and then do well in a future period where if they're lucky, they'll do well in a past period

and then Amy or may not do well in a future period. Anyway, we kind of know what to expect because this report does come out but it's been coming out I think every year as far back as I can remember, which is only I guess six years that I've been paying attention to it.

Of the 550 domestic equity funds that were in the top core tile, as of September 2016, only 7.09% managed to stay in the top core tile the end of September 2018.

[0:12:02.2] CP: 7% of the top 25% in September 2016 carried on?

[0:12:07.6] BF: Correct.

[0:12:08.4] CP: Wow.

[0:12:09.7] BF: Just by chance, we would expect 6.3% to carry on. They did marginally better than you'd expect by dumb luck.

[0:12:19.8] CP: Still not enough data to know that it's skill.

[0:12:22.2] BF: No, the majority of them still underperformed or still got booted out of the top core tile.

[0:12:29.6] CP: Yeah, we can keep beating this to death, I don't get how people only get this but for 43% of advisors that we just had our planning going to cash. So I don't know how people aren't aware of this data and how they think that they're going to be different.

[0:12:42.6] BF: Yeah, I don't either, I really don't, there's always a new thing or this time is different conversation.

[0:12:47.0] CP: I don't' even get the motivation, why do you want to? You have this evidence that you can implement with clients that has got decades of science behind it, why would you not simply just embrace it with clients? Why do you want to do better?

[0:13:00.9] BF: Yeah, I don't' know.

[0:13:01.7] CP: What's the motivation to say, "Basically, forget about the history, forget about all the academic work. I think I'm going to do better?"

[0:13:07.8] BF: Well, you can probably push it back in the clients, right? It's one thing for people who are giving advice to say, we can beat the market but it's a whole other thing if the client is – if a client looks at what we do.

[0:13:16.9] CP: The client doesn't know,, they don't' know what they don't know, that's one thing but you're paid to know.

[0:13:20.1] BF: That's true.

[0:13:21.4] CP: You're paid to know the evidence, you're paid to deliver advice. How can your advice basically be against data like this, not just data is pretty damning?

[0:13:30.7] BF: Absolutely. You think you're going to be part of that, what that spread of 1% on that top core tile. It's completely damming.

[0:13:36.4] CP: I just don't' understand someone's motivation to go that way.

[0:13:40.4] BF: Well, we've heard arguments in the past, al sots of argument.

[0:13:42.1] CP: I've heard them all, I just don't get it.

[0:13:44.1] BF: I mean, you take an active manager who is picking stocks on their own and not using mutual funds, we've heard this when Dan Solin came to Ottawa to have a debate with some local active firms.

Then talked a ton about the data. The active firms were, they stated after the debate that they Dan referred to mutual funds because that data doesn't apply to them, doesn't apply to them real good, small boutique active managers that have –

[0:14:10.6] CP: Nimble.

[0:14:10.9] BF: Yeah, the nimble.

[0:14:11.8] CP: Yeah, okay.

[0:14:14.7] BF: That answer to your question, that's how they justified it. They have, they adjusted, they have ways to justify to themselves, it makes sense for them because of this or it makes sense for the clients, because of this, this is why we're different from the data, I'm telling you how they must justify it.

They're not sitting there looking in the face and saying we're going to do what's wrong, they think what they're doing is right.

[0:14:36.4] CP: Another common question, I don't know about you but I've had it fairly often lately, which is aren't we in kind of a winner takes all type environment? That I have to own Facebook, Google, Apple, Amazon because you're going to own the world and t they're the ones that are going to have all the growth forward.

Came across an article of Jason Zweig, one of our favorite writers had in the wall street journal last week, looking back historically on this whole winner take all mentality and basically, his quote was. "That's historical hogwash." So right now Amazon, I think last week became the largest stock in the world at $800 billion. I know Apple is over a trillion briefly.

[0:15:15.0] BF: Both of them were briefly.

[0:15:15.9] CP: Last fall and so they were right now both 3% of the market capital of US stocks. Number two is Microsoft just a little bit less and then Apple is third at $730 billion. But the question is, is this really historically abnormal and did you know this, how many companies have actually been the largest stock in the US since 1926?

[0:15:37.4] BF: Not until I saw this, it blew me away.

[0:15:39.3] CP: It blew me away, there's 11 companies. So we know them all, it was Microsoft, Apple, Exxon, GE, Walmart, Altria Group, IBM, Dow DuPont, GM and AT&T. But AT&T in 1932 is 13% of the total US stock market. General Motors was 8% in 1928 and IBM was 7% in 1970.

Now I remember Nortel, gosh I should have looked that up, what was Nortel in the peak?

[0:16:06.4] BF: I don't know.

[0:16:07.3] CP: I think it was approaching 40% of the TSX, I believe something like that.

[0:16:09.5] BF: Are you serious?

[0:16:10.6] CP: It was crazy that's why we have the Canadian index that's Nortel included. Yeah, it was a capped index. XIC capped index.

[0:16:19.2] BF: I didn't know that.

[0:16:19.8] CP: Yep, so I thought that was interesting. This is not historically abnormal at all and if you think about these companies, will it be winner take all or these just reflective of the times?

[0:16:30.5] BF: Well look at those data points there. The data points that you have there is unbelievable, AT&T 13% of the US market. GM 8%, I guess at its peak.

[0:16:40.2] CP: But yeah, the creation of cars or mass ownership of cars, development of phone systems.

[0:16:47.5] BF: These are all – their commodities there were at the time new. There are things that are now commodities but at the time were new and the first company to get into that space, of course they are going to become dominant.

[0:16:58.9] CP: Microsoft personal computing, Exxon pioneered in the oil industry. So I just thought it was neat to look back and see all of these are big changes, which is it different this time? I guess it might be but just imagine how different it was back then when these companies came out.

[0:17:12.9] BF: Yeah, one of the other things that I think when I was reading your notes, a lot of these companies have had run ins at least with anti-trust law in the US. And I think one of the

things that gets missed in that winner take all idea that you have to own those biggest companies is that capitalism in real life, capitalism is not just running free on its own. There are three things that drive capitalism.

There's market forces that Adam Smith's invisible idea. But then there's also government regulation and then there are also social forces like how people are feeling and to think that these companies are just going to take off and sail off into the sunset with everybody's data forever, is that realistic? Is the government never going to step in and then do something?

[0:18:05.1] CP: Or will behaviors change? I just started reading a book yesterday called *The Top 10 Reasons Why You Should Shut Down Your Social Media Account* or something like that. It's fascinating how many people are shutting down their accounts and the author makes some pretty good arguments for it.

[0:18:19.7] BF: There is a part in the book *Sapiens* that I have almost finished now, it has taken longer than I would have liked but kids and stuff but the author talks about how history is not deterministic. We can always look back at stuff and say, "Well this happened because of that, this happened because of that." But in reality history just happens. It is random and we can never – there is no way to know what is going to happen. So it is exactly what you're saying.

[0:18:44.0] CP: Did you catch *60 Minutes* last night?

[0:18:45.6] BF: No.

[0:18:46.0] CP: They had this expert on AI talking about how it could eliminate 40% of the workforce. That there is these huge massive shifts that are coming, who knows how it's going to end up?

[0:18:55.2] BF: Yeah, who knows is right. I always love the Russ Roberts on econ talked about the example of ATMs and about how when ATMs came everyone thought that bankers were going to be out of the job and what end up happening was the cost of opening a bank branch dropped dramatically. So banks opened way more branches and then that increase in bank tellers was positive.

[0:19:20.6] CP: Wow, I didn't know that.

[0:19:22.4] BF: The tellers per branch decreased because of ATMs but it allow banks to open. Exactly, more branches more people open accounts, attract more business, more tellers overall. So that's always stuck with me.

Now of course AI is different than ATMs maybe I don't know. But there is always these second order effects that we have to keep in mind. Anyway, on the winner take all thing, we always take it back to the risk story and if we're really in a winner take all market that's not a secret. The market knows who has the data, the market knows who is the biggest company.

[0:19:55.9] CP: Who's got the cash.

[0:19:57.1] BF: Who's got the cash. So for it to really be truly winner take all for those companies to run off with all the gains I guess or all the earnings – well not the earnings, all the gains it means that they actually have to do better than the market currently expects them to because everybody knows. Everybody knows who's the biggest, everybody knows who is the most successful, who has the most revenue, who has the most profit but that doesn't mean they are going to perform well going forward.

So are all the future gains going to come from those few stocks I mean no, they have to do better than the market currently expects them to for that to be true and that you look at small companies who aren't as — well that they are smaller. Their revenue is not as certain, those are riskier investments then go more when we go up. The market doesn't think they're going to do well. So if they do a little bit better than expected all of a sudden you got better than market returns.

And that is the whole risk premium idea of investing. Anyway, there is another article that dovetailed really nicely in what that I saw that you posted the one that we just talked about. There is an article in the Economist talking about how – well the title is *The Most Valuable Resource is No Longer Oil but Data.*

[0:21:03.9] CP: And that was one of the points of the interview last night.

[0:21:06.6] BF: Yeah, interesting.

[0:21:08.5] CP: Because AI comes from data capture, right? Driverless cars and whatnot.

[0:21:14.6] BF: The article, yeah they talk about in this article too how the – I can't remember what it was. It was like driverless cars will generate a 100 gigabytes of data per second or something crazy like that but the article is talking about anti-trust regulation. So that is where when I read the article you posted, my brain went to, "Okay well regulation." And that is exactly what this Economist article talks about.

So they said, quote, "Old ways of thinking about competition device in the era of oil looked outdated in what has become and what has come to be called the data economy." And then there is another good quote that I wanted to share. "Google can see what people search for, Facebook what they share, Amazon what they buy, they own app stores and operating systems and rent out computing power to startups. They have a god's eye view of activities in their own markets and beyond. I thought that was fascinating because it is true.

[0:22:04.9] CP: Absolutely true.

[0:22:05.5] BF: If you have a great idea, they know about it maybe even before you do.

[0:22:09.6] CP: A great episode on *Freakonomics*, we should put in the show notes that talk about the amount of information that Google knows about you and what you really do search and they can tell things about society much better than surveys can because it is what you search for tells the truth of what you are really wondering.

[0:22:25.9] BF: That was a crazy *Freakonomics* episode, I remember that. Yeah, I can't remember what the term is but if you answer a survey, the fact that you are answering the question, the fact you'll answer it or if you are just Google searching is not impacted.

Anyway, so this Economist article boils down to saying that anti-trust regulation will likely need to address this stuff but it is going to have to take different approach than it has taken in the past and what that will mean according to the article is that instead of looking at company size when they are worrying about anti-trust they have to look at the extent of the company's data assets.

So I thought that was pretty interesting and then they also need to regulate the transparency and ownership of data. We are talking to a couple of pretty smart people recently about this where their suggestion was maybe it makes sense for every company to release data with a six month lag or something like that.

So their competitors can use that to get ahead of them but at least everybody else can use it for research and product development and stuff like that. Anyway, we'll always have to remember that the world is a complex adaptive system. It's not like stuff just happens and people don't respond because people are people. And so they'll do stuff as stuff happens and we can never predict the stuff they're going to do is going to be ahead of time.

[0:23:50.6] CP: So speaking of predicting, would you predict about when we talked about CPP a few weeks ago that there would be advertising on NFL games in Canada.

[0:23:59.2] BF: No, I have seen a couple of articles about this. It is kind of crazy.

[0:24:02.4] CP: Yeah, so I mean Andrew Coyne wrote an article and a number of others as well that I have seen just ripping the CPP IB for spending – it is not a lot of money in the grand scheme of things but 300,000 on ads basically to convince people that CPP is a good thing. But as an employee you can't opt out of this. This isn't an option. It is a monopoly, you have to do it. Employers have to do it. So he just took another opportunity to continue his, I guess, rant you can say on against CPP about how much they are spending.

And here's a quote, "So sheer profligacy is certainly one possibility. Spending at the CPP-IB is quite literally out of control and has been for some time. Ever since the 2006 decision to switched from passive to active management, or simply buying every stock in the market with an aim of doing no worse than the market averages to picking stocks selectively in an attempt to beat the market at task in which year in and year out, most investment managers fail."

That is from Andrew Coyne in The Financial Post.

[0:25:07.1] BF: It is all absolutely true. I don't know why the CPP IB changed direction.

[0:25:14.6] CP: Back in 2000 he says it has a staff of five. The CEO was paid 310 grand a year, total cost of $3.7 million. By 2006 it had a 150 employees, you kind of know where the numbers go and today, CPP IB is over 1,500 employees. Average comp for these five executives is $4.5 million each and total cost have grown to $3.2 billion, which is just high of 1% expense ratio.

[0:25:40.6] BF: That's insane. Insane.

[0:25:43.3] CP: But their advertising will tell you that is a good thing.

[0:25:46.0] BF: Well the increase is a good thing. They are not talking about their active management. I don't know, why would they advertise the increase? I guess people might notice it on their paychecks but that is not their job.

[0:25:55.8] CP: I read one article that talked about how many people think that CPP won't be there. I mean you hear that once in a while. So they make it a point it will be there and it is a well-run large plan I guess.

[0:26:06.4] BF: It's true, it is.

[0:26:08.3] CP: But do you need to advertise that?

[0:26:09.8] BF: Yeah, I don't know. It is – I mean sure, the cost are high and increasing and obviously not a fan of the active management aspect but it is a relatively well-run pension fund in terms of the funded status and the contribution rates and all of that kind of stuff. And is it going to be there? I mean yeah, that is not something that I worry too much about.

[0:26:30.6] CP: So do you want to go through some quick tax updates?

[0:26:33.3] BF: Yeah, so this is specific to owner managers with a Canadian Controlled Private Corporation or CCPC. So if you don't have one of those, which I am sure many people don't.

[0:26:45.1] CP: Hit that little button to fast forward 30 seconds.

[0:26:47.6] BF: Yeah, you may want to skip ahead or maybe it is interesting anyway. I don't know, so one change and one interesting point. So the change was that obviously there is – well obviously, I am sure people have a CCPC or aware that there is this new passive income limit where if you earn a certain amount of passive income, so that is basically like investment income from passive assets like stocks and bonds. If you earn more than $50,000 of that you start to lose your small business deduction, which effectively means you can defer less tax.

So you are paying more tax now and less later but more now is the issue. And that was designed to do away with a lot of people thought was unfair. The unfair ability of people with corporations to defer the vast majority of income tax. All that was true and that is debatable whatever whatever, we could get into a whole big discussion about that and lots of people got pretty upset when all of those regulations were being changed.

But anyway, the news is that the Ontario Government has decided not to follow the federal government's passive income limit. So I saw an article on The Globe and Mail about this. I have not been able to substantiate it elsewhere but I don't see why they would make it up but anyway, it is pretty interesting. So provincial taxes are relatively small portion of the overall tax bill for anybody but for a corporation as well. So it is not a huge deal but it is still a deal to be aware of.

I don't think it changes any planning stuff like using the RSP became increasingly attractive when these rules changed because you can defer less income for – you will run out of space to defer income sooner with a new passive income rules. The RSP is increasingly attractive. That hasn't changed with this but anyways, it is an interesting development and the other one was I learned, this isn't new but I learned it to be true. I didn't know it before.

Someone that has an active business in one CCPC and then also a holding company. So in a lot of cases people will do that for credit protection and things like that and for the capital gains exemption got to have – anyway that is getting too detailed. If you drop the active business and only have the holding company then you are able to split income with the spouse pre-age 65 on the second generation income.

So you've got investments in the hold co, you retire at 45 years old. You can still split investment income with a spouse as long as it's the second generation income and you don't have an active business attached to your holding company.

[0:29:15.1] CP: Cool.

[0:29:15.4] BF: Anyway, I guess there's some technical tax stuff maybe some people are into that. I don't know.

[0:29:19.3] CP: So that's probably pretty much it for this week.

[0:29:23.0] BF: Yeah, I think that's it.

[0:29:24.2] CP: We're busy doing TSFAs RSV top ups, deadline is coming up another six weeks or so, kick off the new year. If anybody wants to meet just drop us a note.

[0:29:31.8] BF: Tax time is coming.

[0:29:33.1] CP: Also if anybody has ideas for guests, drop us a note as well. We can try to reach out and get people on.

[0:29:38.6] BF: It's true. We have been thinking about getting somebody on to talk about tax so any good tax referrals for the podcast will be appreciated.

[0:29:47.5] CP: All right, talk later.

[0:29:50.4] BF: All right, that's it.

[END]