ETERNA
FINANCIAL GROUP

MARKET REVIEW - AUGUST 2017

STATISTICS on 2017-08-31

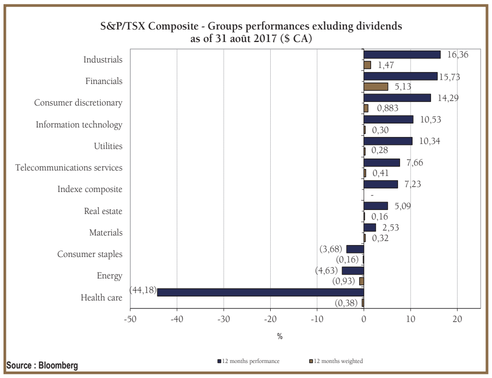
CANADA		
Unemployment (July)	6.30%	↓
C.P.I. (July)	1.20%	↑
3 months treasury bills CDA	0.77%	↑
Bonds CDA 5 years	1.54%	↓
Bonds CDA 10 years	1.88%	↓
S&P/TSX	15212	↑
UNITED STATES		
Unemployment	4.40%	↑
C.P.I. (July)	1.70%	↑
3 months treasury bills US	0.99%	↓
Bonds US 5 years	1.70%	↓
Bonds US 10 years	2.12%	↓
Dow Jones - Industrial	21948	↑
S&P 500	2472	↑
CURRENCY		
$ US / $ CAN	0.8011	↑
$ US / € Euro	1.1910	↓
¥ Yen / $ USA.	109.98	↑

The arrow indicates the trend since the publication of the last monthly data or end of the month.

The Canadian stock market delivered a total return of 0.7% in August. The materials sector was the most productive, yielding a 5.5% return. Gold also did well, due to higher metal prices. The price of aluminum increased by 10%, while nickel and zinc gained 15% and 13%, respectively. Conversely, financial stocks stagnated and the energy index declined. Year-to-date shows copper prices up by 22%, while crude oil prices are at a standstill. The Canadian market has lagged since the beginning of the year relative to other indices, particularly emerging markets, which are still advancing. The S&P 500 Index returned 0.3% in August, in U.S. dollars. Overall, the U.S. dollar has weakened since the beginning of the year, while the outlook for global growth is improving, particularly in Europe.

Canadian bond interest rates declined, with 10-year rates falling from 1.96% to 1.85% during the month. In Canada, the August performance of the TMX Universe Bond Index was 1.4%. The long-term index was 2.9%. In this segment of the curve, federal bonds delivered the best yields, while credit spreads somewhat widened in August, with the middle part of the curve experiencing the same phenomenon. However, in maturities of less than five years, corporations outperformed other sectors. While the yield curve widened, two-year rates showed no progress, the result of a strong Canadian economy which encourages market stakeholders to raise expectations of the Bank of Canada's key rate hike. Although these are second-quarter figures, it was announced that Canadian growth was 4.5% on an annualized basis. Canadian consumers are active and export volumes have increased. The strength of the loonie will play in the equation that monetary authorities have to solve; to what extent is this increase in the dollar, especially if it continues, equivalent to a key rate hike? The U.S. economy is also growing, but the profile is not the same as housing starts are falling, new orders for durable goods have stagnated since the winter and job creation, although still positive, is slowing down.

The key for markets lies in inflationary expectations. The rise in consumer prices is slight, barely 1.2% in Canada and 1.7% in the United States. It is a widespread phenomenon on a global scale. As long as inflation is under control, there is little reason to anticipate a substantial interest rate increase, which remains comforting to stock market investors, as long as profits are available.



PERFORMANCE as of 2017-08-31	1 month	3 months	12 months
Bonds			
FSTE/TMX - 91 Day Tbill	0.06%	0.11%	0.50%
FSTE/TMX - Short Term	0.42%	-0.97%	0.01%
FSTE/TMX - Mid Term	1.36%	-2.45%	-1.61%
Stock Market Indices			
CANADA - S&P/TSX	0.67%	-0.15%	7.23%
USA - S&P 500	0.61%	-4.52%	10.92%
MSCI - E.A.F.E.	0.27%	-4.84%	12.26%
$ CAN versus $ US	-0.02%	7.54%	4.75%

SOURCES: Bloomberg, TSX Group - Total Return, $ CAN

Business owners and qualifying incorporated professionals

On July 18, 2017, the Department of Finance Canada released a long-awaited consultation paper on some of the tax strategies used by business owners and incorporated professionals such as physicians, pharmacists or dentists. The federal government is of the view that the use of private corporations (CCPCs) provides high-income individuals with an unfair tax advantage not available to other Canadians.

Consultations on the proposed reforms are open until October 2nd.

Income splitting

Business owners might be tempted to split income earned through their corporation by paying dividends, often through a trust, to family members who are subject to lower tax rates. This results ina lower tax burden.

Current tax rules allow for splitting income from a CCPC when a salary is paid to family members by applying the standard of reasonableness. The latter standard generally does not apply to dividends.

However, a special tax on split income applies only when a dividend is paid to minor children (under 18 years of age) of a related individual. Dividends paid to minor children are taxed at the highest marginal rate. The federal government proposes, in its consultation paper, to extend the rules of special split income tax to other family members. Specifically, dividends and other amounts received from a business by an adult member of the business owner's family could be subject to the standard of reasonableness.

The concept of the standard of reasonableness could also apply to the multiplication of the capital gain exemption of $835,716 on the sale of a private corporation.

Conversion of income into capital gain (in effect since July 18th)

Business owners and professionals can reduce income taxes by ensuring that income to be taxed as wages or dividends is instead taxed as a capital gain, of which only half is taxable.

Therefore, for amounts received after July 17, 2017, if one of the purposes of a transaction is to create a capital gain to take advantage of the capital dividend account (CDC) and withdraw money from a corporation at low cost, the CDC amount so received is now deemed to be a taxable dividend. In short, several strategies for voluntary triggering of corporate capital gains are now greatly affected.

Holding a passive investment portfolio inside a private corporation

One of the major tax benefits available to business owners and incorporated professionals is access to the small business deduction limit, which allows for a reduced tax rate on the first $500,000 of income earned by a corporation. Significant tax deferrals are available, provided that a business owner or an incorporated professional maintains profits in the corporation. Tax deferral results in additional capital available to the business owner or the incorporated professional.

The federal government proposes to eliminate the tax benefits of accumulating money in a private corporation. Thus, depending on the proposals, it would no longer be advantageous to accumulate pension capital via a private corporation.

The taxation of business owners and incorporated professionals will likely be changed in depth over the coming months. It is advised that you consult your accountant or tax specialist before conducting large transactions at your company level or considering incorporation.

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