July 2016

Second Quarter 2016

Never a dull moment. This phrase seems to sum up the investment markets as of late. To the surprise of many, and contrary to the polls and financial market sentiment, Britain voted to leave the European Union on June 23, 2016 by a margin of 51.9% in favour, with a 72.5% voter turnout. Immediate reaction was very negative - from the high in June to the bottom in June, the S&P/TSX was down 4.7%, the S&P 500 was down 5% and the European Stoxx 600 fell 10.9%. By June 30th, all three markets had bounced back by 2.7%, 5.1% and 7.6% respectively. Canada and the United States have almost fully recovered any lost ground, while Europe remains slightly behind.

Oil prices continued to climb in the second quarter closing the month of June at $48.33 U.S./barrel which is up 26% compared to the end of March. Our Canadian Dollar continued to follow the price of oil during the second quarter which had a slight impact on foreign portfolio returns. Our Balanced Portfolio is up 2.65% year-to-date.

	Market	Mar 31 2016	June 30, 2016	YTD Incl. Dividends
Canada	TSX	13494	14,065	8.10%
U.S.	DOW	17685	17,930	2.90%
U.S.	S&P 500	2059	2,099	3.00%
U.K.	FTSE	6174	6504	4.20%
France	CAC	4385	4237	-8.60%
Germany	DAX	9965	9680	-9.90%
Japan	NIKKEI	16758.67	15576	-18.20%
Canadian $		$76.88	77.38	7.10%
Oil (US$)		38.34	48.33	30.50%

***Source: CNN Money*

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Tips for First Time Home-Buyers:

1. Save for your down payment. If you can accumulate at least a 20% down payment, you likely won't have to pay a premium for mortgage loan insurance. This insurance covers the lender, not you!

2. Stay on top of your credit record. Credit information is kept on file as long as 14 years, so it's important that you ensure the credit bureau records are up-to-date and correct.

3. Get pre-approved. By going through this process, you'll learn exactly how much the lender is willing to lend you, know what your payments will be and have the opportunity to lock in the current interest rate until a particular date.

4. Know all the costs of homeownership. Buying a home is likely the biggest purchase you'll ever make, so it's critical that you do it knowing you can afford to keep and maintain this asset.

5. Take advantage of your prepayment privileges. Know your options under your mortgage agreement when it comes to making payments above and beyond your regular payments.

<u>Mortgage Terms Explained for First Time Home Buyers</u>

Just as there are different types of homes, there are different types of mortgages to suit the needs of diverse home buyers. To select the right mortgage, it's important to understand your options. Here are some of the choices available to you:

Conventional vs. high-ratio mortgage

When you buy a property, you have to make a down payment. If your down payment is at least 20% of the value of the property (as calculated by the loan-to-value ratio), then you can get a **<u>conventional mortgage</u>**. These mortgages typically do not require mortgage insurance.

With a down payment of less than 20% (as calculated by the loan-to-value ratio), you may qualify for a **<u>high-ratio mortgage.</u>** In most cases, you will need to get mortgage insurance from an approved mortgage insurer such as Canada Mortgage and Housing Corporation (CMHC), Canada Guaranty Mortgage Insurance Company or Genworth Financial Mortgage Insurance Company Canada, to protect the interests of the lender in case you default. The cost of this insurance, usually referred to as the premium, can either be paid up front or added to your regular principal and interest amount to arrive at your total mortgage payment. Remember that this premium protects the lenders not you!

Fixed rate vs. variable rate mortgage

A **<u>fixed rate</u>** mortgage is one where the interest rate is predetermined and does not change throughout the loan term. Your payments will not fluctuate.

Advantages: 1. A fixed rate mortgage assures you the same interest rate will be applied to the loan throughout the term of the mortgage, so you know exactly how long it will take you to repay the loan.

2. If you have a fixed rate mortgage and interest rates go up, you are shielded from the increase.

Disadvantages: If you have a fixed rate mortgage and interest rates go down, you will continue to be charged the same interest rate and will not receive the lower rate.

A **<u>variable rate</u>** mortgage, on the other hand, is one where the interest rate may increase or decrease from time to time.

Advantages: If interest rates go down, more of your payment will go towards the loan principal so you will pay off the mortgage faster.

Disadvantages: If rates go up, more of your payment will be allocated towards interest and it will take you longer to pay off the mortgage. Depending on the terms of the mortgage, you may have the flexibility to convert to a fixed rate mortgage at any time during the term and lock in your rate, however additional fees may apply.

Open term vs. closed term mortgage

An **<u>open term</u>** mortgage allows you to pay back the borrowed amount whenever you want, without notice or prepayment penalty.

Advantages: If you take advantage of this flexibility and use any extra cash – such as a tax refund or salary increase – to pay down the balance of your mortgage, you could reduce the interest you pay over the life of your mortgage and pay your mortgage off faster.

Disadvantages: Because of their flexibility, open term mortgages generally have higher interest rates than closed term mortgages.

A **<u>closed term</u>** mortgage cannot be repaid beyond the allowable prepayment privileges, renegotiated or refinanced prior to the end of your selected term without incurring prepayment charges.

Advantages: 1. You will likely pay lower interest rates with a closed term mortgage.

2. You might have various prepayment privileges, including being able to increase your payments and to make lump-sum payments, without incurring a penalty.

Disadvantages: You generally can't pay down the balance on a closed term mortgage in advance (except where prepayment privileges allow) without being charged a prepayment penalty.