

# ODLUM BROWN REPORT

## 12 2019



**ODLUM BROWN**  
Investing for Generations®

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Odlum Brown Limited



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## Trust is a Tricky Thing

One of my favourite books – *The Godfather* – begins with the following quote: “Behind every great fortune there is a crime.” The book goes on to tell the story of a fictional New York mafia family, the Corleones. *The Godfather* is about the Corleones’ unchecked rise to power.

Today, the sentiment toward businesses, especially large technology companies, is evolving. Some fear they have grown too powerful and wonder whether crimes were committed along the way to trillion-dollar market capitalizations.

When I studied business, it was commonly accepted that a corporation’s sole objective was to maximize profit and shareholder return. Today, that viewpoint is changing, as questions about corporate social responsibility are gaining momentum. In August 2019, Business Roundtable, a collection of CEOs of America’s largest companies, redefined the purpose of a corporation to include all stakeholders. They stated that “customer value, investing in employees, fair and ethical supplier relationships, and care for the community and environment are also the purpose and responsibility of a business, in addition to long-term shareholder value.” This evolution is also evident in the regulatory and antitrust political conversations happening now in the United States and Europe.

Today’s largest corporations enjoy significant market power. Google dominates with roughly 90% market share of online searches, while Facebook has almost 80% market share of social media. Amazon accounts for approximately 50% of all incremental growth in online shopping. Finally, Apple captures a significant majority of global smartphone profits. Analysts refer to industries with such domination as “winner-take-all” markets.

Has technological innovation improved our day-to-day quality of life? No doubt! We can use Apple Pay and PayPal to purchase products without cash or even a physical card. Google Maps helps us get around and navigate unfamiliar places. Facebook’s WhatsApp keeps us in touch with friends and family. The bigger question is: Have these daily conveniences come at too high a price?

Last June, the Antitrust Division of the U.S. Department of Justice (DOJ) and the U.S. Federal Trade Commission (FTC) announced that they are reviewing four of the technology companies mentioned above. As reported in *The Wall Street Journal*, the FTC is looking into Facebook and Amazon, while the DOJ is investigating Alphabet (Google) and Apple. The point of these investigations is to determine whether these firms are unlawfully stifling competition.

Mark Twain said, “History doesn’t repeat itself, but it often rhymes.” In the late 19th century, two of history’s most famous entrepreneurs, Cornelius Vanderbilt and John D. Rockefeller, enjoyed monopolistic status in railway and oil, respectively. In response, the Sherman Antitrust Act was passed into law in 1890 to prevent the concentration of power and prohibit monopolistic business practices, such as price gouging. It took time for reform to work through the system, but anti-monopoly policies eventually became a cornerstone of U.S. politics for decades.

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## Season's Greetings!

On behalf of all of us at Odium Brown,  
we wish our clients, friends and  
partners all the best for a wonderful  
holiday season and a happy and  
prosperous new year.

It wasn't until the 1960s that attitudes toward antitrust changed. The famous Chicago School economist, Milton Friedman, believed that "antitrust laws do far more harm than good and that we would be better off if we didn't have them at all." The Chicago School economists were strong advocates for free markets with no government intervention. Regulation has relaxed over the past few decades, and companies have since been left to their own devices. Today, industries tend to be more concentrated with far fewer competitors.

Will the regulatory pendulum swing back to the 1890s? It's unlikely. Yes, attitudes around business are changing, and there are real concerns over these highly influential companies. One could argue that the winner-take-all model creates less competition, lowers productivity and inhibits new invention. The famed venture capitalist Peter Thiel, one of the original backers of Facebook, is critical of the general lack of innovation today, saying, "We wanted flying cars; instead we got 140 characters" (referring to Twitter).

While many agree there is a need for increased oversight, there is little consensus on how to implement such regulation. Some politicians advocate for breaking big companies apart. Others prefer to focus on improved consumer privacy and well-being. In any event, we believe the probability of drastic political action is modest. Concerns in the run up to elections often turn out to be transitory. Many expect Senator Elizabeth Warren to win the 2020 Democratic nomination to run for U.S. president. Her message is resonating with people seeking social reform. Warren's campaign proposes sweeping corporate changes, such as regulating big technology as utilities and reforming big banks and health insurance.

What action could government take to foster more competition? If YouTube was split from the core Alphabet business, would it lose its dominance in online video streaming? Would splitting Instagram from Facebook affect Facebook's status as the leading social media application? We don't think so. Whether these companies are forced to split up, or new rules aimed to protect user information are imposed, they would likely remain dominant. Facebook, Alphabet, Apple and Amazon enjoy powerful network effects thanks to their well-established user bases. Google and Amazon achieved dominance in part due to their experimental work cultures and ability to acquire complementary businesses. The companies' founders designed their businesses to adapt to change by avoiding corporate complacency. Employees at both are encouraged to experiment with new ideas that could one day unfold into leading products and/or services that strengthen and broaden the respective core businesses. Regulations that impede these efforts, including a moratorium on acquisitions, would have the greatest impact on these businesses.

Outside of the U.S., countries are looking to tax the technology giants. France adopted a 3% digital tax on large technology company revenues. Canada may follow in France's footsteps. During their reelection campaign, the Liberals said they would levy a similar 3% value-added tax on companies selling digital advertising and user data. The tax would apply to businesses with worldwide revenues of more than \$1 billion and Canadian revenues of more than \$40 million.

Given the turbulent political climate, modest regulation appears likely. In any event, we remain positive. In a world of economic stagnation and too much debt, we believe investors will continue to flock to large firms with strong balance sheets, durable cash flows and better-than-average economic growth.



**STEVEN ZICHERMAN, MBA, CFA**  
Equity Analyst  
@OBDifference

## Year-End Tax Tips and Deadlines

With December upon us, here are a number of tax considerations and deadlines to remember for the 2019 tax year. Please note that December 31 is a Tuesday this year.

### Payments, Expenses and Other Transactions

**1. Tax-Loss Selling** Tax-loss selling entails selling investments with unrealized capital losses before year-end to offset capital gains realized during the year. Any remaining unused capital losses can be carried over to offset capital gains from the three preceding years or in any future year. While this strategy may be advantageous from a tax perspective, ensure that tax-loss selling makes sense from an investment perspective as well.

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**DON'T MISS THE 2019 DEADLINES!**

Item	Deadline	Notes
Tax Installments	December 16	To avoid interest and penalties
Tax-Loss Selling	December 27	To reduce 2019 net taxable capital gains
Charitable Donations	December 31	To receive credit against 2019 taxes
Carrying Charges	December 31	To deduct from 2019 income
RRSP Contributions	March 2, 2020	To deduct from 2019 income
If you turn 71 in 2019:	December 31	For contributions to your own RRSP and converting to a RRIF or annuity (see note 4 regarding spousal contributions past age 71).
RESP Contributions	December 31	To receive 2019 enhanced Canada Education Savings Grants; see note 5 if beneficiary turned age 15 in 2019.
RDSP Contributions	December 31	See note 6 regarding government grants and bonds.
TFSA Contributions	-	See note 7 regarding withdrawals.
Income Splitting	December 31	To receive income for 2019 pension income splitting
	January 30, 2020	To pay 2019 interest on spousal loans

To ensure that your capital losses can be reported in the 2019 tax year, trades on Canadian securities exchanges must be placed no later than December 27, 2019, as trades typically take two business days to settle. Different dates may apply to foreign exchanges.

Beware of “superficial loss” rules. The capital loss on an investment will be denied if you buy an identical investment during the period that begins 30 days before and ends 30 days after the sale settlement date and you still own that investment at the end of the period. These rules also apply if the identical investment is purchased by or transferred to your RRSP, RRIF, TFSA, spouse or a company controlled by you or your spouse.

If you are caught by the superficial loss rules, the denied loss amount is generally added to the adjusted cost base of the identical investment purchased, in essence deferring the loss until the ultimate year of disposition.

**2. Carrying Charges** Investment-related expenses, such as fees to manage non-registered accounts and charges and interest paid on money borrowed for most investment purposes (other than in registered accounts) must be paid by December 31 to be deductible in 2019.

### Contributions to Registered Plans

**3. Registered Retirement Savings Plans (RRSPs)** The maximum RRSP contribution limit for 2019 is \$26,500. To view your 2019 RRSP contribution room, you can check your 2018 CRA Notice of Assessment, call the CRA's personal telephone services or log into the CRA's My Account online. If you have a considerable amount of contribution room or if you expect to be in a higher tax bracket in the near future, consider making the maximum contribution this year, but deducting the contribution over multiple years, depending on your expected taxable income and credits.

**4. RRSP Contributions After Age 71** Although you can no longer contribute to your own RRSP after December 31 of the year in which you turn 71, you can contribute to a spousal RRSP if you still have contribution room and your spouse or common-law partner is not older than 71 in the year of contribution.

**5. Registered Education Savings Plans (RESPs)** The federal government provides a 20% Canada Education Savings Grant (CESG) of up to \$500 annually (\$1,000 annually, if catching-up past unused CESG room) for beneficiaries age 17 or younger at the end of the calendar year up to a lifetime limit of \$7,200 per beneficiary. If your child turned 15 in 2019 and you have not contributed a minimum of \$2,000 or at least \$100 per year in any four years to the RESP, then December 31, 2019, is your last chance to contribute enough funds to maintain CESG eligibility on future contributions in 2020 and 2021 (ages 16-17).

The enhanced CESG (eCESG) is available to moderate-income families on the first \$500 of annual contributions. Since eCESGs cannot be carried forward, contribute by December 31 if eligible.

**6. Registered Disability Savings Plans (RDSPs)** RDSPs are tax-deferred savings plans that you can use to help provide long-term savings for an individual who is eligible for the disability tax credit. Lifetime contributions of up to \$200,000 can be made by anyone until the beneficiary turns 59, but the contributions are not tax deductible.

The federal government provides assistance in the form of Canada Disability Savings Grants (CDSGs) and Bonds (CDSBs) until the beneficiary turns 49:

- CDSGs up to \$70,000 are provided on a matching basis, based on the contribution amount and the beneficiary's family income, subject to annual limits.
- CDSBs up to a lifetime limit of \$20,000 are provided to low-income beneficiaries. No contributions are required to receive the bond, subject to annual limits.

Interested persons should consider opening/contributing to an RDSP by December 31 in order to receive government assistance for the current year and up to 10 previous calendar years, particularly if the beneficiary is age 49 by December 31, 2019.

**7. Tax-Free Savings Accounts (TFSAs)** There is no deadline for TFSA contributions, which can be made at any age, and unused contribution room is carried forward to future years. If you were eligible for a TFSA in every year since 2009 but have never contributed to one, you may have up to \$63,500 in TFSA contribution room available for 2019. If you plan to withdraw from a TFSA in the near future, consider making the withdrawal in December 2019 rather than in 2020. Since TFSA withdrawals increase your contribution room the following calendar year, this will enable an early re-contribution, as early as January 1, 2020, rather than having to wait until 2021.

**8. Income Splitting** The deadline to pay 2019 interest on spousal loans is January 30, 2020. Income, such as RRIF withdrawals once age 65 or older, must be received by December 31, 2019, if you wish to allocate a portion of the income to your spouse or common-law partner for pension income splitting. Depending on your spouse's age and income sources, this may help maximize your 2019 pension income credits.



**RICHARD MYERS, CPA, CA**  
Tax and Estate Planner  
Odium Brown Financial Services Limited

Odium Brown Financial Services Limited is a wholly owned subsidiary of Odium Brown Limited, offering life insurance products, retirement, estate and financial planning exclusively to Odium Brown clients.

# Odlum Brown's 26<sup>th</sup> Annual Address



We are pleased to invite you and your guests to Odlum Brown's signature investment presentation series. Debra Hewson, Murray Leith and Steven Zicherman will share our approach to growing and preserving clients' wealth for generations.



**Debra Hewson**  
President and Chief Executive Officer



**Murray Leith**  
Executive Vice President,  
Director, Investment Research



**Steven Zicherman**  
Equity Analyst

RSVP early and electronically!  
Visit [odlumbrown.com/rsvp](http://odlumbrown.com/rsvp) to register online.  
Space is limited.

## COURTENAY

**Monday, February 3, 2 PM**

Crown Isle Resort, Ballroom  
399 Clubhouse Drive  
RSVP to Chani at 250-703-0637 by January 27.

## WEST VANCOUVER

**Tuesday, February 4, 7 PM**

Kay Meek Centre, Main Stage Theatre  
1700 Mathers Avenue  
RSVP to Emma at 604-844-5336 by January 28.

## CHILLIWACK

**Wednesday, February 5, 2 PM**

Coast Chilliwack Hotel, Rosedale Room  
45920 First Avenue  
RSVP to Taylor at 604-824-3376 by January 29.

## KELOWNA

**Thursday, February 6, 2 PM**

Coast Capri Hotel, Ballroom  
1171 Harvey Avenue  
RSVP to Amanda at 250-861-5700 by January 30.

## VICTORIA

**Monday, February 10, 2 PM**

Delta Victoria Ocean Pointe, Ballroom  
100 Harbour Road  
RSVP to Monica at 250-952-7775 by February 3.

## SOUTH SURREY

**Tuesday, February 11, 7 PM**

Morgan Creek Golf Course  
3500 Morgan Creek Way  
RSVP to Emma at 604-844-5336 by February 4.

## VANCOUVER

**Wednesday, February 12, 2 PM**

The Fairmont Waterfront, Waterfront Ballroom  
900 Canada Place Way  
RSVP to Emma at 604-844-5336 by February 5.

## LANGLEY

**Thursday, February 13, 2 PM**

Langley Events Centre, Banquet Hall  
7888 200 Street  
RSVP to Carlee at 604-607-7508 by February 6.

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