

# THE JOHNSON LEGACY REPORT

Building Trust for Generations



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## What a DRIP...

In years past, “Drip” was a derogatory word used to describe someone who was, well... a drip! A recent Google search shows the younger generation is now using the word drip in a different way – to describe someone with immense wardrobe style or swag. Keeping up with the latest trends is always confusing. As it relates to finance, DRIP or Dividend Reinvestment Plan, and its effects on a portfolio can also be quite confusing to understand and we find ourselves explaining its effects on a regular basis.

When investors view their account statement, a common mistake is to compare the difference between the “book value” (also known as adjusted cost base, or “ACB”) of their portfolio to the market value, in order to determine how much money was made or lost in their account over a given period of time.

Book value is actually used for non-registered accounts when calculating capital gains and losses for income tax purposes. Mutual funds pay distributions to the unit holder monthly and/or annually which is taxable in that year. However, if an investor elects to reinvest the dividends (DRIP) the book value/ACB of the fund increases by the amount of the distribution to avoid double taxation when the fund is eventually sold. Therefore, book value is not meant to be used to calculate the performance of a registered or non-registered account. In order to accurately calculate performance, an investor needs to compare the original amount invested to the market value.

The table below demonstrates just how misleading the performance can appear to be when using the wrong information:

- Initial investment \$39,500
- Distributions received \$11,000
- Book Value = \$50,500
- Market Value = \$44,500

	Wrong calculation	Correct calculation
	$\frac{(\text{Market value} - \text{Book value})}{\text{Book value}}$	$\frac{(\text{Market value} - \text{Amount invested})}{\text{Amount invested}}$
<b>Return =</b>	$\frac{(\$44,500 - \$50,500)}{\$50,500}$	$\frac{(\$44,500 - \$39,500)}{\$39,500}$
	$= -0.1188 \times 100\%$	$= 0.1265 \times 100\%$
	<i>-11.88% cumulative return</i>	<i>12.65% cumulative return</i>

### Conclusion:

As you can see, if this investor calculated their rate of return using the book value found on their statement, it would show a loss of \$6,000 and they would probably be disappointed. In this case, they are actually up \$5,000 or 12.65% on their investment.



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## Market Pulse:

Major Stock Indexes	Level/Price	YTD Return Ending July 31st/19
S&P/TSX Comp	16,407	14.55%
S&P 500 Comp	2,980	18.89%
Dow Jones Industrial Avg	26,864	15.16%
Major Bond Index		
Dex Universe	1,121	6.70%
Commodities		
Crude Oil - WTI (US\$/bbl)	\$57.44	26.49%
Gold (US\$/oz.)	\$1,402	9.43%
N. Gas (US\$/MMBtu)	\$2.31	-21.29%
Currency		
Canadian Dollar (CAD/USD)	\$0.76	3.04%

Source: Bloomberg.

## Personal Updates:

Lori continues to enjoy this beautiful Okanagan summer. For something different this year, she joined the Kelowna Paddle Centre. She is spending time at the club doing stand-up paddle boarding, surf skiing and outrigger canoeing. Lori is also keeping up with her golf at the Harvest Golf Club and seems to have no shortage of wine tastings at the many local wineries!

Jay and the family have really enjoyed not having structured activities six days a week like they do during the school year. They have spent time at Big White, boating, mountain biking, water sliding, and made a trip to Vancouver to watch a Whitecaps soccer game. Over the August long weekend Jay, his father and brother-in-law, had an amazing time salmon fishing at Rivers Inlet Sportsmans Club. For anyone thinking of going salmon fishing, Rivers Inlet Sportsmans Club is highly recommended!

*Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

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