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WealthBUILDER

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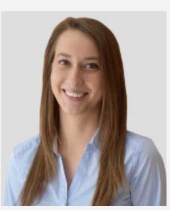

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As the economy recovers, staying the course is more important than ever

You have probably heard that when times are tough – like a recession or market correction – that's it's wise to "stay the course." Ironically, with a recovering economy and robust investment markets, this advice bears repeating. Here's why.

Money to spend

A forecast from the Conference Board of Canada in March noted that Canadians saved almost 15% of their income last year, the highest rate in 35 years. That's an average of $5,000 per person. The Board predicts that consumers will be spending big, driving the economy to grow by 5.8% in 2021.[1] In April, the Bank of Canada said households look intent on spending some of the billions built up during the pandemic either because they cancelled purchases or had no place to spend the money.[2]

The overheated housing market suggests Canadians are spending here too. Prices have increased more in Canada than in any other G7 country, with the national average home price reaching a record $716,828 in March, up 31.6% from the same month last year.[3,4]

Some are predicting another "Roaring Twenties" with consumers spending freely – even recklessly – as we celebrate the end of pandemic restrictions. At times like this, it's easy to be blown off course on the way towards your long-term goals, like a successful retirement. What to do? Keep these key principles in mind:

1. **Keep investing.** No one would begrudge Canadians some enjoyment spending after last year, but stay committed to your future too. Keep up or begin a regular investment program so that some of your discretionary income is always earmarked for a future that will come, come what may.
2. **Take a portfolio approach.** If the markets continue at their current pace, the temptation of exotic investments is likely to increase. The run-up in cryptocurrencies and the GameStop fiasco suggest some investors have become less fearful, even complacent about their money. Staying true to a well-constructed, diversified portfolio aligned to your goals and risk tolerance provides a bulwark against fads, impulsive actions, and herd mentality.
3. **Build resilience.** "This too shall pass" is a great mantra in both bad times and good. A prolonged expansion can lead us to forget about the tough times and ignore some of our safeguards, like an emergency fund or our insurance coverage. Keeping these safety nets in place and strong while we can will prepare us for the next financial challenge we'll face.

Value of advice

Studies have shown that one of best defences against investor behaviour that destroys wealth is having an advisor. Hand-holding, providing perspective, reminders about your plan and goals are all as important as the investment work we do. Let us help you be successful today and tomorrow. ◄

[1] Josh Rubin. "Canadians Boosted Savings During COVID, and Now They're Ready to Spend." *Toronto Star*. Torstar Corporation, March 30, 2021, https://www.thestar.com/business/2021/03/30/canadians-boosted-savings-during-covid-and-now-theyre-ready-to-spend.html

[2] Canadian Press. "Pent Up Wave of Consumer Spending is Coming, Businesses Tell Bank of Canada Survey." CBC News, April 12, 2021, https://www.cbc.ca/news/business/bank-of-canada-survey-1.5983961

[3] Paul Vieira. "Canadian Housing Boom Raises Concern, With Homes Selling Far Above Ask Prices." *The Wall Street Journal*, March 24, 2021, https://www.wsj.com/articles/canadian-housing-boom-raises-concern-with-homes-selling-far-above-ask-prices-11616590877

[4] Canadian Real Estate Association (CREA). "National Statistics: Record Home Sales in March 2021, New Supply Increases." CREA Stats. April 15, 2021, https://creastats.crea.ca/en-CA/

Is the inflation risk real? How will it affect investors?

As the pandemic situation began to improve with the launch of vaccination programs in many major economies, market watchers and economists started to raise the spectre of inflation. A rapid economic recovery - fueled by unprecedented monetary and fiscal stimulus, and economies reopening with consumers flush with unspent earnings - signalled that inflationary pressure, long dormant, might resurface.

Many of today's investors won't have experienced the "bad old days" of the late 1970s and early 1980s when inflation was a dominant concern, topping out at more than 12% in 1982. For those who do remember, even shocking figures like a five-year mortgage rate of 21.46% in 1981 will be a distant memory. So, what does inflation mean for investors? Who are the winners and losers in an economy with inflation unleashed?

Rising prices

Inflation simply means that the prices of goods and services go up over time, on average. The rate of inflation is measured as the annual rate of increase in the average rate of prices. In Canada, this is usually expressed through the Consumer Price Index (CPI). A little bit of inflation is to be expected – it means that the economy is growing at a healthy pace. That's why the Bank of Canada's inflation target is 2%, not zero.

If inflation gets out of hand, we, as consumers, can feel its effects acutely. Witness the runaway prices of real estate across Canada this year. Eventually, rising inflation will lead to rising interest rates which will affect us not only as consumers (with higher borrowing and mortgage rates), but also as investors (higher borrowing costs for companies can put a damper on growth and expansion).

Real returns

When considering the impact of inflation for investors, it's important to keep in mind the concept of real returns, or inflation-adjusted returns. Consider this example: if an investment returned 4% last year but the inflation rate during the year was 3.5%, the "real" rate of return was just 0.5%. In times of rising inflation, investment returns may appear to be better than they actually are.

Investments and assets

Inflation can have different effects depending on the kind of investment and even the sector in which the underlying company operates.

Cash equivalents. If inflation leads to higher interest rates, here is where you may see the most direct effect. Interest-bearing investments like savings accounts and Guaranteed Investment Certificates (GICs) may pay out higher rates to savers. Issuers, however, are under no obligation to change them. And, remember, even a hike in the nominal rate may not mean an improvement in the "real" return.

Bonds and fixed income. Higher rates will make newly issued bonds more attractive to investors, but they also make existing bonds less attractive, as buyers will not pay as much when they have the alternative of new bonds with their more attractive rates. Keep in mind that rising rates affect bond durations differently, with short-term and medium-term bonds less sensitive to climbing rates.

Equities. As noted above, a little inflation is a sign of a growing economy and can be good for companies, especially those serving consumers' discretionary spending on things like home improvement, appliances or entertainment. Banks and other financial services also can do well as their core services become more profitable when rates rise; they may also benefit from greater demands for products like mortgages as the economy expands.

If inflation gets out of hand, however, it can be a drag on company profits as the cost of borrowing to invest and expand increases. It can also increase operating expenses such as salaries, rents, and equipment purchases. Lower profits can drive share prices down.

Next steps: Inflation rates in Canada remain low by historical standards and policymakers have tools to use should that change. Remember that monitoring economic indicators of all kinds, including inflation, is the job of the professional money managers overseeing your portfolio. If the headlines or market "noise" has you anxious about your investments, let's talk. ◄

Headline versus core inflation: which really matters?

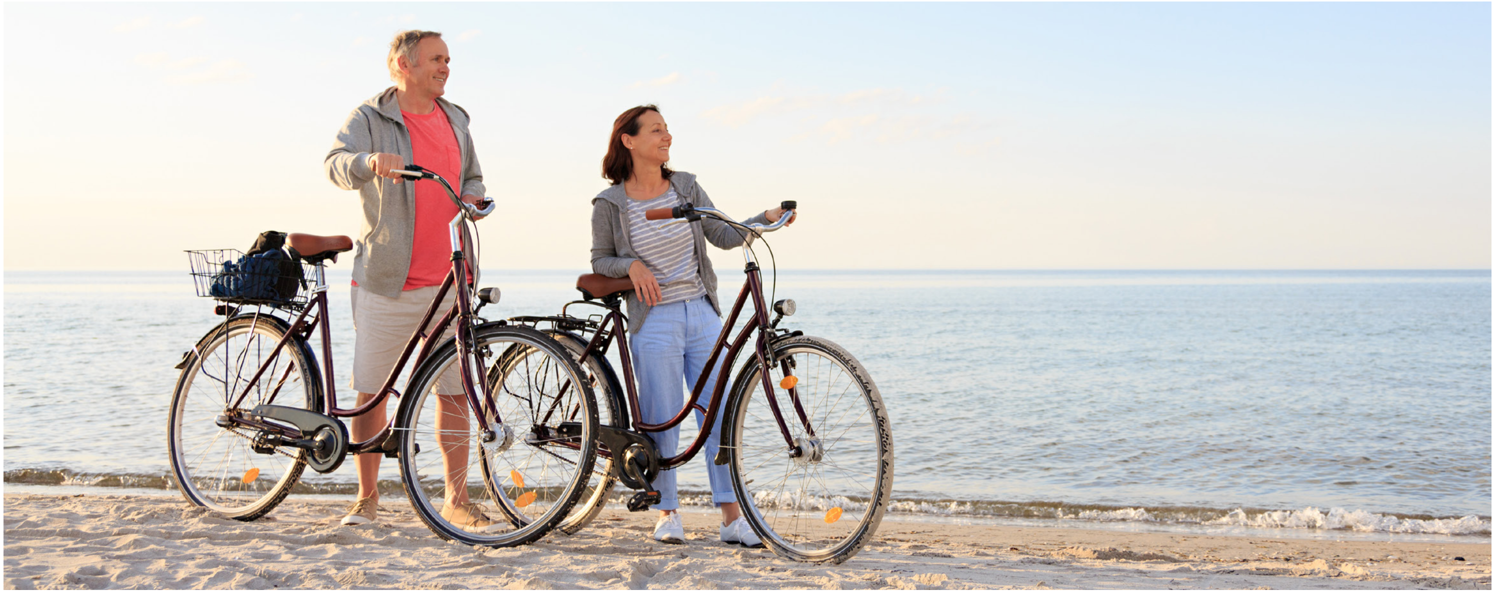
There are two key measures of inflation: headline inflation and core inflation. This year, headline inflation has dominated the headlines, but which is the most important for investors?

Headline inflation. Headline inflation is a kind of "raw" inflation figure reported through the Consumer Price Index (CPI) as measured by Statistics Canada. The index measures the cost to purchase a fixed basket of goods. The basket contains quantities of specific goods and services, weighted according to how much consumers buy on average. Headline inflation is a way of determining how much inflation is occurring in the broad economy, and as it's related to changes in the cost of living, it provides information of most interest to consumers.

The CPI is also the measure of inflation that the Bank of Canada uses in its inflation targeting, with a goal of keeping inflation at or near 2%.

Core inflation. Core inflation removes the index components that can exhibit large amounts of volatility from month to month, such as the price of food and energy, which may distort the headline figure. These distortions may not be indicative of the underlying or ongoing inflation pressures in an economy. For instance, a crop failure or poor weather may cause shortages and a short-term spike in food prices. Without these distortions, core inflation provides a better indicator of the direction of inflation in an economy and serves as an important measure for investment managers and investors to understand how inflation may affect markets going forward. ◄

Looking for more after-tax retirement income? Consider these strategies



Once you've retired, your financial focus becomes making the most of your retirement savings – and that means paying as little tax as possible. Fortunately, there are things you can do to structure your income flow in a way that maximizes your after-tax income. Consider the following:

Look at how you withdraw income. The traditional rule of thumb is to withdraw first from accounts that are not tax-deferred, such as your non-registered investment accounts. The idea is to put off withdrawals from Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs), where all proceeds are taxed as income, attracting the highest rate of tax regardless of how they were earned. It also allows those investments to continue to grow tax deferred. The truth is that this rule is simplistic and overly focussed on current tax savings. Your strategy really depends on how much you have and where those assets are held. It may be that income should be drawn from a mix of sources to achieve the best tax-efficiency both in current and future years. The right order for you will also depend on a number of factors, including whether maximizing government benefits such as the Canada Pension Plan (CPP) and Old Age Security (OAS) is a goal, if you want or need to keep your portfolio growing in retirement, and if you have non-investment income such as rental income or part-time employment income. Estate planning goals may also affect your withdrawal order strategy.

Use your TFSA wisely. Tax-Free Savings Accounts (TFSAs) can play a useful role after you've retired because of their principal benefit: money earned inside the account is not taxable – even when you withdraw it (unlike RRSPs and RRIFs). If you have retirement assets in a non-registered account, they may be better off in a TFSA (up to the contribution limits) earning income tax-free. Remember that TFSA contribution limits are cumulative and provide room of up to $75,500 as of 2021 if you've been eligible to contribute since 2009. TFSAs also provide a great place to "park" money in retirement. This could include money that you have been required to withdraw from your RRIF but don't have an immediate use for, as well as money put aside as an emergency fund for unexpected expenses. By sheltering these funds and their profits from tax, you'll ensure you get the benefit of all your savings.

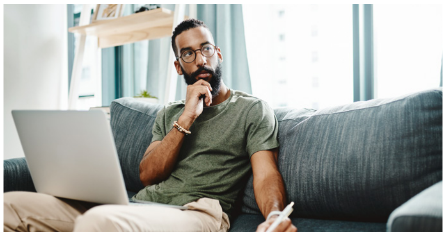
Split pension income if eligible. Splitting income is a strategy that allows couples to reduce taxes by transferring pension income (for tax purposes) from the higher income earner to the lower income earner. The transferring spouse or common-law partner can give up to 50% of their eligible pension income to the receiving spouse or common-law partner. If you are 65 years of age or older, eligible sources for pension income splitting include a RRIF, a registered pension plan, and an annuity purchased with funds from an RRSP. If you are under age 65, eligible income is mainly limited to registered pension plan benefits and certain payments resulting from the death of a former spouse or common-law partner. You can begin pension income splitting at age 55 if you retire at that age and have eligible pension income. Note that residents of Quebec under 65 cannot split pension income for provincial income taxes.

Use T-series mutual funds. For mutual fund investors, T-series may provide a more tax-efficient way to generate income from your investments. T-series funds are designed to provide a predictable and sustainable cash flow, often at a set percentage which helps with cash flow planning. Depending on the fund's earnings (usually interest income, dividends and capital gains) the fund may also distribute a portion of the investor's original investment, known as Return of Capital (ROC). ROC is usually not taxable, resulting in a more tax-efficient payout for you. If you are not currently in T-series funds, it may be possible to transition to the T-series version from the series of the fund you currently hold without triggering a tax liability. One word of caution: when you receive an ROC distribution, you will lower the Adjusted Cost Base (ACB) of your holding, which could have tax implications later. Careful planning and monitoring are required.

Find the right balance

Everyone's situation is unique and there is no "out-of-the-box" solution. While obtaining tax-efficient cash flow is an important goal, so is maintaining the right asset allocation for your portfolio's long-term health and managing risk according to your own risk tolerance. Professional tax and investment advice are needed to achieve the right balance for you. ◀

Think twice before naming a friend or family member as your executor



Research has shown that most Canadians name a family member or friend in their will as executor of their estate. While this may seem like a natural choice, it may not always be the best one.

Your executor is personally responsible for your estate. Settling an estate is complex and involves a variety of time-consuming, complicated duties. If you're considering naming an adult child, a surviving spouse, a relative, or a friend, make sure it's someone who can handle all the complexities and potential conflicts involved, along with the time commitment. Even simple estates can take up to two years to wind up.

You can name co-executors, but they need to work well together. A more effective strategy is often to appoint a primary executor, and then name one or two alternates.

Just because you appoint someone as your executor, it doesn't mean they have to go it alone. Your executor can choose to hire a professional to help out (such as an attorney, accountant, or trust company), but will still ultimately make all the decisions. Or, if you prefer, you can indicate in your will that a professional executor will handle your estate. ◄

Tempted by quick real estate profits? Not at the expense of your retirement

Canada's red hot housing market has tempted many to abandon their long-term perspective and to try to sell, flip or invest to turbocharge their wealth. Don't let short-term thinking and profit chasing throw you off a well thought out retirement strategy. Need a reality check? Keep these factors in mind:

Equities outperform over the long term. Historically, equities have provided average annual compound returns superior to the returns of any other asset class, including real estate. In one recent example for the period between 1993 and 2017, the TSX Composite Total Return Index provided a return of 9.0% versus 5.5% from the hot real estate markets of Toronto and Vancouver and just 4.7% based on the national average of real estate values.[1]

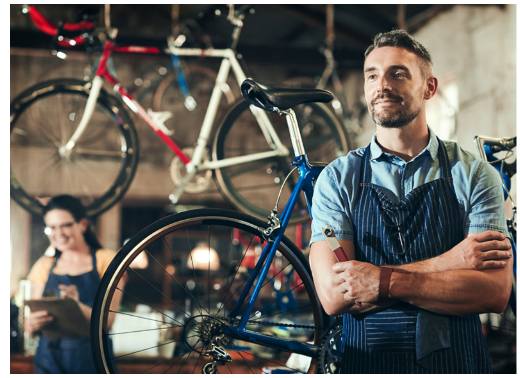
Market timing can work against you in real estate too. House prices can go up or down, and there's no guarantee you'll receive top dollar when you're ready to sell.

Moving costs money. Many additional costs are incurred when selling property. Real estate fees, legal fees, land transfer taxes, and moving costs can all take a chunk out of your profits from the sale.

If the real estate frenzy has you questioning your retirement or other investing strategies, be sure to talk to us for some perspective before taking action. ◄

[1] RBC Global Asset Management Inc., with real estate information from the Canadian Real Estate Association (CREA). Data as of January 31, 2018.

Business succession: pandemic has made a bad situation worse



Survey after survey has shown that Canada has a generation of Boomer business owners facing retirement without a succession plan in place. The latest research from consulting firm KPMG suggests that the pandemic has not helped: more than a third – 37% – of business owners wish they could retire, transition, or sell their business but are not prepared. Further, 24% of these business owners regret not selling or transitioning their business before the pandemic.[1]

Where to start? Open up the conversation:

- **Talk to family and colleagues.** Business succession could involve family members taking over or a management buyout. It's important to overcome your natural sense of privacy to explore your plans with people who could be part of the solution.
- **Talk to your advisors.** Business succession can be complex. Don't hesitate to call on a wide range of professionals: business advisors, evaluators, accountants, financial and investment advisors, even professional coaches or counsellors.

Co-ordinating your business succession plans with your personal investment and retirement planning is key to success. When you're ready, we're ready to help. ◄

[1] KPMG Canada. "Entrepreneurs wish they could sell or retire but aren't prepared." Press Releases. November 17, 2020, https://home.kpmg/ca/en/home/media/press-releases/2020/11/owners-wish-they-could-sell-or-retire-but-not-prepared.html