iA Private Wealth™

WealthBUILDER

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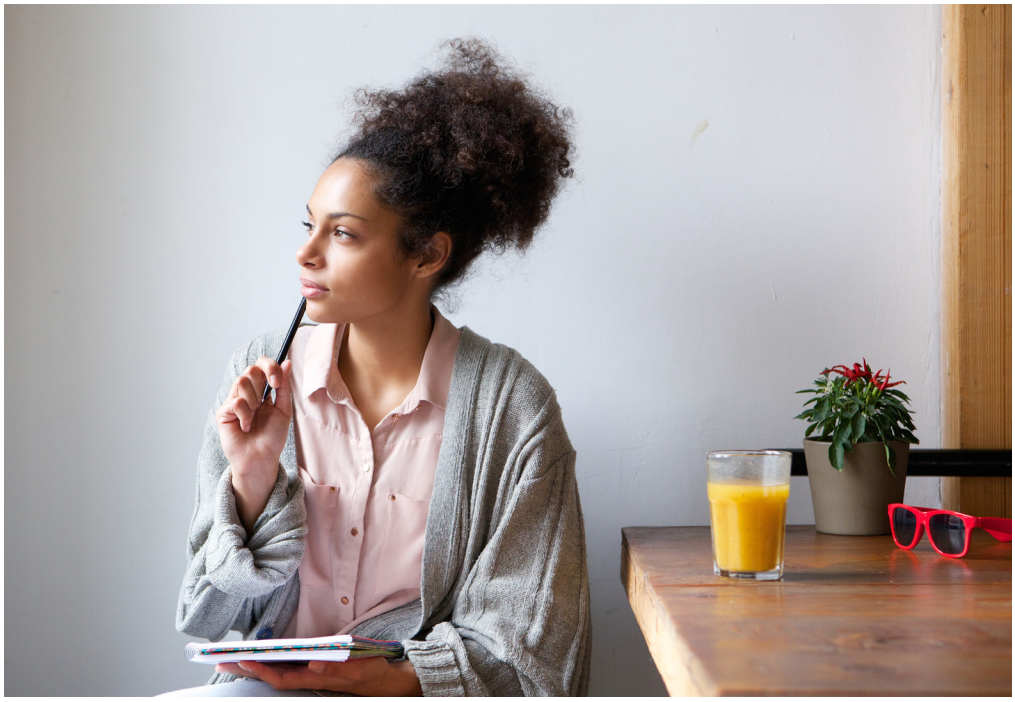


Take financial stock to make change happen

Whether brought on by the pandemic, a financial milestone or just a new life stage, many of us are looking at major changes like early retirement, moving to a new province, changing careers, or starting a business.
If you've done the hard work of deciding what change is right for you, how do you go about understanding the financial changes that are required? Here are three things you can do now to understand the numbers behind any change:

1. Determine where you stand today. Your current financial status is the foundation on which you'll build your next life stage. Creating a net worth statement is a great place to start. A personal net worth statement is a snapshot of an individual's financial health. It is a summary of what is owned (assets), minus what is owed to others (liabilities). Another example: if you are considering early retirement, request a pension statement from the Government of Canada or Retraite Québec to see an estimate of your likely benefits.

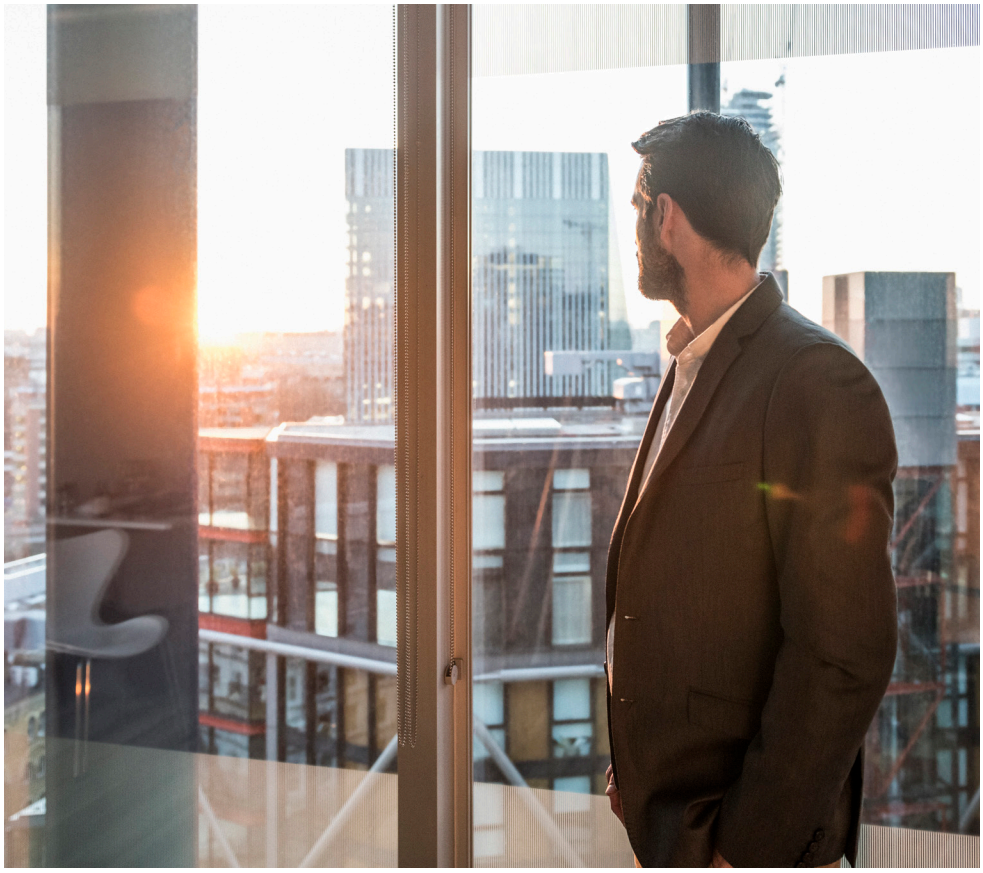
2. Get a realistic view of the financial costs of your new life. The next step is to put some hard figures to your thoughts and dreams. Start with some research. Whether you're looking for house prices in another province, tuition fees for a degree or a training program, or costs of running a small business, a little online digging will bring up the information you're looking for. Put that newfound knowledge to work by creating a blueprint such as a moving budget, a business plan, or a regular savings program, if you need to build some capital for your plans.

3. Seek professional financial advice for all scenarios. There is seldom just one way to reach a goal and professional advisors can help you explore the options. Professional accountants, for instance, can run multiple financial scenarios evaluating alternative approaches. Experts, such as business advisors, can also help with knowledge you may not be aware of such as funding sources, grants and tax breaks. And don't forget to speak to us about savings and investment plans to help you reach your goals.

Your investment plan should always reflect your goals so if they have changed, let's talk soon. We can help you align your assets to your aspirations. ◄

With the economy accelerating, where do money managers find investing opportunities?

As the major Western economies throw off the shackles of the pandemic, economic growth is accelerating, with Gross Domestic Product (GDP) predictions upgraded several times already this year for many countries. Will this rising tide lift all boats, or will certain styles of investing offer the potential for better returns this year?



Ideal conditions

As economists and market watchers have noted, economic growth seems set to expand considerably thanks to several positive trends: vaccinations are well under way; reopening is proceeding across North America; pent-up demand is strong; and household savings are high. But it is these very circumstances that may allow some companies and sectors to outperform others. Inevitably, there will be winners and relative losers as the economy shifts from lockdown mode to more typical conditions.

Which sectors?

Even a casual observer, or news watcher, will have noticed the winners and losers at a sector level last year. As sections of the economy ground to a halt, airlines, hotels and restaurants, brick-and-mortar retailers and oil and gas companies suffered as demand dried up – and some failed to survive at all. Meanwhile, technology companies, online retailers and pharmaceutical firms did well as their business models allowed them not only to keep doing business but also, for many, to experience a surge in demand from stuck-at-home consumers.

For portfolio managers, the question will be: When will those depressed sectors come back to life – and which sectors, and companies, will provide the profitability that will drive share price growth? Conversely, will those sectors that did well last year continue to do so, or are they likely to experience a pullback? While many economists and commentators are predicting a "Roaring Twenties" style comeback with a splurge of consumer spending, there are still risks ahead, including a potential resurgence of inflation and ongoing uncertainty as the pandemic continues to cause travel restrictions and the potential for further lockdowns.

Value or growth?

Many portfolio managers are characterized as having an investment style, often using a "value" or a "growth" filter to assess potential stocks. Depending on the approach, the opportunities in the post-lockdown economy may look very different.

Value-focussed managers seek out quality firms whose market price does not accurately reflect their intrinsic value. They pay close attention to a company's financial information, such as debt levels, price/earnings (p/e) ratio, price/book value ratio and dividend yields to determine whether its stock is overpriced, underpriced, or fairly valued. Value stocks tend to do well at the beginning of an economic cycle, which may be where we are now, and value managers will be looking for those relative underperformers ready to excel.

Growth managers seek out companies whose earnings they think will grow faster than those of their industry or the overall market. They look for firms that have high earnings growth rates, a high return on equity, high profit margins, and low dividend yields. As the economy accelerates, growth managers will continue to see opportunities in companies that are riding a wave of growth and can expect continued high levels of profitability as the consumers and businesses begin spending with gusto.

Portfolio basics

For the individual investor, considering the approaches that professional managers use offers a way to understand equity markets and investment performance better. But the most important approach is to adhere to the foundations of a diversified portfolio matched with your individual risk profile and investment goals. A portfolio review is a great way to reconnect with your personal investment plan. ◄

Reviewing beneficiary designations is no small matter for your estate plan

Beneficiary Checklist

Depending on the province you live in, you may be able to name a beneficiary on the following financial plans and policies:

- Registered Retirement Savings Plans (RRSPs)
- Registered Retirement Income Funds (RRIFs)
- Tax-Free Savings Accounts (TFSAs)
- Life Insurance Policies
- Some Pension Plans

Reviewing and updating the beneficiary designations on financial accounts and insurance policies can seem like a minor administrative matter. However, a recent court case in Nova Scotia shows how major, and potentially devastating, an issue it can be. Earlier this year, the CBC reported that a widow with a young daughter was left without access to her deceased husband's Registered Retirement Savings Plan (RRSP) proceeds despite his having created an up-to-date will – including a clause to revoke outdated designations. The husband had long ago designated his mother as the beneficiary and made no updates to the account after his marriage. Whatever the details of this case, the lesson for all is clear: a regular review and updating of beneficiary designations is sound estate planning practice.

What is it? Registered financial plans, including RRSPs, Registered Retirement Income Funds (RRIFs) and Tax-Free Savings Accounts (TFSAs), as well as life insurance policies and many pensions, allow you to name a person to whom the proceeds of the account or policy will accrue should you die. Note that residents of Quebec do not have the ability to name a beneficiary within the registered financial plan documentation and must use their will to achieve their estate planning goals for these accounts.

What are the benefits? Naming a beneficiary means that the proceeds remain outside your estate and therefore are not controlled by the executor or the estate trustee, are not governed by the will, do not require probate, and no estate administration taxes are payable. The proceeds are paid directly – and often, quickly – to the beneficiary. It is common and sound planning to name your spouse if you have one, as it can expedite payments to them at a time when the funds may be needed. Note that if you do not want to name a person or prefer these assets to be considered as part of your estate, you can name the estate itself as the beneficiary.

Time for an update? As with the case of the family in Nova Scotia, many of us made beneficiary designations when opening our accounts years ago and have forgotten about it. If you cannot recall the beneficiary of each of your accounts and policies, that's a sign that a review is long overdue. As with other aspects of your will and estate plan, any life change should trigger a review – including marriage, separation or divorce, or the death of anyone named as a beneficiary in your plans or will. And as estate matters are covered by provincial law, if you move to another province, you should understand how things work there and review your entire estate plan accordingly.

If you think it may be time to review your beneficiary designations on your financial accounts, don't hesitate to get in touch. Also, be sure to reach out to your professional insurance advisors and pension administrators, if appropriate. ◄

Check out this financial year end checklist

December has some important deadlines that could affect your 2021 taxes. Here are some of the key ones:

RRSP conversion. If you turned or are turning 71 this year, December 31 is the deadline for collapsing your Registered Retirement Savings Plan (RRSP). However, planning for this important financial change should be done well in advance of the deadline.

Tax-loss selling. You have until late December to sell a security that settles in 2020. December 24 is the expected last buy or sell date for Canadian securities to settle in calendar year 2021, based on trade date plus two business days.

However, it is advisable to review your non-registered portfolio earlier to consider the sale of securities with accrued losses before the end of the year to offset capital gains realized in the year, or in the three previous taxation years if a net capital loss was created in the current year.

Charitable donations. December 31 is the deadline for making a charitable donation that can be claimed for the 2021 tax year.

Tax deductions and credits. December 31 is also the final payment date in order to receive a 2021 tax deduction or credit for expenses such as childcare and medical and tuition tax credits. ◄

Spend it or invest it? Canadians stashed away billions during the pandemic

Canadians amassed $212 billion in savings last year, versus $18 billion in 2019, according to Statistics Canada.[1] So far, most of us have simply been sitting on the savings or paying down consumer debt.

However, many economists and pundits are predicting a spending spree with an accompanying boost to the economy. Predictions include a rush to travel after restrictions are eased and a big boost for the experience economy including eating out, entertainment events and personal care services.

If you stashed your cash in a bank savings account, you'll likely have been disappointed at how little you earned on those savings. Depending on your goals

for that money, it could be working much harder. It could also provide a once-in-a-lifetime boost towards key financial goals such as higher education, a recreational property or early retirement. Talk to us if you'd like to explore the potential of investing those savings wisely. ◄

[1] CBC. *After a year of pandemic prudence, Canadians likely eager to spend the billions saved*. June 21, 2021. https://www.cbc.ca/news/business/bakx-record-savings-pandemic-spend-1.6071493

Small business owners: be cautious with Health Spending Accounts

Health Spending Accounts (HSAs) provide a way for small businesses to provide tax-free health and dental benefits to their employees and their family members. This makes the HSA appear to be an attractive and cost-effective way of getting and providing health and dental benefits.

However, recently the Canada Revenue Agency (CRA) has warned about businesses improperly claiming deductions related to Health Spending Accounts.

In the case of unincorporated businesses or sole proprietors, the owner and their employees are eligible only if the owner has at least one "arm's-length" employee.

But if the business is a sole proprietorship with no arm's-length employees, the CRA does not consider an HSA to be a private health services plan. Any costs incurred for the amounts paid to this account are not deductible business expenses.

If you have, or are considering using an HSA, be sure to seek an independent second opinion from a reputable tax professional on important tax matters like this. ◄