WELL-ADVISED

WINTER 2023

SHOULD MARKET CONDITIONS AFFECT HOW YOU INVEST?

It's only human nature to want to take maximum advantage of a bull market and resist investing in a bear market. But our natural inclinations aren't always the wisest investment choices.

WHEN MARKETS ARE STRONG

Say that an investor is enjoying solid returns from their equity investments during an extended bull run. This person has a high-interest savings account to meet short-term financial goals and is tempted to withdraw funds from this account to purchase more equities. But chasing performance this way causes two problems. First, investing more in equities raises their portfolio's risk level beyond their personal risk tolerance. Second, they could jeopardize their ability to meet their short-term goals.

WHEN MARKETS ARE DOWN

Now take an investor facing a different temptation—this time, during a market correction. They're inclined to stop making regular investments until the market rebounds. But if they're investing for the long term, this would mean they'll miss out on the opportunity to buy low and come out ahead after a recovery. Instead of buying low, they'll resume investing when shares or fund units are more expensive.

INVESTING BEFORE THE RRSP DEADLINE

To take full advantage of the 2022 tax deduction, now is the time of year to top up Registered Retirement Savings Plans (RRSPs). If they're concerned about prevailing market conditions, some investors park their contribution in cash or cash equivalents within their RRSP, with the intention of moving the funds into their regular investments when the market looks more favourable. The trouble is, because they are betting on a downturn, this manoeuvre only works if markets fall and they buy in at the right time.

As a long-term investor, a more prudent approach can be to invest the funds as usual in your regular RRSP assets. If the next market direction is upward, you benefit now. If markets fall, you expect to come out ahead later during a recovery, when share or unit prices surpass your purchase price. ■

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It's a time to think about family.

The recent holiday season was when you really appreciate family—and it's a reminder to support your family's financial well-being. If you have younger children, are your education savings keeping pace with today's increasing education costs? If your children are adults, have you considered income-splitting by gifting funds they can contribute to their Tax-Free Savings Accounts (TFSAs)? Do you have proper life insurance to protect your spouse's financial security? Have there been any changes in your life that call for updating your will? Whatever your family's needs may be, we're always here to support you.

MEETING MULTIPLE GOALS WITH A TFSA

Ever since the Tax-Free Savings Account (TFSA) was launched in 2009, many Canadians have used it as a general savings account. However, to make the most of a TFSA, it should be targeted to reach a specific financial goal.

Only when you identify a goal can you align your TFSA investments with your financial objective, time horizon and risk tolerance. These investments might change significantly over the years, as a TFSA can meet different goals throughout your life.

WHEN A TFSA EVOLVES OVER TIME

The variety of financial needs one TFSA can meet over the years is virtually endless. For example, say that someone in their 20s uses their TFSA to save for a car. After that goal is met, new investments in the TFSA help cover the downpayment on their first home. Then the TFSA supplements education savings for their child. Once the child is in university, they use the TFSA to save for their retirement. Finally, their TFSA helps to support their retirement lifestyle.

What makes a TFSA ideal for continuing to meet one goal after another is the opportunity to replenish every dollar you withdraw. Just remember to wait until the next calendar year to replace the withdrawn funds, unless you have contribution room available from previous years.

You might replenish the funds through a regular savings routine and by contributing larger sums when opportunities arise—such as if you receive an annual bonus or tax refund. Also, you can transfer investments from a non-registered account into your TFSA, but note that any capital gains on these investments must be reported and are subject to tax.

MEETING MULTIPLE OBJECTIVES AT THE SAME TIME

Most people are working toward more than one financial goal at any given time, each with its own time horizon and asset allocation. While some people use their TFSA to meet one goal at a time, others may use a TFSA or TFSAs to meet two or more goals simultaneously. When doing so, you need a method to separate each financial objective. It's the only way to allocate the specific investments appropriate for each goal, monitor your progress and, ultimately, withdraw only the funds devoted to the particular goal.

Here are the options for meeting multiple goals simultaneously with one or more TFSAs.

Separate investments. Within one TFSA, you can earmark separate investments—whether they're mutual funds, exchange-traded funds (ETFs) or individual securities—for each goal. For example, you could dedicate fixed-income investments to your next vacation, while equity investments create an emergency fund for your retirement years.

Multiple TFSAs. You are allowed to have more than one TFSA, and some investors prefer the clarity of having one TFSA for each goal. However, you must keep track of your contributions and withdrawals. Keep in mind that your limits are treated as if your multiple accounts were one TFSA.

Both spouses' TFSAs. A couple can reach two different financial goals by applying each spouse's TFSA to meet one goal. It's a flexible approach. Say that one spouse's TFSA is targeted toward a short-term need such as a bathroom renovation, and the other TFSA is devoted to retirement savings. Once the short-term need is met, the couple can redirect that TFSA toward the next short-term goal or toward saving for a medium-term or long-term financial goal. ■

THE INS AND OUTS OF A TFSA

Here are key rules for TFSAs, along with some additional helpful information.

TFSA contributions

- A TFSA dollar limit is set for each year ($6,500 for 2023).
- Contribution room begins upon turning 18 or from 2009, whichever is more recent.
- Contribution room is the total amount of the current year's dollar limit plus any unused contribution room and unreplenished withdrawals from previous years.
- Investment choices include mutual funds, ETFs, stocks, bonds and guaranteed investment certificates (GICs).
- Overcontributions result in a penalty equal to 1% of the excess contribution every month until the excess is withdrawn.
- You can find your TFSA contribution room online at the Canada Revenue Agency's (CRA's) My Account, on the MyCRA mobile app or by calling the Tax Information Phone Service (TIPS) at 1-800-267-6999.

TFSA withdrawals

- Tax-free withdrawals can be made in any amount at any time.
- The amount of a withdrawal is added back as contribution room the following year.
- Note that many overcontribution penalties have resulted from replacing withdrawals in the same year.

ENSURE FAMILY HARMONY WHEN PLANNING YOUR ESTATE

When you leave an inheritance to your loved ones, you intend to give each person some welcome help in meeting their financial and life goals. No one wants an inheritance to cause discord among the beneficiaries. Unfortunately, that can happen in certain situations if plans aren't shared with beneficiaries in advance.

By communicating your plans, you can find out if each person is comfortable with what you have in mind. If you discover that someone feels they're not being treated fairly, or that your plans might strain the beneficiaries' relationships, you can make changes to remedy the situation.

Generally, three types of situations may lead to inheritance troubles:

- When siblings' inheritances of cash or financial investments are intended to be fair but are not equal
- When a property is being shared
- When one beneficiary receives an indivisible asset

FAIR VERSUS EQUAL

Some parents face a situation where they question if it's fair to divide an inheritance equally. If one child is a well-paid chief executive officer and the other faces health issues and has often been unemployed, do they receive the same inheritance? If parents gifted one child the downpayment on a home, is that amount deducted from their share? If one child left their job to care for their aging parent, does that child receive a larger inheritance? When a parent wants to give inheritances that aren't equal, it's best to have a discussion with children to make sure they accept the plan.

SHARING A PROPERTY

Siblings may have different ideas on what to do with an inherited property. Say that a parent handed down a vacation property that had been in the family for generations to their three children. Two of the children want to keep the property, but one wants to sell it and use the proceeds to fund their children's education. Situations like this do arise and can lead to bitterness between siblings. If you find out in advance about your children's wishes, you can work with your advisor to develop a solution that is acceptable to all.

WHEN AN ASSET WON'T BE SHARED

What happens when only one child will be taking over the family farm or small business, or inheriting the vacation property? You need to find a way to compensate the other

child or children. If there won't be enough cash or other assets available to equalize the inheritance, you could consider naming the other children as beneficiaries of a permanent life insurance policy on your life. Whatever solution you choose, it's important that all children agree it's fair to everyone. ■

NAMING AN ADULT CHILD AS YOUR EXECUTOR?

When you have two or more children, naming a child as your executor[1] can become an involved decision. Here are the key benefits and potential problems when naming one child as executor or two or more children as co-executors.

NAMING ONE CHILD

Key benefits. The process is streamlined with just one executor—there's no need to discuss and reach an agreement on every decision. It's also easier to make appointments with the estate lawyer and accountant. In some cases, the other child or children will be relieved that someone else will take care of the work.

Potential problems. The child or children not named as an executor may feel that their sibling has been favoured. Any disagreements they might have with the executor's administration of the estate could strain sibling relationships.

NAMING CO-EXECUTORS

Key benefits. Children named as co-executors will appreciate being treated equally. Provided they get along well, they may prefer being able to discuss each decision. Also, if the estate is complex, the process will be much easier because the work is shared.

Potential problems. If the siblings disagree on major decisions, the conflict could harm their relationship. At the very least, disagreements will slow down the process. Another problem arises if one child does most of the work and resents siblings for not contributing.

TALK TO YOUR CHILDREN FIRST

It's helpful to communicate your intentions to your children so you can gauge whether your choice will work out. If you worry that naming a child as your executor may cause discord among siblings, you may want to consider naming your spouse, a friend, a relative or an estate professional instead. ■

[1] Also known as an estate or personal representative, estate trustee, liquidator or administrator, depending on the province.

MANAGING A WINDFALL, LARGE OR SMALL

It's a challenge no one minds facing: determining what to do if a lump sum comes your way. With a smaller windfall, the decision often focuses exclusively on how to use the money. A larger windfall brings larger issues into play.

BONUSES, TAX REFUNDS AND MORE

Some of the smaller windfalls may seem like found money, swaying you to spend it freely. But often these lump sums aren't free money at all. An annual bonus, for example, isn't all that different from your paycheques—it's taxable income. A tax refund is your own money that the government owes you.

A smaller windfall can be a chance to get ahead in your financial life. Perhaps you could start or add to an emergency fund, or invest the funds in your non-registered account.

Many options are available to magnify the effect of the windfall. Paying down a credit card balance also erases the ongoing interest costs. Making a Registered Education Savings Program (RESP) contribution may trigger the Canada Education Savings Grant (CESG). Contributing to your Registered Retirement Savings Plan (RRSP) generates a tax deduction. If you give funds to your spouse or child that they contribute to their Tax-Free Savings Account (TFSA), you can benefit from income-splitting.

LARGE WINDFALLS

You don't need to win the lottery to receive a large lump sum. A windfall could arrive as an inheritance, insurance proceeds, a divorce settlement, a sale of property or from another source.

When you receive a large windfall, it's usually best to "park and plan." Place the funds in investments that will earn interest while remaining easily accessible. Then take your time to plan, because rushing to decisions can lead to regret down the road. Weigh all your options, whether they include paying down your debt or mortgage, purchasing a vacation property, investing for retirement or meeting any other financial goal. In some cases, a windfall can even change an individual's life plans. For example, someone might launch a business they've always dreamed of, or a couple might retire earlier.

When it comes to investing a large lump sum, you'll need to determine whether you should invest it all at once or periodically in smaller amounts. There are pros and cons to each choice, so it's a decision to make with your advisor.

Another decision is how to invest the windfall. Some people follow their regular asset allocation, while others focus on capital preservation.

A windfall could also affect your estate plan. You may need to update your will if the windfall affects charitable giving or inheritances for your beneficiaries.

If a windfall should come your way, let us know. We'll help ensure you're using the funds in the best way to meet your financial needs and life goals. ■

SHOULD YOU DELAY YOUR OAS PENSION?

Last summer, Old Age Security (OAS) benefits permanently increased for the first time in almost 50 years. The payment increase is 10% and applies to seniors aged 75 and older.

This increase gets a further boost when seniors delay starting their OAS benefits. Monthly payments increase by 0.6% for each month you delay payments beyond the traditional age 65 start date. That's a 7.2% increase for a one-year delay and a 36% increase for the maximum five-year delay at age 70.

REASONS TO DELAY OAS PAYMENTS

If you work beyond age 65, it often makes sense to delay OAS payments since you likely don't need the pension income.

If you have retired by 65, the main reason to delay OAS payments is simply to gain additional financial security at older ages. You'll receive a higher monthly benefit that's indexed to inflation and guaranteed for life.

WHY START AT AGE 65?

Anyone who needs OAS benefits at age 65 to help support their retirement has an easy decision to begin when eligible.

Even if the income isn't needed, there are several reasons to start at 65. It means drawing down less from retirement savings, which may leave more assets as an inheritance. Beginning payments at 65 ensures money isn't left on the table if a retiree doesn't live long enough to benefit from increased payments at older ages. In addition, retirees who expect their mandatory Registered Retirement Income Fund (RRIF) withdrawals to result in a clawback of OAS benefits at age 71 may want to start receiving OAS payments at 65. ■