TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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Glenn D. MacLean, CIM®
Investment Advisor

MacLean-Richard Group
6500 Trans Canada Highway,
Suite 200
Pointe-Claire, Quebec H9R 0A5

514 695 6885
glenn.maclean@td.com

Spring is the season of change! The name of this newsletter has been updated to better reflect its goal: to provide you with useful and timely insights on the many aspects that affect wealth management.

Ideas or suggestions for future inclusions are always welcome.

Focus on What You Can Control

Adding to the many challenges facing investors over recent years, we are now confronted by political changes in the world's biggest economy. The increasingly protectionist stance held by the U.S. has been top of mind for many investors since Trump took office on January 20th. While Trump's administration has indicated that Canada is not likely to be significantly affected by trade agreement changes, the path forward will, no doubt, have an impact on the Canadian economy and the global financial markets.

Political change south of the border may also bring opportunity. The revival of the Keystone XL pipeline project has brought optimism to the struggling resources sector. Expected U.S. deregulation and tax reform have been a source of investor confidence, with North American equity markets hitting record highs in the first quarter.

As investors watch anxiously to understand the effects of new U.S policies, we should remember that political decisions cannot be controlled. Equally important, financial markets have faced similar challenges over time, yet have remained relatively resilient and adapted accordingly. Instead, consideration should be given to the things that can be controlled. Here are some thoughts:

Participate. One of the greatest risks in investing is not participating. Recall the start of 2016, which began with a dramatic drop in the markets. Pessimists, not unreasonably, predicted a market meltdown. But since that time (and to the time of writing), the markets have performed well, even after the surprise outcomes of the Brexit and U.S election votes. Investors who avoided the markets would have missed out on these gains. Focusing on the short term is often counterproductive. Instead, participate with a longer-term view in mind.

Put trust in your plan. Market volatility is likely to be a common occurrence as Trump's sometimes controversial policies continue to be introduced. Don't listen to the noise. Your portfolio has been built keeping the elements of diversification and asset allocation in mind. These elements have been put in place to help weather short-term periods of volatility. At the same time, remember that volatility often brings opportunity.

Save more. While we will never be able to control the direction of the markets, we can control certain aspects of our finances to make an impact. Saving continues to be a cornerstone in generating future wealth. We can also take action to minimize the amount that is sent into government hands. It is tax season and an article on page 3 explores some potential ways to minimize taxes.

Stay the course. Uncertainties will always be a part of the financial markets. Focus on your longer-term objectives and keep building your investment portfolio with them in mind.

As always, we are here to help. Please call if you have any questions.

Take Advantage of Tax-Free Growth

TFSA: Don't Delay!

Are you one of the many Canadians who still has unused Tax-Free Savings Account (TFSA) contribution room? Latest statistics show that only around one in five TFSA holders has fully contributed to a TFSA.[1] With cumulative contribution room for eligible Canadians now at $52,000,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who has maximized annual TFSA contribution room since inception. With no further contributions, in 30 years, the investor would have over $270,000 — at an assumed 5 percent rate of return per annum (see table). Most importantly, income earned will generally not be subject to tax.

TFSA Contribution Room Limits

Year	TFSA Annual Limit	Cumulative Total
2009 to 2012	$5,000	$20,000
2013 & 2014	$5,500	$31,000
2015	$10,000	$41,000
2016 & 2017	$5,500	$52,000

*In 20 years..$166,778**
*In 30 years..$271,665**
*In 40 years..$442,512**
**At 5% compounded annual rate of return since TFSA inception in 2009*

What Is Your TFSA Strategy?

Don't overlook the opportunity to grow assets on a tax-free basis in the TFSA. Some investors have chosen to hold interest-bearing investments inside the plan, possibly due to the fact that the TFSA was introduced as a "savings account" back in 2009. However, TFSAs need not to be limited to savings accounts. Longer-term investors should focus on the return potential of the TFSA based on personal risk tolerance levels. The opportunity to achieve longer-term, compounded growth and maximize funds that will not be subject to tax is significant.

Investment Location Can Make a Difference

Remember that different types of investment accounts are subject to tax in different ways. A TFSA may not be an ideal place to hold non-Canadian investments because many countries impose a withholding tax on income paid to foreign investors. Under the TFSA, tax credits are not available to Canadian investors in respect of foreign taxes withheld, whereas such credits should be available on foreign taxes paid in non-registered accounts. For U.S. stocks, under the Canada/U.S. tax treaty, there is an exemption from withholding taxes on U.S. dividends paid to a registered Retirement Savings Plan (RSP) or registered Retirement Income Fund (RIF), but this exemption does not apply to the TFSA. As such, foreign investments may be better held in non-TFSA accounts.

Why not make the best of your TFSA? Please call to discuss.

Notes: 1. Canada Revenue Agency, 2016 TFSA Statistics (for 2014 year); 2. Assuming a TFSA has not been contributed to.

Use Your TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals (no limitations on timing or amounts to be withdrawn) can make the TFSA a significant retirement planning tool with potential opportunities to:

- Preserve income-tested benefits or tax credits
- Reduce taxable income in retirement
- Minimize tax by withdrawing RIF funds in excess of the required minimums in years where your marginal tax rate is low related to expected future rates
- Supplement income to allow for the deferral of CPP/QPP benefits, thereby maximizing their value

In Short: Tax Season & Foreign Reporting Requirements

During tax season, we are often asked questions about foreign reporting requirements for Canadian resident taxpayers using Canada Revenue Agency (CRA) form T1135.

If you are not familiar with the T1135, a good start is determining whether or not you hold "specified foreign property" (SFP). If you own SFP with a cost of $100,000 or more during the tax year, you must file form T1135. SFP may include, but is not limited to, funds deposited outside of Canada, shares of foreign corporations (including those held in Canadian investment accounts, but not within registered accounts such as the RSP, RIF and TFSA), interests in non-resident trusts, including foreign mutual funds and exchange traded funds, and property owned outside of Canada (except personal-use property or property used exclusively for carrying on an active business). Units of Canadian mutual funds that invest in foreign securities or are held in foreign currencies are not considered SFP.

Here are some common questions:

1. What is the $100,000 reporting threshold based on? The threshold is based on the total cost in Canadian dollars of all SFP held, *not* the fair market value, as determined by the exchange rate at the time of acquisition.

2. What happens if I held SFP with a cost exceeding $100,000, but I no longer hold it? If you meet the $100,000 threshold at any time during the tax year, you must file a T1135.

3. Have T1135 reporting requirements changed recently? Yes, a simplified reporting method is available if SFP with a total cost of less than $250,000 was owned.

The filing due date for the T1135 is the same as for your personal tax return. There are penalties for not filing the form on time. If you have questions, please call. A tax advisor can best assist with your particular situation.

Personal Income Tax Season is Here

Saving Tax is an All-Year Job

For most individuals, April 30th is the tax-filing deadline for the previous year. It's a time when taxes are top of mind as we deal with receipts and returns. Did you take action last year to reduce your tax bill for 2016? If the answer is no, perhaps you can do better this year. Here are five ways to help minimize your payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. Instead, consider completing a new TD1 form with your employer, which is used to calculate how much tax to deduct from your pay cheque. You may also file CRA Form T1213 if you know you'll have significant deductions in a given year to reduce the tax taken from your pay.

Maximize Your RSP & TFSA — For registered Retirement Savings Plans (RSPs), consider setting up a monthly contribution plan: if you provide your employer with confirmation of the deductibility of these contributions, the employer may reduce the amount of tax withheld at source. Don't underestimate the value of tax-free compounded growth through a Tax-Free Savings Account (TFSA) — ensure you have maximized your contribution.

Income-Split with Your Spouse — If your spouse/common-law partner (CLP) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with your spouse/CLP. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

Income-Split with Children — You may be able to create in-trust accounts for minor children that invest in assets to generate capital gains. The attribution rules[1] will not apply to capital gains income earned by minor children but will need to be included in the child's tax return. As well, consider a prescribed rate loan to a family trust.

If Over 64, Start a RIF — The pension income tax credit kicks in at age 65, allowing for a tax credit on up to $2,000 of eligible pension income. If you don't have a company pension, consider setting up a small RIF for the year you turn 65 (or sooner if you are widowed) in order to create eligible pension income. Remember that you don't have to convert your RSP into an RIF until the year that you turn age 71, so this may be a great way to take advantage of the pension tax credit.

Of course, these ideas and others depend on your own personal circumstances. Please seek the advice of a professional tax accountant, or call if you have questions. Now is the time to take action to maximize your tax savings for 2017!

Notes: 1. Income is normally attributed back to the person giving the gift or loan.

The Gamma Factor and the Value of Advice

How can having longstanding advice translate into value?

The "gamma factor" — the discipline associated with longstanding financial advice — may make a significant difference in wealth building. According to a recent study, the gamma factor may help to explain the additional assets of Canadians who use the advice of an advisor. Canadian households with a financial advisor for 15 years or more accumulated 290 percent more assets than households who did not use the services of an advisor.

The success of the gamma factor is largely attributed to two factors. First, investors who work with an advisor have increased savings rates. As advisors, we help to encourage good saving habits, which can lead to greater wealth accumulation over the long run. The second factor is the ability to stay disciplined through both positive and negative market cycles. Staying invested can play an important role in generating wealth over time.

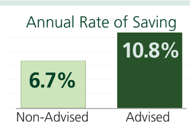
Have confidence that your wealth and investment plan is working to help you achieve your future goals — the gamma factor is on your side.

Helps Build Wealth

Households with an advisor for 15+ years accumulated 290% more assets.

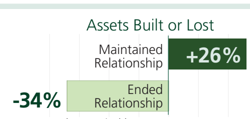
Promotes Saving Habits

Canadians with an advisor had a greater annual rate of saving.



May Help to Drive Results

Those who maintained the services of an advisor continued to build assets.



Source: "The Gamma Factor and the Value of Financial Advice", Centre for Interuniversity Research and Analysis of Organizations, 2016.

Investing and the Gender Question

Are there innate differences between men and women when it comes to investing behaviour? Although much research has been done to explore the potential gender differences in investing, often with conflicting results, there are certain life situations that are more likely to be experienced by women than men:

FACT: Women outlive men. The average life expectancy for a Canadian female is 84 years old, versus age 79 for a male.[1]

Women are likely to act as the primary financial decision-maker during their lifetimes. Married women not currently in this role are likely to outlive their spouses, thereby assuming this role. The growing number of women who are unmarried, due to divorce or never having married, may also be an influence.

FACT: More women will spend time in caregiving positions. Around 8 million Canadians act in a caregiving capacity and more than half are women. Many of these caregivers are 'sandwiched' between caregiving and childrearing, balancing the demands of an aging parent and young children.[2]

Financial decisions may need to be made on behalf of those being cared for, including long-term care or estate planning.

FACT: Despite progress, there still remains a gender pay gap. Women make around 72 percent of what men earn for similar work. Women may spend less time in the workforce, interrupting their careers or assuming part-time roles as a result of child-rearing.[3]

Lower wages, potentially lower pensions and less hours worked may mean less income in which to save for retirement.

Working with Women Investors

As advisors, we are aware that these life situations, which can pose challenges, may be shared by women investors. There may also be other common circumstances experienced by women. For instance, did you know that women entrepreneurs in Canada are starting businesses 1.5 times faster than men and about 50 percent of all Canadian businesses started today are by women? Yet, the Business Development Bank of Canada claims that women entrepreneurs often don't have the same degree of financial literacy as men or grow their businesses as strategically.[4]

While women have been said to be more risk averse in their investing patterns, we've seen that this largely varies by individual investor. Regardless, we are well placed to develop tailored investment strategies based on our clients' personal goals, while balancing their risk tolerance levels and unique investment values.

Getting a Head Start

One thing is certain: a head start can yield significant benefits down the road. Given the unique challenges that may be faced by women, such as potentially having less income than male counterparts yet longer life expectancies, this may be especially important. Starting earlier takes advantage of the profound effect of compounding over time — consider the difference in outcomes in the chart below.

Some of the most important advice you can give to a daughter or grand-daughter: depend on yourself for your financial security. Education continues to be one of the keys to achieving financial well-being, and financial intelligence is an investment that you can never lose.

If we can help in any way, please don't hesitate to call.

The Rewards of Starting Early

Starting Age	Annual Amount Invested	# of Annual Contributions	Total Capital Invested	Total Years Invested	Return by Age 65 @5% per annum
25	$5,000	20	$100,000	40	$460,603
45	$5,000	20	$100,000	20	$173,596

Sources: 1. OECD Economic Survey: Canada, 2016; 2. Caregiving Statistics: Statistics Canada, General Social Survey 2012; 3. cbc.ca/news/business/wage-gap-oxfam-1.3478938; 4. "Women Business Owners Need to Think Big to Compete", Financial Post, January 18, 2016.

Glenn D. MacLean, CIM®
Investment Advisor
514 695 6885 glenn.maclean@td.com

François Richard, LL.B, MBA
Investment Advisor
514 695 0225 françois.richard@td.com

Apira Vigneshwaran
Client Service Associate
514 695 1243 apira.vigneshwaran@td.com

MacLean-Richard Group
TD Wealth Private Investment Advice
A Division of TD Waterhouse Canada Inc.

6500 Trans Canada Highway, Suite 200
Pointe-Claire, Quebec H9R 0A5

P: 1 855 695 0464
F: 514 695 8545