TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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Marc Bellerive
CFP®, CIM®, FCSI®
Investment Advisor
(250) 470-4411
marc.bellerive@td.com

Michael Peters
B.Comm., CIM®, FCSI®, CIWM
Vice-President, Investment Advisor,
Certified Retirement Specialist
(250) 717-8135
michael.peters@td.com

In This Issue

S&P/TSX Composite at 1,000,000?

A year ago, investors looking to the year ahead viewed the prospects with mixed emotions. Would the economy falter? Could equity market performance reverse its course?

It turned out to be a year of ongoing geopolitical concerns, slowing economies, trade tensions between the world's largest economies, inverted yield curves, Brexit non-exits, and another hard run for the resources sector here at home — enough to dampen any investor's enthusiasm. The outlook for 2020 brings similar uncertainty. However, should the U.S. and China make progress towards reaching a partial trade deal, it could help to temper some trade tension uncertainty and support growth. We are also entering a U.S. presidential election year, historically a time in which U.S. equity markets have performed well.

Yet, despite the uncertainty that shrouded the economy in 2019, equity markets in Canada and the U.S. held their own quite well. In fact, all three major benchmark indices, the S&P/TSX Composite, S&P 500 and the Dow Jones Industrial Average ("DOW") hit record highs in 2019.

Two years ago, renowned investor Warren Buffett said we should expect the DOW to reach one million in 100 years.[1] This may seem like quite the assertion, considering that 100 years ago the DOW opened at a mere 108 points.[2] At the end of 2019, it hovered around the 28,000 mark. However, looking deeper into the numbers, the DOW would need to compound at less than 4 percent annually to achieve this target. The S&P/TSX Composite Index would need an annualized return of just over 4 percent to reach the 1,000,000 mark by 2120.

The real point, however, is not whether these arbitrary benchmarks can be achieved. Rather, Buffett's forecast was meant to inspire confidence in future growth, while asserting that we can all benefit from the market if we choose to participate. History has shown that equities outperform most asset classes over the long term; not surprising since they represent ownership of a growing economy. This is not to say that short-term setbacks won't happen — these are inevitable, and ironically they are often needed to help reset economies and spark innovation and growth. For the DOW, it hasn't always been a steady advance. The index first reached the 1,000 mark in 1972, but not decisively so until 1982.

As we start another year, there is another lesson to take from Mr. Buffett's message. This is a time when predictions run rampant, but keep in mind that most analysts and economists tend to base their actions or narratives on near-term factors. Rarely does the reasoning process extend to, say, five years or more. While we shouldn't ignore the work of the experts in our field, we should be careful in making long-term personal decisions based on short-term news.

For many of us, the objective is to maximize our asset values for the future, not tomorrow. Though we will likely not be here to witness the benchmark indices hit 1,000,000, the concept should help drive our investment thinking today. This is a marathon — be guided accordingly — resolving to keep patience on your side and allowing your portfolio to work for you.

1. https://www.cnbc.com/2017/09/21/dow-1-million-warren-buffett-says-it-can-happen.html; 2. http://www.fedprimerate.com/dow-jones-industrial-average-history-djia.htm

RSP Season: Here Again

Split Income, Save Tax with a Spousal RSP

Over the years, the federal government has eliminated many income-splitting opportunities available to taxpayers. However, if you have a spouse/common-law partner, a spousal registered Retirement Savings Plan (RSP) may still provide a valuable opportunity to split income at retirement if your spouse will be in a lower tax bracket at that time.

A Tax Break Now…A Tax Break Later

A spousal RSP is a plan to which you may contribute for your spouse and receive a tax deduction based on your available RSP deduction limit, similar to a traditional RSP for yourself. The difference with a spousal RSP is that your spouse is the annuitant, so any funds withdrawn are considered to be the spouse's income and must be included in their income tax return. As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you. Be aware that income attribution rules may apply to a spousal RSP. In general, if you contribute to a spousal RSP in the current year, or two of the preceding years, some or all of the RSP withdrawal may be taxed in your hands.

More Flexibility Than Pension Income Splitting?

A spousal RSP may provide an enhanced income-splitting opportunity when compared to pension income splitting. Pension income splitting can only be done after reaching the age of 65 and is limited to 50 percent of eligible pension income. A spousal RSP can begin before age 65 and the full amount of RSP withdrawals may be included in the spouse's tax return. However, RSP contributions can only be made until the end of the year in which a taxpayer turns age 71. Although, if you have a younger spouse, you can contribute to a spousal RSP until the end of the year in which the spouse reaches age 71.

RSP Season General Reminders

- Deadline for 2019 tax year contributions: **Monday March 2, 2020.**
- Update beneficiaries to avoid beneficiary designation issues when settling your estate.
- Turning 71 this year? Your RSP must be collapsed by end of year. We can help with maturity options.

Planning Ahead

For 2020: Making Your Estate Plan a Priority

Welcome to a new decade! If you're looking for new year's resolutions to improve your financial well being, what better place to begin than with your estate plan. An effective estate plan helps ensure the efficient distribution of assets according to your wishes in order to maximize the legacies to your family or other beneficiaries.

Minimizing Taxes/Fees Is Important

Central to many estate planning strategies is the objective of minimizing tax. In general, for Canadian income tax purposes, assets including real property and shares are deemed to have been disposed of immediately prior to death and will be subject to tax except where certain exceptions (such as spousal rollovers) apply. Various provinces also impose fees to probate a will, with some fees being heftier than others. Investors owning property that has U.S. location or connection (U.S. situs), which may include shares of U.S. corporations or U.S. real estate, may also need to plan for possible U.S. estate tax, even though they are Canadians.[1]

Taxes and fees have the potential to add up to a huge obligation for your estate. Yet, with careful planning, there may be ways to reduce or defer them. It may be as simple as arranging bequests in a different way, or using life insurance to help cover the tax liabilities so that assets can be passed along to heirs without burden. Business owners can plan ahead to use available tools, such as an estate freeze or the Lifetime Capital Gains Exemption, to reduce or defer taxes as they plan for the business' succession.

Does Your Estate Plan Require a Review?

- Is my estate plan structured in a way that promotes efficient administration and limits expense?
- Will my plan minimize family effort and controversy?
- Are my assets structured to limit exposure to potential liability or creditors (blended families, business owners)?
- In the event I am incapacitated, is my family protected and can they make financial or health care decisions?

It's More Than Just Finances

A solid estate plan should look beyond just maximizing the estate value passed on to beneficiaries. It can help to put your mind at ease with issues relating to fairness to heirs or to make sure that spendthrifts are protected from squandering an inheritance. For example, trusts may be effective to help preserve assets for beneficiaries who can't manage assets on their own or prevent access by their creditors. By planning ahead, you can arrange your affairs in the best way so your wishes will be carried out as intended.

Make It a Priority in 2020

Establishing a comprehensive estate plan and keeping it current is not only important for the reasons mentioned, but it can be one of the greatest gifts you give your loved ones. Make it a priority for 2020!

1. Any such U.S. tax applicable would be calculated based on the value of their U.S. situs assets, and as well as their worldwide assets at the time of death.

Protecting Yourself Online

Online Security: Keeping Good Digital Hygiene

In 2004, tech magnate Bill Gates projected the death of password-based security, citing concerns that passwords wouldn't meet the challenge of keeping critical information secure.[1] More than 15 years later, while online passwords continue to proliferate, there is little doubt that our digital security continues to be challenged. If our choice of passwords is any indication, we may not be doing our best to stay secure. Many of us are guilty of using unsophisticated passwords (see inset). According to one report, 23.2 million people worldwide who had their accounts hacked were still using the password "123456".[2]

Are there ways to improve our digital hygiene? Here are some basic tips. While these may be obvious, they can provide good talking points for discussions with potentially higher-risk individuals, such as children or seniors.

Improve passwords — Avoid reusing the same login/password. By some reports, the average person may have over 90 online accounts,[3] so keeping track may be a challenge. A password manager can help to generate, store, encrypt and auto-fill passwords and you'll just need to remember one password.

Update devices — Keep devices patched or updated. Hackers can more easily access out-of-date software or operating systems.

Protect critical information — Consider isolating devices for different activities. For example, online gaming may be more susceptible to security breaches, so it may be wise to avoid storing confidential information on devices used for these purposes.

Protect yourself in public — Unsecure Wi-Fi hotspots, such as those offered at airports or in taxicabs, or public USB charging stations, are often targets for hackers. Consider using a Virtual Private Network for protection, which allows you to bypass location tracking and adds a layer of obfuscation to your traffic.

Most Common Passwords: Do Any Belong to You?

- 123456
- qwerty
- password
- iloveyou
- princess
- sunshine
- abc123
- superman
- computer

Source: securityscorecard.com/blog/worlds-worst-passwords

Don't link accounts — Some third-party websites allow you to link other accounts, such as email or social media. However, linking multiple accounts can increase the potential damage in the event that one account becomes compromised.

Limit sharing personal information — Every time you click a website link or answer a seemingly innocuous survey, your data is being collected. Information broadcast on websites or social media may be accessible to unscrupulous individuals or hackers, even if privacy settings are enabled. Consider disguising personal data (i.e., posting an altered name/birthdate) to protect your identity.

Be aware of phishing — Criminals continue to improve the sophistication with which they masquerade as others. There may be subtle indications that a source is fake: an email/text doesn't address you directly ("dear customer") or contains spelling or grammatical errors. Remember: reputable institutions will never ask you to verify account information or sensitive personal data online. Take time to verify a source. When in doubt, call an organization directly using the phone number posted on a general website.

1. cnet.com/news/gates-predicts-death-of-the-password/; 2. bbc.com/news/technology-47974583; 3. digitalguardian.com/blog/uncovering-password-habits-are-users-password-security-habits-improving-infographic

Reminders for the Year Ahead

Building Wealth Takes Time (Even for Many Billionaires!)

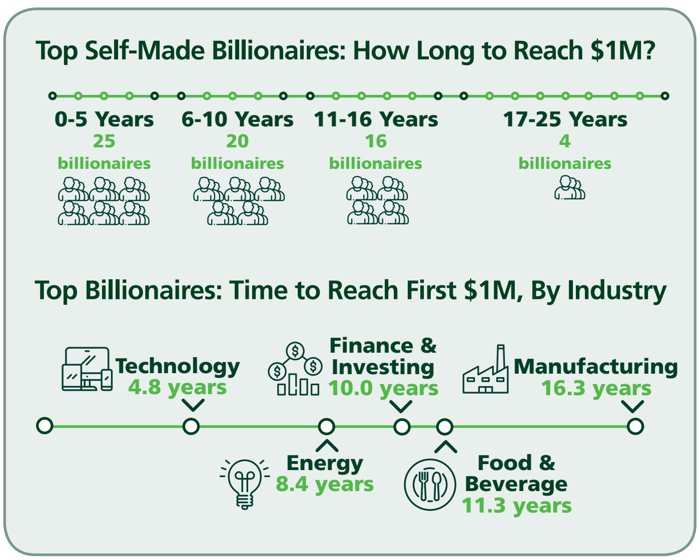
> **"The strongest of all warriors are these two: Time and Patience."** — Leo Tolstoy

Building wealth often takes time and patience. This applies not only to investing, but also to wealth accumulation in other areas. Consider the world's top billionaires: for many, the journey to billionairedom was rarely an overnight accomplishment.

Here's some perspective. In order for the top self-made billionaires to amass less than 0.1 percent of their wealth — the first $1 million dollars — it took on average more than 8 years. To reach their first billion dollars of wealth then took an additional 14 years, on average, for 22 years in total.[1]

Even many of the world's most wealthy had to crawl before they could walk. As we start another year, perhaps this is a good reminder of the value of time and patience in our own wealth-building endeavours.

1. Based on 65 of the top self-made billionaires, from Forbes 2018 Top 100 List. Source: visualcapitalist.com/how-long-it-took-billionaires-to-earn-their-first-1-million/



For the Year Ahead: Keeping Perspective in Volatile Times

During volatile times, there is no doubt that staying focused on a long-term investment strategy can be difficult. However, avoiding the temptation to make rash decisions and, instead, staying disciplined is important. It has been said that "*the market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people.*"[1]

Here are some things to help you keep perspective during the inevitable periods of volatility:

Volatility plays a normal role in the markets. Stock market declines are a regular occurrence and should be expected. A look at the S&P/TSX Composite Index over the past 40 years shows how common large declines are (see chart below). Despite the fluctuations, over this period the market advanced 963 percent.[2]

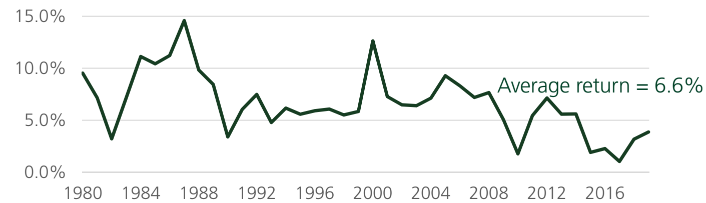
S&P/TSX Composite Index: Frequency of Declines Oct. 1979 to 2019

Size of Decline	-5% Or More	-10% Or More	-15% Or More	-20% Or More
Average Frequency[1]	About two times per year	About once every two years	About once every three years	About once every seven years
Average Length[2]	58 days	117 days	155 days	197 days
Last Occurrence[3]	Dec. 2018	Dec. 2018	Dec. 2018	Jan. 2016

1. Decline concludes at 50% recovery of lost value; 2. Measures market high to market low; 3. As of Nov. 1. 2019.
Source: S&P/TSX Composite Index daily returns, 10/29/79 to 10/29/19.

Time can be a powerful ally. Long-term investors may be rewarded over time. Despite short-term volatility, the mean annualized return over rolling 10-year periods measured each year from 1980 to 2019 was 6.6 percent. In fact, over this period, every 10-year return was positive (see graph).*

S&P/TSX Composite Index Rolling 10-Year Annualized Returns 1980 to 2019



*Source: S&P/TSX Composite Index 10-year annualized returns, data starting from 30/9/70 and measured in 10-year increments each year until 30/9/19.

Your portfolio has been positioned for both ups and downs. A well-structured wealth plan takes into consideration that down periods may be inevitable over an investor's lifetime. Your asset mix may help to provide downside protection, reflecting your particular risk tolerance to meet your personal objectives over time. A diversified portfolio across investment types and regions can help to reduce portfolio volatility, but this will also mean that different investments may go up and down at different times. These elements may be easy to forget when markets are going your way, and more often when they are not.

Keep Perspective

While it may be unsettling to see portfolio values fluctuate during volatile times, keep perspective. Longer-term investing requires the understanding that financial markets may fluctuate over the short term and the patience to see them through.

1. Warren Buffett; 2.S&P/TSX Composite Index, 10/29/79 to 10/29/19.

With the Compliments of:

Marc Bellerive, CFP®, CIM®, FCSI®
Investment Advisor
(250) 470-4411 marc.bellerive@td.com

Michael Peters, B.Comm., CIM®, FCSI®, CIWM
Vice-President, Investment Advisor, Certified Retirement Specialist
(250) 717-8135 michael.peters@td.com

TD Wealth Private Investment Advice
1633 Ellis Street, Suite 410
Kelowna, BC V1Y 2A8