TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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Maintaining Perspective During These Uncertain Times

Over recent weeks, we have experienced significant volatility in the equity markets as the world continues to assess the potential implications of the coronavirus outbreak.

Until more recently, equity markets had continued their advance seemingly without much disruption. Market downturns had been relatively mild and often corrected themselves quickly; perhaps because of fewer alternatives for investors (i.e., lower returns offered in fixed-income markets) or available money waiting on the sidelines. We cannot overlook that this has been shaped by some unconventional policies: central bank fiscal stimulus, low interest rates, deficits and significant debt have helped to support corporate returns and economies and sustain the current market cycle.

However, if history is any indicator, investors may expect a drop in the markets of at least 10 percent each year and a drop of at least 15 percent every three years.[1] The recent equity market volatility as a result of the coronavirus outbreak reminds us that equity markets are inherently volatile and pullbacks, including corrections, should be expected.

Although significant equity market volatility can feel unsettling, as longer-term investors, it is important to maintain perspective. While not to underestimate the current situation, it should be remembered that these are early days and the potential implications of the coronavirus are still unknown.

It may also be worthwhile to consider that, in the past, reactions to global health pandemics have often been temporary in nature. With the Ebola outbreak (2014) and SARS pandemic (2003), the S&P 500 declined by double-digit percentages over the course of each outbreak. Yet, in the 12 months following their end, markets regained those losses and posted additional gains. In fact, the following chart shows the performance of the S&P 500 in the 12 months after select global health epidemics:[2]

Epidemic	Month[3]	12-Month % Change S&P 500
SARS	April 2003	20.76
Avian Flu	June 2006	18.36
Dengue Fever	September 2006	14.29
Swine Flu	April 2009	35.96
MERS	May 2013	17.96
Ebola	March 2014	10.44

At the same time, remember that short-term setbacks are often necessary for long-term progress. Even in the most difficult of times, we have persevered and progressed. This, too, shall likely pass. Continue to look forward, remembering that your portfolio continues to be positioned for the longer term.

1. Based on S&P/TSX Composite Index daily returns, 10/29/79 to 10/29/19; 2. marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22; 3. "Month" estimates the peak of the epidemic.

Avoid CRA Penalties

Reminders for Personal Income Tax Season

Spring has sprung and it is personal income tax season once again! As you prepare your tax filings, here are two reminders:

Did you own foreign property exceeding CA$100,000? If you held "specified foreign property" (SFP) with a cost in excess of $100,000 in 2019, you may be required to report your foreign holdings by filing form T1135. This includes shares of foreign corporations held in non-registered accounts, property owned outside of Canada (except for personal use) or funds deposited outside of Canada. Please see the Canada Revenue Agency (CRA) website for a full list of SFP. It is important to note that the $100,000 threshold is based on the total cost of all SFP held, determined by the exchange rate at acquisition, and not the fair market value. If the threshold was met at any time during the year, it must be reported, even if it did not exceed the level at year end.

Did you sell a home? Before 2016, if you sold property and it was considered a principal residence, you did not have to report the sale

to claim the principal residence exemption (PRE). Since that time, the sale must be reported on an income tax return. Be aware that in order to claim the PRE, a property must be "ordinarily inhabited" by you or a member of your family unit sometime during the year for which the PRE is claimed. This has created surprises, in some cases, for those who have spent periods of more than a year away from home or have left a property to enter a long-term care facility.

The CRA continues to crack down on those who have incorrectly reported real estate transactions or failed to file required forms. If you have questions about your investments and form T1135, call the office. For tax matters, seek assistance from a tax specialist.

A Compelling Investing Tool

Seniors: Don't Overlook the Value of the TFSA!

What makes the TFSA a compelling investment vehicle for seniors? Unlike registered Retirement Savings Plans (RSPs), contributions can continue beyond the age of 71.[1] TFSAs also offer flexibility in withdrawals — there are no limitations on timing and withdrawn amounts can be recontributed in the following calendar year. Withdrawals do not generate taxable income, so they won't affect income-tested benefits such as Old Age Security (OAS).

Consider that a 65-year old who has fully contributed to the TFSA since its inception could accumulate a tax-free amount of almost $500,000 by the age of 85 (assuming a 5 percent rate of return and continuing annual contribution of $6,000) — a significant amount, by any standard!

Strategies to Fund the TFSA

It may be challenging for seniors who are not working to contribute to a TFSA. However, even with limited income, there may be two viable options: i) using net (after-tax) RIF withdrawals; or ii) using non-registered investments to fund the TFSA.

For seniors who have a lower marginal tax rate today than they expect to have in the future (including at death), if RIF funds aren't needed in the future, drawing RIF income above the minimum levels[2] may also be a way to potentially lower an overall lifetime tax bill. RIF withdrawals will be taxed at the current, lower tax rate, instead of at a higher anticipated future marginal tax rate.

If non-registered investments with unrealized gains are used to fund the TFSA, this may result in adverse tax consequences; however, consider that gains realized from non-registered investments could potentially be offset by realized capital losses.

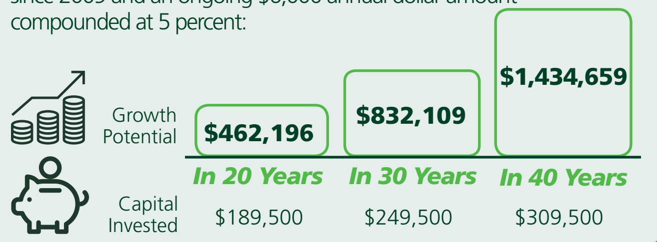
In both situations, "in-kind" transfers of securities to the TFSA can help ensure continuity in holdings, but whether investments are transferred from a RIF or a non-registered account, there may be potential tax consequences. Keep in mind that the effect on income-tested government benefits (OAS, etc.) should be considered.

Investors of All Ages: Don't Overlook the Opportunity

2020 Annual TFSA Dollar Amount: $6,000
Eligible Cumulative Contribution Limit*: $69,500

* For individuals eligible since TFSAs were introduced in 2009.

Here is one example of the TFSA's potential, assuming full contributions since 2009 and an ongoing $6,000 annual dollar amount compounded at 5 percent:



An Important Estate Planning Tool

The TFSA can be an important estate planning tool. The value of TFSA assets at the time of the holder's death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate fees will be payable in provinces where applicable. Most important, if a surviving spouse is named as a successor holder,[3] the TFSA can continue to be operated by the spouse on a tax-free basis. Any income earned after the holder's death will continue to be sheltered from tax.[4]

1. RSP contributions end after the year in which the person turns 71, or the youngest spouse turns 71; 2. Withholding taxes will be applied to RIF withdrawals in excess of the minimum amount; 3. Not applicable in Quebec, where TFSA beneficiary designations are not named in the plan; 4. A successor holder can contribute to the TFSA based on their own contribution room tax.

Thinking Ahead

Estate Planning & Your Family: Choosing One Executor

If you have children and are planning your estate, chances are you have considered appointing them as your estate executor. As you are able to name more than one person to serve as estate executor, in some instances parents name multiple children to act as joint-executors. The reasons are many: they want to treat children fairly; they don't want to hurt any children's feelings by appearing to name favourites; and perhaps by including all children in the administrative process, it helps to share the burden or effort.

While the motives are understandable, naming more than one estate executor has the potential to cause more harm than good. Here are three reasons why you may wish to exercise caution:

No executor generally has the legal right to act alone.[1] If multiple executors are named to act jointly, they must work together and will be jointly held responsible for the estate. Each is considered to have equal legal authority. Because co-executors must generally agree and act together, there may be delays to the settlement of the estate in order to reach agreement.

Potential for disagreement. Reaching consensus in any group can be difficult, but things are further complicated when emotion or money is involved. Even the most agreeable of siblings can experience differing views and there are plenty of decisions that need to be made, which may include choices about dividing sentimental items or large financial decisions such as determining the selling price of a home. Disputes have been known to cause years of resentment — perhaps the exact situation you were trying to avoid by appointing multiple executors.

Scheduling can be difficult. Acting in unison can be challenging. Co-executors are generally required to perform their duties as one, which includes activities such as signing all of the documents relating to the estate. The process may be further complicated if executors live in different locations as it may be difficult to coordinate meetings with lawyers or financial institutions.

Instead of naming co-executors, there may be other alternatives. One child could be named as executor and the other as the alternate executor, in the event that the primary executor is unable or unwilling to fill the role. Perhaps one child lives closer than the other, which could be the determining factor to mitigate the appearance of favouritism. If a co-executor arrangement is still preferred, including dispute resolution language in the will may be a consideration.

Or, it may be money well spent to consider a corporate executor to act in the role. This can help to preserve impartiality, as well as take the burden off of loved ones during a very difficult time.

Regardless, it may be helpful to have a discussion about your choice with your children while you are alive. This can help prevent any future surprises. It may also help them to understand the rationale behind your decision, which can go a long way in preserving harmony once you are gone.

1. This may not apply in the case where the will provides dispute resolution mechanisms.

Portfolio Management

The Case for Diversification

Why is diversification important? The chart (right) shows the performance of select asset classes (geographies) over the past decade (in Canadian dollars). Here are some observations, which provide the case for diversification:

- No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- The best performer in one year may not be the best in the next year. Industries, sectors and even entire asset classes can fall out of favour. Diversification can protect from the natural downturns that may affect asset classes at different times.
- There is often a gap between the performance of the best and worst performing asset class. Diversification can help to smooth out performance returns within a portfolio.
- Markets change, and so does your portfolio. This is a reminder of the importance of rebalancing on a periodic basis to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes Ranked Best to Worst (CA$), 2010 to 2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canadian Equities 17.61%	U.S. Bonds 10.59%	EM Equities 15.61%	U.S. Equities 41.27%	U.S. Equities 23.93%	U.S. Equities 21.59%	Canadian Equities 21.08%	EM Equities 28.26%	U.S. Bonds 8.92%	U.S. Equities 24.84%
EM Equities 12.67%	Canadian Bonds 9.67%	Int'l Equities 14.72%	Int'l Equities 31.02%	U.S. Bonds 15.39%	U.S. Bonds 20.46%	U.S. Equities 8.09%	Int'l Equities 16.82%	Global Bonds 7.70%	Canadian Equities 22.88%
U.S. Equities 9.06%	Global Bonds 8.26%	U.S. Equities 13.43%	Canadian Equities 12.99%	Canadian Equities 10.55%	Int'l Equities 18.95%	EM Equities 7.34%	U.S. Equities 13.83%	U.S. Equities 4.23%	Int'l Equities 15.85%
Canadian Bonds 6.74%	U.S. Equities 4.64%	Canadian Equities 7.19%	U.S. Bonds 4.60%	Global Bonds 9.65%	Global Bonds 16.15%	Canadian Bonds 1.66%	Canadian Equities 9.10%	Canadian Bonds 1.41%	EM Equities 12.43%
Int'l Equities 2.13%	Canadian Equities -8.71%	Canadian Bonds 3.60%	Global Bonds 3.94%	Canadian Bonds 8.79%	Canadian Bonds 3.52%	U.S. Bonds -0.80%	Canadian Bonds 2.52%	Int'l Equities -6.03%	U.S. Bonds 3.37%
U.S. Bonds 1.24%	Int'l Equities -9.97%	Global Bonds 2.01%	EM Equities 3.93%	EM Equities 6.63%	EM Equities 2.04%	Global Bonds -1.45%	Global Bonds 0.34%	EM Equities -6.87%	Canadian Bonds 2.81%
Global Bonds 0.04%	EM Equities -16.40%	U.S. Bonds 2.01%	Canadian Bonds -1.19%	Int'l Equities 3.67%	Canadian Equities -8.32%	Int'l Equities -2.00%	U.S. Bonds -3.18%	Canadian Equities -8.89%	Global Bonds 1.44%

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GRI; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMX Canada Universe Bond Index; US Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; US Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.

Insurance Strategies for High-Net-Worth Individuals

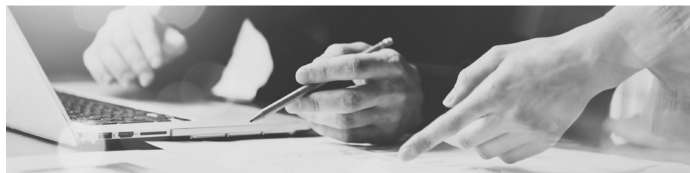
High-net-worth (HNW) investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to tax-preferred accounts like registered Retirement Savings Plans (RSPs) or Tax-Free Savings Accounts (TFSAs). As such, the opportunities to minimize the tax burden associated with non-registered accounts becomes important.

This is where permanent insurance can play a role. Permanent insurance offers the benefit of tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries. As well, insurance can help to minimize estate settlement costs such as probate fees (where applicable). Life insurance may also act as a suitable alternative to low-risk, fixed-income investments.

Here are four insurance strategies used by high-net-worth investors:

Cascading Life Insurance Strategy — This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild, naming a grandchild/great-grandchild as the policy beneficiary, with the parent/grandparent remaining the primary owner until their passing. Upon the death of the primary owner, the policy's ownership would be transferred to the successor owner (child/grandchild) on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.[1]

Back-To-Back (Insured) Annuity — This strategy, perhaps best suited for those approaching or in retirement, involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over the annuitant's lifetime, part of this payment is a return of principal so only the income portion is subject to tax annually. This can potentially result in a higher after-tax cash flow relative to comparable low-risk, fixed-income investments held in a non-registered account.[2]



Joint Last-To-Die Policy — This policy can help offset taxes or maximize an inheritance. A single premium can insure the lives of both spouses and the benefit is not paid until the last insured person's death. The proceeds can offset future tax liabilities, including those that an estate may not be able to cover. For HNW individuals who don't need RSP/RIF income and expect to have a higher marginal tax-rate in retirement, one strategy may be to fund the policy by gradually depleting their RSP/RIF.

Corporate-Funded Insurance — For business owners, the cost to fund policy premiums may be lower if paid through their corporation, assuming the corporate tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporation can allow for tax-deferred growth of the cash value of investments. This may be advantageous as earning passive income above $50,000 in a private corporation may reduce access to the lowest corporate tax rate. As well, all (or a significant portion) of the death benefit may be distributed tax free to company shareholder(s) through the capital dividend account.

With these strategies, there are potential risks. For example, with an insured annuity, the capital used to purchase the annuity will no longer be accessible. For many insurance products, the higher insurance risk you pose, the higher the premiums will be, resulting in lower after-tax cash flow. Some insurance strategies may be complex or costly to initiate, or may impact family dynamics.

Have you considered the use of insurance as part of a larger diversified plan? There are many compelling strategies available for the HNW investor. Please call for a discussion.

1. A trustee for any minors must be appointed when making ownership or beneficiary designations; 2. Where both the annuity and insurance meet conditions to qualify as exempt policies.

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