



Wealth Insights

TD Wealth Private Investment Advice

Autumn 2020



Navigating Uncertain Times

When the Crew Dragon space capsule splashed down in August, it was a true lesson in successfully navigating uncertainty.

To return home, it sliced through the atmosphere at 27,000km/hour in 1,900°C temperatures before slowing to 30km/hour for touchdown in the Gulf of Mexico. Crew Dragon charted uncharted territory: the first commercial spacecraft to carry astronauts through a completely different entry profile than previously used by any other space shuttle return.¹

Back on earth, we find ourselves similarly navigating uncharted territory. While the future has always had an element of uncertainty, the pandemic has created many challenges and increased the unknowns, spawning an abundance of varying opinions on the path forward.

The near term direction may feel particularly uncertain. For investors, today's market concerns may contrast those of early spring. Can the climb of equity markets after the March lows be sustained? As we look forward, what will drive economic recovery? How will we acclimate to significant levels of debt?

The pandemic has transformed the way we live. Through technology, we have adapted many daily activities to the confines of home for both work and play. It has also sparked momentum towards deglobalization, exposing the vulnerabilities of being over dependent on global supply chains. U.S. Secretary of State Mike Pompeo opened a new chapter in global tensions when he declared that free nations should be concerned with the China Communist Party: "distrust and verify."

Few can deny the need to support economies through the pandemic, however the trillions of dollars of stimulus injected globally has been unprecedented. This has helped to prop up economies and the equity markets, yet the longer-term effects are still to be seen. While we have experienced deflationary pressures in recent months, some wonder if inflation is an impending longer-term threat. Over the summer, the excess liquidity was one driver of the weakening U.S. dollar and gold hit all-time highs — all in response to the prevailing uncertainty.

We have yet to defeat the virus, though we inch closer to finding a successful vaccine. At home, there are signs of optimism as short-term economic data has been "less bad" than expected. Canadian retail sales rebounded in May and June; unemployment figures released in the summer were better than anticipated. However, south of the border, containment efforts have been slower than expected, hampered by social and civil unrest. With just weeks to go before the U.S. presidential election, a change in leadership may be imminent.

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Gosnell Galbraith Wealth Management TD Wealth Private Investment Advice

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To Our Clients:

In a matter of months, the end of 2020 will be here. Many of us may need to make investment decisions before then: RESP contributions, tax-loss selling or RIF conversions (if you turned 71), to name a few. Think about them now and call if you require assistance.

As we continue to navigate these unprecedented times, we appreciate your confidence in our services and remain here to support you.

With many moving parts and rapid change, it is more important than ever to take advantage of professional advice in managing financial assets. Investing requires shifting gears on a continuous basis, particularly in assessing new situations. Fast-moving markets may mean additional risks, and careful review and monitoring of investments is vital. Balancing portfolio exposure to account for uncertainty, risk factors and potential economic outcomes can help to ensure that investing for the long run remains a profitable strategy.

We are here to help harness the inevitable changes that lie ahead so that your investments can continue to work for you. As Crew Dragon's successful return home should remind us, overcoming uncharted territory, though not without its challenges, is often necessary for us to advance and progress.

1. <https://www.cnn.com/2020/07/31/tech/nasa-spacex-crew-dragon-mission-preview-scn/index.html>

■ Central Bank Stimulus Actions

How Has Quantitative Easing Affected the Markets?

As global equity markets rallied after their steep decline in the spring, many market pundits pointed to the speed and magnitude of stimulus enacted by policymakers worldwide. Just how much have quantitative easing (QE) and other stimulus actions helped to push up asset prices?

Quantitative Easing: A Primer

First, a quick explanation of QE. In order to support economies, policymakers can engage in fiscal or monetary policy. Fiscal policy refers to government spending and tax policies. Monetary policy is used by central banks to control the supply of money. Traditionally, this has involved changing the key interest rate: i.e., lower rates reduce the cost of capital and entice businesses and consumers to borrow more, increasing the money supply. However, as interest rates have approached near-zero levels, more unconventional approaches, like QE, have been required. With QE, the central bank purchases financial assets from financial institutions and issues credit to the banks' reserves, thereby increasing the money supply. During the 2008/09 financial crisis, the U.S. Federal Reserve began its first foray into QE. The Bank of Canada had its first move into QE this past April.

How Does QE Affect Equity Markets?

When central banks purchase government bonds, yields are pushed down, reducing the return on relatively safer financial assets. As such, investors may look further along the risk curve, such as to equity markets, in search of greater returns. QE and other stimulus actions have also increased liquidity and the money supply, which may have flowed to equity markets. Stimulus actions may have also provided confidence to investors that central banks will continue to support economies through difficult times. Some market analysts contend that

this has led to artificially-inflated asset prices. Over the longer-term however, the risks of QE can be mitigated if economies can outgrow the pace of the increase in the money supply as a result of the easing.

What Does it Mean for Your Portfolio?

In some ways, the actions taken by central banks have changed some of the historical assumptions about the financial markets. This may be why there are many differing opinions of what is yet to come. Is inflation imminent? Some argue that stimulus actions have put excess funds into economies, which is inflationary. If the world moves towards deglobalization and supply chains exit China, higher production costs will likely lead to higher prices. Many central banks also want moderate inflation. Inflation worries may explain the increasing interest in gold and cryptocurrencies.

Yet, when QE ended in the U.S. in 2014, many economists expected to see a substantial rise in inflation. This never happened and the stock market advanced in the years that followed. It remains unclear exactly what happens to equity markets upon the departure from low-interest rates and easy money from central bank policy. Eventually, economies will need to acclimate to a market environment with significant levels of public debt — the consequences of which are yet to be seen.

However, one reason for savvy investors to maintain confidence is that well-constructed portfolios use asset allocation and diversification, not just across different asset classes but also risk factors, to help mitigate risk. This involves balancing portfolio exposure to account for the ongoing uncertainty and the potential economic outcomes in the near term. Another reason? Being invested. Participation can be key to generating returns for the longer term. History has shown that even the worst periods of retrenchment have been followed by times of economic growth. This time is likely no different.

■ Back-To-School Time

Student in the Family? Keep Good Records

If you have a student in the family attending post-secondary school, no doubt this may be a unique fall. While some students have left town to attend school in person, many are staying home for a semester of online learning.

For parents or grandparents, here are some reminders of the tax benefits available for students to help soften the ever-increasing cost of higher education.

RESP — Hopefully you already have a Registered Education Savings Plan (RESP) in place. We mention the RESP on a regular basis because we feel it is important for families. From a tax perspective, the RESP provides the opportunity for compounded growth over time while deferring taxes. As well, there are other meaningful benefits. If certain conditions are met, the federal government's Canada Education Savings Grant (CESG) is worth up to \$500 per year per student beneficiary to a lifetime maximum of \$7,200. RESPs also encourage disciplined saving. If you don't have a RESP for members of your family, please get in touch.

Beyond the importance of saving to support a student's education, you should keep good records to take advantage of the potential tax benefits. As a result of the pandemic, students who received the

Canada Emergency Student Benefit (CESB) from May to August should note that the CESB is considered taxable income. As such, they will be sent a T4A tax slip for the amount that was received.

Tuition Tax Credit — The federal government provides this non-refundable credit worth 15 percent of the amount of tuition fees, with no maximum. Provincial credits are also available. If a student doesn't have sufficient income to use the credits in the year of attendance, a credit for up to \$5,000 of tuition fees can be transferred to a spouse/common-law partner, or to parents or grandparents. Any remaining tuition amount can be carried forward for use by the student in a future year.

Moving Expenses — While this may not be applicable this semester, moving costs may be deductible. For students attending post-secondary programs at least 40 km from home, these expenses may be deducted from scholarships or grants required to be included in income. Depending on the circumstances, certain moving expenses may also be deductible against income from a summer job.



■ Estate Planning

What Have You Told Your Adult Children?

In our work with clients, it isn't uncommon for us to find parents who haven't had any discussions with their adult children about their estate plans. Estate planning may be a difficult topic to approach: not many people like to talk about death, and the intensely private subject of finances can further complicate matters.

However, excessive secrecy can make a potentially difficult situation even worse. How will anyone know how to deal with your assets in the case of death? Or, in the situation where you are alive but unable to act for yourself, how can those appointed to act on your behalf ensure your wishes are carried out as intended?

The health-related consequences of Covid-19 have been a stark reminder of the value in having end-of-life planning discussions with family members. It isn't necessary to divulge any detailed information about your finances or your Will in advance, but it may make sense to inform family members of your intentions.

In some cases, parents have appointed adult children as executors but haven't made them aware. Others may be aware, but have not been provided with information on where Power of Attorney (POA), Will and other important documentation is stored. It is important for an attorney (the person appointed under a POA document*) or next-of-kin to know where to find these documents in an emergency situation. This can help prevent a needless search or avoid other

complications, such as incorrectly assuming a Will does not exist.

Communicating what is important to you, how you would like to be remembered and your desired legacy may also be important to family members. Without any instruction, survivors may struggle with doubt about whether they made the right decisions. This can be especially difficult during a time of grief. Some individuals plan their funeral arrangements in advance; others may wish to make loved ones aware of causes or charities important to them. Having a dialogue with adult children may also provide an opportunity to pass along family values.

If you own a business and wish to see it continue within the family, it is important to have discussions with family members in advance. Planning today can not only provide clarity over your intention for the business' succession, but it can also help provide tax and other financial benefits down the road.

While these discussions can be difficult, having them while you are alive and well may provide comfort to you and your adult children that you continue to support them, even after you are gone.

*The name, terms and conditions of the POA document vary by province (e.g. known as a mandatary in Quebec).



■ Currency Markets

Currencies in Transition: The Greenback's Fall

After a strong decline in the U.S. dollar index over the summer, some industry experts declared the potential fall of the U.S. dollar (USD) as the world's reserve currency.¹

Why is the greenback losing its lustre? The significant stimulus injected into the U.S. economy has increased the money supply, which creates concerns about future inflation and puts downward pressure on the USD. With U.S. interest rates now at near-zero levels and the yield on U.S. government bonds closer to that of other developed nations, the demand for U.S. Treasuries may be waning.

Gold: The Rush Continues

A falling USD is likely one reason for the rising price of gold. Since the start of the year, gold has risen by over 35 percent, surpassing its previous all-time high of US\$1,920 set in September 2011.² Gold is a commodity, but it doesn't follow typical supply and demand cycles for commodities as it isn't consumed or used as an input in much other than jewellery. As it can always be traded for goods, it is considered a store of value as it holds its purchasing power during times of declining currency values or periods of high inflation.

A Rising Canadian Dollar

The Canadian dollar (CAD) has also benefitted from the falling USD, appreciating by over 10 percent since March when the price of oil fell to its lows.³ Will it continue its upward climb? Here is some food for thought:

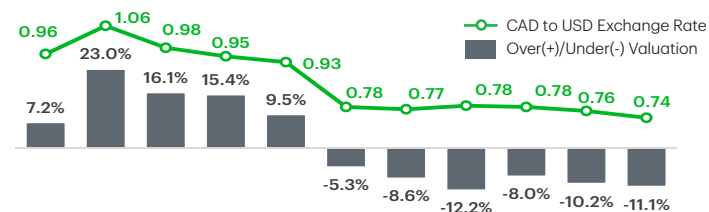
The "Big Mac Index", published by the Economist magazine, is a fun tool to make exchange rate theory digestible. It compares the

purchasing-power parity (PPP) of global currencies. PPP suggests that over the long run, exchange rates should adjust so that an identical basket of goods/services costs the same in each country. Instead of using a basket of goods, it creates an exchange rate by comparing the cost of a Big Mac in a nation's local currency to its cost in the U.S. Comparing this to the prevailing exchange rate determines whether a currency is considered to be under or overvalued. The bar chart shows the under/over valuation of the CAD versus the USD based on the Big Mac Index. The actual exchange rate is shown in green.

Currency fluctuations are a normal part of the financial markets. While a stronger CAD may provide better buying opportunities to purchase U.S. assets, for longer-term investors the impact of currency changes on returns has the tendency to even out over time.

1. forbes.com/sites/simonconstable/2020/06/19/the-recent-drop-in-the-dollar-is-only-the-beginning-says-goldman/#36bc6116983; 2. Yahoo Finance 12/30/19: \$1,520, 8/7/20: \$2,063; 3. Bank of Canada, 3/24/20: 0.6901 USD, 8/19/20: 0.7593 USD.

Big Mac Index Over/Under Valuation: CAD vs. USD July 2010 to 2020



Source: Economist online. Data: github.com/TheEconomist/big-mac-data, accessed 8/1/20.

■ The End of Year is Quickly Approaching

Year-End Financial Checklist

It's only autumn, but this may be a great time to be thinking about your financial affairs in preparation for the year end. December 31 is the deadline for many tax and pension-related activities. Consider the opportunities to best position yourself. Here are some tax-planning suggestions to start your thinking.

■ **Capital Gains/Losses:** If appropriate to your investment objectives, the realizing of certain capital losses prior to year end could be used to offset capital gains realized in 2020, or used to take advantage of the carry-back rules to recover taxes paid on taxable capital gains realized in any of the three preceding taxation years. There also may be opportunities to transfer capital losses between spouses. In order to determine whether this is appropriate to your circumstances, please get in touch well before the end of the year.

■ **Income Splitting:** There are a variety of ways to split income. For example, you may pay reasonable salaries to spouses* for services provided to your self-employed business or private company or elect to split eligible pension income with your spouse on your tax return. With interest rates at low levels, income splitting with a spouse may also be achieved by way of a prescribed rate loan. A tax advisor can provide greater detail.

■ **RSP Contributions:** Consider not waiting until the last moment if you are planning to make contributions for the 2020 year to your registered Retirement Savings Plan (RSP). Remember, you will still be able to contribute until 60 days after the calendar year to impact your 2020 taxes.

■ **RESP Contributions:** If you have a Registered Education Savings Plan (RESP), consider making a contribution before year end. While this won't impact your 2020 taxes, the plan may benefit from the Canada Education Savings Grant (CESG) for 2020 (or potentially on a grant from a previous year).

■ **Business Owners — Capital Assets:** Business owners planning on purchasing capital assets in the near future should consider doing so before the end of the year to take advantage of the capital cost allowance deductions that may be available.

■ **Pension Income Tax Credit:** If you're 65 years of age or older and don't have eligible pension income, consider purchasing



an annuity or opening a small registered Retirement Income Fund before year end to enable you to claim the federal pension income tax credit. Eligible pension income may also be split with a spouse on a tax return.

■ **Charitable Donations:** Consider making eligible charitable donations before December 31 to benefit your 2020 taxes. Remember that gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for its fair market value, but also eliminates the associated capital gains tax.

■ **RSP Conversion:** If you turned 71 this year, make sure to transfer your RSP and choose one or more of the various options available. If you have contribution room, consider making a final RSP contribution, as this must be done by December 31, 2020, and not the usual March 1, 2021 deadline.

Many of these actions require planning, so don't wait until it's too late. For further assistance, please contact us and, as always, seek advice from a tax professional.

*Including common-law partners.

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