



Wealth Insights

TD Wealth Private Investment Advice

Spring 2022



Never a Smooth Road

As the current headlines continue to test our resolve, we are reminded that equity investing is never a smooth road.

For many of us, there has been little respite from the challenges of the past two years. As we try and move forward from the pandemic, we are now confronted with escalating geopolitical tensions from the Russia/Ukraine conflict.

With these uncertainties, volatility has returned to the equity markets. For investors, this may feel particularly unsettling since extended periods of volatility haven't been seen for some time.

Indeed, we face new and evolving challenges. As we begin to navigate the return to normal from the pandemic, central banks now have the unenviable task of normalizing their accommodative policies: increasing interest rates and reducing the size of their balance sheets, while addressing high levels of inflation. This has contributed to the jitters in the equity markets. However, given the magnitude of the efforts taken to support economies over the past two years, the return to normal is not likely to be straightforward and we can expect bumps along the way.

Yet, there are positive factors that may help balance this change. Household wealth, across all income levels, is higher than it has ever been.¹ If the U.S. is a leading indicator, improving labour market conditions, including wage growth, are expected to support households as things return to normal. Though inflation remains high, some relief is expected on upward pricing pressures as supply chains continue to resolve themselves. And, many analysts suggest that the central banks can increase rates quite a bit without adversely affecting credit conditions.

Adding to the volatility, the Russia/Ukraine conflict has heightened current worries, as the world continues to respond to this new crisis. We continue to monitor the evolving geopolitical situation and its potential impact on the financial markets.

During these uncertain times, it may be helpful to remember that we have faced many challenges throughout time that have made it difficult to assess future prospects. Yet, the equity markets have shown remarkable resilience over the longer term.

Consider that over the past 30 years, we have experienced periods of uncertainty including credit and debt crises, recessions, many changing policies by the central banks — and even war. And yet, the markets, as measured by the S&P/TSX Composite Index, returned over six percent annually over this time, not including reinvested dividends.²

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To Our Clients:

Escalating geopolitical events in Europe have added to the equity market jitters. During volatile times, try not to be discouraged. While uncertainties may be with us in the short term, history has shown that longer-term investors have benefitted from time in the markets.

Spring is often referred to as the season of new beginnings. This may be particularly welcome as we continue to look forward and focus on the return to normal. Stay well.

— Jim and Jessie

Equity investing is never a smooth road. Yet, maintaining a longer-term view reminds us that the markets have persisted and advanced over time.

Despite the many uncertainties, try not to lose sight of your own wealth goals: patience, alongside careful monitoring and prudent adjustments through our support, should help you to achieve these goals. Continue to have confidence in your plan and allow your assets to keep working hard for you. Remember, we are here to help.

1. www.wsj.com/articles/u-s-households-took-on-1-trillion-in-new-debt-in-2021-11644342925;
2. S&P/TSX Composite Index 1/3/1992 – 3,495.60; 1/5/2022 – 21,335.60.

Wealth Insights

■ Tax Planning for Your Estate

When to Consider *Not* Using the Spousal Rollover Rules

There is no escaping the old adage that two of life's certainties are death and taxes. For many, the end of life can trigger one of the highest tax liabilities in a lifespan.

Having a surviving spouse may provide a degree of flexibility when it comes to capital property or property held in a registered plan. This is because the Income Tax Act permits the use of a spousal rollover. For tax purposes, a person is generally deemed to have disposed of any capital property at fair market value immediately before their death. Even though there may not have been an actual sale, there may be associated gains or losses realized for tax purposes. Also, unless a rollover is available, the fair market value of a registered plan is included in the deceased's income in the year of death.

However, a spousal rollover is available where such property is transferred to a surviving spouse (or common-law partner), or in the case of a registered plan — to that spouse's registered plan. As such, any associated capital gains or registered plan income will be deferred until the surviving spouse disposes of or is deemed to have disposed of those assets — or withdraws the assets in the case of a registered plan or is deemed to withdraw the assets from the plan.

Using the spousal rollover has become a conventional and almost automatic strategy for many estate plans. Yet, in some cases, there may be reasons why it may not make sense. Why? While deferring taxes is often beneficial, it can result in unintended consequences.

Take, for example, a surviving spouse who rolls their deceased spouse's Registered Retirement Income Fund (RRIF) to their own existing RRIF. This will increase the minimum annual RRIF withdrawal requirements. With this higher income, the spouse may be subject to a higher marginal rate of tax and a potential clawback of Old Age Security (OAS).

Some forward planning could potentially reduce the overall tax-related burden. For example, it may be better for the first spouse to make regular withdrawals from their RRIF during their lifetime if they are in a relatively low marginal tax bracket. Or, it may make sense for the RRIF to be partially converted to cash upon the first spouse's death, leaving only a portion to be transferred to the surviving spouse's RRIF.



Electing to Not Use the Spousal Rollover on Capital Property

Be aware that an automatic rollover of capital property occurs for tax purposes upon the death of the first spouse. However, an election can be made to not use the spousal rollover on a property-by-property basis. Here are some other situations in which electing to not use the spousal rollover may make sense:

- The deceased's marginal tax rate is relatively low on the date-of-death return.
- The deceased has capital losses carried forward from previous years that can be used to offset some of the realized capital gains.
- The deceased owns qualified small business corporation shares with unrealized capital gains and has an unused lifetime capital gains exemption (LCGE). This may allow for use of the LCGE and thereby also increase the cost basis of this property for the surviving spouse.
- The deceased has property with an accrued loss which may be used to offset accrued capital gains on other properties.

Having flexibility in tax planning by using — or not using — the spousal rollover may have its benefits. Plan ahead and seek the advice of a tax planning expert as it relates to your particular situation.

■ Helping to Protect Investors

Introducing the Trusted Contact Person

Each year, one in six seniors falls victim to elder abuse globally.¹ Regardless of age, we are all vulnerable to economic abuse. In this digital era, the number of sophisticated cybercrimes continues to grow, with reports that Canadians lost \$380M to fraud in 2021 alone.²

With these worrisome statistics and in the continuing effort to protect the financial security of investors, the "trusted contact person" (TCP) has been introduced to provide an additional layer of protection.

What is the role of the Trusted Contact Person (TCP)?

The TCP is someone you appoint and for which we have your written consent to contact if we have concerns about abuse, exploitation or decision-making that may appear out of character. We may also get in touch with the TCP if we are in need of contact information for a personal or legal representative for you.

Keep in mind that the TCP has no authority to make financial decisions or direct transactions on your account. The TCP does not replace or assume the role of Trading Authority* that may be authorized to an investment account. As well, the TCP is different from the Power of Attorney role (or Mandatary, in Quebec)* that is

put in place to provide support in the event of incapacity. The TCP has no legal authority and assumes no liability when it comes to your account(s). Even if you have appointed a Power of Attorney, a TCP may add an additional layer of protection.

Who should be appointed?

It is recommended to select someone who is trusted, mature and knowledgeable about your personal situation and support network. This individual should be capable of speaking with you, and to us, about your well-being and potentially sensitive topics such as your physical or mental health status. It may be beneficial to select someone who is familiar with you on a consistent basis and has no potential authority now or in the future. If you wish to appoint more than one individual, you may consider multiple trusted contacts. You are able to change who you designate or revoke designations at any time.

While you may not feel that there is a current need for a TCP, implementing this safeguard now may help to provide protection down the road. To nominate a TCP for your existing accounts, please get in touch. You will need to complete a form that will be kept on file. For more information, please contact the office.

1. www.who.int/news-room/fact-sheets/detail/elder-abuse; 2. www.antifraudcentre-centreantifraude.ca/index-eng.htm

*Trading Authority: Someone designated to conduct trades on behalf of the account holder; Power of Attorney/Mandatary: www.td.com/to-our-customers/power-of-attorney.jsp

■ Continuing Inflation

Helping to Combat Inflation: Considerations for Investors

The topic of inflation continues to dominate the headlines. As prices rise, inflation can erode an individual's purchasing power. Consider that the cost of many basic groceries has doubled in just 25 years (chart).

For the near term, we can expect sustaining inflation as we grapple with lingering supply chain issues. However, there may be ways for investors to help protect against inflation. Here are a handful of considerations:

1. Don't overlook the virtues of being invested! History has shown that over longer time periods, equity market returns may outperform inflation.¹ This is a good reminder of the merits of staying invested. Now may be a great time to review your finances: do you have available contribution room in a TFSA or RRSP, or funds sitting idle that could be invested to benefit your future?

2. Consider tax planning to help put funds back into your hands. Inflation is often referred to as the "silent tax." In this environment, tax-planning is as important as ever. It is personal income tax season — an opportunity to get organized and avoid overlooking important deductions or savings on your tax return. Yet, tax planning should be a year-round exercise: there may be opportunities for income-splitting with a spouse, contributing to tax-advantaged accounts, or planning involving a small business. Consider the support of a tax professional.

3. A budget can help you (or others!) to better manage funds. During inflationary times, a budget may be especially helpful for those on fixed incomes, such as seniors or younger folks just starting out. It can help to provide a full picture of inflows and outflows, and determine

which costs are necessary and what adjustments can be made to account for any increases from inflation. Ironically, the calculation of the official measure of inflation, the Consumer Price Index (CPI), doesn't include such items as gasoline and groceries, everyday living expenses incurred by almost everyone — and for which costs have gone up significantly.

Remember When? Average Retail Price for Select Food Items Over 25 Years

Item	C\$ Price in 1996	C\$ Price in 2021
Sirloin Steak (1 kg)	10.52	25.94
Eggs (1 doz)	1.79	3.82
Orange Juice (1 L)	1.66	4.53
Coffee (300g roasted)	3.39	5.15
Paper Towels (2 rolls)	1.66	3.37
Toothpaste (100 ml)	1.29	3.47

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000201>

4. Keep looking forward. It is likely that inflationary pressures may temper as we get closer to reaching the other side of the pandemic. While some observers suggest that we are in for an extended period of high inflation, others suggest that our current inflationary situation has been driven by the anomalies of the pandemic — largely on the supply side, with ongoing supply chain and labour market issues lingering from the economic shutdowns. Let's not forget that prior to the pandemic, we were in a lengthy deflationary period in which central bankers had a difficult time getting inflation to rise above the two percent level. As things begin to normalize, and supply constraints are alleviated, adjusting demand for certain goods at these higher price levels may help to temper some of these inflationary increases. As the old saying goes, "the cure for high prices is high prices."

1. www.cbc.com/2021/11/16/as-inflation-rises-here-are-opportunities-to-make-and-save-money-.html

■ Retirement Planning: Did You Know?

The RRIF: Four Things You May Not Know

Registered Retirement Savings Plan (RRSP) season has come and gone. Those who have contributed may have put thoughts of the RRSP to low priority. Yet, thinking ahead to the time when you will eventually access funds can have its merits.

Most commonly, the RRSP is converted to a Registered Retirement Income Fund (RRIF) and there may be income- or tax-planning opportunities. Here are four things you may not know about the RRIF:

1. You can convert the RRSP to the RRIF earlier than age 71. The RRSP matures by the end of the calendar year in which the holder turns age 71 and is often converted to a RRIF at that time. However, you are able to open a RRIF earlier than this age. Minimum withdrawal payments will be required in the calendar year following the year that the RRIF account was opened. To calculate the annual minimum withdrawal, the RRIF market value at the start of the year is multiplied by a "prescribed factor," which is based on age.

2. You can hold the RRSP and RRIF at the same time. While the RRIF is usually used by an investor to transfer funds to once their RRSP matures, there may be instances in which you may want both. If you want to generate pension income to take advantage of the federal pension income tax credit, you could consider opening a small RRIF at the age of 65. At the same time, you could continue operating

your RRSP to benefit from ongoing tax deductions from your contributions. Consider also that, for tax purposes, you can notionally split up to 50 percent of your eligible pension income (which includes RRIF income from age 65) with a spouse (or common-law partner).

3. You are able to convert the RRIF back to the RRSP. If you've converted funds to the RRIF earlier than age 71 and realize that it's no longer to your benefit, you are able to convert it back. Some may decide to do an early conversion if they retire early, take a sabbatical or have an extended leave from work, since the loss of income means they will be in a lower tax bracket or they may need funds. However, if they return to work, it may be beneficial to resume the RRSP.

4. You can base withdrawals on a spouse's age. If you have a younger spouse, it may be useful to use their age to result in a lower minimum withdrawal rate for your RRIF. Be aware that this can only be done when first setting up the RRIF and before you have received any payments, so plan ahead.

If you have any RRIF questions please get in touch. If you're turning 71 in 2022, let's discuss options for the maturing RRSP before year end.



■ Risk Management & the Investing Process

Portfolio Check-Up: Why We Rebalance Portfolios

Recent market volatility has prompted some investors to rethink their perspective on risk. Reacting to short-term market fluctuations is not usually advised; instead, we continue to focus on the importance of having a plan in place with a view for the longer-term, and rebalancing a portfolio where required. Here is some insight on why rebalancing is important.

Rebalancing an investment portfolio involves adjusting the proportion of asset types to ensure it reflects your continuing goals. This is done because, over time, the value of the securities that make up your portfolio can rise and fall at different rates. This will change the asset allocation, which has been established to reflect your personal risk tolerance, goals and time horizon.

Often, rebalancing involves trimming winners to get back to the target asset allocation level. For example, as a result of the market's climb in 2021, if the value of one holding has increased so much that it makes up a disproportionate part of the overall portfolio, it may be opportune to consider taking some gains to restore balance in the allocation.

Rebalancing may also be necessary if your investment goals or your risk profile change over time. Consider that as you reach the retirement age, you are likely to have a lower risk tolerance as your time horizon lessens and you look to provide income to support your retirement lifestyle.

Rebalancing helps to ensure that a portfolio doesn't become riskier — or less risky — than you intended when we first set up your allocations.

Helping to Avoid Timing the Markets

One of the virtues of rebalancing is that it can help to take the emotion out of the investing decision-making process. The rebalancing decision should occur when the portfolio's balance is not in check, and not in response to the markets being under pressure. This can help investors to better achieve the objective of selling high.

Other Benefits: Even More Important for Retirees

For many younger investors, rebalancing may be less of a priority often due to higher risk tolerance levels and the advantage of a longer time horizon. However, for retirees, rebalancing can bring multiple additional benefits.



By maintaining a portfolio's risk and allocation levels on an ongoing basis, it can add an element of volatility control. This may be especially valuable to retirees on a fixed income, who often have no choice but to draw on portfolios for living expenses, regardless of the economic environment. Rebalancing can help to assist with cash flow sourcing. In this age of ultra-low yields, rebalancing can help to make up any shortfalls from income-generating investments, or can create reserves by trimming winning equity positions and adding them to bond holdings to be used when needed.

Rebalancing may be a way to meet the minimum annual withdrawal requirements of the Registered Retirement Income Fund. For those who do not need excess funds, rebalancing can serve as the source of funds for charitable giving, which can support giving strategies, while also providing certain potential tax benefits. Publicly-listed securities with appreciated positions can be donated to eliminate the taxes on the appreciation, as well as to benefit from a tax deduction on the value of contributed shares. Consider the support of a tax professional to evaluate the tax-planning opportunities relating to your particular situation.

We Are Here to Assist

Rebalancing is just one of the important techniques we use to help manage risk in your portfolio. If you have questions about how this approach supports your investing program, please don't hesitate to contact us.

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