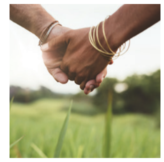
Wealth Insights

TD Wealth Private Investment Advice

Spring 2023



The Winds of Change

"Change is inevitable..."

The world of investing has never been a stranger to change. A look back at the largest publicly-traded companies globally* provides one such perspective on how things can change. While technology companies have been dominant in more recent times, would you recall that energy companies were the leaders just over a decade ago? And just two decades earlier, six of the 10 largest companies were from Japan; at that time, a nation seemingly poised to overtake the rest of the world.[1]

Indeed, the winds of change continue to blow. In his latest memo, respected investor Howard Marks suggests that we are in the midst of a significant "sea change" for the financial markets. In his view, we are seeing a departure from a long period of declining interest rates that supported economic growth by reducing businesses' cost of capital and increasing profitability, encouraging the use of leverage and increasing the fair value of assets. For the first time in decades, we are faced with higher and sustained inflation and interest rates, which he believes will likely provide headwinds for the years immediately ahead.[2]

Regardless of whether you agree with this assessment of the path forward — Marks aptly acknowledges that we never know with certainty where we're headed — the winds will continue to shift. Every financial cycle differs from those that came before. Though higher inflation and interest rates are influencing today's investing environment, just as excessive optimism may have been imprudent in the past, it would be hasty to become too pessimistic about current conditions.

Changes in interest rates, inflation, monetary and economic policies and many other factors have always created near-term uncertainties. Throughout time, the companies that have succeeded in meeting the challenge of change have been rewarded with higher stock prices. Over time, economies have continued to grow, demonstrating our collective ability to adapt and advance. This time is not likely different. Perhaps we will also see a return to a more healthy view of risk-return profiles and valuation measures, where wealth is built over time. In exuberant times, these appeared to be easily abandoned.

These have been challenging times for investors. Much of the recent financial market volatility has been driven by uncertainty over the path forward for interest rates as the central banks continue their efforts to bring down inflation. Until there is greater clarity, we can expect volatility. Though it may be difficult to see through these periods, better days will eventually come; change is inevitable.

In these changing times, we should be reminded of the value of thoughtful analysis, evaluation and portfolio oversight — these skills should be considerations as we navigate through the unavoidable cycles. A sound investment process involves having a plan to set priorities while assessing the changing landscape and the potential opportunities to come, in conjunction with the risks involved, and making informed decisions when necessary — all with a view for the longer term. We are here to distill the key factors influencing the ever-changing financial markets from the mountain of available fact and opinion, and position portfolios to support each individual investor's requirements — so that you can achieve your wealth goals.

*When comparing the top 10 publicly-traded companies by market capitalization. 1. www.cnbc.com/2014/04/29/what-a-difference-25-years-makes.html; https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization; 2. https://www.oaktreecapital.com/insights/memo/sea-change

In This Issue

Anderssen Wealth Management

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"Helping clients make better decisions."

To Our Clients:

It was a volatile start to 2023, driven by worries that the central banks would continue raising rates and new challenges in the U.S. financial sector. Have the patience to see this period through; inflation will eventually be brought under control and markets will adjust. This time of year, income taxes are naturally on our minds. There are actions we can take to help minimize these liabilities, which may be important in these times of high inflation; some as simple as maximizing tax-advantaged accounts like TFSAs or RRSPs. Call for support.

We hope that spring brings renewal, growth and expansion.

— Anderssen Wealth Management

Protecting Yourself and Others

Be Aware of Evolving Scams

As the sophistication of scams continues to grow,[1] so, too, have the associated losses. The Canadian Anti-Fraud Centre (CAFC) reports that last year Canadians lost over $530M to fraud — a rise of 40 percent since 2021.

One of the latest financial scams involves scammers building relationships over time with victims online or via text. Eventually, they convince victims to invest using websites that look like legitimate trading platforms or investment firms. Victims are then tricked into thinking their investments are making money and are encouraged to invest more.[2] This scam, termed "pig butchering,"* was initially associated with cryptocurrencies, but has since evolved to involve the gold market.[3]

Can we protect ourselves from evolving scams? As a starting point, there are often common signs that may indicate a fraudulent situation:

It seems too good to be true. This may be as unassuming as an unexpected money transfer sent to your email address. Or, it may be as sophisticated as an investment opportunity that offers significant returns. If it appears too good to be true, it may be a sign of a scam.

Personal/financial information is requested. Be wary when personal or financial information is requested or asked to be confirmed. A credible financial institution is unlikely to ask for this information.

There is a sense of urgency. Many scams pressure individuals to act immediately or focus on lost opportunity or penalties to evoke fear.

There is secrecy or you are made to feel guilty. Some scams try to evoke feelings of guilt or shame; others prey on loneliness or isolation. In many cases, you may be asked to keep matters secret.

There are also actions we can take that may help act as safeguards:

Don't respond. Don't answer a call if you don't recognize the caller; often a scammer's goal is to find out if a mobile/phone line is active. Never respond to text messages or social media requests from unknown sources. Never open email attachments or reply to unsolicited emails. Never provide personal data to those you don't know.

Validate the source. "Spoofing," when a scammer impersonates someone else, is becoming more sophisticated and is now being done through phone calls and texts. There may be subtle indications that a source is fake: you aren't addressed directly by name or a text contains spelling/grammar errors. If you aren't certain whether an individual/situation is credible, double check. Try calling a general number found on the internet. Or, conduct a general internet search to determine if a source is trustworthy or if others have been targeted by a scam.

Shred personal data or limit/disguise personal data online. Fraudsters have been known to obtain personal information from discarded garbage/recycling or via online sites such as social media posts, which can be used to target you or your family.

Contact appropriate authorities. If you have been targeted, notify the appropriate authorities, such as your financial institution, credit bureau (Equifax, TransUnion), the Better Business Bureau and CAFC.

Support loved ones. Talk to more vulnerable individuals, such as children or isolated seniors, about cybersafety and how they can be more secure, making sure they are aware of new and evolving scams.

Educate yourself. While this article provides a brief overview, there are many online resources that provide greater details on the latest scams, as well as ways to identify and protect against evolving fraud, including:

- Better Business Bureau: www.bbb.org/ca/news/scams
- Canadian Anti-Fraud Centre: www.antifraudcentre-centreantifraude.ca

*"Pig butchering" is named after the practice of fattening a pig before slaughter. 1. www.cnbc.com/2023/01/07/phishing-attacks-are-increasing-and-getting-more-sophisticated.html; 2. www.cnn.com/2022/12/26/investing/crypto-scams-fbi-tips/index.html; 3. www.consumeraffairs.com/news/fools-gold-the-story-behind-a-fake-gold-market-pig-butchering-scam-021523.html

Market Perspectives

Equity Returns: The Long & the Short of It

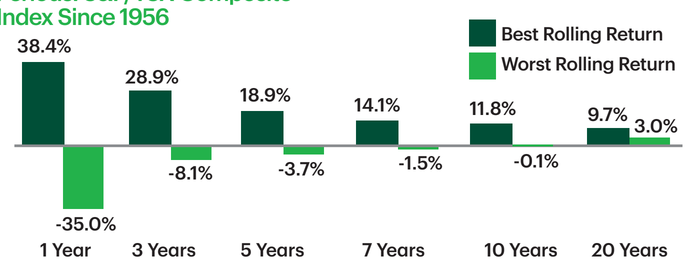
It may not come as a surprise, but in this digital age our attention spans appear to be decreasing.

You may recall a 2015 *Time* magazine article that suggested most Canadians have an attention span of eight seconds, less than the "ill-focused goldfish" — a claim that has since been debunked.[1] More recent research suggests our attention spans are narrowing due to the growing amount of information we are fed, facilitated by technological advances.[2] Similarly, these two factors may impact the way investors hold equities. Back in the 1950s, the average holding period for stocks was around 100 months, or 8 years. By 1990, this dropped to 26 months. And today, it is closer to 5.5 months![3]

Yet, history shows that when it comes to investing, the longer your ability to focus, the better. Why? Over shorter time frames, investors must endure significant periods of downward volatility and reacting to it may work to our detriment. However, this volatility smooths out the longer you extend your investing period. Consider the range of outcomes for the best and worst annualized returns of the S&P/TSX Composite Index (not including dividends reinvested) since 1956. Over one-year periods, the variability is substantial: historical annual returns span between -35.0 percent and +38.4 percent. As the time horizon extends to decades, the range of the best and worst returns narrows significantly, and the likelihood of negative returns also diminishes.

During volatile times, for some investors it may be difficult to maintain a longer-term view. Yet, the long and the short of it is that by extending a time horizon, historical probabilities favour the longer-term investor.

Best & Worst Annualized Returns Over Different Holding Periods: S&P/TSX Composite Index Since 1956



Note: This analysis is based on S&P/TSX Composite rolling calendar year returns. The variance grows significantly if rolling monthly returns are used.

1. https://www.bbc.com/news/health-38896790; 2. https://www.theguardian.com/society/2019/apr/16/got-a-minute-global-attention-span-is-narrowing-study-reveals; 3. https://www.visualcapitalist.com/the-decline-of-long-term-investing/

Perspectives on Investment Returns

A Reminder: Taxes & Inflation Can Impact Investment Returns

When we think about our investments, investors should consider the impact of taxes and inflation. Both can have a significant impact on portfolio returns over time.

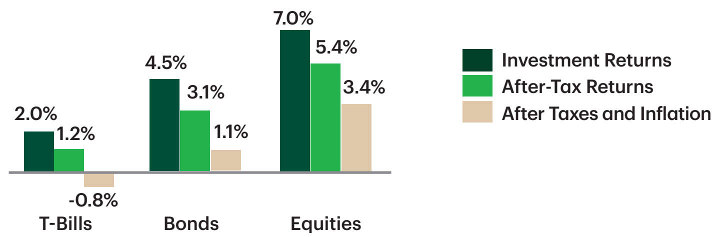
As a reminder, consider the way that different types of investments in non-registered accounts are taxed. Interest income from fixed-income investments like guaranteed investment certificates (GICs) or treasury bills is fully taxable at the investor's marginal tax rate. Capital gains, which result from buying and selling investments such as equities or capital property, receive the most favourable tax treatment because only 50 percent of the capital gain is reported and tax is paid at the investor's marginal tax rate. Dividend income is generally taxed at a lower rate than interest income because of the dividend tax credit that applies to most dividends received from eligible Canadian corporations.

Inflation can also erode an investment's returns as it reduces purchasing power over time. The impact of inflation on returns is calculated by comparing the "nominal" rate of return — before inflation — and the "real" rate of return: the real rate of return represents the nominal rate of return minus inflation. In our current economic environment, as interest rates have risen, investors may look to hold fixed-income investments like guaranteed investment certificates (GICs). At current rates, a one-year GIC may yield around four percent, but with an inflation rate hovering around six percent, this results in a negative "real" rate of return of two percent. And this is before taking taxes into account.

The chart shows the effect of taxes and inflation on varying investment returns, based on longer-term averages, in a non-registered account.

The bottom line: As investors, we need to ensure that our assets can grow enough to offset the potential effects of taxes and inflation, while taking into consideration our own levels of risk tolerance. This includes the importance of using asset location strategies to maximize returns on an after-tax basis, including the use of tax-advantaged accounts where possible, such as the Tax-Free Savings account or Registered Retirement Savings Plan, to our benefit. The impact of taxes and inflation on our returns should not be overlooked.

The Impact of Tax and Inflation on Investment Returns (Illustrative)



*Based on a non-registered account. Assumes 40% tax rate on interest income; 20% on capital gains; 30% on dividend income. 2% long-term inflation rate. T-Bill returns: 2% interest income; Bond returns: 2.0% capital gains; 2.5% interest income; Equity returns: 5.0% capital gains; 2% dividend income.

Estate Planning

Estate Planning in the News: Contesting a Will

As the saying goes: "*Where there is a will...there is a relative.*"

While meant to be a humourous twist on the saying "*where there's a will, there's a way*," it is also a reminder that within the estate settlement process there are beneficiaries involved. And, when more assets are involved, there is often a greater chance of conflict. One of the latest high-profile estate planning conflicts to make the headlines is that the will of Elvis Presley's daughter is being contested. This has prompted some to ask how easy it is to contest a will.

Generally, there are very specific legal grounds for which a will can be challenged — it cannot be for reasons such as a beneficiary feeling they are being unfairly treated. Those may include "testamentary" capacity, such as when the person who created the will (known as the "testator") did not have the mental capacity to understand the implications of their will when they created it; for instance, if they were suffering from a mental disorder, such as dementia, that could affect their judgment. There may be reasonable grounds if the will was not properly executed and proper legal steps weren't taken to make the will valid, as in the case where the testator signed the will in the presence of two witnesses, but the witnesses failed to sign it. In some provinces, the witnesses cannot be beneficiaries of the will, as an example. Another common reason for challenging a will is due to "undue influence" if it can be shown that the testator was coerced into changing their will. Depending on province, there may also be grounds to challenge a will if there is no provision made in the will for dependents or a spouse.

There is often a limitation period in which a will can be challenged, sometimes limited to a period from the date the potential challenger became aware of their case.* It can become a costly and time-consuming process, and one that is likely to create further emotional conflict.

Notably, this should remind us of the importance of carefully constructing our own will to ensure that it not only carries out our wishes as intended, but is also done in a way that minimizes future conflict or potential contestation. This includes drafting wills while in good health, making sure the document is legally executed and periodically revisiting it to account for any changes to circumstances or wishes. As always, it is recommended to seek the support of a lawyer and estate planning specialist as it relates to your situation.

*Each province/territory has its own rules.

When Was the Last Time You Revisited Your Will?

Despite the recent pandemic and the suggestion that more Canadians were influenced into preparing/updating estate planning documents,[1] it seems as though the statistics on wills haven't changed significantly. A recent survey suggests that 52 percent of Canadians still don't have a will and that number jumps to 70 percent for those ages 18 to 34 and 66 percent for those ages 35 to 54.[2]

1. https://www.newswire.ca/news-releases/pandemic-influenced-canadians-to-prepare-estate-planning-documents-832378633.html; 2. https://www.newswire.ca/news-releases/more-than-half-of-younger-canadians-are-including-charitable-giving-in-wills-rbc-royal-trust-survey-803551073.html

The Power of Attorney is Often Overlooked

What is your "cognitive life expectancy?" One study suggests that, on average, brain health declines around 12 years after the age of 65.[1]

This means that once we reach an average life expectancy, we are likely to experience cognitive decline. Those over age 85 have a one-in-four likelihood of suffering from some form of dementia.[2] And yet, many of us do not plan for incapacity. The power of attorney (POA) is one important part of this planning, yet it has sometimes been referred to by estate planners as the "ignored middle child of estate planning." While the names/obligations vary based on province of residence, generally two types of POA are intended to protect you should you become incapacitated: i) POA for property, which includes managing finances and other assets on behalf of the incapacitated; and ii) POA for personal care, which includes making healthcare decisions.

Even if a POA exists, there is the potential for future complications. There may be a situation in which the attorney* may not be in a position to act. In this case, you will want to name a contingent attorney who can step in. Also consider family dynamics and disharmony that may arise. Here are some other complications:

Failing to discuss personal wishes or provide specific instructions. Communicating wishes with family members and your attorney while still capable can go a long way to preserve harmony and ensure your wishes for your property and personal care are carried out. Recent surveys suggest the vast majority aren't having these critical discussions. In one unfortunate case that led to litigation, two brothers couldn't agree on the type of care for their mother — one wanted life-prolonging care while the other wanted hospitalization only for comfort.[3]

Conflict between multiple attorneys. Many parents may feel a need to treat children fairly by jointly naming them as attorneys; however, the greater the number of attorneys appointed, the greater the opportunity for conflict.

Attorneys have not been updated. While all estate planning documents should be reviewed following changes that may impact your estate plan, updates may be required in other circumstances such as to address the incapacity/death of a named attorney. Consider the complications if an attorney moves outside the country, i.e., a non-resident attorney for property may be subject to rules that prohibit a financial advisor from receiving instructions.

How well are we planning for future health and LTC?

According to a recent survey, we may not be doing a good job:

- 66% have no concept of the associated cost of health and LTC;
- Only 29% are having discussions with family members;
- 22% of those ages 55 and older said they "don't like to think about long-term care needs;"
- 23% don't think health considerations will apply to them.

Source: https://www.advisor.ca/news/industry-news/most-canadians-arent-planning-for-long-term-care-costs-survey/

Underestimating the cost of care. Keep in mind that the appointed attorney for personal care is not personally responsible for funding the financial obligations for any desired care. If the associated costs are not planned for, alternate care may need to be considered, possibly against the individual's wishes. Often overlooked is the cost of care associated with incapacity, such as long-term care (LTC), which can average around $36,000 per year for a private room at an LTC facility, or in excess of $130,000 at home.[4] Planning for this care can help protect family members from an unexpected financial burden, as often when children are appointed under the POA, they may feel pressure to contribute.

How We Can Help

It is important to have updated POA documents as part of planning for incapacity. As advisors, we can provide other safeguards to help protect you in the event of incapacity. One such tool is the trusted contact person (TCP) — someone that you have authorized us to speak to if there are concerns. Also important is building the potential costs of care into your wealth plan. This may include exploring tools, such as supplementary insurance options. As always, we recommend seeking the advice of an estate planning professional when it comes to estate planning documentation.

*The person designated to make decisions under the POA. 1. www.washingtonpost.com/national/health-science/research-shows-that-the-prevalence-of-dementia-has-fallen-in-the-united-states/2018/06/15/636d61ac-6fd1-11e8-bf86-a2351b5ece99_story.html; 2. www.cihi.ca/en/dementia-in-canada/dementia-in-canada-summary; 3. White v White, 2017 ONSC 4550, https://www.canlii.org/en/on/onsc/doc/2017/2017onsc4550/2017onsc4550.html; 4. Based on $33,349/year (2021), grossed up by 4% per year. www.advisor.ca/news/industry-news/most-canadians-arent-planning-for-long-term-care-costs-survey/. At home, based on avg. cost of care of $30/hour, 12 hours/day, 365 days/year.

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