TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Spring 2017

Focus on What You Can Control

Adding to the many challenges facing investors over recent years, we are now confronted by political changes in the world's biggest economy. The increasingly protectionist stance held by the U.S. has been top of mind for many investors since Trump took office on January 20th. While Trump's administration has indicated that Canada is not likely to be significantly affected by trade agreement changes, the path forward will, no doubt, have an impact on the Canadian economy and the global financial markets.

Political change south of the border may also bring opportunity. The revival of the Keystone XL pipeline project has brought optimism to the struggling resources sector. Expected U.S. deregulation and tax reform have been a source of investor confidence, with North American equity markets hitting record highs in the first quarter.

As investors watch anxiously to understand the effects of new U.S policies, we should remember that political decisions cannot be controlled. Equally important, financial markets have faced similar challenges over time, yet have remained relatively resilient and adapted accordingly. Instead, consideration should be given to the things that can be controlled. Here are some thoughts:

Participate. One of the greatest risks in investing is not participating. Recall the start of 2016, which began with a dramatic drop in the markets. Pessimists, not unreasonably, predicted a market meltdown. But since that time (and to the time of writing), the markets have performed well, even after the surprise outcomes of the Brexit and U.S election votes. Investors who avoided the markets would have missed out on these gains. Focusing on the short term is often counterproductive. Instead, participate with a longer-term view in mind.

Spring is the season of change! The name of this newsletter has been updated to better reflect its goal: to provide you with useful and timely insights on the many aspects that affect wealth management. Ideas or suggestions for future inclusions are always welcome.

Anderssen Wealth Management

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"Helping clients make better decisions."

Put trust in your plan. Market volatility is likely to be a common occurrence as Trump's sometimes controversial policies continue to be introduced. Don't listen to the noise. Your portfolio has been built keeping the elements of diversification and asset allocation in mind. These elements have been put in place to help weather short-term periods of volatility. At the same time, remember that volatility often brings opportunity.

Save more. While we will never be able to control the direction of the markets, we can control certain aspects of our finances to make a significant impact. Saving continues to be a cornerstone in generating future wealth. We can also take action to minimize the amount that is sent into government hands. It is tax season and an article on page 3 explores some potential ways to minimize taxes.

Stay the course. Uncertainties will always be a part of the financial markets. Focus on your longer-term objectives and keep building your investment portfolio with them in mind.

As always, we are here to help. Please call if you have questions.

Take Advantage of Tax-Free Growth

TFSA: Don't Delay!

Are you one of the many Canadians who still has unused Tax-Free Savings Account (TFSA) contribution room? Latest statistics show that only around one in five TFSA holders has fully contributed to a TFSA.[1] With cumulative contribution room for eligible Canadians now at $52,000,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who has maximized annual TFSA contribution room since inception. With no further contributions, in 30 years, the investor would have over $270,000 — at an assumed 5 percent rate of return per annum (see table). Most importantly, income earned will generally not be subject to tax.

TFSA Contribution Room Limits

Year	TFSA Annual Limit	Cumulative Total
2009 to 2012	$5,000	$20,000
2013 & 2014	$5,500	$31,000
2015	$10,000	$41,000
2016 & 2017	$5,500	$52,000

*In 20 years..$166,778**
*In 30 years..$271,665**
*In 40 years..$442,512**
**At 5% compounded annual rate of return since TFSA inception in 2009*

What Is Your TFSA Strategy?

Don't overlook the opportunity to grow assets on a tax-free basis in the TFSA. Some investors have chosen to hold interest-bearing investments inside the plan, possibly due to the fact that the TFSA was introduced as a "savings account" back in 2009. However, TFSAs need not to be limited to savings accounts. Longer-term investors should focus on the return potential of the TFSA based on personal risk tolerance levels. The opportunity to achieve longer-term, compounded growth and maximize funds that will not be subject to tax is significant.

Investment Location Can Make a Difference

Remember that different types of investment accounts are subject to tax in different ways. A TFSA may not be an ideal place to hold non-Canadian investments because many countries impose a withholding tax on income paid to foreign investors. Under the TFSA, tax credits are not available to Canadian investors in respect of foreign taxes withheld, whereas such credits should be available on foreign taxes paid in non-registered accounts. For U.S. stocks, under the Canada/U.S. tax treaty, there is an exemption from withholding taxes on U.S. dividends paid to a registered Retirement Savings Plan (RSP) or registered Retirement Income Fund (RIF), but this exemption does not apply to the TFSA. As such, foreign investments may be better held in non-TFSA accounts.

Why not make the best of your TFSA? Please call to discuss.

Notes: 1. Canada Revenue Agency, 2016 TFSA Statistics (for 2014 year); 2. Assuming a TFSA has not been contributed to.

Use Your TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals (no limitations on timing or amounts to be withdrawn) can make the TFSA a significant retirement planning tool with potential opportunities to:

- Preserve income-tested benefits or tax credits
- Reduce taxable income in retirement
- Minimize tax by withdrawing RIF funds in excess of the required minimums in years where your marginal tax rate is low related to expected future rates
- Supplement income to allow for the deferral of CPP/QPP benefits, thereby maximizing their value

In Short: Estate Planning & Joint Ownership Pitfalls

It is common for spouses to jointly own assets, but, more frequently, parents and adult children are holding assets in joint ownership, such as investment accounts or properties.[1] This may help with the management of assets as parents age, allow for ease of transfer of assets after the death of the parent and minimize estate administration tax (where applicable). However, holding assets in joint ownership with children may have some unintended consequences. Here are just a few:

The estate may not be equalized. Jointly-owned property will not form part of the estate. If the intent is to equalize an estate for multiple beneficiaries, there is no guarantee that a child will share the asset held in joint ownership after the death of the parent, which has sometimes led to court disputes. Income and estate administration taxes may also unevenly impact the value of an estate which includes jointly-owned property. In these situations, experts suggest documenting your intentions.

There may be tax implications. For example, transferring property to joint ownership may, depending on the form of joint ownership chosen, trigger a deemed capital gain with tax payable in the year of transfer. As well, where the property transferred is a residence, the transfer may lead to sub-optimal use of the principal residence exemption. For certain assets, other planning tools (such as using a trust) may have better tax outcomes.

Assets could be exposed to creditors or a former spouse of a joint owner. This may occur in the event of financial difficulties or a marriage breakdown.

These are only some of the potential complications of holding assets in joint ownership with children. Consult with legal and estate planning experts for advice on your particular situation.

Note: 1. "Joint ownership" refers to a situation in which an asset is owned by more than one person with rights of survivorship and is separate from the legal concept of tenants in common. Not applicable in the province of Quebec.

Personal Income Tax Season is Here

Saving Tax is an All-Year Job

For most individuals, April 30th is the tax-filing deadline for the previous year. It's a time when taxes are top of mind as we deal with receipts and returns. Did you take action last year to reduce your tax bill for 2016? If the answer is no, perhaps you can do better this year. Here are five ways to help minimize your payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. Instead, consider completing a new TD1 form with your employer, which is used to calculate how much tax to deduct from your pay cheque. You may also file CRA Form T1213 if you know you'll have significant deductions in a given year to reduce the tax taken from your pay.

Maximize Your RSP & TFSA — For registered Retirement Savings Plans (RSPs), consider setting up a monthly contribution plan: if you provide your employer with confirmation of the deductibility of these contributions, the employer may reduce the amount of tax withheld at source. Don't underestimate the value of tax-free compounded growth through a Tax-Free Savings Account (TFSA) — ensure you have maximized your contribution.

Income-Split with Your Spouse — If your spouse/common-law partner (CLP) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with your spouse/CLP. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

Income-Split with Children — You may be able to create in-trust accounts for minor children that invest in assets to generate capital gains. The attribution rules[1] will not apply to capital gains income earned by minor children but will need to be included in the child's tax return. As well, consider a prescribed rate loan to a family trust.

If Over 64, Start a RIF — The pension income tax credit kicks in at age 65, allowing for a tax credit on up to $2,000 of eligible pension income. If you don't have a company pension, consider setting up a small RIF for the year you turn 65 (or sooner if you are widowed) in order to create eligible pension income. Remember that you don't have to convert your RSP into an RIF until the year that you turn age 71, so this may be a great way to take advantage of the pension tax credit.

Of course, these ideas and others depend on your own personal circumstances. Please seek the advice of a professional tax accountant, or call if you have questions. Now is the time to take action to maximize your tax savings for 2017!

Notes: 1. Income is normally attributed back to the person giving the gift or loan.

The Gamma Factor and the Value of Advice

How can having longstanding advice translate into value?

The "gamma factor" — the discipline associated with longstanding financial advice — may make a significant difference in wealth building. According to a recent study, the gamma factor may help to explain the additional assets of Canadians who use the advice of an advisor. Canadian households with a financial advisor for 15 years or more accumulated 290 percent more assets than households who did not use the services of an advisor.

The success of the gamma factor is largely attributed to two factors. First, investors who work with an advisor have increased savings rates. As advisors, we help to encourage good saving habits, which can lead to greater wealth accumulation over the long run. The second factor is the ability to stay disciplined through both positive and negative market cycles. Staying invested can play an important role in generating wealth over time.

Have confidence that your wealth and investment plan is working to help you achieve your future goals — the gamma factor is on your side.

Helps Build Wealth

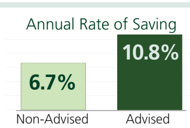
Households with an advisor for 15+ years accumulated 290% more assets.

Accumulated Assets

+290%

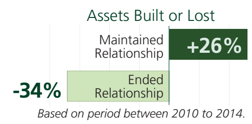
Promotes Saving Habits

Canadians with an advisor had a greater annual rate of saving.



May Help to Drive Results

Those who maintained the services of an advisor continued to build assets.



Source: "The Gamma Factor and the Value of Financial Advice", Centre for Interuniversity Research and Analysis of Organizations, 2016.

The Benefits of Having a Portfolio Manager

The investing world is constantly evolving. Consider that just 25 years ago, equity diversification largely meant looking at major economies in Europe and Japan, while fixed income portfolios were mainly focused on government and corporate bonds. Over the years, globalization, new technologies and innovative changes to the capital markets have created greater opportunities for investors, including new investment products and solutions. As the world changes, investor portfolios continue to adapt and so has the way that portfolios are managed. Having a portfolio manager can provide benefits.

What Is Portfolio Management?

A portfolio manager controls the daily decision-making functions of the portfolio, having "discretionary" control to make buy or sell decisions on behalf of the investor. Discretionary management doesn't mean that an investor loses control — the parameters of the account's management are clearly set out based on the investor's risk tolerance, goals, requirements and investment wishes.

Discretionary management allows for a more active approach to managing an investor's portfolio. Without discretionary management, it is often neither practical nor prudent for an investment advisor to make active decisions for every investor on an ongoing basis; it would be extremely time consuming to achieve buy/sell approvals for so many transactions. Discretionary management allows the advisor to more easily make changes in response to market conditions or an investor's changing needs, or to quickly capitalize on opportunities.

Why Is This Important?

Two of the most important responsibilities of an investment advisor are to manage portfolio asset allocation and risk for an investor, and both require changes over time.

Asset allocation — Given that the risk and return profiles of asset classes continue to evolve, and certain holdings perform better than others, regular portfolio rebalancing remains an important activity. Discretionary management allows changes to be made with ease should things become unbalanced.

Risk Management — As risk managers, we are constantly monitoring the investment environment and making adjustments where necessary and in accordance with an investor's specific level of risk tolerance. Under certain circumstances, risk management may also require acting defensively and taking appropriate positions in a timely manner to enhance the long-term success of an investor's portfolio. Discretionary management facilitates this process.

Equally important, discretionary management helps to remove investor emotion, which is often attributed to portfolio underperformance. For example, an investor may be reluctant to sell a particular security because it has performed well in the past. However if it has caused a particular asset class to be overly dominant, there may be greater risks involved should the risk/return profile of the asset class change. Through discretionary management, portfolio managers can also act quickly to seize buying or selling opportunities. This saves the investor time, allowing them to stay focused on what matters most.

Trust Is Key

As portfolio managers, we are aware that developing a high level of trust with the investor preserves the discretionary relationship. Portfolio managers operate under strict ethics requirements that emphasize acting with care and honesty, taking into consideration individual investors' needs. Portfolio managers represent a very small percentage of investment advisors in Canada and the designation typically requires some of the highest levels of education and experience in the investment industry.

If you have questions about the management of your portfolio, or the potential benefits provided by portfolio managers, please get in touch.

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