TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Summer 2019

Amritpal (Paul) Gill
FCSI®, CFP®, CIM®, CIWM
Vice President
Portfolio Manager
Investment Advisor

520 - 17th Street, Suite 200
West Vancouver, BC V7V 3S8
604 981 4580

amritpal.gill@td.com
www.gillwealth.ca

In This Issue

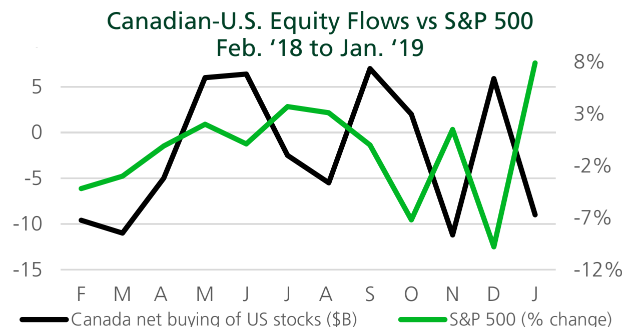
Finding Zen in Your Finances 2
Federal Budget: ALDAs 3
Gifting Funds to Adult Children 3
Risk Tolerance & the Markets 4

The Art of Being Patient

The warm weather has arrived and with it brings summer vacation: a time when some of us look forward to doing nothing.

But for many of us, sitting still can be difficult. No more is this true when it comes to investing during periods of market volatility. Most humans are hardwired to want to take action in times of vulnerability. We're all familiar with the phrase: "don't just sit there, do something!"

However, a recent Globe & Mail article[1] highlighted that many investors can be their own worst enemies when lured by market volatility. During the volatility in 2018, Canadian inflows and outflows into U.S. stocks lagged market performance (see chart). Many investors incorrectly timed the markets, resulting in performance chasing.



Nobel Prize winning economist Daniel Kahneman attributes this to a natural tendency for investors to default to "fast thinking" when making decisions. This is often driven by emotion, which can overtake a slower, more analytical thought process. A simple math problem illustrates how fast thinking can work: If a baseball bat and ball cost a total of $1.10, and the bat costs $1.00 more than the ball, how much does the ball cost? Intuition and fast thinking can lead most people to answer $0.10, which is incorrect.*[2]

Of course, there may be good reasons for selling securities, such as rebalancing to restore asset allocation or taking gains after a long bull run. But if simply reacting to rises or drops in the market is driving these decisions, many investors may be better off by just staying put.

Timing the market is difficult because equity markets are largely unpredictable. Take the extended equity bull market run — for years, many market commentators have been calling its top. Despite sluggish economic conditions, the first four months of this year still saw equity markets climb without interruption. These are unprecedented times. Never before have central banks held rates at low levels for such lengthy periods. While the role of a central bank is not to stabilize the markets, equity markets have largely been tempered by decisions to hold interest rates steady.

Renowned investor Warren Buffett once described his investing style as "lethargy bordering on sloth." Perhaps there may be some sage advice gleaned from those summer vacation plans: go ahead, don't just do something, sit there!

Answer: $0.05 ball plus $1.05 bat equals $1.10. Sources: 1. "Investors Are Their Own Worst Enemies", T. Shufelt, Globe & Mail, 3/27/19; 2. Thinking Fast & Slow, D. Kahneman, Anchor Canada, 2013.

Summer Organizing

Less is More: Finding Administrative Zen in Your Finances

Marie Kondo, a Japanese organizational consultant, has developed an almost evangelical following by helping people transform their lives through decluttering. Beyond her seemingly complex folding techniques, one of the central tenets of her teaching is to keep only those belongings that spark joy.

While it may be a bit of an overreach to think of the everyday administrative aspects of our finances as sparking joy, there may still be a lesson learned from Kondo: Less can be more. Here are some tips to help you apply this practice to your financial life:

1. Consolidate accounts — Consider the potential benefits of consolidating multiple bank or investment accounts where possible, which may provide better asset allocation, improved tax efficiency, easier administration, and no "orphan" accounts forgotten over time.

2. Set up a simple organizing system — If you don't yet have files set up for your paper documents, start by sorting through documents and creating broad categories, such as bank, mortgage, utility bills or contracts. Once you've checked for accuracy, create folders or storage for each set of papers.

3. Organize digital files — Paper clutter has evolved into electronic clutter. Similar to a paper organizing system, devise a consistent way to file digital files, such as *"Account_YY_MM_DD".*

4. Purge — Purge older and unnecessary paper documents on a regular basis by shredding to prevent identity theft. The Income Tax Regulations require keeping tax-related documents for six years from the end of the year to which they relate. Archive older digital files to free up disk space.

5. Organize the way you transact — Be systematic about the way you make payments. Automate payments, such as for utilities, to help avoid late payment penalties. Organize payment dates to help avoid missed payments, such as requesting a change in credit card payment due dates to coordinate across different cards. Consider dedicating credit cards to certain types of purchases, such as a credit card solely for online shopping. This can help to simplify cancellations in the event a card is compromised due to fraud.

6. Handle email more efficiently — Most people receive hundreds of emails per week and it isn't uncommon for emails to be missed, including important bills or notifications. Consider setting up an email account dedicated to finances that is separate from one used to communicate with friends and family. This may help to free up a personal inbox and improve its security. Email filters can be set up to sort important emails, automatically filtering out those you are cc'd on or separating marketing material to read at a later time. Unsubscribe to marketing emails that you don't read.

Contingency Planning

Do You Have an Emergency Fund?

As part of your wealth plan, do you have an emergency fund? This is typically the equivalent of three to six months of living expenses set aside in the event of unexpected life events such as job loss, home repairs or medical costs. The obvious benefit is to help buffer against financial implications, while helping to avoid unnecessary debt. This may also help to provide comfort knowing that a contingency is in place should life throw an unexpected curve ball.

Even the Wealthy Can Benefit

A common belief is that if you have enough assets, you don't need emergency savings. Of course, being wealthy doesn't eliminate the chance that unexpected events won't happen, and it may even mean that larger daily expenses will need to be covered.

Often times, clients suggest that they do not need emergency savings because they can access their investments. But don't overlook one of the strongest arguments for having an emergency fund for wealthy investors: Helping to avoid the need to liquidate investments on short notice.

In working towards your financial goals, your investment portfolio needs to grow without being raided for short-term cash needs. Liquidating investments can also trigger taxes, such as capital gains in non-registered accounts. An early withdrawal from a registered Retirement Savings Plan (RSP) would result in immediate

withholding tax and the amount would be included in taxable income for the year, potentially impacting your marginal tax rate. Equally important, equity markets are cyclical by nature. You don't want to be forced to liquidate positions in order to cover emergencies during a downturn.

It May Matter More in Retirement

In retirement, while you may no longer need emergency savings to replace a missed paycheque, you may still encounter unanticipated costs such as home repairs or health care. Debt can be worse for seniors on a fixed income, especially if interest rates rise; and, without employment, it may be harder to pay back monies owed. Liquidating investments to generate income could also trigger unanticipated taxes, or may lead to other consequences such as the loss of income-tested benefits such as Old Age Security (OAS).

Retirement Planning

Federal Budget Highlight: Advanced Life Deferred Annuity

Here's to growing old! Centenarians, those 100 years of age or older, are the fastest growing age group in Canada.[1] We are living longer: in fact, if you are 65 years old, your life expectancy is at least 84 years for men and 87 years for women.[2] By 2051, it is expected that there will be around 2.7 million Canadians who will be 85 years old or older.[3]

Now, there may be good news in addressing this growing longevity. The recent federal budget introduced a new type of annuity for certain registered plans called an "advanced life deferred annuity" (ALDA). An annuity is a financial product that pays policy owners a fixed stream of payments in the future. An ALDA is intended to provide greater flexibility as it will allow for the holder to defer a portion of income withdrawals normally required at the age of 71 from certain registered plans.

Beginning in 2020, under the proposed rules that have yet to be implemented,* an ALDA will be a qualifying annuity purchase within a registered Retirement Savings Plan (RSP), registered Retirement Income Fund (RIF), and certain other qualifying pension plans.** The value of the ALDA will not be included in the calculation of the mandatory minimum withdrawal amounts required at age 71, and the commencement of payments can be deferred until the end of the year in which the holder turns 85 years old. The amount of the ALDA will generally be limited to 25 percent of the value of a qualifying plan (based on the previous year's value), with a total lifetime dollar limit of $150,000 from all qualifying plans (in 2020 terms, indexed to inflation).

Some retirees have been reluctant to purchase annuities for various reasons including the potential value lost due to an early death,

as well as lower returns from today's low rate environment since payments are tied to interest rates. The proposal to limit the ALDA's lump-sum death benefit to no more than the premium paid may also be a deterrent.

However, the potential introduction of the ALDA may allow retirees to benefit from keeping their savings in a tax-sheltered investment vehicle for longer. This may result in an individual being taxed at a lower marginal income tax rate. For those who are still working into their 70s, it may also help to preserve income-tested benefits like OAS.

Certain requirements will need to be met in order for an ALDA to qualify. Please stay tuned as more information is released on this particular measure.

*The spring Budget Implementation Act did not include passing of the laws to ratify the ALDA. **Such as: Deferred Profit Sharing Plans (DPSPs), Pooled Registered Pension Plans (PRPPs), Defined Contribution Registered Pension Plans (RPPs). Be aware that the terms of a qualifying plan may require amendment to permit the purchase of an ALDA.

1. thestar.com/news/canada/2017/05/03/100-year-old-canadians-fast-growing-age-group-in-the-country.html; 2. Latest OECD estimates 2015; data.oecd.org/healthstat/life-expectancy-at-65.htm; 3. Based on 2016 Statistics Canada census.

Thinking About Gifting Funds to Adult Children?

Given the rising costs to own a home or earn a higher education, it could be argued that kids, in many ways, have it harder today (see chart to right). Given these challenges, we are often asked about the opportunity to gift funds to children. There are many other reasons to gift funds: It may be fulfilling to see how funds are put to work while you are alive, or when they are most needed by a child. Others may wish to die with as few assets as possible.

If you are thinking of gifting funds to adult children, here are three things to keep in mind:

1. Plan Ahead with Care. Before you consider gifting, ensure that you will have sufficient funds for your own retirement. There have been cases in which parents have suffered financial difficulties down the line because too much was gifted to children. As life expectancies rise, planning sufficiently for longevity and its associated costs is something we can assist with.

2. Let it Go. One of the major concerns with married/common-law children is what happens in the event the couple splits? But, if this is truly a gift, consider that it should have no strings attached. If there is a desire to try and protect funds, this should be planned

Average Cost	1984		2019	% Change
	Actual	In 2019 $*		
Canadian home	$76,214[A]	$171,132	$480,000[B]	180%
Tuition	$1,058[A]	$2,376	$6,838[C]	188%

*Adjusted for inflation. Sources: A) Globe & Mail "2012 vs 1984: Young Adults Really Do Have It Harder Today"; B) cbc.ca/news/business/crea-house-price-march-1.5098120; C) Statistics Canada 37-10-003-01

from the onset. Various arrangements may be viable alternatives to a gift. For instance, if funds are to be used to purchase a home, they may instead be gifted to a trust for purchase. Or, a loan may be chosen over a gift. As family law varies by province, seek legal assistance in the province where the child resides.

3. Clarify to Avoid Future Discrepancies. It may be beneficial to create and retain documentation to help avoid future disputes. If the intention is to eventually equalize your estate between multiple beneficiaries, the gift could be structured in advance of a beneficiary's future inheritance. Either way, this should be clearly communicated or documented. It isn't unheard of to have family members question a past gift when settling an estate.

Speak with a legal professional about your particular situation.

Risk Tolerance: Shouldn't Change with the Markets

One of the questions I've had from clients during the prolonged bull market is: how often should I change my risk tolerance?

The answer tends to be not often. Risk tolerance is the personal comfort level that an investor has with financial risk in the markets. In the most basic sense, it is your ability to stomach swings in the markets in exchange for potentially higher future returns. Risk tolerance doesn't vary greatly. Consider the answer to this question: how would you respond to a 15 percent drop in your investments? Most people's reaction and level of comfort in this situation would likely not vary over time.

With time and evolving circumstances, however, your capacity to take on financial risk may change. This is your ability to withstand a financial shock and it may have an impact on your risk tolerance. Here are some events that may impact risk capacity:

A major life event, such as a marriage or kids. Marriage or the birth of a child may lower your capacity for risk as you account for large expenses, such as a new home or a child's education. Often, spouses differ in their risk tolerance levels. Some studies have shown that men tend to have a higher risk tolerance than women[1] so common ground may need to be reached when managing finances.

A health crisis. Unexpected medical bills or your ability to generate income into the future may impact your timeline and ability to achieve your financial goals.

Changes to net worth or income. Your level of wealth may impact your capacity for risk. For instance, the greater your excess income, the easier it may be to weather a downturn without it affecting your lifestyle.

One Reason to Adjust Risk Tolerance: Age

As you age, changes to risk tolerance levels can be expected. You may become more risk averse because you

may not have the same sources of income and you will need to preserve your wealth for retirement. With a shorter time horizon, recovering from market volatility may be more challenging, which may prompt you to lower your risk tolerance level.

One Reason Not to Adjust: Fluctuations in the Markets

Your risk tolerance should not fluctuate based on market conditions. Changing your risk tolerance in response to market performance can be seen in a similar light to attempting to time the markets by buying and selling shares. It may be tempting to want to lower your risk after you have incurred a loss, just as you might want to raise your tolerance after benefitting from a gain. But the performance of the markets, and the emotions of fear or greed, should not be a cause to reevaluate your tolerance to risk.

Please Get in Touch

If you have any questions about this, or any other investing matters, please call.

1. advisor.ca/my-practice/conversations/how-gender-and-risk-tolerance-affect-advice/

With the Compliments of:

Amritpal (Paul) Gill, FCSI®, CFP®, CIM®, CIWM
Vice President, Portfolio Manager, Investment Advisor
604 981 4580 amritpal.gill@td.com

Stephanie Clark
Client Service Associate
604 981 4458 stephanie.j.clark@td.com

Sandra J. Earle, FMA, FCSI®
Client Service Associate
604 981 4452 sandy.earle@td.com

Gill Wealth Management Group
TD Wealth Private Investment Advice
520 - 17th Street, Suite 200
West Vancouver, BC V7V 3S8

TF: 1 888 724 0708
Branch: 604 981 4400
Fax: 604 981 4445

www.gillwealth.ca

Gill
Wealth Management Group

The information contained herein has been provided by J. Hirasawa & Associates for TD Wealth Private Investment Advice and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. All third party products and services referred to or advertised in this newsletter are sold by the company or organization named. While these products or services may serve as valuable aids to the independent investor, TD Wealth does not specifically endorse any of these products or services. The third party products and services referred to, or advertised in this newsletter, are available as a convenience to its customers only, and TD Wealth is not liable for any claims, losses or damages however arising out of any purchase or use of third party products or services. All insurance products and services are offered by life licensed advisors of TD Waterhouse Insurance Services Inc. TD Wealth Private Investment Advice is a division of TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. TD Waterhouse Canada Inc. - Member of the Canadian Investor Protection Fund. All trademarks are the property of their respective owners. ®The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.
Gill Wealth Management Group consists Paul Gill, Vice President, Portfolio Manager, Investment Advisor. Gill Wealth Management Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc.