

# Wealth Insights

TD Wealth Private Investment Advice

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**Michael Peters**  
B.Comm., CIM®, FCSI®, CIWM  
Vice-President  
Investment Advisor  
Certified Retirement Specialist  
1 (877) 717-6465  
(250) 717-8135  
michael.peters@td.com  
www.michaelpeters.ca

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## We, the North

It isn't too difficult to contemplate that if Warren Buffett had been born in 1920s Germany, his story would likely have unfolded differently than the one we know. For many of us, there is an element of serendipitous “luck” involved in the generation and country we are born into.

In many ways, there's never been a better time to be an investor living in Canada. Today, it is easy to spend time worrying about the concerns reported by the media and lose sight of the many positives. As this is the Thanksgiving season, here are some things to be thankful for.

We are a nation of peace, prosperity, inclusivity and resilience. Year after year, Canada consistently ranks at the top of many global indices: 3<sup>rd</sup> in the Best Countries Ranking (2019), based on global perceptions; 8<sup>th</sup> in the Index of Economic Freedom (2019), due to strong liberties and a free market system that rewards hard work; and 9<sup>th</sup> in the World Economic Forum Happiest Countries Index (2019).<sup>1</sup> We also have one of the world's largest wealth markets.<sup>2</sup> Our financial systems continue to be widely regarded for their stability, as evident during the 2007/08 crisis when many U.S. financial institutions went bankrupt. Even as commodity prices struggled over recent years, we have pushed towards economic recovery.

Canadians have one of the highest life expectancies globally, thanks in part to our healthcare system. The average Canadian retires around age 63; just 100 years ago, most people died before reaching age 60.<sup>3</sup> When compared to our neighbours to the south, we rank higher on virtually every measure including life expectancy, education and net worth. As a Maclean's magazine article aptly put it: “the American dream has moved to Canada.”<sup>4</sup>

While it has been a solid year for equity markets, more recently there has been no shortage of gloomy news: civil unrest in Hong Kong, political upheaval in Argentina, and contracting economies in Germany and the U.K. For many, it has been challenging to be at ease: where are the markets and the economy headed? But this is not a normal economic cycle left to run by itself. Central banks continue their stimulus efforts, which have helped support equity markets. In July, the U.S. Federal Reserve cut its overnight rate for the first time in over a decade. Will these efforts help to keep recessionary concerns at bay?

Of course, the economic cycle is inevitable. Yet, modern capital markets have always adjusted and progressed. Worth remembering: over the past 25 years, the equity market went up 393 percent in spite of two recessions, collectively lasting 32 months, and three bear markets totalling 38 months, two of which saw drops of over 40 percent.<sup>5</sup> The investing journey is a long one filled with ups and downs and the ability to keep focused can be key to longer-term success.

We have much to be proud of as Canadians. During this season of “thanks”, I am reminded of many of these things. I am also grateful to you. Thank you for entrusting me to be a steward of your wealth. I remain here to be of service to you.

1. 2019 Best Countries, US News; Index of Economic Freedom, Wall Street Journal; 2. [issuu.com/embed.html?u=newworldwealth&d=gwmr\\_2019](https://www.issuu.com/embed.html?u=newworldwealth&d=gwmr_2019); 3. [150.statcan.gc.ca/h1/pub/11-630-x/11-630-x2016002-eng.htm](https://150.statcan.gc.ca/h1/pub/11-630-x/11-630-x2016002-eng.htm); 4. [macleans.ca/news/canada/the-american-dream-moved-to-canada/](https://www.macleans.ca/news/canada/the-american-dream-moved-to-canada/); 5. S&P/TSX Composite Index. 7/29/94 to 7/31/19.

## Sage Advice for the Final Months of the Year

# Year-End Financial Housekeeping, Buffett Style

As we approach the final months of the year, why not derive inspiration from one of the greatest investors of our time? Here is some sage advice from Warren Buffett as it relates to your year-end financial housekeeping:

**“Predicting rain doesn’t count, building the ark does.”**

Don’t allow current media commentary to dissuade you from continuing to build your portfolio for the future. Time in the market, not timing the market, can be key to investing success. Have you fully contributed to tax-advantaged accounts, such as the Tax-Free Savings Account (TFSA)? Or, consider making registered Retirement Savings Plan (RSP) contributions for 2019. You still have until 60 days after the calendar year to make RSP contributions for the 2019 tax year.

**“Do not save what is left after spending; instead spend what is left after saving.”**

Improve your savings by employing potential tax strategies. Depending on your circumstances, it may be possible to lower a couple’s overall income taxes through income-splitting strategies with a spouse<sup>1</sup> in a lower marginal tax bracket. For example, if you are a business owner, and a spouse assists with the business, paying a reasonable salary to a spouse could have tax benefits. If you receive pension income, explore whether it is beneficial to elect to split eligible pension income on your tax return. If you are 65 years old or older and not receiving eligible pension income, consider purchasing an annuity or opening a registered Retirement Income Fund (RIF); income from these sources may allow you to claim the federal pension income tax credit.

**“The most important thing to do if you find yourself in a hole is to stop digging.”**



Where prudent from an investment perspective, consider realizing capital losses to offset capital gains realized in 2019, or make use of the loss carry-back rules to recover taxes paid on taxable capital gains realized in three preceding taxation years.

**“I believe in giving my kids enough so they can do anything, but not so much that they can do nothing.”**

Fund a Registered Education Savings Plan (RESP) to support a child’s higher education. Consider making a contribution before year end to potentially benefit from the Canada Education Savings Grant (CESG) in the current year.<sup>2</sup>

**“If you’re in the luckiest one percent of humanity, you owe it to the rest of humanity to think about the other 99 percent.”**

Charitable donations made before Dec. 31 may be eligible for deductions for your 2019 taxes. Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax.

**“The most important quality for an investor is temperament... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.”**

Being a disciplined investor often means resisting the temptation to act on emotion: during bull market times, it may be greed; during bear market times, it is often fear. Markets will always have ups and downs; your plan has been put in place to meet your goals throughout the inevitable cycles. Look forward with confidence.

Please call for assistance. For tax-loss selling or gifting publicly-traded securities, let’s discuss taking action well before year end.

Thank you to Warren Buffett for permission to use his quotations. 1. Or common-law partner; 2. Unused amounts can be carried forward.

## The Yield Curve & Interest Rates: Where Are We Headed?

If you follow business news, no doubt you have been hearing much about the inverted yield curve. A yield curve is a line that plots the interest rates of similar bonds that have differing maturity dates. Normally, the yields for longer-term bonds are higher than short-term bonds because bondholders are traditionally rewarded for a longer holding period with a higher interest rate. An inverted yield curve does the opposite, offering greater reward today than in the future. In August, a Canadian 3-month T-Bill had a yield of 0.40% (or 40 basis points) above a 10-year Government Bond (see chart). Many economists believe the inverted yield curve is one of the key indicators of an impending recession.

**Is a recession in sight?** There’s an old joke that says the market predicted nine of the last five recessions. As long as we have a business cycle, every recession prediction will eventually be correct, but usually the timing is premature. Today, we are confronted with a unique situation in which central banks globally have held interest rates low for extended periods. In the summer, the U.S. Federal Reserve reduced the overnight rate. Canada didn’t follow suit due to various bright spots in the economy. Many businesses continue

### Select Yields for Canadian Bonds: 2019 versus 2018

BOND	AUGUST 2018	AUGUST 2019
10-Year Gov’t Bond	2.36%	1.24%
3-Month T-Bill	1.45%	1.64%
Difference	0.91%	-0.40%

Source: Bank of Canada, 8/1/18 and 8/8/19.

to post earnings growth, employment is still strong and, over the summer, Gross Domestic Product growth exceeded expectations.

In some parts of Europe and in Japan, negative interest rates have continued for years. This was intended to dissuade commercial banks from keeping large deposits with the central bank and instead encourage them to lend to businesses and consumers to boost economic activity.

While equity markets can react favourably to lower interest rates as finding income in the bond market becomes more difficult, other factors such as slowing global growth may put pressure on equity markets. Growing global indebtedness, the future consequences of which are not fully understood, also remains a concern.

## Estate Planning Considerations

# Giving Thought to Using a Professional Executor

There is a degree of honour that comes when a person is named as an executor.\* It often indicates trust in that person to settle estate affairs with good judgment after a person's death.

But it's not necessarily an honour for everyone. It isn't uncommon for some to realize the job is more than expected: it's not just about dividing assets. There are many responsibilities, often needing to be tended to during a time of grief. This can be further complicated by sensitive issues, challenging personalities and difficult family dynamics that can often emerge when settling an estate.

Another complicating factor is that we have become an increasingly mobile society. Appointing an executor who resides in or moves to a different province, or country, can create issues for the estate or the executor. As such, there may be value in using a professional executor to help address these circumstances or benefit from the following:

**Impartiality** — Where assets are involved, there is often emotion. An executor must be able to act as a mediator for any conflicts. A professional can provide impartiality. From a simple family situation, to the complexities of things like creditors, lifelong relationships can be harmed and the situation can become very challenging.

**Ease of settlement** — Generally, an executor is given one year to wind up an estate. It is a role that can add significant demands to a person's already busy schedule, especially if the executor isn't familiar with the estate administration process. Professional



executors have dedicated time, expertise and resources to settle an estate in an efficient manner.

**Deep understanding** — An executor may be personally liable for certain errors when administering an estate. For complex estates, such as where a business needs to be wound up, there may be value in having an expert with professional experience to take control and settle the estate in the best possible way.

### But what about the cost?

One of the main concerns in using a professional executor is the perceived cost. However, an executor, regardless of whether they are professional, is usually entitled to be paid for their efforts. Keep in mind that many professional executors offer graduated pricing in which the rate declines as the value of an estate increases.

Taking into consideration the time, emotion and complexities associated with settling an estate, it may be money well spent to consider having a professional executor to manage the process.

\*Known as liquidator in Quebec.

## It's Back-to-School Time

# Education Savings: Grandparents to the Rescue?

With the rising costs of education, many grandparents are asking about funding a Registered Education Savings Plan (RESP) for a grandchild's post-secondary education.

While it is possible for grandparents to open an RESP for grandchildren, it is important to exercise caution for two reasons. First, if multiple RESPs exist for the same beneficiary, total contributions need to be monitored so they don't exceed the lifetime maximum of \$50,000 per beneficiary, as penalties will apply. Second, if the beneficiary doesn't pursue post-secondary education, under certain circumstances RESP withdrawals of accumulated income may be transferred to the contributor's registered Retirement Savings Plan (RSP). However, grandparents beyond the RSP maximum age cannot transfer funds to a registered Retirement Income Fund (RIF). Distributed amounts, in excess of contributions, could be heavily taxed. Thus, if parents have already opened an RESP and grandparents are comfortable with the parents' discretion, they may instead consider gifting funds to parents to make a contribution.

### Are there other funding alternatives?

Setting up a trust arrangement may be another solution.<sup>1</sup> There are

### Canada: Surprising Education Facts

- We rank #2 as the most educated nation globally.<sup>1</sup>
- Average annual tuition has risen by 477% in 30 years, from \$1,185 in 1989 to \$6,838.<sup>2</sup>
- We rank #4 for highest education costs, after U.K., U.S., Japan. Harvard (U.S.) tuition costs C\$64,000/yr.<sup>3</sup>
- 1 in 6 Canadians who assist children with post-secondary education costs have delayed their retirement.<sup>4</sup>

1. OECD; 2. Statistics Canada; 3. cnbcc.com; Avg. tuition US\$47,730, harvard.edu; 4. FP Canada May 2019 survey.

no contribution limits, but unlike an RESP, there are no tax deferral or Canada Education Savings Grant (CESG) benefits.<sup>2</sup> If the trust relationship is properly documented, it may be possible to have gains realized on withdrawals taxed in the hands of the beneficiary, which may be beneficial if (s)he has a lower tax rate. However, keep in mind that once the beneficiary gains control, usually at the age of majority, the funds can be used for any purpose not just education.

To discuss more about these or other options, please call.

1. Setting up a trust may be a complicated legal arrangement and a tax expert should be consulted to ensure it is carried out in the way intended; 2. A CESG is a government grant that can total up to \$7,200 in a beneficiary's lifetime.



# Teaching Kids About Finances in the “New” Era

If you're having a hard time pulling your (grand)child away from their smartphone, you're not alone. A recent Canadian Broadcasting Corporation (CBC) article shed some light on the complications stemming from smartphone use. Meal delivery services have become so ubiquitous that high-school students are ordering meals to school. One high school reported 50 to 70 deliveries in a day before a ban was put in place.<sup>1</sup>

It may seem harmless at first but, beyond the disruption at school, there is a concern that deeper behaviours are being cultivated. In this age of smartphones, will children adopt poor spending and saving practices if things like meal delivery services become habitual?

Indeed, the digital age has brought a new set of challenges when teaching children about finances. The basic lessons haven't changed: teaching the virtues of saving and compounded growth, imparting good budgeting and spending behaviours and helping children to set and achieve goals. Instilling these habits at an early age can pay dividends down the road. But these lessons need to change with the times, adapting to today's new challenges:

**Debt perceptions** — Canadians were once known for their moderate debt levels. Just 30 years ago, our debt-to-income ratio\* was around 85 percent; today it is in excess of 175 percent.<sup>2</sup> With interest rates at historical lows, debt has become more accepted. But children need to be taught the dangers of holding debt, and they have to understand that debt isn't necessarily cheap when credit card interest rates can be in excess of 16 percent.

**Social media influences** — Social media has perpetuated “FOMO”, the fear of missing out. But many children fail to recognize that social media is not a true representation of reality and trying to keep up with the celebrities can be a recipe for “insta-debt.” There is also a need to teach the value of protecting privacy, without which havoc may be wreaked on one's financial life.

**Instant gratification** — The digital age has fed our appetite for instantaneous results. With access to immediate information and one-click shopping, we've been conditioned to expect goods



(or gratification) at the tap of a finger. But, the reality is that succumbing to spending temptations will become expensive. Never before have lessons about sacrificing immediate “wants” for later “needs” been so important.

**A cashless society** — As we move towards a cashless society, with payments by smartphone and credit card just a tap away, keeping track of expenditures may become more difficult. This may mean that keeping accurate records and exercising budgeting discipline will become even more important.

## A Sign of the Times?

Even the classic board game Monopoly, in its 84<sup>th</sup> year, has had multiple facelifts to ensure its relevance.<sup>3</sup> Gone are the pastel bills and banker that were pivotal in many traditional family game nights. A new cashless Monopoly uses electronic transactions, a mini ATM and debit cards. The newest edition incorporates “voice banking”, in which players command a voice assistant to manage financial transactions: a true sign of the times.

Likewise, the financial lessons we impart on the next generation need to adapt to the times. If you need assistance or require resources to support these important and necessary conversations with kids, please reach out. I would be happy to help.

Notes: \* = outstanding debt divided by disposable income.  
1. <https://www.cbc.ca/news/canada/british-columbia/lunch-delivery-woes-at-surrey-schools-1.4932723>; 2. <https://www.bloomberg.com/news/articles/2019-03-26/canadians-are-feeling-the-debt-burn>; Statistics Canada Table 3810023501; 3. <https://www.cbsnews.com/news/new-monopoly-game-in-2019-goes-cashless-with-voice-assistant-banker/>

With the Compliments of:

## Michael Peters

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michael.peters@td.com

TD Wealth Private Investment Advice

1633 Ellis Street, Suite 410  
Kelowna, BC V1Y 2A8  
Toll Free: 1 (877) 717-6465  
Fax: (250) 470-3048  
www.michaelpeters.ca

