What Drives Us

Winter 2021

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What a year 2020 has been! It will undoubtedly go down in history as one of the most volatile years in the stock market and the economy. Nevertheless, we are so pleased and honoured to have you all as our clients. Our team has worked very hard to ensure your wealth was managed prudently with timely communication.

In other news, we have had another year of high-flying Initial Public Offerings (IPOs). Thanks to social media for creating hype around these new companies, we will share some information on IPOs in this quarter's newsletter.

Overall, it's also been a year for reflecting on what matters and what to do next. Let us know if you want us to help you with the many wealth planning decisions that may be on your mind.

All the best for 2021!

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IPO Excess

Article written by our very own Associate Investment Advisor, Moiz Divan.

In recent years, Initial Public Offerings (IPO) – especially for major technology firms – have garnered immense media coverage.

Stretching back decades, firms that have recently debuted as public companies usually underperform their peers in the short term. Academic research has highlighted several reasons that may explain this phenomenon:

- **"The Lottery Effect" –** IPO participants are often willing to accept a poor return for a small chance to get in "on the ground floor" of the next Google or Facebook. Intense media coverage around the IPO further amplifies this effect.
- **Hard to Short Sell –** For recently listed stocks, the amount of shares available for short selling is often highly constrained. Short sellers have a pessimistic view of the stock, and without these participants, the price of the stock is set by optimistic buyers and may be driven further towards unsustainable levels.
- **Information Asymmetry** – Private companies are not subject to the information disclosure requirements of public companies. As such, it makes them more difficult to value accurately. Furthermore, shareholders and investment banks have an incentive to present the company in a favourable light when their shares are offered.

At Brazier Dupuis Wealth Management (BDWM), we take a "wait and watch" approach to firms that have recently entered public markets.

If we see strong growth prospects in a company, we believe we would be able to purchase the stock at a discount in the months following the IPO, and our intention is to make the purchase once the initial excitement around the stock subsides..

The following shows both the six month and one-year stock performance of selected technology firms post IPO in US dollars.

Stock	IPO Date	IPO Price	6 Month Price	6 Month Return	1 Year Price	1 Year Return
Uber	5/10/2019	45.00	27.14	-40%	32.59	-28%
Spotify	4/3/2018	165.90	176.95	7%	143.82	-13%
Teladoc	6/29/2015	19.00	17.96	-5%	16.20	-15%
Alibaba	9/19/2014	68.00	85.74	26%	65.75	-3%
Facebook	5/18/2012	38.00	23.56	-38%	26.25	-31%

Citation: Frank, Fabozzi J., Sergio M. Focardi, and Caorline Jonas. Equity Valuation: Science, Art, or Craft? N.p.: CFA Institute Research Foundation, 2018.

Canadian Eligible Dividends

***Generating Income Efficiency** - Article provided by TD Wealth.*

Investors may choose dividend-paying investments for a variety of reasons, including asset diversification and steady income creation. However, for Canadian resident investors, there are also potential tax efficiencies from receiving "eligible dividends" from Canadian public corporations (i.e., companies traded on a Canadian stock exchange). These dividends, which can also be paid from Canadian-controlled private corporations (CCPCs), offer more favourable tax rates when compared to interest income when received through a non-registered account.

Tax-efficient investment income

Eligible dividends received by Canadian resident investors from Canadian public corporations and CCPCs receive favourable tax treatment as these dividends are paid with after-tax corporate funds (i.e. corporate tax has already been paid on the funds).

Potential benefits for investors with little to no taxable income

Eligible dividend income can also be tax efficient for investors with low taxable income. As a result of the "gross-up" and "dividend tax credit" mechanisms associated with Canadian-based dividend income, Canadian resident investors in many provinces and territories with little or no other income can earn over $50,000 of eligible dividend income before they are subject to Canadian tax when the investment is held in a non-registered, and therefore, taxable account.

Dividend Reinvestment Plans

Some companies offer a Dividend Reinvestment Plan (DRIP). A DRIP allows shareholders the opportunity to automatically reinvest the company's dividend proceeds towards the purchase of additional shares to pay brokerage commissions. Depending on the company's DRIP policy, the additional shares may be purchased at a discount from the current share price. This can help save investors transaction costs while potentially benefiting from the compounding effects of the reinvested dividends over time.

Conclusion

It is important for Canadian resident investors to understand the taxation of Canadian dividends as it can assist with their financial and tax planning. Please consult your TD advisor and tax specialist before making an investment decision to ensure it aligns with your goals and objectives.

Citation: "Canadian Eligible Dividends: Generating Income and Tax Efficiency." TD Wealth (December 2020).

BDWM IN THE COMMUNITY

Paying It Forward

With a new year ahead, many of us will take the time to reflect on the changes and difficulties 2020 made in our personal and professional lives.

To show our appreciation for your continued business, we donated to The Children's Aid Society's Holiday Program, which supported 700 families and ensured they did not go without this past holiday season. Our contribution on behalf of all our clients helped ten of these families.

We look forward to a new year filled with love and gratitude.

A Timely Reminder

The RRSP Contribution Deadline for 2020 is Fast Approaching.

Happy New Year! To start the year off right, we wanted to take this opportunity to review the tax benefits offered by Registered Retirement Savings Plans (RRSPs). Quick Facts about RRSPs:

- Contributions are deductible against your income for Canadian income tax purposes, subject to your contribution limit, and are not taxed until you withdraw them as needed (ideally at a lower tax rate).
- Taxable withdrawals can be made at any time, not just during retirement.
- The annual contribution room is 18% of the previous year's earned income up to a maximum contribution limit, subject to pension adjustments.
- Your contribution limit for 2020 can be found on your Canada Revenue Agency Notice of Assessment for 2019.
- The deadline for 2020 contributions is 11:59 p.m., March 1, 2021.
- Contributions made in the first 60 days of a year can be used for the current year's or the previous year's tax filing.

Maximum Annual RRSP Contribution Limits.

Year	Contribution Limit
2014	$24,270
2015	$24,930
2016	$25,370
2017	$26,010
2018	$26,230
2019	$26,500
2020	$27,230
2021	$27,830

We see the value in understanding your journey.

Please contact us with any question or concerns you may have about how RRSPs can fit into your overall wealth strategy.