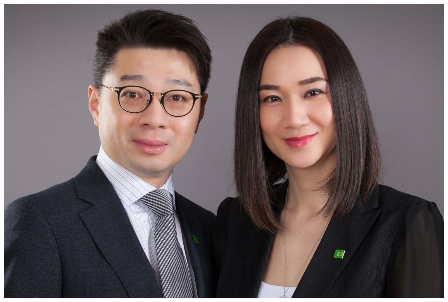
Quarterly Exchange

Fall 2021



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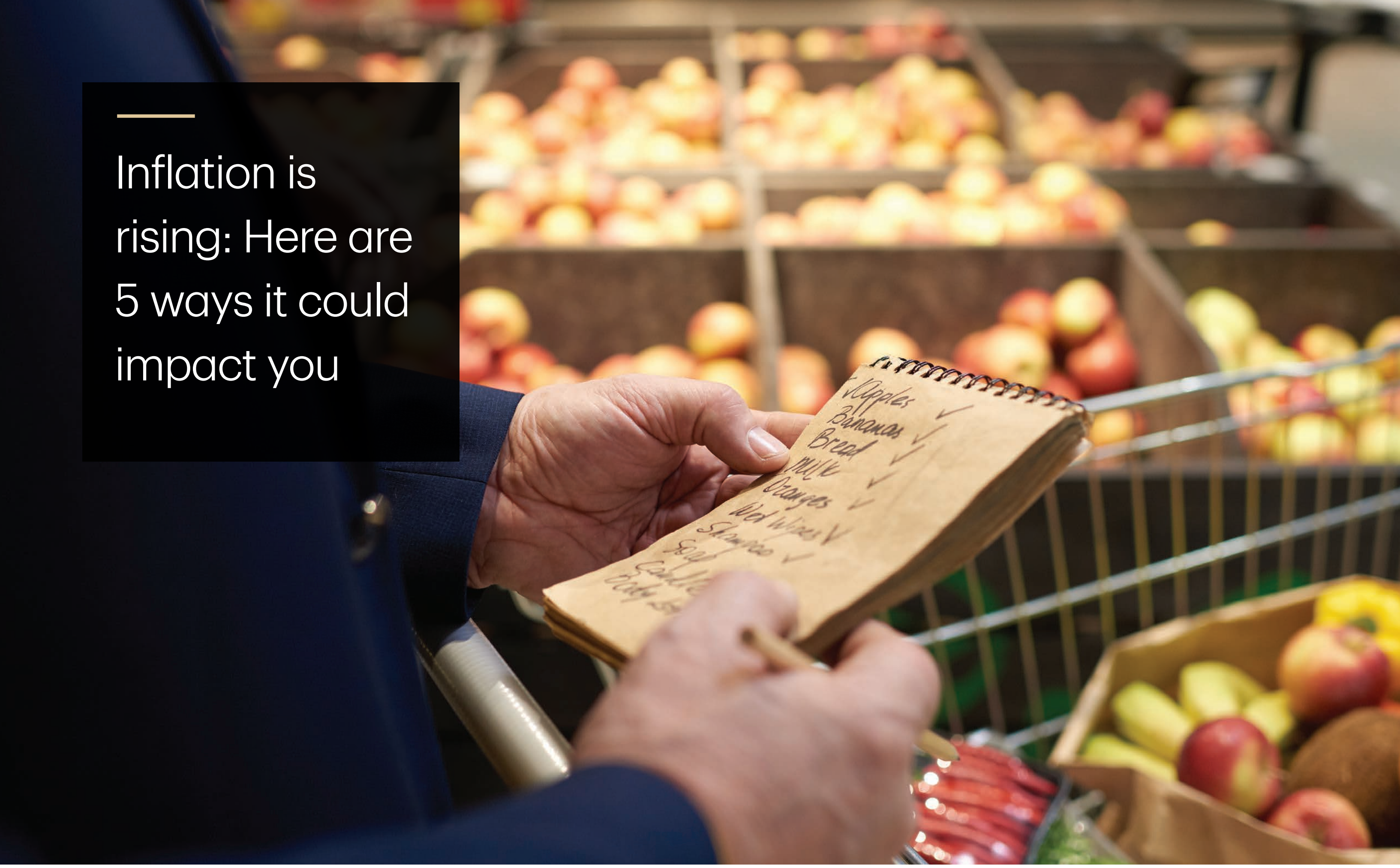
Inflation is rising: Here are 5 ways it could impact you



Prices of everyday goods are rising at a pace not seen in a decade, and investors are paying close attention. Here are some ways it could impact your finances.

Have you tried to buy a car lately, but didn't remember the price being so high? Or maybe you're renovating a house, but your contractor keeps telling you how expensive lumber is these days? It's not a coincidence. Over the last few months prices on many consumer goods, from food to housing to gasoline, have climbed.

In May, Canada's Consumer Price Index (CPI) — the metric which measures the change in price of a set basket of consumer goods and services — jumped by 3.6% from a year earlier, the highest increase in a decade. Other items not included in the CPI, like commodities such as copper and lumber, have also spiked, with the latter rising 261% on the Nasdaq between January 2020 and May 2021.[1]

These price gains are what's called inflation, a term many Canadians have likely seen in news headlines. It's worth paying attention to as rising prices could impact your finances, though inflation may not be as scary as you might think.

How does inflation work?

Inflation follows the basic law of supply and demand. Higher inflation suggests that demand for goods and services is rising faster than the economy's capacity to produce them. Take lumber: With so many homeowners stuck inside over the last year, demand for two-by-fours and other wood products needed to renovate or build new homes has soared, while supply couldn't keep apace. The result? Higher lumber prices.

For the most part, rising prices shouldn't raise much concern. Inflation can be a sign of a strong economy, and central banks in both the U.S. and Canada generally expect to see prices rise by between 1% and 3% per year. We're talking about this now, because as the economy enters what many expect could be a post-pandemic boom, there is some concern that prices could jump too high too quickly. If everyone starts spending again, and jobs come back, then demand for all kinds of goods and services could increase, which would push prices higher.

So what does inflation mean for your money? Here are some ways everyday Canadians can feel the effects of inflation:

Higher cost of living

One main effect of inflation is a potentially higher cost of living. The more prices rise, the more money you'll need to spend on buying items. While you can cut back on certain things, such as travel or home furnishings, you'll still have to buy others, like food or gas for your car. If you have a budget, accounting for inflation is simple: Increase your spending in the areas most important to you, while cutting back in others.

Purchasing power erodes

You can't have a conversation about inflation without mentioning purchasing power, which refers to how much one unit of money can buy. Rising prices will have an impact on your purchasing power, especially if your income stays stagnant. How? One dollar might buy you something today, but if that item costs $2 tomorrow, and you haven't earned more money to keep up with the price gain, then your ability to buy that item has decreased.

Need for more income

If your purchasing power is being eroded, then you'll need to somehow earn more money. Many jobs offer annual wage increases in line with inflation, which means if inflation rises by 2% then your salary should rise by as much. In that case, you may not notice that costs have climbed. If prices increase too rapidly, though, then you may have to ask for a higher pay raise, and your boss may or may not oblige.

Potentially reduced savings rates

Inflation can also make it more difficult to save. If you're keeping money in, say, a high-interest savings account that pays 2% interest per year, while inflation rises by 1%, then you've made what's called a 1% real return. However, if inflation rises by 3%, then you've essentially lost money in that account because prices have climbed by more than what you've earned. On the flipside, interest rates usually rise with inflation, which means savings account rates could become more attractive.

Your investments need to keep up

Many investors maintain a diversified portfolio, but not all investments react the same way to rising prices. Historically, gold and real estate prices have tended to climb along with inflation, while bonds and dividend paying stocks have declined

in value. When and how fast inflation happens can have an impact on your investments and, while you may not understand all the mechanics of the market — the professionals who think about this every day can handle that — you might consider ensuring you own a variety of diverse assets, including some that can benefit from inflation. This way, your portfolio has the opportunity to not only keep up, but to also grow.

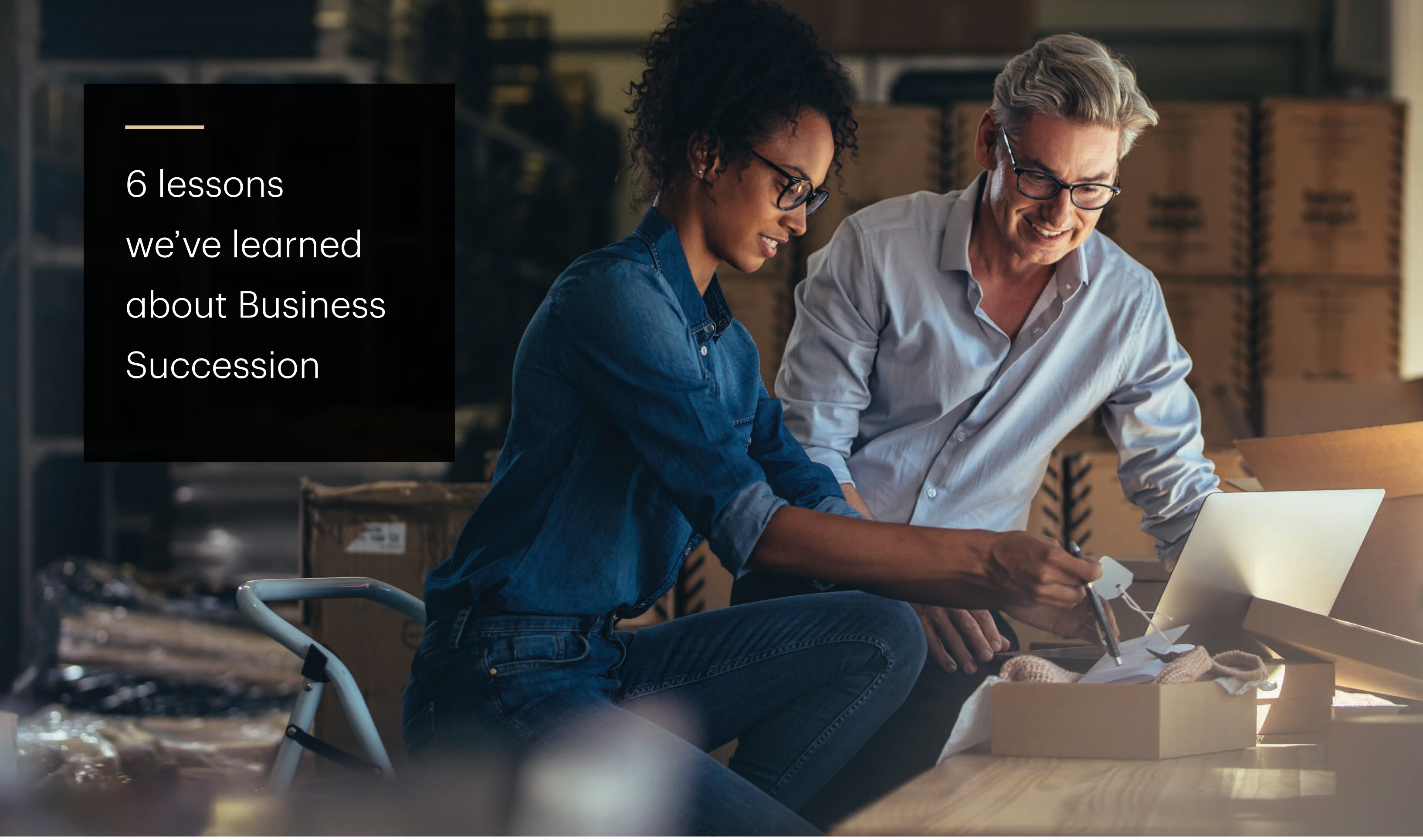
At the moment, economists aren't worried this heated inflation is going to last. One reason why inflation climbed by so much in May was because the costs of many goods dropped a year earlier thanks to the pandemic's first lockdown. Supply chain issues throughout the COVID-19 pandemic have also put pressure on supply and demand for certain goods, but TD Economics has said those issues could ease in the coming months. It adds that inflation will remain a bit above 2%, which is in the range that central banks want to see.[2]

As with many aspects of your finances, it can be important to pay attention, but you may be wary of making sudden moves. If you have a solid budget, good long-term goals and a diversified portfolio, you may not even notice that some of the things you buy are now more expensive.

— Bryan Borzykowski, *MoneyTalk Life*

[1] NASDAQ. (2021, June 30). Lumber (LBS). (Stock quote). Retrieved from www.nasdaq.com/market-activity/commodities/lbs

[2] TD Economics. (2021, June 9). Dollars and Sense: The Central Bank View of Inflation. Retrieved from https://economics.td.com/us-dollar-and-sense



6 lessons we've learned about Business Succession

With the day-to-day hustle and bustle of running a business, many business owners have little time to think about anything other than the here and now. But having a well-planned exit strategy can help ensure your business gets passed to its new owners and provides you with the income you'll need to retire.

Here at *MoneyTalk*, we'd like to think we're pretty savvy when it comes to money. But the truth is, every once in a while we learn new things too, and come across some surprising aspects of finance.

Planning for what will happen to your business once you are no longer running it (or "business succession") is one of those areas of advanced financial planning that can be hard for many business owners to wrap their heads around. It involves estate planning, a working knowledge of capital gains and tax strategies, good communication, and some long-term thinking. But with the help of a business succession professional, you may land on the right plan for your business, and help support those who want to see it live on for years to come.

We've pulled together six of the most valuable lessons we've learned about business succession, and hope it will spur you to start making your own plans.

Lesson 1: Business owners need an exit strategy

Whether you are thinking about selling, helping the next generation take the reins, or completely unsure what you'll do, it's never too early or too late to start planning for your eventual retirement. Tom Deans is an Intergenerational Wealth Expert and Author of Every Family's Business: 12 Common Sense Questions to Protect Your Wealth, who says that business owners are retiring in record numbers without any plans in place. He says that can cost the business money, hurt the success of the business, and risk family harmony.

Lesson 2: Business succession takes time, communication and professional help

Business succession isn't really a DIY thing, and in fact it can often take a team of professionals to help you along the way. But you can start by communicating your wishes to your family and asking them how they see the future of the business. Knowing whether they are interested in the family business and how involved they want to be may help you to make important decisions about a sale or transition. John Nicolls, a Vancouver-based Business Succession Advisor with TD Wealth, suggests reading this checklist to test your readiness for retiring from your business.

Lesson 3: In estate planning what's equal isn't necessarily what's fair

If you think you can just arrange to split your business and assets equally among your children, you may be in for a surprise. How different assets get taxed at death, and the diverse needs and wishes of your beneficiaries, can often make that hard to achieve. Instead, consider what's fair: You might want to think about which of your loved ones has been most involved in the business, and the role they wish to play down the road. For example, you may wish to transition the business to one heir and have a life insurance policy that pays out to another. In this classic MoneyTalk article, Domenic Tagliola, Tax and Estate Planner with TD Wealth, shares some ways to help inject fairness into your estate plans.

Lesson 4: Consider an estate freeze

Once retirement is on the horizon, an estate freeze can allow a business owner to gradually transfer ownership to the next generation while also dealing with tax concerns proactively. It's a tactical manoeuvre for business owners that swaps common stock for preferred shares, and issues those common shares to beneficiaries. This, in essence, can reduce the capital gains tax owing. Georgia Swan, Tax and Estate Planner at TD Wealth, discusses estate freezes and how you might execute this strategy in this MoneyTalk interview.

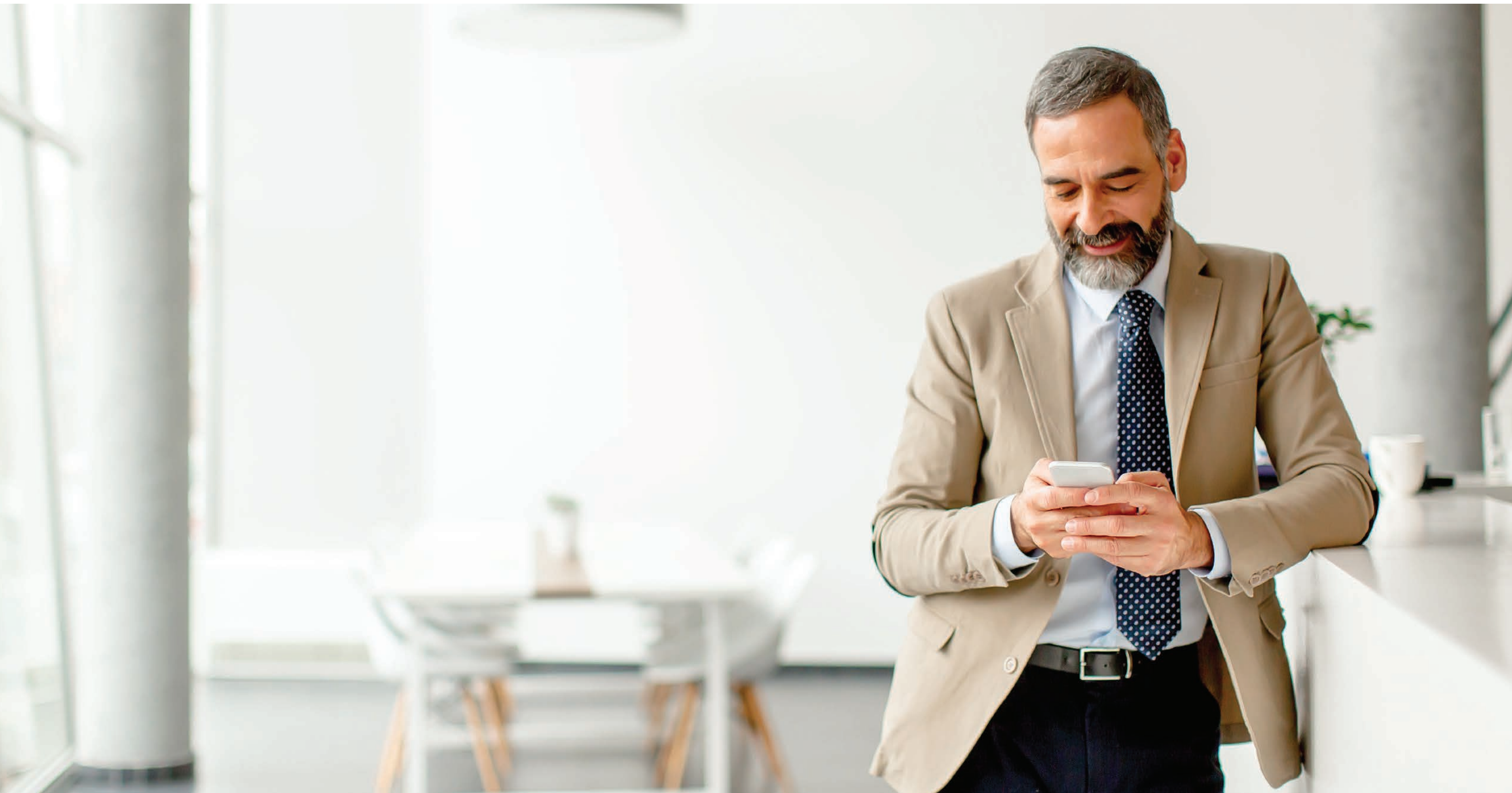
Lesson 5: Consider an earn-out if you are thinking of selling

An earn-out can be a valuable tool in your negotiation toolbox when you are selling your business. It's essentially a contractual provision that provides a percentage of gross earnings over a specified period of time. This could mean less money up-front from your buyer, but continued income for you down the road. Georgia Swan, Tax and Estate Planner at TD Wealth, looks at earn-outs here and explains how and when they may work for your business.

Lesson 6: Good estate planning is imperative for business owners

A simple Will and Powers of Attorney often aren't enough for business owners when it comes to passing down their assets. A lack of proper estate planning could mean thousands of dollars, sometimes more, in taxes owed upon death, and it could leave your loved ones scrambling to manage the bill. The owners of Wilson's Lifestyle Centre in Saskatoon shared their story with us about how their father's passing unintentionally opened a can of worms when it came to transitioning the family business. Tannis Dawson, High Net Worth Planner with TD Wealth, offers some helpful things business owners can consider to prevent added stress.

— Denise O'Connell, Content, *MoneyTalk Team*



How might your personality affect your investments?

Find out how your investing personality may be driving some of your best and worst investing decisions.

Succeeding at investing may be just as much about dealing with forces beyond your control as it is about managing the elements you can control.

And while it may be painful to admit, one of those uncontrollable factors is yourself. Decades of scientific research has discovered that our personalities can influence how we make financial decisions. Moreover, studies indicate that learning about our attitudes and biases can help us make better money decisions.

For example, the recently published TD Wealth Behavioural Finance Industry Report, 2021: A Behavioural Perspective on Risk, found that those who had a volatile income or worked in a volatile industry were 2.5 times more likely to select a more volatile portfolio, whether they realized it or not. But what came next may also be telling: They were also four times less likely to be satisfied with their readiness for retirement.

"Working with an advisor who knows your personality can bring about better choices, especially when the markets are rocky or when you're going through a financially stressful time like a divorce or buying a house," says Lisa Brenneman, Head of Behavioural Finance, TD Wealth.

Brenneman led the team who designed TD's Wealth Personality™ assessment to help advisors better understand their clients' behavioural strengths and blind spots. She says using the industry standard Five-Factor Model of Personality can predict behaviours and identify motivations when making decisions, like whether you are quick to react under stress or calm under pressure. You can take the Wealth Personality™ introductory assessment now and see how identifying your blind spots can improve your investing outlook.

Here are the five personality traits that influence how we look at investing, risk management and financial decision-making. Knowing more about yourself and where your personality aligns with these traits can help you deploy tactics — such as relying on professional advice — that can aid in making better decisions around money.

Extraversion

A party can be an excellent place to view extremes of this quality: Those with outgoing natures and the tendency to seek attention are easy to spot, while the more reflective and reserved among us may spend the evening quietly in the corner. Higher extraversion can also result in riskier behaviour, such as overpaying for financial assets. Advisors can help by providing a clear focus and direction for a financial plan — both in the short term and the long — and by revisiting it often.

Agreeableness

People who score highly for this trait may be more trusting and cooperative versus those who may be more inquisitive and have a challenging personality. Those with low agreeableness may be likely to take greater risks. Understanding the balance between risk and reward is essential when investing, and it's important to appreciate your risk tolerance and capacity. Determining your financial goals and talking about risk is one way working with a planner can help.

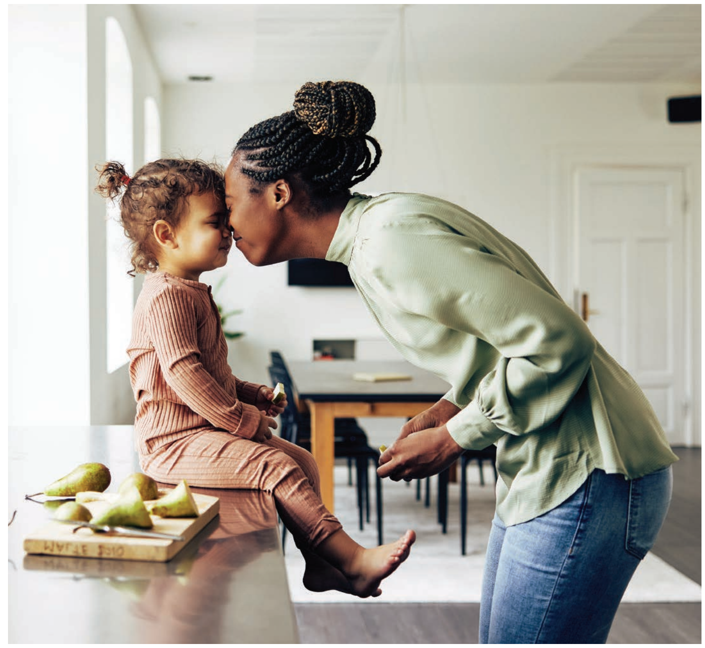
Conscientiousness

If you can ignore that tempting bag of cookies until the weekend, you might score high on conscientiousness. This feature can be characterized as an ability to deny immediate gratification in exchange for fulfilling future goals: In other words, being self-disciplined and organized vs. living in the moment.

In personal finance, those who score low on this attribute may have challenges saving for a long-term goal like retirement. An advisor may help by suggesting strategies like preauthorized automatic transfers which can grow savings with little regular effort.

Reactiveness

A person with this quality in abundance may be highly responsive to emotional stress, as opposed to someone who is calm and relaxed. Unfortunately, the investing world is full of



headlines that may trigger someone emotionally, and a highly reactive person may do damage to their portfolio or finances by making poor knee-jerk decisions. An advisor can help an investor both put market events into the proper context and avoid over-reactions to unwelcome news.

Openness

This characteristic can describe someone who is curious and creative at one extreme or conservative and cautious at the other. The problem with these last two traits is that investing always requires a certain amount of risk: Being timid could mean keeping funds in cash which would make it harder to meet goals like retirement. An advisor can help someone like this by creating an investing plan that satisfies the need to grow assets while also managing the proper risk profile for the individual.

"Whether you are aware of them or not, all these traits have an impact on your investing style. Fortunately, learning to be a better investor now can avoid years of imperfect investment choices," Brenneman says. "When your advisor is equipped to understand you better, they can help you avoid mistakes."

— Don Sutton, *MoneyTalk Life*

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