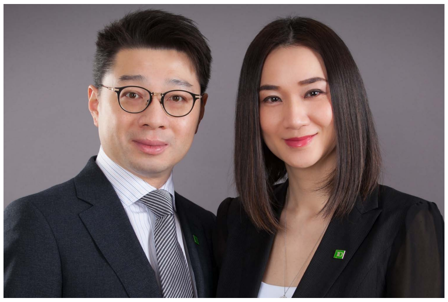
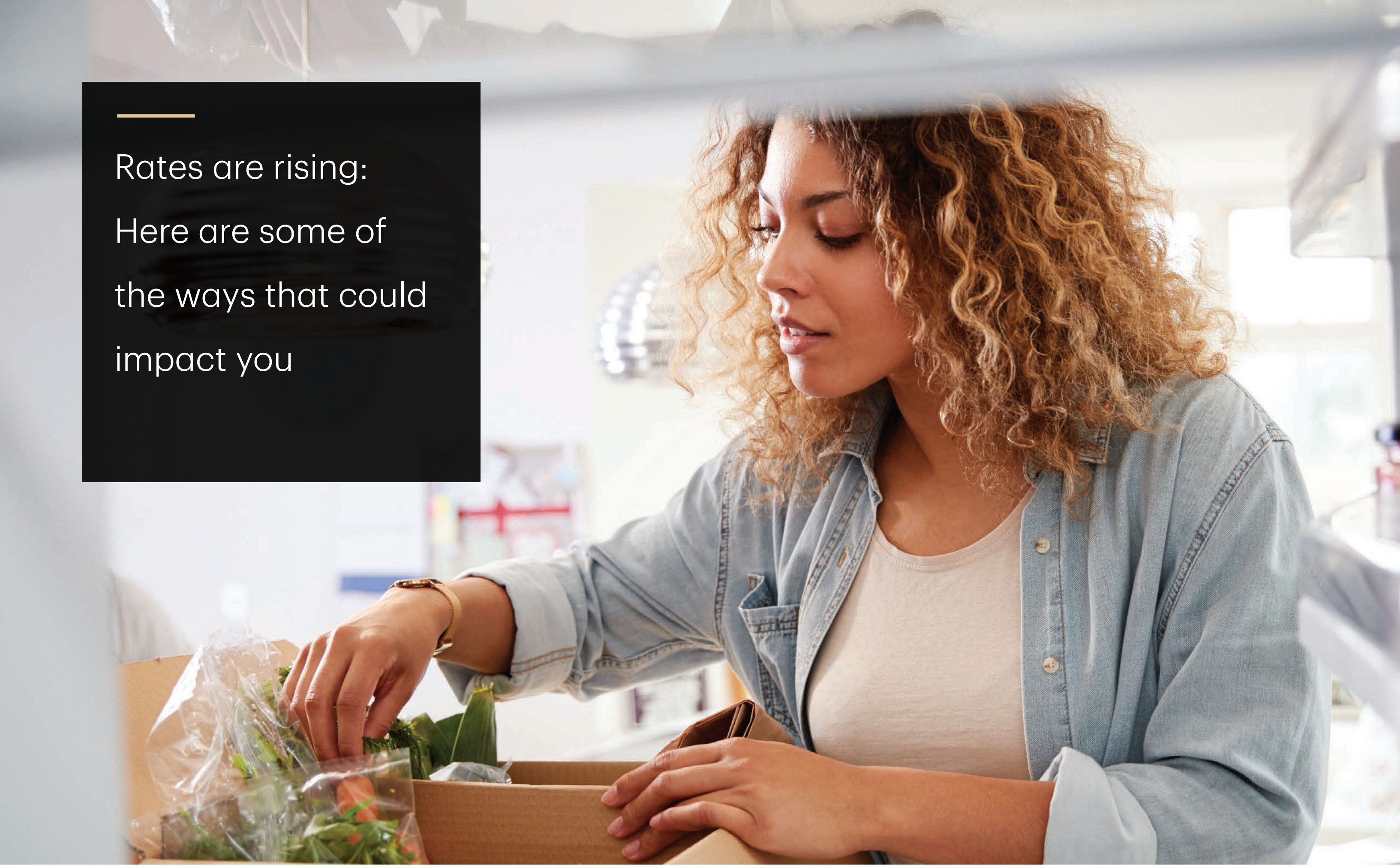
Quarterly Exchange

Summer 2022



Chan & Mai Wealth Management
TD Wealth Private Investment Advice
Unit 306, 5811 Cooney Road
Richmond, BC V6X 3M1
Office tel: 604-482-5145
https://advisors.td.com/chanmaiwealthmanagement/

Rates are rising: Here are some of the ways that could impact you



Higher interest rates can affect the cost of borrowing, investment performance and savings rates. To help you make sense of Canada's rising rates, we've compiled this short guide.

Canada is now moving through a phase of increasing interest rates as the Bank of Canada (BoC) manages higher inflation and other factors in the economy. Since the interest rate rose at the beginning of March 2022 — the first time in four years — the changes have begun to impact Canadian households in a variety of ways. Some of them may surprise you.

During the initial phase of the COVID-19 pandemic, the BoC dropped its interest rate to 0.25% to support the Canadian economy in the face of sudden economic uncertainty and market volatility. While maintaining this rate throughout 2020 and 2021 allowed borrowers some relief in the form of less interest paid, it may also have contributed to a scorching housing market and rising inflation.

"Debt is like fuel," says Alex J. Lee, a High Net Worth Planner with Wealth Advisory Services, TD Wealth. "It can really help accelerate the increase in your wealth, but it can also accelerate your losses. Interest rates play a big role."

If you have a mortgage, consumer debt or are feeling a little stretched financially, take heed. As we enter a new phase of rising rates, here are some ways you may be affected.

Mortgage Rates

Mortgage rates are often the first thing people think about once a rate hike has been announced. For both prospective buyers and existing homeowners, even a slight increase can have a significant impact over time. If you currently have a fixed-rate mortgage, you won't feel the change right away. You're still locked into the interest rate you negotiated at the beginning of your mortgage term and that rate won't change until the term ends and it's time to renew.

If you have a variable rate mortgage, you could notice the change in a matter of days or weeks. Depending on your agreement, however, your monthly payments may not change. Instead, more of your payment will go towards interest, which can mean it may take longer for you to pay back your loan.

"If you're actively using debt to finance your real estate investments, you may want to be cautious as these rate hikes take effect. You could find yourself overleveraged," says Lee.

Other Consumer Debts

Homeowners who have used their homes to secure a loan via a Home Equity Line of Credit (HELOC) may also be impacted. If you have a HELOC, you might want to revisit your terms and ensure your debt load is still reasonable.

Student loans are also affected when interest rates rise. Anyone who is still paying off student loans may see their monthly payments increase. Additionally, if you purchased a new car prior to the rate hike, your car payments could be similarly affected. Like a mortgage, auto financing is based on either a fixed or variable interest rate. If you signed up for the latter, your monthly car payments may increase.

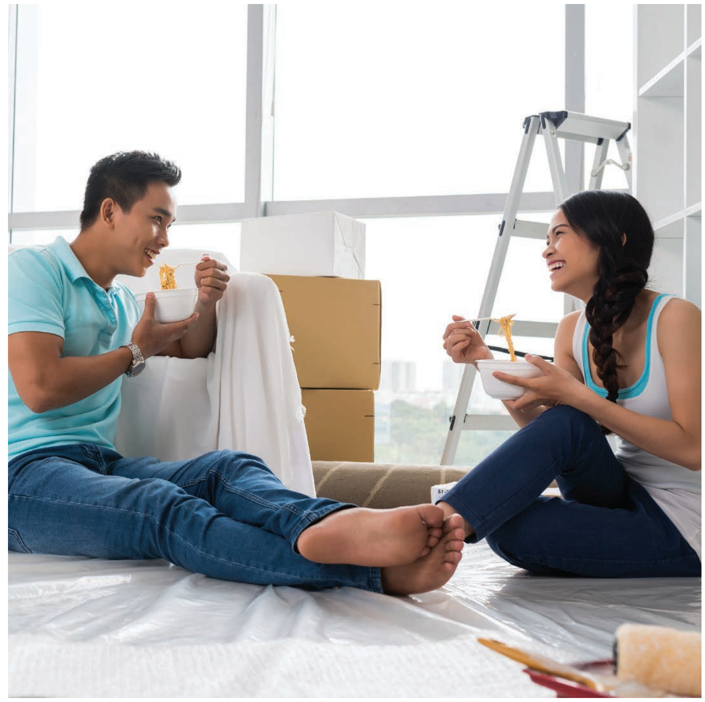
Savings Interest Rates

Not all is doom and gloom, however. As interest rates rise, we also begin to see an increase in savings. Guaranteed Investment Certificates (GICs) are perhaps the most obvious example of this. When interest rates were low, so were the rates being offered for savings accounts and investments. Lee says that the rise of GIC interest rates can be particularly beneficial for investors who may be more risk averse. "Coupled with high inflation, low returns on GICs have been really tough on some people. Rising interest rates, therefore, can be pretty beneficial," he says.

Bonds are another type of investment affected by an increase in interest rates. As interest rates rise, bond yields tend to go up. To stabilize the yield value between bonds purchased before the hike and those purchased after, the price of the bond goes down. Keep in mind, many other day-to-day factors influence the price and yield of a bond outside of interest rates.

Inflation

Inflation measures how much the price for goods and services is rising, and it can be affected by a number of variables — including interest rates. When interest rates are very low, people tend to borrow and spend more which can disrupt the balance between supply and demand. When interest rates are higher, people tend to save more and spend less. Increasing the interest rate can therefore work to rebalance the economy, although it may also slow business activity for a



period of time as both business and personal loans are impacted when rates rise.

At the beginning of the pandemic, interest rates were lowered to stimulate economic growth in the face of uncertainty. Now that economic growth is somewhat overstimulated, the BoC has signalled it's time to decrease that stimulation. That can have the ability to cool inflation in Canada but there are many other factors internally and externally that can still work to keep pushing inflation higher.

As we begin to leave a very low interest rate environment, Lee recommends caution: "Be careful with real estate purchases and leveraged investing in the months ahead. You might find yourself in a position where the cost of borrowing has gone up and the asset you purchased might be worth less. You don't want to take a hit on both ends."

Canadians are dealing with a lot right now. In the last two years, we've had to manage a worldwide pandemic, inflation and ongoing geopolitical uncertainty. Higher interest rates may feel like an additional burden. If you need help building a plan that addresses your financial concerns, a wealth professional may be able to help.

— Tamara Young, *MoneyTalk Life*

Finding calm during market volatility

Huge drops in your portfolio can be scary. How you handle it can make a big impact on your finances.

For many of us, a market downturn could be upsetting but may not register high on our irritation radar given what we have been through the past two years. Yes, anxious business headlines can be disconcerting but we've been through successive waves of the pandemic and many of us may have grown thick skins: A decline after historic market highs may not cause us to break stride.

Natasha Kovacs, a Senior Planner with TD Wealth, says that financial volatility can be disruptive to your wealth plans and also for your peace of mind.

"Nobody likes bad news. When I work with my clients, I make sure that their investments are on track to succeed over the long term despite any temporary setback," says Kovacs. "Everyone should be investing according to how much risk they are comfortable with. So, whatever happens over a lifetime of investing, no one should be losing sleep about brief interludes."

Kovacs says while the issues worrying investors may change, market volatility is something we have seen many times. Seasoned investors will be buying stocks at bargain prices because they know this downturn is temporary and better days will be back sooner or later.

Of course, seeing investments drop suddenly can have an impact on more than your portfolio — the anxiety, too, can cause you to question your motives. Instead of getting angry and ditching a carefully structured investment plan, she offers some calming action items that may help you to weather a temporary storm.

Don't panic Market analysts and behavioural scientists agree: Doing something rash in the heat of the moment can bring far worse consequences. An example of a knee-jerk reaction would be to sell those once-favourite mutual funds or stocks if they are temporarily in the red. Kovacs says that leaving the market only means you could be left standing on the sidelines when the market reverses again. Studies prove that jumping in and out of the market can have a dreadful impact on your portfolio over time.[1]

Take a breather When there's bad news, everyone wants to shout about it, but you don't have to listen. Cycling through social media and searching for the most disconcerting stories — “doom scrolling” — may only stress you out. Time to unplug, go for a walk and, in a calm thoughtful manner, think about what all this means. Kovacs says it may be a cliché, but a good night’s sleep has a way of allowing you to recharge and approach any problem with clarity.

Gain some perspective Since markets go up and down day by day, it might be hard for long-term investors to see how much their investments are gaining ground until they have put a couple economic cycles behind them. Kovacs says that while we may have hit a rough patch, we should remember that 2021 was a singular year for market highs. If you have been investing for many years and have a well-balanced plan, you may see that despite some harsh days, your investments could be sound.

Ask if this presents an opportunity Looking at events from a short-term vs. long-term perspective can separate the optimists from the pessimists. Many of us are investing for the long term which can make stock declines just bumps in the road. That perspective can also allow some investors to take advantage of short-term negative events. For instance, some stocks you may have been admiring last month may suddenly seem so much cheaper. If the companies are still fundamentally sound, you may consider investigating further to see if they have a place in your portfolio.

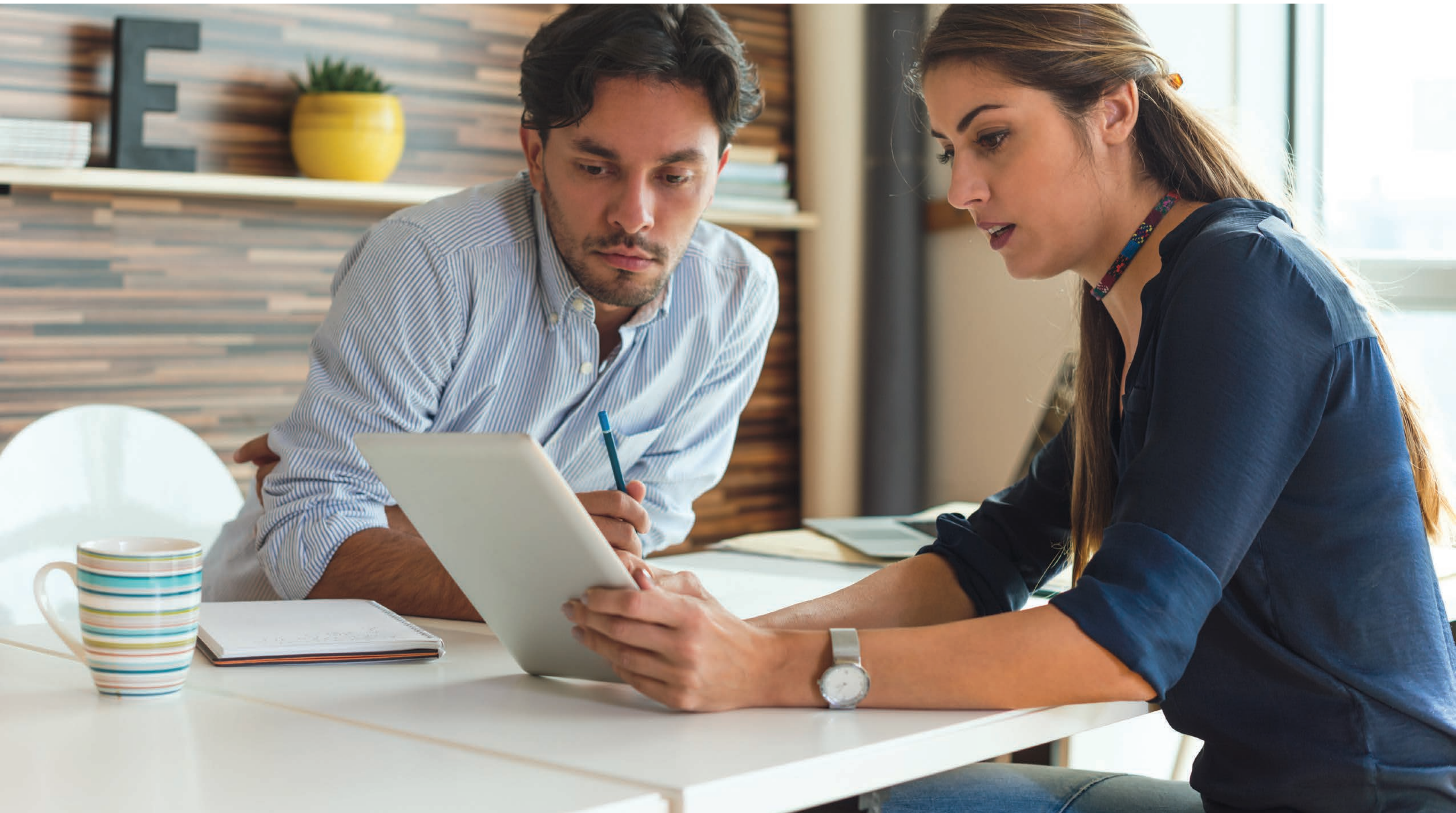
Talk to your advisor If you are still uneasy about the state of your portfolio or larger wealth plan, you might consider checking in with your planner or advisor: It’s what they are there for. Your financial advisor can go over your plan and your goals and talk about the potential impact a single day can have on your long-term plan. Among the information you may hear is that time is on your side: A steady plan that suits your risk profile is built defensively, knowing that markets tumble from time to time.

Kovacs says Canadians are fully aware there will be a nasty snowstorm every winter, but no one can predict what day it will come nor how much shovelling we’ll be doing. Getting upset doesn’t stop the snow but being prepared can make a difference.

So too with the markets. If you know this is how the economy operates, it’s easier to handle. “Remember,” Kovacs says, “if someone is selling a stock in despair, someone else is buying it with hope — it just depends on your attitude.”

— Don Sutton, *MoneyTalk Life*

[1] The Power of Staying Invested, TD Asset Management, accessed Jan. 25, 2022, https://www.td.com/ca/en/asset-management/documents/investor/pdf/news-insight/Power_Staying_Invested_en.pdf



Estate planning at any age

Think you need to be retired to think about estate planning? Truth is, there are some real benefits to getting an early start. Here's a checklist of things to consider, to make sure you're ready and able to provide for your loved ones, no matter what age or stage of life you're at.

Nobody wants to think about the "inevitable." For some it may seem too far off, for others too overwhelming. The process of planning who will manage our wealth and assets when we're no longer able to, may seem too time-consuming or expensive. Whatever the reason, it's a task many Canadians put off until it's too late.

A recent survey by TD Bank found that half of Canadians do not have a Will, an integral building block of any estate plan. The survey also found that 28% of those Canadians without a Will are between the ages of 53 and 71, and many of them have not even discussed estate planning wishes with their children.[1]

"Some people think estate planning only deals with allocating your assets after your death," says Elise Pulver, Director, Wealth Planning at TD Wealth Family Office. "But estate planning or continuity planning creates a safety net for your loved-ones if something should happen to you. It can reduce conflict among family members during an already difficult time, and can also save you, or your estate, time and money."

The good news is that if you start early, estate planning can become less anxiety-ridden and less onerous because you can tackle little bits at a time. Pulver believes that if you make it part of your to-do list when you are young, you make it less about dying, and more like any other life strategy, like mapping out retirement or your career. We asked her to help us build a checklist of things to consider when it comes to estate planning, no matter what age or stage you're at.

Estate planning when you are young and single

- **Consider insurance:** There are good reasons to consider investing in life, critical illness and disability insurance early. For instance, there's a good chance you may end up shopping for it later, but insurance will likely never be as cheap as it is when you are young and healthy. As well, the benefit allows your loved-ones to have a financial safety net should something happen to you.
- **Prepare Powers of Attorney**: A legal professional can help you prepare documents that assign decision-making powers for your health and property (like your bank accounts) if you are unable to make those decisions for yourself. Without it, someone would need to apply to the court to make those decisions on your behalf, which could be slow and costly.

- **Consider drafting a Will**: If a person who is not married passes away without a Will, provincial laws dictate how the estate is to be administered. That could mean your assets would pass to a parent or sibling. If you have other loved ones that you'd like to provide for, then having a Will states your wishes.

Estate planning when you are married without children

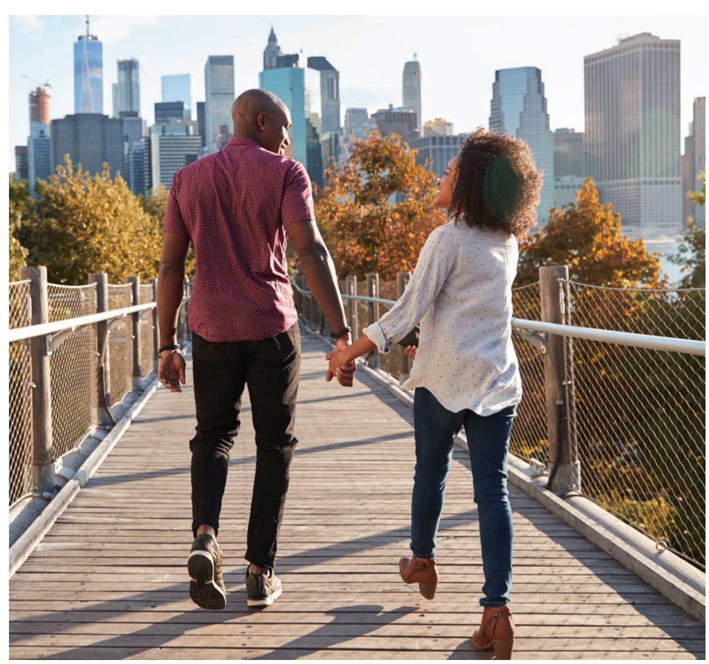
- **Assess your insurance needs:** You may wish to consider joint life insurance, critical illness insurance and disability insurance. This could provide income protection should one of you lose the ability to earn an income, through illness, injury or death.
- **Check your beneficiaries:** In the event that one of you passes on, an asset that is held jointly would transfer to the surviving spouse. For assets that are not held jointly (investments or insurance policies for example), ensure that you have designated a beneficiary.
- **Review or prepare Powers of Attorney**: A spouse is not automatically able to make health and property decisions on your behalf in the event one of you is incapacitated. It can be important to have those documents in place in case something happens to either one of you.
- **Review or prepare your Will:** In certain provinces, if a person who is married but has no children passes away without a Will, the surviving spouse will inherit the entire estate. If you wish for some of your assets to go elsewhere, it's best to state your wishes.

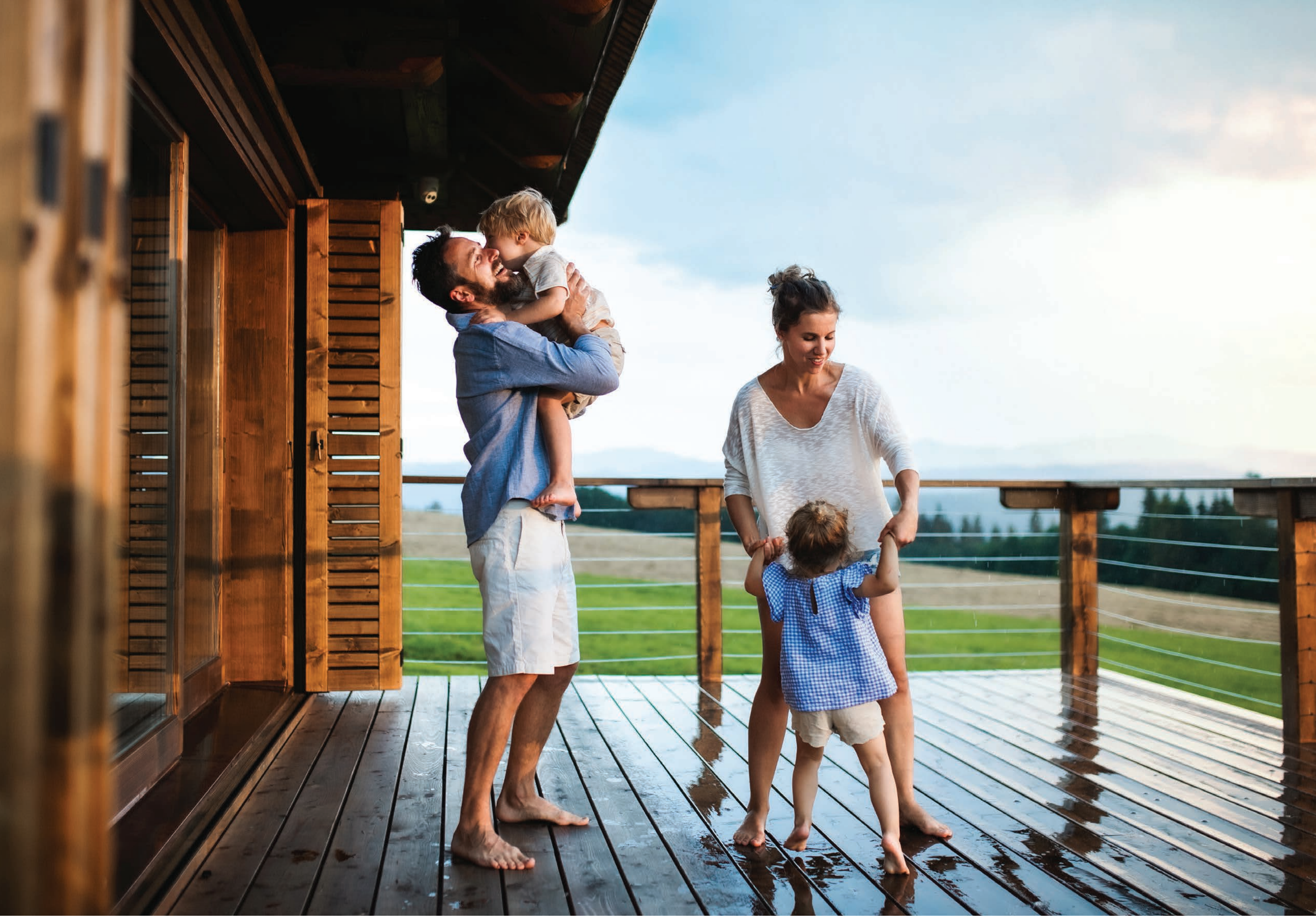
Estate planning when you are married with minor children

- **Consider converting life insurance**: As we age, it can be increasingly common for health issues to pop-up. Now can be a time to consider converting your term life insurance policies to universal or whole life insurance policies that remain in place for the rest of your life. By converting your policy, you won't have to undergo a medical exam. This may be preferable to purchasing a new policy where costs could rise if you have a health condition.
- **Rework that Will, again:** If a person with a family deceases without a Will, provincial laws dictate how their estate will be administered. In Ontario, for example, a surviving spouse will inherit the first $350,000 of the estate and the rest will be split in predetermined portions between the spouse and surviving children when they turn 18.[2] If you have different ideas, it's best to work with a professional to get that on paper.
- **Assign a legal guardian**: It's important to declare in your Will who you want to care for your children should something happen to you. A Will can also direct the executors to maintain investments, such as a Registered Education Savings Plan for your children, and contribute to their education savings from the estate.

Estate planning when you are in retirement

- **Plan for the transfer of specific assets:** This can be an opportune time to discuss the transition of a family business or family heirloom assets, such as a cottage, antiques or art, with those who might inherit. Keep in mind that the transfer of certain assets could also result in income tax implications. It is also a chance to discuss your families wishes, and plan to manage income tax on death.
- **Consider probate planning**: In some provinces, the probate fees your estate must pay to the government can be as high as 1.5% of the value of the estate. Some things that can help plan for and reduce the amount of probate fees you will pay could involve establishing living trusts or the use of multiple Wills.
- **For snowbirds**: Consider how any U.S. vacation properties you own would be viewed by the IRS. It can be important to ensure that proper estate planning documents are put in place in any jurisdiction where you spend a significant amount of time, as requirements may differ there.





Estate planning can be complex, especially as you go through life, accumulate assets and circumstances change. According to Pulver, a good estate plan should be revisited and tweaked every few years.

“Sitting down at any age with an estate planning professional can help your wishes be carried out smoothly,” says Pulver, “and potentially make the process easier.”

— Denise O’Connell, *MoneyTalk Life*

[1] TD. “Estate Planning When There Isn’t a Will…What is the way? May 24, 2017. http://td.mediaroom.com/2017-05-24-Estate-Planning-When-There-Isnt-a-Will-What-is-the-Way Accessed August 4, 2021

[2] Advisor.ca. “Ontario survivors could now receive more if their spouses die without a will.” March 8, 2021. https://www.advisor.ca/tax/estate-planning/survivors-could-now-receive-more-if-their-spouses-die-without-a-will. Accessed August 4, 2021

TD Wealth