Quarterly Exchange

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TD Wealth

New year, new objectives: Now's the time to match your ambitions to your financial plans

Did your goals in life change in 2022? It never hurts to revisit your financial plan at the beginning of a new year. After the disruptions of the past three years, it's highly recommended!

The new year is traditionally a time of renewal and optimism, a moment to look forward to fresh beginnings and contemplate the lessons learned over the past 12 months. While you plan what's in store in 2023, you'll also want to turn your attention to your finances: The past few years have been eventful for many Canadians, financially speaking. If you're in the mood, now's the time to see whether, after all the ups and downs, your financial plan is still on track to meet your goals or whether those goals have changed.

And if you don't have a plan, now may be the time to get one.

Varun Bhagwat, a Senior Financial Planner with TD Wealth, says it's important to have goals for your money — it's the first step for all financial planning.

"Without a solid goal, your plan can be vague: You may be saving or investing inappropriately. It's best to lay down a roadmap with a planner and revisit the plan for periodic reviews," he says.

For instance, the housing market and interest rate environment have gone through substantial changes in the past year: Many people who had a goal to buy a home — or help their own kids buy a home — may be pressing pause on that decision. Higher interest rates may have pushed others to rethink their investing outlook: Are other investments safer if 2023's outlook is cloudy? For others, it's the high cost of everything that's causing havoc.

"The biggest issue for many has been inflation," says Bhagwat. "It can really take a bite out of your budget."

He says a financial plan should be periodically analyzed. Like a fine-tuned car, it could need some tinkering, regular maintenance or a larger overhaul. Here are some of the things Bhagwat says everyone should think about.

Identify your goals

So, does your financial plan need a revision? To find out, Bhagwat recommends starting with a little self-analysis since this is not simply a financial exercise. Consider whether your financial situation changed materially in the past 12 months. Changes might include a job loss or a promotion, a new marriage or a divorce, a new baby, a move, a real estate purchase or paying off a mortgage.

If your circumstances have changed, then you should consider what your household's cash flow looks like or whether the market volatility has shifted your risk tolerance.

"The last few years have been difficult for a lot of my clients on an emotional level," Bhagwat says. "Clients have realized that quality of life is so much more important than career success. Health is their biggest wealth."

He says people should think about whether their priorities are still the same as before the pandemic. Are 2023's goals the same as 2022's? Do you still want to retire at 65 or would you retire sooner if you could? Maybe a new financial goal or two has popped up while older objectives have diminished in importance. If you haven't already done so, write these goals down. This is the first step in creating or updating your financial plan.

Assessing cash flow

The next step is sketching out how you're going to achieve your goals. It will almost certainly include a household budget. Bhagwat says you may wish to divide your spending between mandatory and discretionary expenses. You may find that the recent increase in interest rates has you spending more on servicing your mortgage or other debts, while higher food prices might have you spending more at the grocery store or in restaurants.

If the difference between what you used to spend and what you're spending now is significant, you may want to consider cutting out some of your discretionary activities, such as vacations, eating out or entertainment streaming services.

Alternatively, you can also look for ways to boost your income.

If you've built up an emergency fund, now may be the time to dip into it. When you can afford to, building up an emergency fund is a good way to give yourself a cushion in case of unexpected life events or financial shortfalls. Bhagwat recommends holding three to six months' worth

of non-discretionary expenses in cash — ideally in a high-interest savings account or a cashable product. Keep in mind that even a high-interest savings account won't always keep pace with inflation. If you already have an emergency fund, consider how today's high inflation erodes your purchasing power. You may need to top it up.

Your budget should also include an allocation to savings and debt reduction. One way to ensure self-discipline is to automate monthly or biweekly savings with pre-planned deposits from your bank account to your investment or other accounts.

"Financial planning is not just putting everything in investments," Bhagwat says. "One of the risk-management strategies we use is to pay off debt, because it'll help you save on interest costs."

The value of advice

If you're in the fortunate position where household debt is under control, you may want to consider how to invest those savings as one of the key elements of your financial plan. This is when it's a good idea to work with a financial planner or advisor since they can help you build a portfolio that matches your risk tolerance and includes a mix of asset classes such as stocks, bonds and cash or cash equivalents.

As time passes, your advisor will monitor your progress and offer suggestions to help keep you on target with your goals. Depending on your situation, they may suggest tweaking your asset allocation or adjusting your monthly savings rate. As you approach retirement, your advisor can help you further explore your projected income in retirement and how that income will match your retirement goals.

They can also offer an informed second opinion on things you may not have pondered too deeply on your own. For example, they can run the numbers on taking your Canada Pension Plan (CPP) early or late. Did you know, you can arrange to start receiving CPP benefits as early as age 60 or as late as 70? Keep in mind that for most people, the earlier you take the CPP, the lower the pension payments will be.

New year outlook

Bhagwat urges his clients to be realistic about what's in store for their families in 2023. "Cash flow is very important for the next year," he cautions. "But we should all be prepared for disruptions. We continue to hear talk of a possible recession."

Bhagwat advises against making any knee-jerk responses to disappointing investment performance in 2022. That includes becoming too cautious or too adventurous when it comes to your portfolio strategy.

"If investors move out of their aggressive risk investments and move into conservative investments now, that could be detrimental to their long-term plan because, as markets recover from their cyclical lows, low-risk or conservative investments may underperform," he says.

In this way, investors could essentially lock in their losses, he adds, and it could take that much longer for their portfolios to recover. If you do have losses, consider speaking with your advisor about a tax-loss harvesting strategy: You may be able to lock in losses to offset gains and replace the underperforming investments with similar investments expected to fare better going forward.

Bhagwat says if you have a long time horizon and ample money to invest, this could be a highly opportune time.

"If you have the extra funds, this can be a great time to invest that money. History has shown that when markets have gone down, and you are able to buy assets at a cheaper cost, you stand a better chance of above-average returns in the future."

Your updated financial plan should take into account all the unique and variable aspects of your own situation and all possible scenarios that are out of your control, like interest rates or the economy.

"It all boils down to seeking professional financial advice," says Bhagwat, "and making sure that you have the available resources to meet your goals, whatever they are."

— Mark Brown, *MoneyTalk*

A changed world: Chasing financial goals in a bumpy economy

The COVID-19 pandemic changed the world and, along with it, many of us. Whether you've decided you want to retire early or travel the world, here are a few steps you can take to help achieve your bucket list items, even in the face of a challenging economy.

When the COVID-19 pandemic hit, Bronwen, like millions of people around the world started working from home. Unlike others who continued to work from home throughout 2020, however, it wasn't long before her employer mandated a return to office. "Their perspective wasn't very progressive," she says. "Essentially, if your seat at the office wasn't warm, you weren't working."

But Bronwen, a Calgary-based health and safety professional in her 30s, was looking for opportunities. While she had considered renting out her condo's spare bedroom in the past, her situation inspired her to finally make a move. "At the start of the pandemic, I had some time to think about how you can actually get ahead in this world financially. I had this asset to leverage, but I wasn't doing anything with it." Keen to see what might happen, Bronwen set up an account on a popular short-term rental platform and began renting out her extra room on weekends.

The experience has proved valuable over the last two years. Not only has the extra income covered Bronwen's ongoing mortgage payments and vacation expenses, but it's also offered her the flexibility her old job did not. She's since left her previous role, taken on a new one that offers a hybrid working environment and moved part-time to Golden, B.C., a pristine ski town just a few hours away.

"For me, the pandemic really highlighted an opportunity to balance life and work," she says. "Unlike my old job, my new employer believes that it doesn't matter where you work as long as you're producing. Now I get to spend my time between Calgary and Golden and generate extra income from my apartment when I'm not there. Honestly, it's been amazing."

Like Bronwen, you may find your priorities have changed since the outset of the pandemic. From retiring early to travelling the world, the items on our bucket lists today reflect what we've experienced (or have been unable to experience) over the last two years. According to a recent study, for example, almost two million Canadians launched a new business during the first twelve months of the pandemic.[1] Thousands of others left the city in droves, opting for greener, more spacious pastures — up 14% year-over-year from Toronto alone.[2]

But where do all these changes leave us when it comes to our finances? As interest rates rise, inflation hits new highs and markets continue to fluctuate, how can we safely plan for the future when we find our dreams increasingly at odds with our reality?

Fortunately, while the world may have changed our priorities, the basic tools we require to accomplish them have not.

Review your goals

This can mean thinking about your short-term plans, like finally taking that trip to Paris, but also your long-term ones, like retiring somewhere warm. When evaluating your goals and how best to achieve them, it can help to ask yourself a few key questions: How important is this idea to me? What's my time horizon? How much money will I need to achieve it? Are there any obstacles in my way? By asking yourself these questions now, being detailed in your answers and sharing your reflections with your planner or advisor, you can spare yourself future headaches.

Get your financial house in order

To help offset the potential influence of inflation and rising rates on your goals and priorities, it can help to conduct some basic financial housekeeping. Begin by taking a look at your cashflow: Consider which discretionary expenses you may be able to cut back on, and where that money might be re-directed. It may be helpful to take a closer look at what's changed for you recently. For example, if you once commuted five days a week, but now work predominantly from home, you may be able to re-allocate those savings.

If you find there's room in your budget, now may also be a good time to reexamine your debt. In a high interest rate environment, it can help to consider your debt load. That is, see how much cash flow is being used to meet debt payments on your home, car and credit card bills and other obligations and what is the cost of borrowing for each. You may wish to make adjustments on consolidating debt or perhaps even foregoing a second car, for example, if decreasing debt payments can put you in a better situation.

Continue to build wealth

In our current economic environment, you may be feeling unsure about how best to save for your goals. While you might already have funds set aside for short-term plans, a challenging economy may inspire you to look for additional options to help you reach your long-term goals. An advisor can work with you to sort through the various options depending on your personal circumstances, risk appetite and priorities. Here are a few things you might consider.

Take advantage of tax advantaged accounts — RRSPs and RESPs

A solid wealth plan starts with the basics and that means ensuring you're taking advantage of tax preferred accounts — including a Registered Retirement Savings Plan (RRSP), and, if you have children, your Registered Education Savings Plan (RESP). Using tax advantaged accounts to build your portfolio can result in higher after-tax returns.

Set up automatic contributions and take advantage of compound interest

One of the easiest ways to stay on track with your investment goals is through automatic contributions. Rather than making sporadic lump sum contributions (where deposits may be put off or skipped entirely), working with your advisor to set up an automatic contribution plan can help ensure you're consistently working toward your financial goals. Moreover, because automatic contributions generally involve smaller monetary deposits, they're often easier on cashflow.

The power of automatic contributions is compounded (quite literally) by compound interest. Compound interest works by snowballing the

interest earned on your savings each month into the principal investment. Although even a few years of compound interest can make an impact, compound interest primarily benefits those who invest over longer periods of time.

Diversify, diversify, diversify

There are many different kinds of investments, each with their own risks. Work with your advisor who will be able to provide you with options that suit your risk appetite and life goals.

But aren't all investments bad when inflation is high, and markets are down? Not quite.

A diversified portfolio may be a suitable option, especially at times where there are large fluctuations in the market. Rather than relying on the value of a single stock, or even a single kind of stock, a diversified portfolio relies on multiple investments in a variety of sectors. In this way, when some of your investments are down, there is a chance that others may be up.

Check in with your financial plan

Now may also be a good time to check in with your overall financial plan — particularly if your goals have changed. Consider how your new goals may fit into your plan. For instance, while Bronwen's decision to rent out her room may seem inconsequential, the income will need to be reported to the Canadian Revenue Agency. It may result in additional taxes and may even impact how the proceeds will be taxed in the future when she sells her home. This can all potentially be addressed in her larger financial plan.

People should also look into which key documents they should update. For example, do you need to update your Will or Powers of Attorney? What about your estate plan or, if you're a business owner, your business succession plan? Take the time to ensure your key documents are up to date and reflect your plans, particularly if those plans have changed.

Don't let your worries stop you from seeing the bigger picture

At the end of the day, it's important to remember that economic cycles naturally ebb and flow. Historically speaking, good investments always

come back given some time. For those trying to meet their long-term financial goals, pulling out prematurely or trying to time the market would rarely yield the return you want. Instead, if you can afford to and it aligns to your financial situation, staying invested could be the right approach.

While Bronwen hasn't given up her 9-to-5 yet, she says it's not outside the realm of possibility. Ultimately, Bronwen says she's not really pursuing a specific financial goal anymore, but a new lifestyle. "Having multiple short-term rental properties is a kind of lifestyle. You get to own the properties and use them when you want, but other people help pay them down. I'm not able to rely solely on renting just yet, but I'd love to eventually."

The pandemic changed how many of us see the world. It's normal to feel a little uncertain about the future, particularly in our current economic environment. However, it's important to remember that despite economic challenges, our goals may still be achieved — even if they've changed.

If you have any questions about where to get started with your own goals, or which financial tools suit your situation best, speak to a financial advisor.

— Tamara Young, *MoneyTalk*

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[1] "Nearly two million Canadians launched a business in the last 12 months, says new research from Intuit Quickbooks Canada," Newswire, June 2, 2021, https://www.newswire.ca/news-releases/nearly-two-million-canadians-launched-a-business-in-the-last-12-months-says-new-research-from-intuit-quickbooks-canada-801885612.html.

[2] "So Long Toronto: COVID-19 Pandemic Hastens Canada Urban Exodus," Reuters, January 13, 2022, https://www.reuters.com/world/americas/so-long-toronto-covid-19-pandemic-hastens-canadas-urban-exodus-2022-01-13/.

5 questions Canadians have about GICs right now

If you have some money you want to put away for the future, and require a guaranteed return, GICs may be an option for you. The combination of attractive interest rates and safety may be beneficial, especially with the recent higher interest rates for lending.

When the economy and stock markets are volatile and inflation is high, many people search for a way to save money that is both safe and practical. GICs (Guaranteed Investment Certificates) are an investment choice that some investors may look to in this type of environment. Here's a practical primer on GICs that can help you determine whether they're right for you.

What is a GIC?

A GIC is a product offered by banks and other financial institutions that pays a set rate of interest over a set term. It's not like a savings account, because you must keep those dollars locked in for a few months or years, depending on the term you selected. (There are some exceptions, which we explain later.)

Unlike stocks and bonds, GICs are essentially loan contracts between you and your financial institution. As a result, the principal doesn't fluctuate in value. However, once the term expires, the principal (the sum you deposited) is returned to you along with interest earned. At that point, unless you need the money for another purpose, you may choose to roll over the GIC into a new one, enabling your nest egg to compound over time. You can learn more about how compounding can help grow your savings even faster here.

Here are some important concepts to know when considering a GIC investment:

Term: The term is the amount of time your funds are "locked-in" to the GIC. When deciding on a term, ask yourself: How long can I do without the money? The longer the term, the higher the interest you'll earn.

Features: There are many different characteristics for GICs, but generally people are interested in cashable GICs.

Renewal: Before maturity, you will be contacted to determine whether you wish to renew your GIC or confirm if your existing maturity instructions (for example, automatically renew) are accurate. If you do not wish to renew, contact your institution to ensure the GIC is paid out to you at maturity.

Are GICs safe investments?

One big advantage of GICs is the guaranteed interest. Like bank accounts, nearly all GICs are covered by the Canada Deposit Insurance Corporation (or provincial deposit insurance programs in the case of certificates issued by credit unions). That means that your money is protected up to a sum of $100,000, making GICs a safe place to invest. Here's how the CDIC insurance works.

Investors should consider how inflation impacts the buying power of their dollars. If consumer prices are increasing, investments like GICs may help offset some of the burden of high inflation by providing a better interest return than if funds are not invested.

An investor should chat with their financial planner or advisor to discuss how to manage GICs in changing economic circumstances: The ratio of GICs and stocks in a portfolio, for example, may change depending on the cycle of the economic conditions.

GICs can serve a variety of investor goals, but they are particularly appealing to:

- People saving for a short- to medium-term goal — say, a wedding or a home purchase — who can't afford to put their hard-earned savings at risk
- Those looking for fixed-income investments
- Individuals who wish to keep their money safe and value lower-risk options

Is my money locked in?

It depends on the type of GIC you purchase. Redeemability varies by the individual GIC and there may be a set period holding period for the GIC before withdrawal. With cashable GICs, you may withdraw funds according to the individual restrictions without penalty, however, you may have limitations on when you can redeem your funds, or you may have to opt for a lower interest rate. When considering a GIC, it's best to consider all the different categories of GICs to see which is right for your situation.

Are there different types of GICs?

GICs come in a great variety. There are various terms although one- and two-year terms are popular. They generally have no fees if you hold them to term and some GICs come with interest payment options on a monthly, semi-annual, annual or compounded annual basis. Others only pay interest when you hold the GIC to maturity. Generally, non-cashable GICs do not allow for early withdrawals, although if you need to withdraw early in the case of death or financial hardship, you may have to pay a penalty or lose your interest payments to receive your funds.

Can you hold a GIC in an RRSP or other account?

GICs are eligible holdings for Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Educational Savings Plans (RESPs) and Tax-Free Savings Accounts (TFSAs), as well as non-registered accounts.

When you purchase a GIC in a tax-advantaged account like an RRSP, not only do you reduce your income taxes payable in the current year, but your interest payments are sheltered from taxation until you withdraw them in retirement. By that time, your marginal tax rate is likely to be lower.

Are GICs right for me?

GIC rates can vary and on their own may not be enough to allow you to reach your investment goals. This question, along with "How much should I invest?" is best answered by your financial advisor or planner in conjunction with a discussion about your larger financial plan.

This TD GIC selection tool can help you decide which GIC may be right for you.

— Don Sutton, *MoneyTalk Life*

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