TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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In This Issue

Investing & the Art of Discipline

Every so often, news of a "millionaire next door" makes the headlines: individuals who lived seemingly unremarkable lives, yet amassed remarkable amounts of wealth. According to reports, Ronald Read, a part-time janitor who frequently ate at a local legion hall, had $8 million dollars when he died.[1] Grace Groner, a career secretary who lived in a one-bedroom home, left $7 million dollars to charity.[2] In these cases, there was no inheritance or lottery win. The common denominator? Discipline and patience over the long term, in both saving and investing.

Today's geopolitical tensions have been testing many investors' patience. The U.S. Administration's global trade rhetoric and tariffs have kept many global investors on edge. With the economic expansion well into its 10th year and an extended bull run (see pg. 2), every event is analyzed for its potential negative effect on the markets. Recent attention has focused on Italy's debt issues, which have been complicated by political changes, as well as Turkey's currency and debt crisis. While Canada's economic data has been largely positive, there have been concerns about the road ahead, especially after being sidelined during North American Free Trade negotiations over the summer and with ongoing Trans Mountain pipeline setbacks.

Some investors are better than others at keeping expectations on an even keel. Renowned investor Warren Buffett has said, "successful investing takes time, discipline and patience." How do successful investors stay disciplined?

Step back from the headlines — Stay focused on your end goals, not the news reports of the day. Continue to save and invest steadily for the future, and try to leave the worry over day-to-day developments to us, those who oversee your investments.

Keep realistic expectations — During bull market times, it may be easy to get caught up in the market's advances. But, the path to success is often best navigated not by making the largest short-term returns, as these returns tend to be one-off hits that come and go. Wise investing involves consistency — seeking to earn solid returns over longer periods of time.

Trust your plan — Your portfolio has been created with your personal objectives in mind, to help meet your needs over the longer term. Each element has been selected to serve a purpose, to help lead you through both up and down markets. In rising markets, this can mean avoiding the temptation to chase higher returns by abandoning your investment objectives or risk tolerance levels. In difficult times, this can involve having confidence that your plan is working for you.

Keep in mind that one of the greatest roles I play is in helping you maintain the discipline to achieve investing success. Discipline and patience can be some of an investor's best allies. As this is the final newsletter publication of 2018, please call if I can be of support as the year comes to an end. Best wishes for the shorter and cooler days ahead.

1. cnbc.com/2016/08/29/janitor-secretly-amassed-an-8-million-fortune.html; 2. articles.latimes.com/2010/mar/06/nation/la-na-millionaire-donation6-2010mar06

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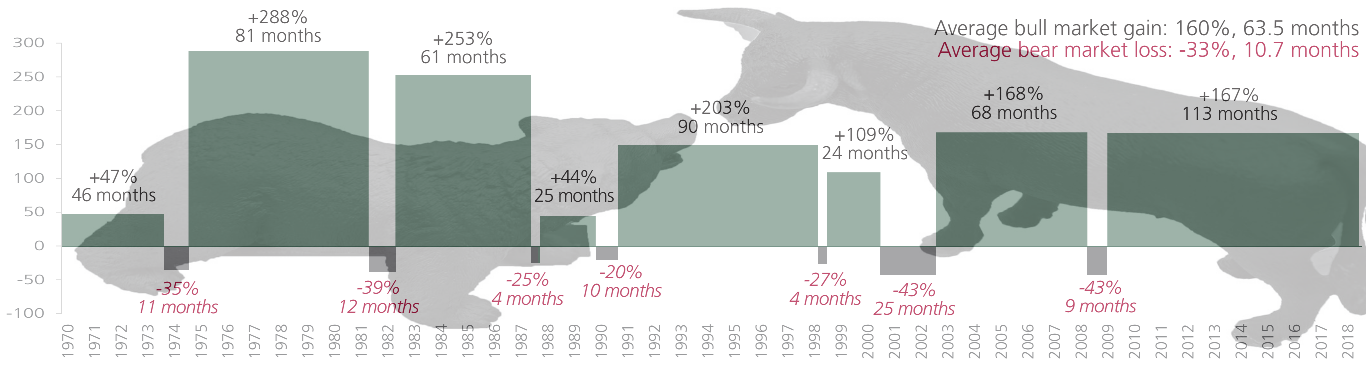
Market Performance

Bulls & Bears

In August, by some accounts, equity markets boasted a new record for the longest bull market in modern financial times.[1] A bull market is often defined as a period in which stocks have increased by at least 20 percent, over at least a two-month period. A bear market occurs when stocks have fallen by at least 20 percent.[2]

Let's take a look back at the history of the bulls and bears of the S&P/TSX Composite Index since 1970.[3] Bull markets have been longer, averaging around 64 months and providing a more significant percentage change in value. Bear markets have been shorter, averaging just over 10 months. Does this aging bull market still have legs to run? Nobody can predict the direction of future markets, and equity markets are cyclical by nature, experiencing both extended up and down periods. But as recent history has shown, bull markets frequently outpace bear markets.



1. bnnbloomberg.ca/longest-bull-market-in-history-comes-with-jumbo-sized-asterisk-1.1126397; 2. Investopedia; 3. Chart source: S&P/TSX Composite Total Return Index, 1/1/70 to 31/7/18.

Did You Know?

When the TFSA is Not Always Tax Free

The Tax-Free Savings Account (TFSA) has become known as a great account in which to invest and not have to worry about funds going to the tax collector. But, just when you thought you could get off "scot-free", did you know that there may be instances in which TFSA funds may be subject to tax?*

Not all investments held within a TFSA are free of tax. Foreign dividend-paying shares held in the TFSA may be subject to a withholding tax on dividends paid. The U.S. imposes a 15 percent withholding tax on the dividends paid to Canadians by U.S. corporations. Registered Retirement Savings Plan (RSP) and registered Retirement Income Fund (RIF) accounts are exempt from this tax under the Canada-U.S. tax treaty. For non-registered accounts, this withholding tax can potentially be recovered by claiming a foreign tax credit. However, you can't recover this withholding tax within a TFSA.

Takeaway: Certain assets may be taxed differently based on where they are held (registered or non-registered investment accounts). Consider holding foreign dividend-paying stocks outside of a TFSA. Also, be aware that eligible Canadian dividend payments held within a TFSA will forgo the dividend tax credit.

A beneficiary could be subject to tax on a TFSA. While the TFSA can be transferred to a beneficiary on a tax-free basis at fair market value at the time of death, any gains after the holder's death would be subject to tax.

Takeaway: If the intended beneficiary is a spouse/partner, consider designating them as a "successor holder". A successor holder can continue to operate the TFSA after a spouse's death relatively seamlessly, with assets remaining in the TFSA. If a spouse is, instead, named as a beneficiary, they need to complete a transfer to their own TFSA and file certain forms with the CRA, within specific time frames. Otherwise, any gains earned after death may not necessarily be tax-sheltered.

Transfers between your own TFSA accounts can be subject to tax. Unless a "direct transfer" is completed by the financial institution, any TFSA withdrawals will only reset contribution room in the *following* calendar year. If no contribution room is available and these funds are deposited into another TFSA account, the amount may be subject to a penalty tax of one percent per month until contribution room becomes available.

Takeaway: If you are consolidating TFSAs, consider having the financial institution complete a direct transfer. With any TFSA contribution, ensure you have available contribution room. Information is available on your Canada Revenue Agency (CRA) online account "*My Account*". You can also contact the CRA to request a *TFSA Room Statement.*

The cumulative TFSA contribution limit for an individual who has been eligible to contribute since 2009 is $57,500 (in 2018), making the TFSA a potentially compelling investment tool. Have you fully contributed?

*This article is intended for Canadian residents who are not subject to U.S. income taxes as a U.S. person including Canadian resident U.S. citizens and green card holders.

Kids Back at School

What's Your RESP Withdrawal Strategy?

Canada has been referred to as an education superpower.[1] We have one of the world's largest proportion of working-age adults who have been through higher education: 55 percent, compared to the Organization for Economic Cooperation (OECD) country average of only 35 percent.[1]

Does a higher degree pay off in the long run? A Statistics Canada study followed the employment outcomes of over 8,000 graduates. The result? Over 20 years, men with a BA degree earned an average of $635,000 more than high school graduates; women earned an average of $513,000 more.[2]

Tuition is expensive and a Registered Education Savings Plan (RESP) can help. The RESP has three components: i) original contributions by the subscriber; ii) government grants, such as Canada Education Savings Grants (CEGS); and iii) accumulated income/gains on contributions and grants. Grants and accumulated income may be paid to a beneficiary enrolled at a qualifying educational institution as an Education Assistance Payment (EAP), which is taxable in the student's hands. Original contributions can be withdrawn tax-free by the subscriber at any time.

The RESP generally can remain open until the end of the calendar year that includes the 35th anniversary of its opening. After this time, unused grant money must be repaid to the government. There may be a 20 percent penalty tax in addition to regular income tax due on any accumulated income payments (AIP), the withdrawal of income/gains. As such, it is important to plan a withdrawal strategy.

If the child has qualified for the EAP:

Consider structuring withdrawals early to help minimize taxes. EAPs are taxable in the hands of the beneficiary. Once a beneficiary starts a qualifying program, EAPs can be drawn. At a minimum, consider using the child's "basic personal amount" tax credit each year. This is a non-refundable tax credit, so unused amounts cannot be carried forward. Plan ahead to help minimize taxes. Consider that

the tuition tax credit can also offset EAP income and can be carried forward indefinitely. Other sources of income, such as a summer job, may impact the student's marginal tax rate.

Draw down EAP funds before enrolment ends. When withdrawing funds, you may be able to specify the amount considered to be the EAP versus a refund of contributions. There are no restrictions on the use of EAP monies, as long as the child is enrolled in a qualifying post-secondary program. (An initial limit of $5,000 applies for the first 13-weeks of full-time enrolment.) EAPs can only be made until six months after the student ceases enrolment, so it may be beneficial to withdraw as much as possible to avoid the high level of tax on accumulated income that is unused if (s)he drops out.

If the child does not qualify for the EAP...

If beneficiaries are at least 21 years old, AIPs may generally be made to the subscriber starting in the 10th year following the year that the plan was opened. CESG grants must be repaid when the AIP is made. To avoid tax on AIPs:

Transfer AIPs to a subscriber's RSP account. This can be done if a subscriber has available RSP contribution room (subject to certain conditions). If no RSP contribution room is available, an option may be to delay collapsing the RESP for a few years (if permissible) to build up the subscriber's RSP contribution room.

1. https://bbc.com/news/business-40708421; 2. http://150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2014040-eng.htm

Gas Prices: Continuing Pain at the Pump

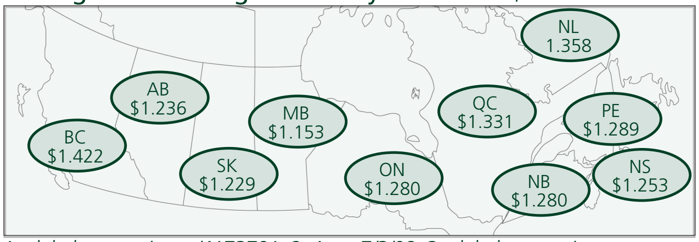
Canadians continue to experience sticker shock at the gas pump. At the end of April, gas prices hit $1.60/L in Vancouver — a record high in the history of Canadian fuel prices.[1] The summer saw no reprieve, with prices increasing in many Canadian cities.

While rising oil prices are partially to blame, gas prices have surged much more rapidly. The average price we pay at the pump is higher today than back in 2008 when oil was trading at $145/barrel.[2] So what is causing higher fuel prices?

First, the Canadian dollar is trading much lower than it was in 2008. Since much of our gas comes from U.S. refineries, we are paying for the lower Canadian dollar. U.S. refineries have also had increased demand, which has pushed up prices. At the same time, many provinces have enacted carbon taxes. There are also supply issues: for example, Vancouver only has one refinery.[3]

A look at the average gas price by province (below) shows that where you live can make a big difference on how much you pay. While gas prices are high, consider that we still pay a lot less than many of our global counterparts: a litre of gas costs around $2.79 in Hong Kong and $2.49 in Greece![4]

Average Price of Regular Gas by Province - $/L[5]



1. globalnews.ca/news/4173791; 2. As at 7/3/08; 3. globalnews.ca/news/4181098; 4. globalpetrolprices.com, at 8/6/18; 5. gasbuddy.com, at 9/4/18.

Joint Ownership: The Good, the Bad & the Potentially Ugly

Owning assets jointly has grown in popularity — with spouses, and now more frequently between parents and children. While there may be benefits, be aware of the potential pitfalls prior to transferring assets into joint ownership.

Joint ownership occurs when an asset is owned by more than one person. There are two forms: "Joint tenancy" (with the right to survivorship) refers to an arrangement in which the ownership of the asset passes directly to the surviving owner(s) upon the death of one of the owners.* As such, the asset passes outside of the deceased owner's estate. Under the alternative "tenants in common" arrangement, owners each hold separate ownership interests in the asset that can generally be sold, transferred, or bequeathed without the consent of the other owners.

Here, we focus on joint tenancy, which is being increasingly used in the estate planning process. While there are benefits, be aware of the bad and potentially "ugly" implications prior to entering into this arrangement:

The Good...

Ease of asset transfer — Upon the death of one owner, the surviving owner(s) automatically becomes the owner of the asset, with few legal or administrative hassles upon transfer.

Bypass probate — Since assets pass to joint owners outside of the will, no probate or estate administration fees are assessed in provinces where applicable.

The Bad...

Tax implications — There are potential tax consequences. For example, if real estate is owned jointly between a parent and a child who already owns a residence, there may be a proportionate loss of the principal residence exemption. Adding a joint owner to a property could also result in the incidence of land transfer tax. For jointly-owned investment accounts, even if tax slips may be received in the names of the joint owners, the Income Tax Act (Canada) could require attribution of the income earned and owned by one taxpayer to another taxpayer for tax purposes, based on who provided the capital to acquire the assets in question. Depending on the circumstances, adding another party (such as an adult child) as joint owner could also result in the recognition of some gains or losses for tax purposes.

Loss of control — Joint ownership may mean that the original owner no longer has total control over the assets. With property, decisions regarding its maintenance or sale need to be made jointly. With financial accounts, such as a bank account, a joint owner would generally have the ability to withdraw or use funds.

The Potentially Ugly...

Estate equalization issues — If the majority of assets are held in joint ownership (outside of the estate), the estate may not have sufficient assets to fund legacies or gifts outlined in the will, or potential tax liabilities due. If an estate is to be divided equally but a jointly-owned asset hasn't been considered, expensive and divisive legal action could result. It also may not be clear if a joint-tenancy arrangement was done for ease of administration or if a change in beneficial ownership was intended.

Exposure to creditors or matrimonial claims — Jointly-held assets may be exposed to claims by a joint owner's personal or business creditors, or ex-spouse. This could force the sale of an asset to cover the payment of debts or claims of the joint owner.

As always, please seek the advice of legal and tax advisors as it relates to your particular situation.

*Not applicable in Quebec, where the laws differ and an automatic right of survivorship does not exist.

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