

# Wealth Insights

TD Wealth Private Investment Advice

Autumn 2019

## We, the North

It isn't too difficult to contemplate that if Warren Buffett had been born in 1920s Germany, his story would likely have unfolded differently than the one we know. For many of us, there is an element of serendipitous "luck" involved in the generation and country we are born into.

In many ways, there's never been a better time to be an investor living in Canada. Today, it is easy to worry about the concerns reported by the media and lose sight of the many positives. As this is the Thanksgiving season, here are some things to be thankful for.

We are a nation of peace, prosperity, inclusivity and resilience. Canada consistently ranks at the top of many global indices: 3<sup>rd</sup> in the Best Countries Ranking (2019), based on global perceptions; 8<sup>th</sup> in the Index of Economic Freedom (2019), due to strong liberties and a free market system that rewards hard work; and 9<sup>th</sup> in the World Economic Forum Happiest Countries Index (2019).<sup>1</sup> We also have one of the world's largest wealth markets.<sup>2</sup> Our financial systems continue to be widely regarded for their stability, as evident during the 2007/08 crisis when many U.S. financial institutions went bankrupt.

Canadians have one of the highest life expectancies globally, thanks in part to our healthcare system. The average Canadian retires around age 63; just 100 years ago, most people died before reaching age 60.<sup>3</sup> When compared to our neighbours to the south, we rank higher on virtually every measure including life expectancy, education and net worth. As a Maclean's magazine article aptly put it: "the American dream has moved to Canada."<sup>4</sup>

While it has been a solid year for equity markets, more recently there has been no shortage of gloomy news: civil unrest in Hong Kong, political upheaval in Argentina, and slowing economies globally. It may be challenging to be at ease: where are the markets and the economy headed? But this is not a normal economic cycle left to run by itself. Central banks continue their stimulus efforts, which have helped support equity markets. In July, the U.S. Federal



### Gosnell Galbraith Wealth Management

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Reserve cut its overnight rate for the first time in over a decade. Will this help to keep recessionary concerns at bay?

Of course, the economic cycle is inevitable. Yet, modern capital markets have always adjusted and progressed. Worth remembering: over the past 25 years, the equity market went up 393 percent in spite of two recessions, collectively lasting 32 months, and three bear markets totalling 38 months, two of which saw drops of over 40 percent.<sup>5</sup> The investing journey is a long one filled with ups and downs and the ability to keep focused can be key to longer-term success.

We have much to be proud of as Canadians. During this season of "thanks", we are reminded of many of these things. We are also grateful to you. Thank you for entrusting us to be stewards of your wealth. We remain here to be of service to you.

1. 2019 Best Countries, US News; Index of Economic Freedom, Wall Street Journal; 2. [www.worldwealth.com/gwmr\\_2019](http://www.worldwealth.com/gwmr_2019); 3. 150.statcan.gc.ca/h1/pub/11-630-x/11-630-x2016002-eng.htm; 4. [maclean.ca/news/canada/the-american-dream-moved-to-canada/](http://maclean.ca/news/canada/the-american-dream-moved-to-canada/); 5. S&P/TSX Composite Index: 7/29/94 to 7/31/19.

## Sage Advice for the Final Months of the Year

# Year-End Financial Housekeeping, Buffett Style

As we approach the final months of the year, why not derive inspiration from one of the greatest investors of our time? Here is some sage advice from Warren Buffett as it relates to your year-end financial housekeeping:

**“Predicting rain doesn’t count, building the ark does.”**

Don’t allow current media commentary to dissuade you from continuing to build your portfolio for the future. Time in the market, not timing the market, can be key to investing success. Have you fully contributed to tax-advantaged accounts, such as the Tax-Free Savings Account (TFSA)? Or, consider making registered Retirement Savings Plan (RSP) contributions for 2019. You still have until 60 days after the calendar year to make RSP contributions for the 2019 tax year.

**“Do not save what is left after spending; instead spend what is left after saving.”**

Improve your savings by employing potential tax strategies. Depending on your circumstances, it may be possible to lower a couple’s overall income taxes through income-splitting strategies with a spouse<sup>1</sup> in a lower marginal tax bracket. For example, if you are a business owner, and a spouse assists with the business, paying a reasonable salary to a spouse could have tax benefits. If you receive pension income, explore whether it is beneficial to elect to split eligible pension income on your tax return. If you are 65 years old or older and not receiving eligible pension income, consider purchasing an annuity or opening a registered Retirement Income Fund (RIF); income from these sources may allow you to claim the federal pension income tax credit.

**“The most important thing to do if you find yourself in a hole is to stop digging.”**



Where prudent from an investment perspective, consider realizing capital losses to offset capital gains realized in 2019, or make use of the loss carry-back rules to recover taxes paid on taxable capital gains realized in three preceding taxation years.

**“I believe in giving my kids enough so they can do anything, but not so much that they can do nothing.”**

Fund a Registered Education Savings Plan (RESP) to support a child’s higher education. Consider making a contribution before year end to potentially benefit from the Canada Education Savings Grant (CESG) in the current year.<sup>2</sup>

**“If you’re in the luckiest one percent of humanity, you owe it to the rest of humanity to think about the other 99 percent.”**

Charitable donations made before Dec. 31 may be eligible for deductions for your 2019 taxes. Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax.

**“The most important quality for an investor is temperament... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.”**

Being a disciplined investor often means resisting the temptation to act on emotion: during bull market times, it may be greed; during bear market times, it is often fear. Markets will always have ups and downs; your plan has been put in place to meet your goals throughout the inevitable cycles. Look forward with confidence.

Please call for assistance. For tax-loss selling or gifting publicly-traded securities, let’s discuss taking action well before year end.

Thank you to Warren Buffett for permission to use his quotations. 1. Or common-law partner; 2. Unused amounts can be carried forward.

## The Yield Curve & Interest Rates: Where Are We Headed?

If you follow business news, no doubt you have been hearing much about the inverted yield curve. A yield curve is a line that plots the interest rates of similar bonds that have differing maturity dates. Normally, the yields for longer-term bonds are higher than short-term bonds because bondholders are traditionally rewarded for a longer holding period with a higher interest rate. An inverted yield curve does the opposite, offering greater reward today than in the future. In August, a Canadian 3-month T-Bill had a yield of 0.40% (or 40 basis points) above a 10-year Government Bond (see chart). Many economists believe the inverted yield curve is one of the key indicators of an impending recession.

**Is a recession in sight?** There’s an old joke that says the market predicted nine of the last five recessions. As long as we have a business cycle, every recession prediction will eventually be correct, but usually the timing is premature. Today, we are confronted with a unique situation in which central banks globally have held interest rates low for extended periods. In the summer, the U.S. Federal Reserve reduced the overnight rate. Canada didn’t follow suit due to various bright spots in the economy. Many businesses continue

### Select Yields for Canadian Bonds: 2019 versus 2018

BOND	AUGUST 2018	AUGUST 2019
10-Year Gov’t Bond	2.36%	1.24%
3-Month T-Bill	1.45%	1.64%
Difference	0.91%	-0.40%

Source: Bank of Canada, 8/1/18 and 8/8/19.

to post earnings growth, employment is still strong and, over the summer, Gross Domestic Product growth exceeded expectations.

In some parts of Europe and in Japan, negative interest rates have continued for years. This was intended to dissuade commercial banks from keeping large deposits with the central bank and instead encourage them to lend to businesses and consumers to boost economic activity.

While equity markets can react favourably to lower interest rates as finding income in the bond market becomes more difficult, other factors such as slowing global growth may put pressure on equity markets. Growing global indebtedness, the future consequences of which are not fully understood, also remains a concern.

## Estate Planning Considerations

# Giving Thought to Using a Professional Executor

There is a degree of honour that comes when a person is named as an executor.\* It often indicates trust in that person to settle estate affairs with good judgment after a person's death.

But it's not necessarily an honour for everyone. It isn't uncommon for some to realize the job is more than expected: it's not just about dividing assets. There are many responsibilities, often needing to be tended to during a time of grief. This can be further complicated by sensitive issues, challenging personalities and difficult family dynamics that can often emerge when settling an estate.

Another complicating factor is that we have become an increasingly mobile society. Appointing an executor who resides in or moves to a different province, or country, can create issues for the estate or the executor. As such, there may be value in using a professional executor to help address these circumstances or benefit from the following:

**Impartiality** — Where assets are involved, there is often emotion. An executor must be able to act as a mediator for any conflicts. A professional can provide impartiality. From a simple family situation, to the complexities of things like creditors, lifelong relationships can be harmed and the situation can become very challenging.

**Ease of settlement** — Generally, an executor is given one year to wind up an estate. It is a role that can add significant demands to a person's already busy schedule, especially if the executor isn't familiar with the estate administration process. Professional



executors have dedicated time, expertise and resources to settle an estate in an efficient manner.

**Deep understanding** — An executor may be personally liable for certain errors when administering an estate. For complex estates, such as where a business needs to be wound up, there may be value in having an expert with professional experience to take control and settle the estate in the best possible way.

### But what about the cost?

One of the main concerns in using a professional executor is the perceived cost. However, an executor, regardless of whether they are professional, is usually entitled to be paid for their efforts. Keep in mind that many professional executors offer graduated pricing in which the rate declines as the value of an estate increases.

Taking into consideration the time, emotion and complexities associated with settling an estate, it may be money well spent to consider having a professional executor to manage the process.

\*Known as liquidator in Quebec.

## It's Back-to-School Time

# Education Savings: Grandparents to the Rescue?

With the rising costs of education, many grandparents are asking about funding a Registered Education Savings Plan (RESP) for a grandchild's post-secondary education.

While it is possible for grandparents to open an RESP for grandchildren, it is important to exercise caution for two reasons. First, if multiple RESPs exist for the same beneficiary, total contributions need to be monitored so they don't exceed the lifetime maximum of \$50,000 per beneficiary, as penalties will apply. Second, if the beneficiary doesn't pursue post-secondary education, under certain circumstances RESP withdrawals of accumulated income may be transferred to the contributor's registered Retirement Savings Plan (RSP). However, grandparents beyond the RSP maximum age cannot transfer funds to a registered Retirement Income Fund (RIF). Distributed amounts, in excess of contributions, could be heavily taxed. Thus, if parents have already opened an RESP and grandparents are comfortable with the parents' discretion, they may instead consider gifting funds to parents to make a contribution.

### Are there other funding alternatives?

Setting up a trust arrangement may be another solution.<sup>1</sup> There are

### Canada: Surprising Education Facts

- We rank #2 as the most educated nation globally.<sup>1</sup>
- Average annual tuition has risen by 477% in 30 years, from \$1,185 in 1989 to \$6,838.<sup>2</sup>
- We rank #4 for highest education costs, after U.K., U.S., Japan. Harvard (U.S.) tuition costs C\$64,000/yr.<sup>3</sup>
- 1 in 6 Canadians who assist children with post-secondary education costs have delayed their retirement.<sup>4</sup>

1. OECD; 2. Statistics Canada; 3. cnbcc.com; Avg. tuition US\$47,730, harvard.edu; 4. FP Canada May 2019 survey.

no contribution limits, but unlike an RESP, there are no tax deferral or Canada Education Savings Grant (CESG) benefits.<sup>2</sup> If the trust relationship is properly documented, it may be possible to have gains realized on withdrawals taxed in the hands of the beneficiary, which may be beneficial if (s)he has a lower tax rate. However, keep in mind that once the beneficiary gains control, usually at the age of majority, the funds can be used for any purpose not just education.

To discuss more about these or other options, please call.

1. Setting up a trust may be a complicated legal arrangement and a tax expert should be consulted to ensure it is carried out in the way intended; 2. A CESG is a government grant that can total up to \$7,200 in a beneficiary's lifetime.



# It's a Matter of Trust

Chances are that, at some point, you've heard a story about a professional athlete declaring bankruptcy. In fact, ten years ago, Sports Illustrated claimed that 78 percent of NFL players were bankrupt or in financial distress just two years after retirement. Statistically, NBA players didn't fare much better: almost 60 percent were broke after five years off work. Of particular interest to those of us who work in the investing industry: beyond the challenges experienced by young athletes in dealing with sudden financial gain, many fell prey to dubious individuals pitching "investing" ideas destined for failure.<sup>1</sup>

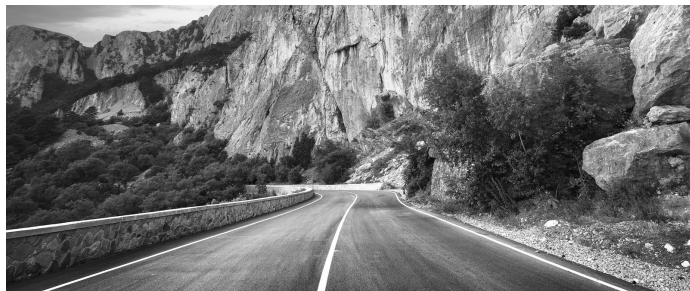
Have things changed over the past decade?

It seems likely that the same issues persist, and it's not just the rich and famous who are targeted. The world of investment advice has, unfortunately, experienced challenges with conflicts of interest and transparency.

As advisors concerned about how our industry is perceived, we want to remind you of what we consider to be our obligations to you:

**To work for you.** We are committed to putting you first. You can expect independent advice based on our principles and years of industry experience. We will act in good faith and will always have a reasonable basis for the decisions we make.

**To be a steward of your wealth.** We focus on maintaining meaningful, long-term partnerships with our clients, with the priority of keeping your hard-earned funds working for you. Even though recent equity market performance has been positive, one of the largest roles we play is to provide support during the inevitable down times. We're in this for the long haul, through good times and bad, ensuring that your financial goals remain the focus.



Protecting wealth also means resisting the temptation of fads, maintaining discipline and taking a longer-term view.

**To offer additional value.** We are continuously educating ourselves to stay current and we believe that educating our clients is similarly important. For example, this newsletter is just one of the tools that we use to provide you with actionable ideas to grow your wealth. It is not a company-sponsored publication and is a unique collaboration created for you with strategies and tactics to help improve your wealth position.

While we bring independent thinking to our approach, we are supported by a well-capitalized organization with many resources. With our broader team, we have helped clients build wealth through tax planning, estate planning, business succession planning, among other services.

## We Are Here for You

Thank you for your confidence in our services. We are grateful that you have trusted us to manage your wealth and look forward to continuing to provide you with the best support.

1. <https://www.si.com/vault/2009/03/23/105789480/how-and-why-athletes-go-broke>

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