TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Summer 2023

Jason Webster, CIM®
Senior Portfolio Manager
TF: 1 800 846 5836
Branch: 519 640 8530
F: 519 640 8552

In This Issue

To Our Clients:

A fair degree of uncertainty continues to cloud the markets. In times like these, it may be helpful to recall this advice: Don't let the merits of a good investment be overridden by the macro outlook. In some cases, the outlook may not unfold as expected: for 18 months now, many economists have been calling for an "imminent" recession. Most of us are investing for the years to come, and not for today. As advisors, we continue to position portfolios to meet these future objectives.

We hope that the summer months bring many leisurely pursuits. As always, please call if we can be of assistance.

Jason

Webster Wealth Advisory Group

Will You Live to 150?

It may seem implausible, but some researchers believe that the first person to live to 150 has already been born.[1] Our lifespan, and more crucially, our "healthspan" — the period in which we are in good physical and mental shape — continues to extend.

What if you do live until 150? Or, more likely, what is the possibility that your life might last much longer than you believe — will it change your perspectives on the present moment?

Back in the 1980s, the concept of "*Freedom 55*" suggested the idyllic retirement age of 55 — and, just 15 years ago, some provinces still had laws in place that supported mandatory retirement at age 65. But what if life is only half over by these ages? It's not inconceivable. As many as half of today's 5-year-olds can expect to live to the age of 100.[2]

Critically, this means a whole new set of issues — notably, those relating to our wealth planning to ensure a good quality of life over an extended period. This is challenged by ongoing trends of declining workplace pensions and ambiguous government support — the current debate over eliminating mandatory RRIF withdrawals due to the risk of outliving savings being one example. Younger folks face new challenges — the pandemic shaped a generational outlook of YOLO, "you only live once," that appears to have thrown savings priorities out the window, though the typical career path for younger people is now seen as spanning 60 years, unlike the traditional 40.

But there's also a rose-coloured view. We may be on the verge of a megatrend referred to as the "*demographic dividend*" — a growing number of older individuals in the labour force, expected to accelerate growth per capita, drive economic expansion and enhance social development. This potential "*longevity economy*" is expected to benefit everyone. While some will need to work longer to support the growing cost of living and increasing longevity, others are challenging the traditional notion of retirement: No longer is it a time for rest. Many will choose to reinvest themselves in new jobs to share wisdom or find income-generating "hobbies." Today, we may be seeing the beginnings of this "*Great Unretirement*": over two-thirds of those who retired in the pandemic said they would consider going back to work.[3]

Choice — The Key to Freedom

Whatever your plans for the years ahead, having the financial wherewithal offers the ability to have choices. Our role as advisors is to provide support to make this a reality. For investors, this includes having a carefully constructed wealth plan that accounts for factors like longevity. This also means giving your wealth plan the attention it deserves.

The "Extra" $500,000 Nest Egg

We often remind new clients, especially those with the benefit of time, that even small contributions can make a meaningful difference. Consider that investing the equivalent of $45 per week in a TFSA would amount to over $90,000 in 20 years at a rate of return of 6 percent per year. Leaving this amount to compound for 30 more years would provide an "extra" nest egg of over $500,000. Those fortunate to have more substantial resources can expect more, but the basic principles are likely the same: having a sound plan and the determination to follow through. While the tactics may need to change to meet the challenges of prevailing market conditions, regular investing habits can pay tremendous dividends down the road. For those who choose to participate, this should provide comfort.

It's your future. An exciting time awaits.

1. https://news.harvard.edu/gazette/story/2023/01/has-first-person-to-live-to-be-150-been-born/; 2. https://longevity.stanford.edu/wp-content/uploads/2021/11/NMOL_report_FINAL-5.pdf; 3. https://weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/

■ **Summer: The Season of Home Sales**

Thinking Ahead: Selling Property? Maximize Your Exemption!

As many high-net-worth investors own multiple properties, deciding how to best use the principal residence exemption (PRE) is important as it can lead to significant tax savings. During tax season, there were various questions about the PRE. As we enter the summer, often the busiest selling season, here are some answers.

As a reminder, when you sell your home* and a capital gain is realized, the resulting tax may be eliminated or reduced by claiming the PRE. If the property is designated as a "principal residence" for all the years it was owned, any tax will be eliminated. A family unit (i.e., you and a spouse/partner) can generally only designate one home as principal residence each year. As of 2016, you must report the sale of a principal residence on your income tax return and claim the PRE. Under new rules, property owned for less than 365 consecutive days is generally not eligible for the PRE.

If you own multiple residential properties, deciding how to best use the PRE is important as it can lead to tax savings. Quite often, the capital gain associated with the sale of a vacation property can be significant, especially if it was purchased many years ago at a fraction of its current value. With real estate prices skyrocketing in many cities over the past decade, this may also be true for a primary dwelling. Since only one property can be declared as a principal residence in any given year, you will need to decide which one to designate. This only needs to be done at the time you dispose of one of the properties. Generally, you should consider designating the property with the largest average capital gain per year to reduce the overall tax liability. Yet, the decision is rarely straightforward and often requires considering multiple factors, such as predictions about the future value of the remaining residence(s). Given the potential for significant tax savings, this should be done with careful consideration and the support of a professional may be beneficial.

Here are some frequently asked PRE questions:

To qualify, do I have to live in the unit most of the time? A principal residence generally refers to a housing unit that is "ordinarily inhabited" and the property is owned by you (alone or jointly). To be ordinarily inhabited, this doesn't mean that the taxpayer needs to live there the majority of the time. The property may qualify as a principal residence if the taxpayer, their current/former spouse/common-law partner, or children lived in it at some point during the year.

Can a cottage/cabin be designated? Yes, seasonal residences — even those located outside of Canada — may be designated. However, only one property per year, per family unit, can be designated (for years before 1982, each spouse can designate a different property).

What if I forget to report the sale on my income tax return? The Canada Revenue Agency may charge a late-filing penalty of $100 per month, up to a maximum of $8,000. In addition, the PRE may be denied at a further date and the owner would be taxed on the capital gain.

Here are some common issues to consider:

Rental or Business Purposes — If the property is used predominantly to produce income, it will not be eligible for the PRE. However, if part of the principal residence is used for rental/business purposes, you may be able to claim the PRE for the portion used as a residence. If you change the use of a property, if the property was a principal residence prior to the change, the PRE may be claimed for those years. *Note: a "change in use" may result in tax reporting requirements and tax implications beyond the scope of this article.*[1]

Leaving Canada for extended periods — If you were not a resident of Canada for the entire time you owned the designated property, your period of non-residence may reduce the amount of the principal residence exemption or eliminate it.

Accounting for longevity — Keep in mind that the PRE is only available if the residence is ordinarily inhabited. Some families are caught off-guard when they cannot designate a property as a principal residence during the time the owner lived in a seniors' or care facility or moved into an old age home. As you plan ahead to use the PRE, a potential option may be to have an adult child occupy the home during this period.

*Or a deemed sale for tax purposes; 1. www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-12700-capital-gains/principal-residence-other-real-estate/changes-use.html

Back to the Future: A Brief Look Back in Time

What if we could step back in time to alter the future? As optimism continues to waver, a look back 30 years may provide some perspective.

What was the prevailing view in 1993? This was the year of Whitney Houston's "*I Will Always Love You*," when Joe Carter's home run would win the Blue Jays their second consecutive World Series. It was also a challenging economic period. Canada was emerging from the depths of a recession described as "*the deepest since the Great Depression*." Unemployment soared to over 11 percent after interest rates were aggressively raised to fight inflation.[1] Then-Prime Minister Mulroney would end up resigning after his popularity fell from imposing a 7 percent GST two years earlier. Canada's future economic prospects looked bleak. An editorial to start 1995 referred to "*Bankrupt Canada*" as "*an honourary member of the Third World*."[2]

And, yet, the years that would follow would be in significant contrast. Canada would post budget surpluses later that decade (a concept foreign to many governments today!) and GDP growth would surge.

Indeed, economies are cyclical and the rebound of the 90s should remind us not to get too caught up in the present. This, too, is true in investing. Consider that an investment 30 years ago in the S&P/TSX Composite Index would have grown by a compounded annual rate of return of around 6 percent.[3] This, despite many events in between: recessions, the dot.com bust, the global financial crisis, a pandemic and much more.

Canada Then (1993) & Now (2023): Select Economic Indicators

	1993	2023
Inflation Rate (April) (A)	1.9%	4.3%
Overnight Interest Rate (B)	5.09%	4.75%
Price of Oil (C)	$16.15	$83.00
GDP Growth (D)	2.6%	3.1% (Q1 E)
Unemployment Rate (E)	10.2%	5.0% (Q1)
S&P/TSX Composite (F)	3,789.41	20,615.10

A: Bank of Canada website; B: BOC bank rate 1993; June 2023; C: Per barrel, Brent Crude USD Apr. 12; D: World Bank; TD Economics; E: Stats Canada Table 14-10-0020-01; F: At May 1, not including dividends.

As in the past, by recognizing the current opportunities and having the courage to commit to them, investors can share in the growth that lies ahead. Challenges will always be with us, but time can be a great equalizer. Continue looking forward!

1. https://en.wikipedia.org/wiki/1993_in_Canada; www150.statcan.gc.ca/n1/pub/71-222-x/2008001/sectiona/a-unemployment-chomage-eng.htm; 2. www.reuters.com/article/us-crisis-timeline-idUSTRE7AK0FF20111121; 3. S&P/TSX Composite Index, 5/1/1993 to 5/1/2023.

Portfolio Perspectives

Buffett's "*Secret Sauce*": Don't Overlook Dividends

In his latest shareholder letter, Warren Buffett reflects on his successes throughout his long career. What makes up his "*secret sauce*"? According to Buffett, one of the ingredients is dividend-paying stocks.

It's no wonder. By some accounts, Buffett's investments are expected to generate a whopping $5.7 billion in cash this year, the majority from dividends.[1] In his letter, Buffett points to two successful dividend-paying investments and the contribution that both dividend growth and share price gains have had in growing portfolio values over time. He compares these to a "*similarly-sized investment mistake*" that could have been made in a high-quality bond, suggesting that this "*flat-lined*" investment would only retain, not grow, its value and pay an unchanged coupon rate from year to year.[2] It's good food for thought: dividends, alongside share price appreciation, can contribute to substantial portfolio growth over time. Consider an investment of $100,000 in the S&P/TSX Composite Index 30 years ago. Today, it would yield $628,273 by investing in the index alone; yet, with reinvested dividends, this value would have grown to $1,318,766.[3] Buffett also credits a handful of solid investment choices and the magic of compounding over time.

Dividends are sometimes given secondary attention during strong market times when the focus tends to be on earnings growth. During these slower economic times, and as interest rates have enticed some investors to seek the safety of low-risk, fixed-income products, the importance of dividends should not be overlooked. Consider that the S&P/TSX Composite Index has a dividend yield of around 3.12 percent, almost double that of the S&P 500 at 1.67 percent.[4] Many quality Canadian companies pay dividends, some with yields between 4 and 6 percent; the equivalent pre-tax interest income would be around 5.2 to 7.8 percent for an average high-net-worth taxpayer.[5] Indeed, dividends still lead the way in tax savings over interest, with eligible dividends from Canadian corporations taxed at a rate that is lower than interest income. This is in addition to the prospect of future share price growth and increasing dividend payouts, as Buffett reminds us. Many companies that have historically paid dividends strive to continue through more challenging economic times — consider the "Dividend Aristocrats," a group of companies that have had 25 years of consecutive dividend increases in the U.S., and 5 years in Canada.

Dividends remain an excellent income source that can meaningfully contribute to portfolio growth over time. Don't overlook the fact that they continue to work hard behind the scenes within a portfolio.

1. www.wsj.com/articles/warren-buffetts-secret-sauce-involves-one-of-investings-most-basic-strategies-f96c4894; 2. www.berkshirehathaway.com/letters/2022ltr.pdf; 3. S&P/TSX Composite and Total Return Indices, 01/29/93 to 01/31/23; 4. At 04/28/23. 5. Based on average marginal tax rates for $250,000 of ordinary income, capital gains or eligible dividends in 2023: 50.25% for ordinary income and 35.02% for eligible dividends, the averages across provinces/territories.

Estate Planning

Your Digital Assets May Have More Value Than You Think

Have you given thought to what happens to your non-financial digital property once you are gone?

Even if you're not the most technologically savvy, your digital footprint may be larger than you think. And, it's not just digital assets with financial value that need to be considered — certain digital assets can have sentimental value well beyond any material worth. A recent article in the popular press highlighted the sad consequences of not sorting digital matters before death.[1] One widow could not retrieve thousands of photos stored on her partner's cloud account. Another wasn't able to access her late husband's Facebook page.

Canada lacks consistent legislation giving the executor or attorney the automatic authority to deal with digital assets, with rules varying by province — if they exist at all. Saskatchewan was the first province to introduce legislation that grants executors/fiduciaries access to digital assets.[2] But even if laws do allow for authority, the reality is that access can be difficult if no provisions have been made by the deceased — customer support for online accounts can be limited, creating challenges and undue stress during an already emotional time.

We often carefully construct a plan for investments, real estate and other physical belongings; yet, as more of our lives operate digitally, we may not be doing a good job of planning for our digital assets. As a starting point, here are a few tips to begin the process:

Take inventory — Just as we take stock of our physical assets for estate planning, doing this for digital assets is equally important. Keep a logbook of digital assets, including usernames and passwords. This should be stored securely and updated regularly.

Practice digital housekeeping — Protect and secure your data, not just as part of an estate plan, such as regularly backing up important files, contacts, photographs and other information stored on your computer, smartphone or the cloud and encrypting sensitive data.

Consider a password manager — Often, keeping a list of accounts/passwords isn't enough, as we may forget to update it. A password manager may be helpful. These software programs maintain access information to digital accounts, including account numbers, passwords and any other important information you might need to leave behind.

Create a legacy contact or plan — Did you know you can designate a legacy contact for Apple accounts or create a legacy plan for Google accounts? Some social media accounts also offer legacy options. For an iPhone or iPad, go to "*Settings*" and then tap your name. Under "*Password & Security*" you will see the "*Legacy Contact*" option. The system will generate an access key for your contact, which will need to be presented alongside a death certificate to access data. For Google, go to "*myaccount.google.com*" and tap "*Data & Privacy*," then scroll down to "*More Options*" and look for the option "*Make a plan for your digital legacy*." You can decide when Google should consider your account inactive and what will be done with your data, which can be shared with someone you trust or deleted by the system.

Update your estate plan — Make sure your will and POA documents include language specific to digital assets, giving a representative authority to access, manage, dispose of and distribute them.

1. "Life After Death: Secure Your Digital Legacy Before You Die," Julie Jargon. Wall Street Journal, April 25, 2023, A11; 2. https://dig.watch/updates/saskatchewan-ca-introduces-fiduciaries-access-digital-information-act

A Valuable Start to Generational Wealth Planning

Cheering on the Summer Job for Children or Grandchildren

If your child or grandchild has a summer job, congratulations! This may be a wonderful way to begin instilling financial lessons that will support generational wealth planning. Here are some perspectives.

Remember the days of old, when the summer job was a rite of passage? Those of us who preceded the digital era may connect with an article in the popular press that reminisces on this bygone era: "*newspaper delivery was the first rung on many an economic ladder. Traditional summer work taught generations of teens about life, labor and their place in the universe.*"[1]

While many parents may breathe a sigh of relief that a summer job will keep children from being glued to their screens, this is an opportune time for young folks to learn how to navigate life — being punctual, taking responsibility and working alongside others. Some of the greatest financial lessons can also come from the experience of a part-time job, and here are a handful of considerations:

File a Tax Return — Often, the income earned within a part-time job is less than the basic personal amount (BPA) for tax purposes (i.e., a non-refundable tax credit available to all individuals that eliminates the tax on the first $15,000 of income (federal, 2023). As such, some may choose not to file an income tax return if no taxes are owing (assuming the earnings are under the annual BPA). However, this results in a lost opportunity for kids to generate Registered Retirement Savings Plan (RRSP) contribution room (more below). Those ages 19 or over may be entitled to the GST/HST credit of up to $467 (2023) and a climate action incentive payment if they live in select provinces: AB, MB, ON, SK, NL, NS, PEI.[2] Consider also that supporting a (grand)child to complete the task of filing their own paper tax return can be an excellent teaching moment.

Contribute to an RRSP — This may be a great time to teach a child about the RRSP: the opportunity to compound savings on a tax-deferred basis and reduce a current or future personal income-tax liability by claiming the RRSP deduction on your tax return. If the child doesn't contribute to the RRSP in the current year, any unused contribution room will carry forward. Even if they do contribute to the RRSP, they can elect to defer the RRSP deduction until a future year when they are in a higher tax bracket to optimize the tax savings. Building up an RRSP may provide additional benefits as children grow older, such as accessing up to $35,000 from the RRSP under the Home Buyers' Plan to aid in the purchase of a home.

Open a Bank Account — If a child hasn't already opened a bank account, a summer job may be the impetus. A savings account can help kids learn how to set financial goals and work toward them by putting money aside regularly. Other concepts can be introduced, such as how to make a budget or understanding compound interest — with rising rates, some savings accounts now pay small amounts of interest, or funds can be transferred into short-term GICs, all of which can demonstrate how funds can grow. If the child is over the age of 18, consider the opportunity of opening a Tax-Free Savings Account to take advantage of tax savings.

Establish Credit — Many banks offer student or youth credit cards (some prepaid or requiring a co-signer), which may be a way to teach the importance of building a credit history and credit score. While some parents provide kids with supplementary cards on their own accounts, this doesn't allow kids to see how debt can quickly accumulate or to learn the importance of making payments on time. If a child manages their own credit card, they will have a better idea of how purchases quickly add up, as well as how to manage payments, establish credit and build a credit history.

Many great financial lessons can come from a summer job. And, as one newspaper article reminds us, "*teens with a sense of purpose do better in school and are more resilient and healthier...but, these days, they are also the minority.*"[3]

1. https://www.wsj.com/articles/in-praise-of-the-teen-summer-job-1429890052; 2. https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4215/climate-action-incentive-payment.html; 3. https://www.wsj.com/articles/why-teens-need-a-sense-of-purpose-1518264001

Webster Wealth Advisory Group — TD Wealth Private Investment Advice
380 Wellington Street, 18th Floor, London, Ontario N6A 5B5
TF: 1 800 846 5836 Branch: 519 640 8530 F: 519 640 8552

Jason Webster, CIM®
Senior Portfolio Manager
519 640 8534
jason.webster@td.com

Jamie Mundt, CFA
Associate Investment Advisor
519 643 7012
jamie.mundt@td.com

Jesse Gowan
Client Service Associate
519 640 8536
jesse.gowan@td.com

Stephanie Vermeltfoort
Client Relationship Associate
519 675 3879
stephanie.vermeltfoort@td.com

Lindsay Brekelmans
Client Service Associate
519 643 5950
lindsay.brekelmans@td.com

Webster Wealth Advisory Group