TD Asset Management

Investor Knowledge + 10 Minutes
= Confident Investing

What is Your Real Return?

Making sure you have a suitable investment strategy is an essential part of building wealth. Equally important is understanding how to maintain and grow your investments. There are two key factors that can affect your real return on investment: **taxes and inflation.**

You may need to earn more than you think

Taxes and inflation may significantly reduce your overall investment return and should be a consideration when you review performance. **For example:** With **2%** inflation and a **35%** marginal tax rate, you would need to earn a return of **3.08%** in order to break even on your investment.

The real rate of return is the return earned on an investment adjusted for taxes and inflation

Tax Rate	Inflation Rate 1.00%	Inflation Rate 2.00%
25%	1.33%	2.67%
30%	1.43%	2.86%
35%	1.54%	**3.08%**
40%	1.67%	3.33%

Break-Even Return

Source: TD Asset Management, Inc. For illustration purposes only.

Showing the work

Break-Even Return

=

$$\frac{\textbf{Inflation}}{\textbf{(1 – Marginal Tax Rate)}}$$

=

$$\frac{\textbf{2.00\%}}{\textbf{(1 – 35\%)}}$$

=

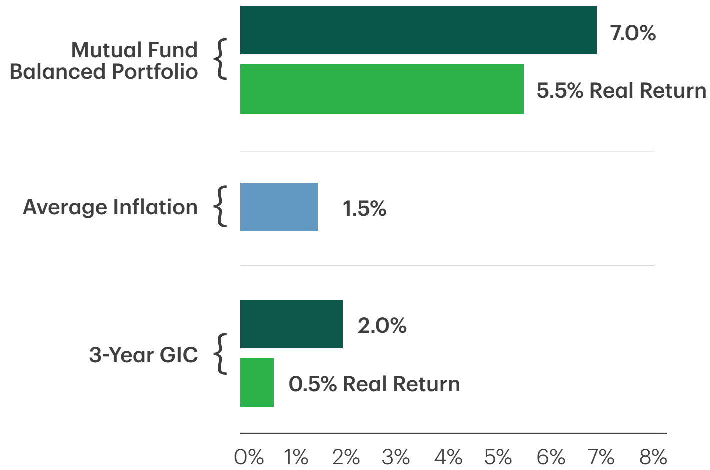
3.08%

Making the right choices for your investment objectives and time horizon may help protect your purchasing power from inflation, so you can strive to live the life you want, not just the life you can afford.

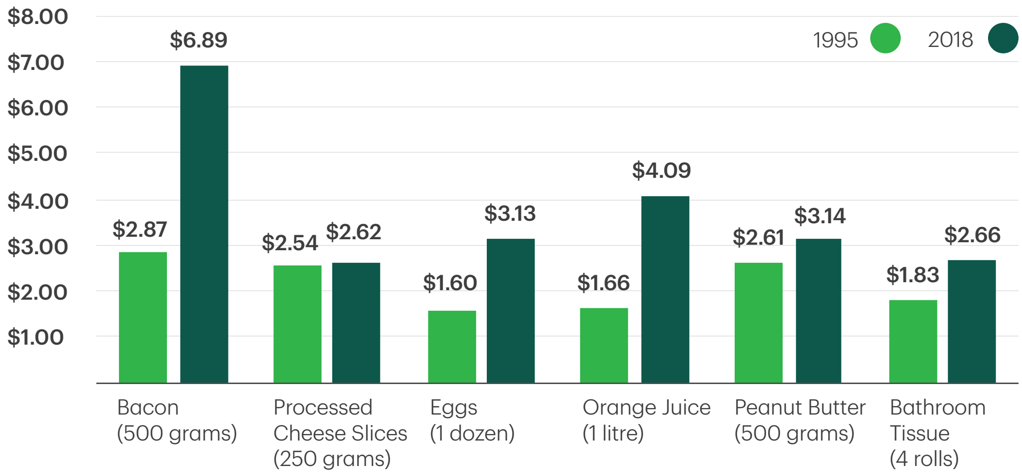
Real return of a balanced portfolio versus a 3-Year GIC*

After adjusting for inflation (in this case a rate of 1.5%), investing in a balanced portfolio would have earned a **5.5%** real return compared to a 3-Year GIC with a **0.5%** real return, over a 10-year period.

*Source: Morningstar® Direct. Annualized returns to November 30, 2018. For the balanced portfolio, real return based on annualized return over a 10-year period of the Global Neutral Balanced CIFSC Category. Real return for GIC based on annualized return over a 10-year period of the average 3-Year GIC. For illustration purposes only.



The cost of items today may not be the cost you'll pay tomorrow



Source: Statistics Canada. Table 18-10-0002-01, Monthly average retail prices for food and other selected products. Data is illustrating the average prices for 1995 and 2018.

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Key takeaways to consider when building wealth

Tax-smart investing

When it comes to choosing investments, it's essential to pay attention to how tax may diminish your overall investment return.

Accounting for inflation

It is important to think about inflation when making long-term investment decisions because when prices increase, your purchasing power decreases.

Proactive planning supports your investment goals

After taking into account risk tolerance, time horizon and investment objectives, the impact of taxes and inflation should be considered as part of your overall investment strategy. All of these elements can contribute to your portfolio's long-term success and help you build wealth.

For more information, contact your **investment professional.**