TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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In This Issue

Income Tax Season Reminders 2

Seniors & the Value of the TFSA 2

Reasons to Choose One Executor ... 3

Visibility Over Your Cash Flow 4

Maintaining Perspective During These Uncertain Times

Over recent weeks, we have experienced significant volatility in the equity markets as the world continues to assess the potential implications of the coronavirus outbreak.

Until more recently, equity markets had continued their advance seemingly without much disruption. Market downturns had been relatively mild and often corrected themselves quickly; perhaps because of fewer alternatives for investors (i.e., lower returns offered in fixed-income markets) or available money waiting on the sidelines. We cannot overlook that this has been shaped by some unconventional policies: central bank fiscal stimulus, low interest rates, deficits and significant debt have helped to support corporate returns and economies and sustain the current market cycle.

However, if history is any indicator, investors may expect a drop in the markets of at least 10 percent each year and a drop of at least 15 percent every three years.[1] The recent equity market volatility as a result of the coronavirus outbreak reminds us that equity markets are inherently volatile and pullbacks, including corrections, should be expected.

Although significant equity market volatility can feel unsettling, as longer-term investors, it is important to maintain perspective. While not to underestimate the current situation, it should be remembered that these are early days and the potential implications of the coronavirus are still unknown.

It may also be worthwhile to consider that, in the past, reactions to global health pandemics have often been temporary in nature. With the Ebola outbreak (2014) and SARS pandemic (2003), the S&P 500 declined by double-digit percentages over the course of each outbreak. Yet, in the 12 months following their end, markets regained those losses and posted additional gains. In fact, the following chart shows the performance of the S&P 500 in the 12 months following select global health epidemics:[2]

Epidemic	Month[3]	12-Month % Change S&P 500
SARS	April 2003	20.76
Avian Flu	June 2006	18.36
Dengue Fever	September 2006	14.29
Swine Flu	April 2009	35.96
MERS	May 2013	17.96
Ebola	March 2014	10.44

At the same time, remember that short-term setbacks are often necessary for long-term progress. Even in the most difficult of times, we have persevered and progressed. This, too, shall likely pass. Continue to look forward, remembering that your portfolio continues to be positioned for the longer term.

1. Based on S&P/TSX Composite Index daily returns, 10/29/79 to 10/29/19; 2. marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22; 3. "Month" estimates the peak of the epidemic.

Lori

Avoid CRA Penalties

Reminders for Personal Income Tax Season

Spring has sprung and it is personal income tax season once again! As you prepare your tax filings, here are two reminders:

Did you own foreign property exceeding CA$100,000? If you held "specified foreign property" (SFP) with a cost in excess of $100,000 in 2019, you may be required to report your foreign holdings by filing form T1135. This includes shares of foreign corporations held in non-registered accounts, property owned outside of Canada (except for personal use) or funds deposited outside of Canada. Please see the Canada Revenue Agency (CRA) website for a full list of SFP. It is important to note that the $100,000 threshold is based on the total cost of all SFP held, determined by the exchange rate at acquisition, and not the fair market value. If the threshold was met at any time during the year, it must be reported, even if it did not exceed the level at year end.

Did you sell a home? Before 2016, if you sold property and it was considered a principal residence, you did not have to report the sale to claim the principal residence exemption (PRE). Since that time, the sale must be reported on an income tax return. Be aware that in order to claim the PRE, a property must be "ordinarily inhabited" by you or a member of your family unit sometime during the year for which the PRE is claimed. This has created surprises, in some cases, for those who have spent periods of more than a year away from home or have left a property to enter a long-term care facility.

The CRA continues to crack down on those who have incorrectly reported real estate transactions or failed to file required forms. If you have questions about your investments and form T1135, call the office. For tax matters, seek assistance from a tax specialist.

A Compelling Investing Tool

Seniors: Don't Overlook the Value of the TFSA!

What makes the TFSA a compelling investment vehicle for seniors? Unlike registered Retirement Savings Plans (RSPs), contributions can continue beyond the age of 71.[1] TFSAs also offer flexibility in withdrawals — there are no limitations on timing and withdrawn amounts can be recontributed in the following calendar year. Withdrawals do not generate taxable income, so they won't affect income-tested benefits such as Old Age Security (OAS).

Consider that a 65-year old who has fully contributed to the TFSA since its inception could accumulate a tax-free amount of almost $500,000 by the age of 85 (assuming a 5 percent rate of return and continuing annual contribution of $6,000) — a significant amount, by any standard!

Strategies to Fund the TFSA

It may be challenging for seniors who are not working to contribute to a TFSA. However, even with limited income, there may be two viable options: i) using net (after-tax) RIF withdrawals; or ii) using non-registered investments to fund the TFSA.

For seniors who have a lower marginal tax rate today than they expect to have in the future (including at death), if RIF funds aren't needed in the future, drawing RIF income above the minimum levels[2] may also be a way to potentially lower an overall lifetime tax bill. RIF withdrawals will be taxed at the current, lower tax rate, instead of at a higher anticipated future marginal tax rate.

If non-registered investments with unrealized gains are used to fund the TFSA, this may result in adverse tax consequences; however, consider that gains realized from non-registered investments could potentially be offset by realized capital losses.

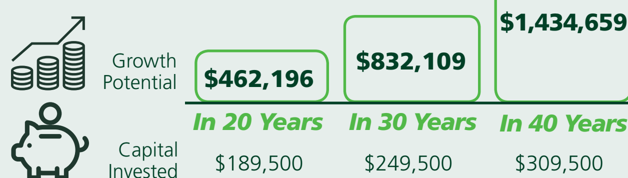
In both situations, "in-kind" transfers of securities to the TFSA can help ensure continuity in holdings, but whether investments are transferred from a RIF or a non-registered account, there may be potential tax consequences. Keep in mind that the effect on income-tested government benefits (OAS, etc.) should be considered.

Investors of All Ages: Don't Overlook the Opportunity

2020 Annual TFSA Dollar Amount: $6,000
Eligible Cumulative Contribution Limit*: $69,500

* For individuals eligible since TFSAs were introduced in 2009.

Here is one example of the TFSA's potential, assuming full contributions since 2009 and an ongoing $6,000 annual dollar amount compounded at 5 percent:



An Important Estate Planning Tool

The TFSA can be an important estate planning tool. The value of TFSA assets at the time of the holder's death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate fees will be payable in provinces where applicable. Most important, if a surviving spouse is named as a successor holder,[3] the TFSA can continue to be operated by the spouse on a tax-free basis. Any income earned after the holder's death will continue to be sheltered from tax.[4]

1. RSP contributions end after the year in which the person turns 71, or the youngest spouse turns 71; 2. Withholding taxes will be applied to RIF withdrawals in excess of the minimum amount; 3. Not applicable in Quebec, where TFSA beneficiary designations are not named in the plan; 4. A successor holder can contribute to the TFSA based on their own contribution room tax.

Thinking Ahead

Estate Planning & Your Family: Choosing One Executor

If you have children and are planning your estate, chances are you have considered appointing them as your estate executor. As you are able to name more than one person to serve as estate executor, in some instances parents name multiple children to act as joint-executors. The reasons are many: they want to treat children fairly; they don't want to hurt any children's feelings by appearing to name favourites; and perhaps by including all children in the administrative process, it helps to share the burden or effort.

While the motives are understandable, naming more than one estate executor has the potential to cause more harm than good. Here are three reasons why you may wish to exercise caution:

No executor generally has the legal right to act alone.[1] If multiple executors are named to act jointly, they must work together and will be jointly held responsible for the estate. Each is considered to have equal legal authority. Because co-executors must generally agree and act together, there may be delays to the settlement of the estate in order to reach agreement.

Potential for disagreement. Reaching consensus in any group can be difficult, but things are further complicated when emotion or money is involved. Even the most agreeable of siblings can experience differing views and there are plenty of decisions that need to be made, which may include choices about dividing sentimental items or large financial decisions such as determining the selling price of a home. Disputes have been known to cause years of resentment — perhaps the exact situation you were trying to avoid by appointing multiple executors.

Scheduling can be difficult. Acting in unison can be challenging. Co-executors are generally required to perform their duties as one, which includes activities such as signing all of the documents relating

to the estate. The process may be further complicated if executors live in different locations as it may be difficult to coordinate meetings with lawyers or financial institutions.

Instead of naming co-executors, there may be other alternatives. One child could be named as executor and the other as the alternate executor, in the event that the primary executor is unable or unwilling to fill the role. Perhaps one child lives closer than the other, which could be the determining factor to mitigate the appearance of favouritism. If a co-executor arrangement is still preferred, including dispute resolution language in the will may be a consideration.

Or, it may be money well spent to consider a corporate executor to act in the role. This can help to preserve impartiality, as well as take the burden off of loved ones during a very difficult time.

Regardless, it may be helpful to have a discussion about your choice with your children while you are alive. This can help prevent any future surprises. It may also help them to understand the rationale behind your decision, which can go a long way in preserving harmony once you are gone.

1. This may not apply in the case where the will provides dispute resolution mechanisms.

Portfolio Management

The Case for Diversification

Why is diversification important? The chart (right) shows the performance of select asset classes (geographies) over the past decade (in Canadian dollars). Here are some observations, which provide the case for diversification:

- No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- The best performer in one year may not be the best in the next year. Industries, sectors and even entire asset classes can fall out of favour. Diversification can protect from the natural downturns that may affect asset classes at different times.
- There is often a gap between the performance of the best and worst performing asset class. Diversification can help to smooth out performance returns within a portfolio.
- Markets change, and so does your portfolio. This is a reminder of the importance of rebalancing on a periodic basis to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes Ranked Best to Worst (CA$), 2010 to 2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canadian Equities 17.61%	U.S. Bonds 10.59%	EM Equities 15.61%	U.S. Equities 41.27%	U.S. Equities 23.93%	U.S. Equities 21.59%	Canadian Equities 21.08%	EM Equities 28.26%	U.S. Bonds 8.92%	U.S. Equities 24.84%
EM Equities 12.67%	Canadian Bonds 9.67%	Int'l Equities 14.72%	Int'l Equities 31.02%	U.S. Bonds 15.39%	U.S. Bonds 20.46%	U.S. Equities 8.09%	Int'l Equities 16.82%	Global Bonds 7.70%	Canadian Equities 22.88%
U.S. Equities 9.06%	Global Bonds 8.26%	U.S. Equities 13.43%	Canadian Equities 12.99%	Canadian Equities 10.55%	Int'l Equities 18.95%	EM Equities 7.34%	U.S. Equities 13.83%	U.S. Equities 4.23%	Int'l Equities 15.85%
Canadian Bonds 6.74%	U.S. Equities 4.64%	Canadian Equities 7.19%	U.S. Bonds 4.60%	Global Bonds 9.65%	Global Bonds 16.15%	Canadian Bonds 1.66%	Canadian Equities 9.10%	Canadian Bonds 1.41%	EM Equities 12.43%
Int'l Equities 2.13%	Canadian Equities -8.71%	Canadian Bonds 3.60%	Global Bonds 3.94%	Canadian Bonds 8.79%	Canadian Bonds 3.52%	U.S. Bonds -0.80%	Canadian Bonds 2.52%	Int'l Equities -6.03%	U.S. Bonds 3.37%
U.S. Bonds 1.24%	Int'l Equities -9.97%	Global Bonds 2.01%	EM Equities 3.93%	EM Equities 6.63%	EM Equities 2.04%	Global Bonds -1.45%	Global Bonds 0.34%	EM Equities -6.87%	Canadian Bonds 2.81%
Global Bonds 0.04%	EM Equities -16.40%	U.S. Bonds 2.01%	Canadian Bonds -1.19%	Int'l Equities 3.67%	Canadian Equities -8.32%	Int'l Equities -2.00%	U.S. Bonds -3.18%	Canadian Equities -8.89%	Global Bonds 1.44%

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GRI; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMX Canada Universe Bond Index; US Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; US Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.

Do You Have Visibility Over Your Cash Flow?

Regardless of your life stage or income level, creating a personal cash flow statement can be a valuable exercise. In a basic sense, it is a snapshot of your sources of income, as well as what you're spending and saving.

Do you know how much you spent in 2019? Or, how much was spent on each type of expenditure? Although many of us have good visibility over our income, we may not have a clear picture of where funds are going. As a starting point, creating a visual map of your expenses can be an eye-opening experience. A good place to start? Use credit card bills, banking statements and other records to create a snapshot of your expenses last year, including everything from clothing to income taxes, by categorizing them into essential and non-essential expenses (see inset).

You may discover that your expenses aren't exactly what you thought. Understanding where your funds are going can help you plan and think proactively about how to use future funds and balance different spending priorities. For spouses, it can help provide congruency over spending decisions. This exercise may also play an important part in planning for the future or preparing for retirement. After all, it is difficult to determine how much money may be needed later in life without having an understanding of how much is being spent today.

Valuable for High-Net-Worth Individuals

While high-net-worth individuals often have ample funds to support their spending habits (it is often not a question of affordability!), dissecting your expenses can prompt other questions: What is the right amount to spend on non-essential expenses? How can spending decisions be communicated within the family?

For some families, it helps to form the basis for a discussion about intergenerational wealth preservation. A potential concern may be that subsequent generations will fritter funds away. Having good spending habits can send a positive message to future heirs and teach them about maintaining wealth. It may also generate a conversation about where to designate unallocated funds. For instance, this may include philanthropic or charitable initiatives.

How Much Did You Spend in Each Category in 2019?

Essentials

- Housing — rent, property tax, mortgage payments
- Transportation — car payments, insurance, gas, public transit, parking, maintenance
- Food — grocery, work lunches
- Utilities — water, electricity, gas, cable, internet, phone
- Insurance
- Medical expenses
- Taxes
- Other — one-time home maintenance, etc.

Non-essentials

- Lifestyle — subscriptions, memberships, clothing, meal delivery services
- Recreation & Entertainment — sports, travel, hobbies, eating out
- Other

Equally Important for Retirees

Since many retirees are constrained by fixed incomes, a clearer picture of current spending habits can be beneficial. It may help determine whether retirement plans are on track or if adjustments need to be made. For example, small modifications to spending habits may be required, or there may be a need for larger changes such as downsizing a home, or using insurance to help generate cash flow. This may be especially important when planning ahead for unpredictable risks, such as an economic recession or a market downturn.

Two Things We Can Control: Spending and Saving

As investors, we often have little control over the direction of equity markets, company performance or even economic growth. However, what we can control is the amount we spend and save, which can significantly impact our future wealth.

If you need support, we have a variety of budgeting and cash flow tools available — please get in touch.

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