TD Wealth

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TD Wealth Private Investment Advice

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Expect the Unexpected

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The old saying 'expect the unexpected' certainly applies to the state of the Canadian financial markets as of late. At the beginning of this year, the Bank of Canada held a bearish view of the Canadian economy. Continuing low oil prices, slower economic growth and concerns over the effects of U.S. protectionism painted a less than optimistic picture for Canada's economic prosperity.

By the summer, this outlook had changed substantially. Based on improved economic data, the Bank of Canada expressed its confidence in Canada's economic prospects and raised the target overnight interest rate for the first time in seven years in July. Despite continuing low oil prices, Canadian economic data exceeded expectations for the first half of the year and the International Monetary Fund (IMF) now predicts that Canada will have the fastest GDP growth of the G7 countries.

Investors are confronted with a changing investment landscape compared to just six months ago. With the key interest rate again increased in September, we have entered a rising interest rate environment, albeit one in which rates are expected to gradually rise. Since May, the Canadian dollar has strengthened, largely due to improved economic growth and rising interest rates, which make Canadian dollar deposits more attractive.

Despite the more positive news, the Canadian equity market has been sluggish since the start of the year. But consider this perspective: Over the past 30 years, the more substantial gains of the S&P/TSX Composite Index (with dividends reinvested) of 5 percent or more were made in just 11 percent of those 360 months. In fact, the index actually fell in almost 40 percent of the months, demonstrating just how common downward market movements are.[1]

At the same time, the impact of lower oil prices cannot be overlooked. The energy sector makes up about 20 percent of the S&P/TSX Composite Index. The sector's dominance, second only to the financial sector at 34.5 percent, should remind us that the Canadian stock market isn't highly diversified by sector.[2] But, that doesn't mean your portfolio shouldn't be.

Savvy investors should feel more at ease because a well-constructed portfolio uses diversification to help temper the effects of change and mitigate downside risks. Diversification is also meant to protect your portfolio during the inevitable periods of volatility. And, volatility should be expected as a normal part of the market cycle, especially when we are later in the cycle.

Expect the unexpected and continue to look forward, focusing your attention on your personal objectives and your longer-term plan. In these final months of the year, please let us know if we can help in any way. Have a wonderful autumn.

Notes: 1. S&P/TSX Composite Total Return Index monthly close, 07/31/87 to 07/31/17. 2. By market cap., 06/30/17.

In This Issue

Final Months of the Year

Year-End Reminders: Save Tax!

Is it too early to think about the year end? If you are considering tax-planning strategies, not at all. In fact, now may be a good time to take steps to minimize your 2017 taxes. Tax planning continues to be an important part of investing, especially as the government has raised taxes on higher-income earners over recent years. Here are a few considerations:

If you are 65 years old…

You are eligible for the pension income tax credit. This allows a taxpayer to claim a non-refundable tax credit on up to $2,000 of eligible pension income. If you don't have any pension income, generate some for yourself. Move a small portion of your registered Retirement Savings Plan (RSP) assets into a registered Retirement Income Fund (RIF). You can then withdraw $2,000 each year until you convert your RSP and start drawing "regular" income. This may be a great way to effectively withdraw RSP funds on a tax-efficient basis.

If you are 71 years old…

Convert your RSP before year end. You have several options, including converting to a RIF or annuity, or taking all or a portion in cash (subject to taxes at your marginal tax rate). We can help with the decision. However, the process of transferring accounts can take time, so don't leave the decision until the last minute. Also, consider making a final RSP contribution. Note that this must be done by December 31, 2017 instead of March 1, 2018.

At any age…

Consider maximizing your charitable donations, especially if you haven't claimed them on your previous tax returns. Remember, this is the last year of the First-Time Donor's Super Tax Credit (FDSC), which provides an additional 25 percent credit

for first-time donors on up to $1,000 of donations. The FDSC is generally available to an individual if neither (s)he nor his/her spouse/common-law partner has claimed and been allowed a charitable donation tax credit for any year after 2007. Eligible donations must be made by year end.

Make Registered Education Savings Plan contributions. While contributions are not tax-deductible, the end of year deadline may be important to take advantage of the Canada Education Savings Grants, which can then be invested on a tax-deferred basis.

Make RSP contributions for the 2017 year. You still have until 60 days after the end of the calendar year to make a contribution to save on 2017 taxes.

Use capital losses to offset capital gains. Before year end, you may be considering the sale of certain non-registered investments which are in a loss position. Keep in mind that realizing such losses may provide potential tax benefits, where they can be used to offset taxable capital gains. Care must be taken when doing this, and the assistance of a professional may be beneficial.

Our Longevity: No Limits to How Long We Can Live?

Although the average Canadian life expectancy is around 82 years old, more Canadians — 8,230, according to the most recent census — are living to over 100 years of age. Up until recently, researchers believed that the maximum human lifespan was about 115 years old. But according to a recent study, Canadian researchers have shown that there is no plateau in human life, and the human lifespan can be expected to climb far into the foreseeable future.[1]

Do You Have Financial Longevity? It's Never Too Late

Our lifespans are continuing to grow, which should remind us of the importance of having a wealth plan that prepares us for many years into the future. After all, your investment outlook period might be longer than you think. Consider that an 80-year-old investor could have 20 additional years of investing ahead.

A Little Can Go a Long Way

As you consider the future, don't underestimate the impact of time and compounded growth on even small amounts that are saved and invested. The chart below shows how small monthly contributions can grow in significance in just a matter of years (illustrative only, assuming a five percent compounded annual rate of return):

Time Period	$100 / month	$150 / month	$250 / month
5 Years	$6,801	$10,201	$17,002
10 Years	$15,528	$23,292	$38,821
25 Years	$59,551	$89,326	$148,877
45 Years	$202,644	$303,966	$506,609

Source: 1. "No Limit to How Long People Can Live: Study", CBC News, June 28, 2017.

Estate Planning & Your Parents

Three Questions to Ask Aging Parents

Talking with aging parents about estate planning is not easy. It is a subject that can evoke discomfort, perhaps because it is a reminder of our mortality or it involves the private topic of finances. However, ensuring that elderly parents have an estate plan in place is important, so that they will be well cared for into the future. It can also help to potentially avoid future complications, such as the need for court intervention or acrimonious disputes between family members.

Experts in this area often suggest starting with casual conversations to help to establish whether or not a basic estate plan has been put in place, or to identify the need for support. Here are some conversation starters that may help you to approach the subject and lead to meaningful discussions:

1. Who do you wish to make decisions for you, if you are unable? This question may help to uncover whether or not the necessary documents have been prepared in the event of illness or incapacity, such as Power of Attorney documents (the name and applicable laws vary by province). It is important for parents to identify people that they trust while they are still able, especially to try and prevent elder abuse. This may also generate a discussion about how parents wish to be cared for into the future.

2. Have you spoken to a lawyer about an estate plan? This question may help to determine whether a will exists. If not, this may be the time to encourage creating one. Parents should also be reminded that estate planning goes beyond having a will. It may take into consideration tax planning to maximize wealth, or involve creating a plan for parents to maintain control of their money until they no longer can. If a plan exists, it may be helpful to discuss the location of the will and other financial information.

3. How do you wish to be remembered? Many adult children have never talked to their parents about how they would like to be remembered, what is important to them or what they wish to be their legacy. It's not just about finances. This may generate discussion in other areas, such as philanthropy. Are there causes important to the parent, or ways to leave a lasting legacy?

Seek Advice

These are just a few questions that may help to talk about estate planning with parents. They are by no means meant to be comprehensive. Please seek the advice of an estate planning specialist if you are looking for guidance.

Students Now Back in School

Still Don't Have an RESP?

With students back at school, the cost of higher education may be top of mind. Are you prepared? The average Canadian university tuition has risen to over $6,300 per year. Combined with room/board, books and other incidentals, a year at university can cost in excess of $20,000![1] Without planning, this can result in crippling student loans, a poor legacy for graduation. As such, it is important to make use of all of the tools available to help ease the cost of education. Yet, according to Statistics Canada, around half of Canadian families still do not have a Registered Education Savings Plan (RESP).[2]

One of the main reasons to consider an RESP is that funds grow on a tax-deferred basis within the plan. Assets may be invested in a wide range of securities. Although contributions are not tax-deductible, when investment income and government grants are eventually paid out for approved educational purposes they are generally taxed in the hands of the student beneficiary. This may result in reduced taxes, if any, as the student will likely be taxed in a lower marginal tax bracket. The RESP can also promote gradual and steady savings, which may benefit from compounded growth over time.

CESGs: A "Guaranteed Return"

A key feature of the RESP is that the government offers the Canada Education Savings Grant (CESG), equal to 20 percent of

the contribution made, to a maximum of $500 per beneficiary per year (or $1,000, if there is unused contribution room from the previous year). The CESG is available until the end of the calendar year in which the beneficiary turns 17 and certain conditions apply. CESGs offer a potential lifetime benefit of $7,200 per beneficiary provided by the government, which shouldn't be overlooked.

Did You Know?

- RESPs can be set up by grandparents. If parents do not have current financial means, this may be a great way to access CESGs for the beneficiary during the age qualification period.
- RESPs can generally be set up at any age to take advantage of tax-deferred growth (some family plans may have restrictions). However, older beneficiaries may not be entitled to the CESG.

Source: 1. http://www.statcan.gc.ca/daily-quotidien/160907/t001a-eng.htm; 2. http://open.canada.ca/data/en/dataset/f2113c88-8fed-43bb-9255-968200182e52

Keep Perspective: Currencies in Transition

At the beginning of the year, it appeared that the Canadian dollar would experience continued weakness, largely due to persistently low oil and other commodity prices. However, since May, the Canadian dollar has reversed its course and strengthened despite lower oil prices. Why?

The Canadian economy has been performing well, with strong job market, retail sales and GDP figures released during the summer. With the Bank of Canada increasing its benchmark interest rate in both July and September, Canadian dollar deposits also became more attractive and put upward pressure on the dollar. The loonie has also received a boost from weakness in the U.S. dollar.

A stronger Canadian dollar is good news for Canadians who spend periods of time vacationing in the U.S. However, it may be met with less enthusiasm by those investors carefully watching their U.S. dollar-denominated securities reduce in value relative to the Canadian dollar.

As such, this may be a good time to remind ourselves that investors shouldn't make investment decisions based on expectations of future foreign currency movements alone. Here are a few things to help keep perspective:

1. The impact of currency movements tends to diminish over time. Currencies are always in transition. While exchange rates fluctuate from year to year, the impact of currency changes on investment returns has the tendency to decline over time, especially for longer-term investors.

2. Your portfolio uses the element of diversification to smooth out the effects of currency movements (and other market changes). Diversification is meant to reduce the risk of market fluctuations on portfolio returns. Within a well-diversified portfolio that has exposure across different geographies, the effect of currency movements tends to even out. Often a rise in one currency is offset by a decline in another. The interplay between baskets of currencies is sometimes referred to as a natural hedge.

3. There is little reward for betting on currency movements over the long term. Remember that your portfolio and wealth plan may have been put in place with the longer-term in mind. Currency movements can vary significantly and are unpredictable, sometimes quickly changing their course. But, similar to timing the stock market to try and buy at market lows and sell at market highs, betting on currency changes is most likely going to be difficult, if not impossible.

4. It may provide buying opportunities. If there is an opportunity to purchase foreign-denominated securities (or, for snow birds, other assets such as foreign real estate) after taking into account your own personal requirements, such as risk profile, asset allocation and quality, a stronger Canadian dollar may provide for some great buying opportunities.

Where Will the Dollar Stabilize?

As with any forecasting, there is no certainty on where the Canadian dollar will stabilize over time. The only certainty? Currencies will continue to be in transition. Instead, focus on your wealth plan's goals and try and enjoy the positive effects of a rising Canadian dollar: that cross border vacation may just have become a bit more affordable!

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