



# Wealth Insights

TD Wealth Private Investment Advice

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## To My Clients:

*As we leave 2023 behind, it is a reminder that things can unfold much differently than predicted. After a historic series of rate hikes, economies and markets have proved comparatively resilient. The good news is that we may now be on the other side, and things can continue to adjust. While Canadian markets have been bumpy, current valuations and dividend yields may offer opportunities worth considering as we build portfolios for the future. Keep time on your side, look forward to brighter days ahead and continue to participate.*

*Wishing you good health, peace and prosperity for 2024!*

*Melinda Burgess*

## Brighter Days Ahead

As we look ahead to a new year, the sense of uncertainty many of us feel today may not be entirely new. While Canadian consumer sentiment recently turned negative, and the number of times “uncertainty” appears in the Canadian press reached its highest level since the pandemic,<sup>1</sup> consider that we’ve been here before.

Those studying human behaviour suggest that if we look at the archives from almost any year, we will find the perception that in that moment it was an unusually uncertain time. Of course, this isn’t meant to downplay the current challenges. Many are struggling with a higher cost of living, economic conditions at home are softening and we’re likely to see lagging effects of the rate hikes, all contributing to today’s feeling of uncertainty. However, we may be susceptible to an “uncertainty illusion.” In the present and looking to the future, we rightly sense that we are living amid profound uncertainty. In hindsight, when the past is known, things often do not appear so bad.<sup>2</sup>

Economically speaking, one perspective comes from reflecting on generational shifts. For many years, the Millennials faced a bleak future, projected to be the first generation worse off financially than their parents. Recent statistics, however, paint a different picture. Millennial household income is now higher than previous generations at the same age: \$9,000 more than the median GenX (1965 to 1979) household income and \$10,000 more than the Baby Boomers (1946 to 1964), in 2019 dollars. As they enter their peak earning years, the Millennial future looks bright, indeed.<sup>3</sup>

Similar patterns occurred with GenX and Boomers. Just 30 years ago, there were dire predictions about the economic prospects of GenX, who entered the workforce in a recession compared to the Great Depression. Unemployment rates hit 11 percent in the early 1990s after interest rates were aggressively raised to fight inflation.<sup>4</sup> Likewise, many Boomers entered the job market in the 1970s, a period plagued by stagflation — significant inflation and unemployment — and low economic growth, as well as a stagnating stock market. Let’s not forget that in 1979, the front page of *BusinessWeek* magazine declared the “Death of Equities.”<sup>5</sup> And yet, the Boomers have lived through one of the most fortuitous financial lifecycles in history.

A significant lesson from economic history? “The past wasn’t as good as you remember, the present isn’t as bad as you think and the future will be better than you anticipate.”<sup>6</sup> This, too, has lessons for wealth building. Investing \$100,000 in the S&P/TSX Composite Index amidst the uncertainty of the 1990s would have yielded \$628,274 today, or \$1,318,766 with dividends reinvested.<sup>7</sup> Since the “Death of Equities,” the S&P 500 Index Total Return has grown by over 8,000 percent;<sup>8</sup> the publishers would later admit, “Not bad for a corpse!”<sup>9</sup> This, despite many uncertainties along the way including adverse macroeconomic events such as recessions, financial crises, inflation, stagflation — and even wars. Yet, participating in this growth meant having confidence in brighter days ahead.

As we begin a new year and navigate the uncertainties of today, continue to look forward. Let the lessons from the past be a reminder of the prospect of brighter days ahead.

1. October 2023: <https://www.bnnbloomberg.ca/consumer-sentiment-turns-negative-in-canada-as-high-rates-bite-1.1988225>; <https://fred.stlouisfed.org/series/CANEPUIJNDXVI>; 2. <https://www.wdangardner.ca/article/the-uncertainty-illusion>; 3. <https://theatlantic.com/magazine/archive/2023/05/millennial-generation-financial-issues-income-homeowners/673485/>; 4. <https://www.mpcmq.com/ca/mortgage-industry/business-growth/visiting-the-30s-recession/28325>; 5. <https://www.bloomberg.com/news/articles/2019-08-31/it-s-been-40-years-since-our-cover-story-declared-the-death-of-equities>; 6. Attributed to Morgan Housel; 7. S&P/TSX Composite and Total Return Indices, 01/29/93 to 1/31/23; 8. S&P 500 Index Total Return, 8/79 - 10/74; 11/7/23 - 9,452.28.

■ RRSP Season: Just Around the Corner

# In Brief: The RRSP & the Rising Cost of Living

Registered Retirement Savings Plan (RRSP) season is just around the corner, a reminder of the importance of building wealth for the future. In brief, here are some thoughts about the RRSP and the rising cost of living.

For the vast majority of us, the RRSP continues to be one of the finest tax-advantaged retirement savings vehicles we have. The benefits of tax-deferred growth, as well as the immediate tax deduction, should not be overlooked. Yet, with the growing cost of living, some may be experiencing constraining cash flows. Consider the strain on many younger folks who face increasing costs in servicing mortgages.

If you have (grand)children who need RRSP guidance, or perhaps you are evaluating RRSP contributions of your own, here are some perspectives during more challenging times:

**Consider the Importance of Making a Contribution** — If you don't contribute the maximum annual RRSP contribution, while you can

**Don't Overlook the Opportunity for Tax-Advantaged Growth**

**RRSP Deadline: February 29, 2024**

**2024 TFSA Dollar Limit: \$7,000**

carry forward the unused portion, consider that waiting until a future year to catch up may result in a smaller future nest egg due to the loss of tax-deferred growth.

If you don't have cash to make a contribution, there may be an opportunity to transfer eligible investments "in-kind" from a non-registered account. For tax purposes, any non-registered investment transferred to the RRSP would be treated as though it was sold at the time of transfer, so if it has appreciated in value it would trigger capital gains tax. For non-registered investments

transferred "in-kind" that have declined in value, a capital loss would not be deductible. Instead, consider selling them on the open market and contributing cash to the RRSP to claim the capital loss. Be aware of the superficial loss rules: you'll need to wait at least 30 days if you plan to repurchase the same security.



Don't neglect your RRSP. Now is the time to tend to your future.

**Don't Overlook the Consequences of Early Withdrawals** — With the rising cost of living, some may look to access RRSP funds. Yet, early withdrawals may be costly. Consider the implications for a 35-year-old who withdraws \$18,000 from their RRSP. If funds compounded at a rate of 6 percent per year, by the retirement age of 65, this would result in around \$100,000 less in retirement savings.

Equally important, with any RRSP withdrawal, you cannot get back the valuable contribution room. As such, there may be better options such as the Tax-Free Savings Account (TFSA), where contribution room resets itself at the start of the calendar year. If funds are needed, the Home Buyers' Plan and Lifelong Learning Plan, subject to conditions, may allow for tax-free withdrawals and recontribution. For more information, please contact the office.

## Higher for Longer Interest Rates? Equity Market Perspectives

Are higher rates here for longer? In April, the U.S. 10-year Treasury yield hovered around 3.3 percent; by October, it had risen above 5 percent for the first time in 16 years.

This is a substantial increase in just six months. Many market observers suggest this indicates that the bond market has accepted that interest rates will be kept higher for longer. Stronger labour markets and relatively resilient economies have meant more persistent inflation. The central banks have been using interest rates as the main tool to temper inflation, signalling they intend to keep rates at sustained levels as long as the economic data is robust. Of course, should there be an economic downturn, there is room to lower rates to stimulate growth.

Higher rates have been bad news for borrowers — the rapid rise has been particularly difficult for those holding larger debt positions like mortgages. However, the positive news for investors is that the income component of fixed-income is back.

If interest rates continue at higher levels, how will this impact equity markets? One market analyst recently examined the performance of the S&P 500 Index at different interest rate and inflation levels and it may provide perspective. The best future returns have come after periods of very low and very high starting interest rates, as measured by 10-year Treasury bond yields. The average 10-year yield since 1926 is 4.8 percent, similar to where we are today. With inflation, the best future returns have come after periods of very high starting

inflation levels; the average inflation rate since 1926 being around 3 percent.

Why is this the case? Consider that during this time we've only had one period of extremely high interest rates and two very high inflationary periods (post-war 1940s and the 1970s), but each of these was

**S&P 500 Returns for Starting Interest Rates Since 1926**

Starting Yield	+1 Year	+5 Years	+10 Years	+20 Years
0 to 2%	15.4%	103.6%	260.0%	1,452.7%
2 to 4%	13.6%	75.2%	213.7%	835.3%
4 to 6%	6.3%	34.7%	77.2%	420.7%
6 to 8%	9.9%	69.3%	175.6%	766.2%
8% or more	17.6%	110.6%	353.9%	1,249.3%

**S&P 500 Returns for Starting Inflation Rates Since 1926**

Starting Inflation	+1 Year	+5 Years	+10 Years	+20 Years
<0%	16.3%	61.4%	149.5%	656.6%
0 to 2%	13.4%	64.3%	159.4%	583.7%
2 to 4%	12.8%	35.0%	172.1%	650.4%
4 to 6%	4.3%	60.1%	235.1%	774.7%
6 to 8%	11.3%	96.7%	319.3%	1,418.5%
8% or more	13.1%	107.9%	346.3%	1,648.4%

followed by significant bull markets. Periods viewed as historical outliers may be "scary while you're living through them but also tend to produce excellent entry points into the market." Comparatively, in a more 'normal' economic environment, forward returns may appear muted because economies generally expand more gradually, with less interruption, alongside stock prices. Also worth remembering: Changes to rates and inflation may create market volatility in the short run, but consider the 10- and 20-year returns in the charts above — a longer time horizon can yield impressive results. Time continues to be an investor's great ally.

<https://awealthofcommonsense.com/2023/10/higher-for-longer-vs-the-stock-market/>

## ■ Estate Planning & Your Heirs

# What's Your Estate Plan? The Largest Wealth Transfer in History is Here

It has been termed the “*greatest wealth transfer in history*.” As the youngest Baby Boomers turn 60 this year, and the oldest approach 80, over \$1 trillion of wealth has begun to change hands from older to younger Canadians.<sup>1</sup>

By many accounts, the Baby Boomer generation ‘hit the jackpot’ in terms of timing and wealth accumulation, benefiting from significant price growth in the financial and housing markets. Consider that the S&P/TSX Composite Index Total Return is up by over 3,000 percent since 1983.<sup>2</sup> Mirroring the distribution of wealth, the transfer of wealth is expected to disproportionately impact higher-income households. In Canada, the top 20 percent of households hold more than two-thirds of net worth; the bottom 40 percent hold just 2.8 percent.<sup>3</sup>

Are you prepared for your own wealth transfer? A 2017 survey suggested that only 22 percent of high-net-worth Canadians had a detailed plan to pass along assets, despite nearly 60 percent feeling “*not confident*” in their children’s ability to preserve or grow their inheritance.<sup>4</sup> One of the more positive outcomes of the pandemic appeared to be that more people were influenced into putting greater focus on estate planning, at least when it came to preparing basic documents such as a will.<sup>5</sup> Yet, a recent Angus Reid poll suggests otherwise. The statistics on wills haven’t largely changed: over 50 percent of higher-income Canadians still don’t have an updated will.<sup>6</sup>

How about you? In this season of resolutions, if you’ve yet to give your estate plan the attention it deserves, why not make it a priority? It has the potential to enhance your overall wealth management and can be one of the greatest gifts you leave for your loved ones.

### How Prepared Are You for Your Own Wealth Transfer?

According to a recent survey, we may not be doing the best job planning for our estates. Do any of the following sound like you?

**33%** Do not update wills after experiencing life changes.

**76%** Do not have a plan for assets if unable to make financial decisions.

**79%** Have not had detailed discussions with beneficiaries or executors of their will.

[www.bloomberg.com/press-releases/2023-05-15/ig-wealth-management-estate-planning-study-despite-aging-population-most-canadians-lack-estate-plan](https://www.bloomberg.com/press-releases/2023-05-15/ig-wealth-management-estate-planning-study-despite-aging-population-most-canadians-lack-estate-plan)

Also consider that with the rising costs of living, housing and raising families, for some investors the estate planning tactics may be changing. Many are pursuing a ‘giving while living’ strategy, helping kids or grandkids to support mortgage or housing costs. Others are using insurance or trusts to help support future generations to create a lasting legacy. For ideas on where to start, please call.

1. <https://financialpost.com/personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready>; 2. S&P/TSX Composite Total Return Index 12/31/82 to 8/1/23; 3. [www150.statcan.gc.ca/n1/daily-quotidien/221003/dq221003a-eng.htm](http://www150.statcan.gc.ca/n1/daily-quotidien/221003/dq221003a-eng.htm); 4. <https://financialpost.com/personal-finance/family-finance/high-net-worth-families/most-high-net-worth-individuals-lack-inheritance-plan-despite-largest-transfer-of-wealth-coming-study>; 5. [www.newswire.ca/news-releases/pandemic-influenced-canadians-to-prepare-estate-planning-documents-832378633.html](http://www.newswire.ca/news-releases/pandemic-influenced-canadians-to-prepare-estate-planning-documents-832378633.html); 6. [https://angusreid.org/wp-content/uploads/2023/03/2023.03.07\\_Wills\\_tables.pdf](https://angusreid.org/wp-content/uploads/2023/03/2023.03.07_Wills_tables.pdf)

## To Start a New Year: Find Lost Funds & Consolidate Your Finances

Left a job? Moved homes? These and other changes may cause us to lose track of our assets or financial accounts.

As such, there may be benefits in consolidating finances where possible, such as multiple financial accounts, to keep better track of funds. Do you have lost or forgotten assets? Here are six possibilities:

**1. Old Bank Accounts** — At the latest count, over \$1.8B of unclaimed balances are held by the Bank of Canada,<sup>1</sup> including bank accounts, term deposits, GICs and other funds where there has been no activity for 10 years and the owner cannot be contacted. Does any belong to you? <https://www.unclaimedproperties.bankofcanada.ca/>

**2. Uncashed Canada Savings Bonds (CSBs)** — The discontinued CSB was issued in the form of a physical paper certificate which could have been lost over time. For lost or stolen CSBs see: <https://www.unclaimedproperties.bankofcanada.ca/app/report-lost-bonds>

**3. Canada Revenue Agency (CRA) Returns** — The CRA has 8.9 million uncashed cheques totalling over \$1.4 billion.<sup>2</sup> Check your CRA “My Account” for unclaimed cheques at: [www.canada.ca/en/revenue-agency/services/uncashed-cheque.html](http://www.canada.ca/en/revenue-agency/services/uncashed-cheque.html)

**4. Forgotten Pension Plans** — Our average tenure is about eight years; sources suggest many move jobs every three to five years. With frequent moves, we may forget our pension plans. If you’ve lost track, call your former employer and speak to the plan administrator.

**5. Unclaimed Insurance Benefits** — If you have unclaimed insurance benefits or think you’re an entitled beneficiary of a policy, contact the life insurance company directly. If you’ve forgotten its name, contact the OmbudService for Life & Health Insurance: <https://olhi.ca/>

**6. Old Stock Certificates** — There was a time not too long ago when stocks were issued as paper certificates. If you’ve found an old certificate tucked away in an attic, it may be worth more than you think. See the Canadian Securities Administrator: <https://www.securities-administrators.ca/resources/additional-information/how-to-determine-the-value-of-an-old-stock-certificate/>

1. [nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada](http://nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada); 2. [www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html](http://www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html)

### A Walk Down Memory Lane: Change is Imminent

As the leading retailer of consumer electronics discontinues sales of DVDs and BluRays in 2024, many of us may remember the old VHS tape, the precursor to the camcorder. At that time, it would be absurd to believe we would one day make videos on our ‘smart’ phones. As we begin a new year, let’s not forget that while setbacks happen too quickly to ignore, progress can happen too slowly to notice. Yet, time changes all things. This, too, is true in investing: substantial growth is driven by compounding, but this takes time.

A look at a handful of other things that have faded into irrelevance since the start of the millennium may serve as a reminder that new growth, innovation and progress will continue. Look forward with confidence!

- Phone Booths & Landlines
- PDAs & MP3 Players
- Road Maps & MapQuest
- The Penny
- Cursive Writing
- One-Hour Photo Labs



## ■ Portfolio Management Ideas

# Discounted Bonds: A Tax-Efficient Alternative to GICs

With the rapid rise in interest rates since the start of 2022, there has understandably been more interest in low-risk, fixed-income investments like Guaranteed Investment Certificates (GICs). However, are there tax-efficient alternatives?

While investors can take advantage of rates not seen in decades, it is important to consider the tax implications. When a GIC is held in a non-registered account, any income earned will be fully taxable at the investor's marginal rate — compared to capital gains and dividend income, which generally receive more favourable tax treatment. As such, are there tax-efficient alternatives?

With rapid rate increases and unprecedented bond market volatility, many quality bonds are trading at discounts to their par values. These bonds can offer a tax-efficient alternative to GICs from a risk perspective, but may provide greater after-tax return potential.

### First, a Short Primer on GICs vs. Bonds

GICs pay a guaranteed return expressed as an interest rate paid on the amount invested, which is taxable in a non-registered account. Since GICs aren't tradeable assets, they don't vary in price. At maturity, the original investment is returned alongside the interest.

Bonds generally pay a coupon, or an annual interest rate (sometimes paid semi-annually), which is taxable as interest income. The coupon rate is expressed as a percentage of the bond's "face value" — the amount paid to the bondholder at maturity. Over the life of the bond, a bond's price can vary as interest rates change.

If interest rates were to rise, any comparable bonds would now offer a higher coupon amount. As such, the bond that was issued at the lower interest rate, which pays a lower coupon, will need to fall in price so that its coupon and eventual face value paid at maturity will be equivalent to the new bond. When a bond is sold for less than its face value, it is termed a "discounted bond." Conversely, if interest rates fall, the bond's price will rise. If it is sold for more than its face value, it would be sold at a "premium" (or above par).

### Discounted Bonds: The Tax Advantage

What makes a discount bond attractive from a tax perspective? With the discounted bond, the after-tax returns have the potential to be higher. This is because part of the total return from the bond comes from capital gains, since the bond was purchased at a

discount. Since capital gains are treated more favourably and taxed at a lower rate than interest income, this leads to higher after-tax returns. A simple example comparing a one-year GIC versus a discounted bond shows one potential outcome (see chart below).

In some cases, even if a GIC has a higher pre-tax expected return than a discounted bond, the after-tax return of the discounted bond may be higher. In addition to the tax advantage, many quality bonds are more liquid than GICs, as GICs lock in funds for a specified period. In a situation where future interest rates decline, there may be an opportunity to realize gains before a bond reaches maturity. Since many quality bonds currently trade at a discount, investors may be able to find appropriate portfolio additions that meet their risk tolerance while offering higher after-tax returns than GICs.

To learn more, please contact the office.

### Example: GIC vs. Discounted Bond

	GIC	TD Bond
Term (Years)	1	1
Yield-to-Maturity	5.00%	5.10%
Par Value	\$1,000,000	\$1,000,000
Price Paid	\$100	\$97.66
Coupon Rate	5.00%	2.85%
Total Taxable Interest Income	\$50,000	\$28,500
Total Capital Gains	\$0	\$22,460
Tax* on Interest Income (53.53%)	\$26,765	\$15,256
Tax* on Capital Gains (26.76%)	\$0	\$6,010
Total Tax Paid	\$26,765	\$21,266
Annual After Tax Income	\$23,235	\$29,694
<b>Annual After-Tax Returns</b>	<b>2.32%</b>	<b>2.97%</b>

\*Tax rates are illustrative only and will vary based on the investor's tax rate.

Example provided by TD Wealth Investment Office, February 2023.  
<https://mediahandler.broadridgeadvisor.com/media/520128/Feb%2023%20Market%20Insights%20-%20Bonds%20vs%20GICs.pdf>

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