TD Wealth

Return On Investment

TD Wealth Private Investment Advice

Autumn 2016

The Importance of Risk Control

Every month, it seems that there is new commentary in the media about what is influencing the upward or downward trajectory of the markets. Last year's decline in the equity market was blamed on the falling price of oil. This year's upward momentum in the equity market has been largely characterized as resulting from low interest rates that have left investors with fewer places to find investment returns.

When equity markets are rising, it can be easy to get caught up in the excitement. When markets are falling, it may be difficult to believe that the negativity will eventually end. Some of the most successful investors are able to put these emotions aside when they make portfolio decisions, regardless of their specific strategy. This means following portfolio guidelines that have been established to control risk — for example, rebalancing to a certain asset mix, or limiting the size of any one holding, while maintaining quality criteria for the overall portfolio.

Although this approach may not involve trading the supposed headline equities that are hyped during the good times, it may help to guard against being caught in the prevailing momentum by identifying potential risks that may not be overly apparent. After all, too often we have seen those superstars fall just as quickly as they gained upward momentum.

In times of market volatility, risk control measures are important as they may help limit downside risk. These measures can also remind investors that it is important to remain invested and that overly defensive tactics, including avoiding the markets, may not be appropriate over the longer term.

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Anderssen Wealth Management

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"Helping clients make better decisions."

Portfolio guidelines may be influenced by many factors, including your investment objectives, personal needs, stage of life and risk tolerance. In addition to following these guidelines, we are constantly reviewing securities and classifying them by their financial characteristics, based on their level of risk and return and how they may change under various market conditions. Together, these and other factors are carefully considered when recommending and revisiting your portfolio holdings. As time passes, these factors can change — for example, there was a time when low-risk, fixed income products like government savings bonds generated suitable income for investors, but in today's low interest rate environment this is no longer the case.

Having these portfolio guidelines, and consistently following them, is just one important element of risk control that has been put in place to support investment success. If you have any questions about this, or any other aspect of risk management, please don't hesitate to contact us.

Planning Ahead

Are You Nearing the Age of 71?

If you are nearing the age of 71, don't forget that you will need to wind up your registered Retirement Savings Plan (RSP) by December 31st of the year in which you turn 71. Remember to plan ahead as there are a variety of tax-deferral opportunities that may be considered. As always, please seek the advice of a tax professional regarding your specific situation.

Consider your options. There are three maturity options that can be used on their own or in combination: i) transfer funds to a registered Retirement Income Fund (RIF); ii) distribute funds as income; or iii) purchase an annuity. Many factors will impact which option is best for you, and we can help you to carefully consider the options as they apply to your situation.

Still working at age 71? Since RSP contribution room is based on your previous year's earned income, if you are still working at age 71, you may be creating RSP contribution room for the following year. If you have already contributed the maximum amount for the current year (based on your previous year's earned income), there may be an opportunity to contribute an additional amount (based on the current year's earned income) at the end of the year. The additional contribution (in excess of the $2,000 lifetime over-contribution amount, if available) will be subject to a penalty of 1 percent per month. (You will need to file form T1-OVP with the Canada Revenue Agency and pay this penalty within 90 days from the year end.)

However, in January of the next year, this contribution may no longer be considered to be an over-contribution. Where this is the case, the penalty may apply for one month (if the over-contribution was made in December), but may be offset by tax-deferred growth from the extra contribution if it remains invested in a registered plan such as an RIF.

Working past the age of 71? If you have a younger spouse/common-law partner, income earned in the year you turn 71 and beyond may allow you to make a spousal RSP contribution until the end of the year that your spouse turns 71. This can be made by the regular RSP deadline. Be aware — after age 71, RSP contribution room information will not be shown on your Notice of Assessment, so you will need to calculate this on your own.

Changing Regulations

Pension Reform: The CPP is Set to Change

During the summer, nine provinces agreed to make enhancements to the Canada Pension Plan (CPP). This is intended to address the shortfall in middle-income retirement planning. As the number of company-sponsored defined-benefit pension plans declines, supporters of these changes believe that this will help many working Canadians to save for retirement. (Note: Quebec did not join in these reforms and intends to make changes to its own provincial pension regime.)

Remember that in order to collect CPP benefits, you generally need to contribute to the CPP during your employment years. The CPP is fully funded by two groups: the employer and the employee. Funds are managed by a group of professionals under the CPP Investment Board. As such, these new reforms will not assist those who do not contribute to the CPP during their working years.

Here are the proposed CPP changes, expected to begin in 2019:

- **Higher payouts** — The annual payout target will increase by one-quarter to one-third annually. For a worker earning $54,900 per year, the 2016 maximum annual pension payment is $13,110 at the age of 65. This is expected to rise to around $17,500 in today's dollars.
- **Greater contribution rate** — CPP contributions from both workers and employers will gradually increase by 1 percentage point, to 5.95 percent of wages. This will be phased in between 2019 and 2023.
- **Increased income coverage** — The maximum amount of earnings subject to CPP contribution will increase. Currently the year's maximum pensionable earnings is $54,900. This is expected to rise to $82,700 (phased in) by the year 2025. A lower contribution rate, expected to be 4 percent, has been proposed for earnings between $54,900 and $82,700.
- **Tax deduction** — A new tax deduction has been proposed for the portion of additional worker contributions as a result of these changes to help ease the potential financial burden.

Who will benefit? Younger employees are expected to benefit the most from these changes. In order to earn the full CPP amount proposed, a person will generally need to fully contribute for around 40 years once the program is fully phased in by 2025.

Transferring Wealth: Preparing Your Heirs

An article published in Time Magazine[1] last year pointed to some surprising statistics about how we commonly fail in the transfer of wealth: 70 percent of high-net-worth families lose their wealth by the second generation, and 90 percent by the third. As the article noted, it only "takes the average recipient of an inheritance 19 days until they buy a new car."

But loss of wealth, from poor investment or business decisions, as examples, is not the only potential consequence of passing along an inheritance. Some individuals may be concerned about lessening an heir's desire to achieve success on their own terms, or, the potential for a breakdown in a family relationship.

As you plan the transfer of wealth, it is important to determine if your heirs are ready. Here are some ideas to help prevent potential unpleasant outcomes:

Share assets during your lifetime. Sharing assets while you are alive may help you to understand whether your heirs are able to manage future wealth. This may include providing loans to heirs (with or without interest and/or capital repayment), which can provide the benefits of capital to the beneficiary, and protect assets if there is a relationship breakdown or the giver requires the assets at a later point in time.

Establish a trust. A trust can help to protect funds until a beneficiary may be more responsible, or a trustee can be appointed to manage the assets on the heir's behalf. Trusts can also be used to specify how certain assets will be used. Using a trust may also protect assets against creditors or in the event of separation or divorce.

Teach (grand)kids about money. Starting early and teaching the next generation(s) about financial literacy can go a long way, not only to instill responsible behaviour in your heirs with their own money, but also with any inherited funds down the road.

Talk about it. Some experts suggest that it is important to have a discussion with heirs while you are alive and able to express your views. This may include providing a financial road map for expectant heirs or discussing the details of an estate plan to help address future potential conflicts today. These are personal preferences, and we can act as a resource as you plan any financial discussions.

Effective estate planning remains a key component of successful wealth planning. These are only some of the ways to help prepare your heirs and help to promote the longevity of your wealth. As every situation is unique, we can connect you with an estate planning specialist or legal advisor to help you build the legacy you wish to achieve.

Source: 1. time.com/money/3925308/rich-families-lose-wealth/

Unclaimed Balances: Are Funds Owed to You?

How is it possible to lose track of millions of dollars?

In Canada, over $620 million of funds remain unclaimed — in fact, 1.7 million unclaimed balances currently exist on the Bank of Canada's books as of December 2015. This includes Canadian-dollar deposited or negotiable instruments, such as Guaranteed Investment Certificates (GICs), term deposits, bank drafts or money orders that were issued or held by a bank or trust company where there has been no activity for 10 years and the owner cannot be contacted by the holding institution.

The Bank of Canada acts as a custodian on behalf of the owner of the unclaimed balance and holds the balance for 30 years after the 10-year period of inactivity. You may be eligible to claim the balance if you are: i) its rightful owner; ii) an heir to an estate with an unclaimed balance; or iii) an officer of an organization entitled to the unclaimed balance.

The significant value of unclaimed balances suggests that it may be easier than we think to lose track of funds. In a broader context, bank accounts may be neglected over time, or, if a recipient moves, cheques or retirement plan account mailings may be returned as undeliverable and forgotten. As such, this is a good reminder to maintain updated records to help keep all of your assets in check. Consolidating assets may also make it easier to prevent funds from being forgotten, and we may be able to assist you with this.

To search for an unclaimed balance to which you may be entitled, see: bankofcanada.ca/unclaimed-balances/

The Value of Advice

Given the changes that are occurring within our industry, there has been a lot of discussion about the role of wealth advisors in generating value. As such, here are some perspectives on how investors can leverage the expertise of an advisor.

A 2014 industry study[1] found that over a full market cycle, investors who were supported by an advisor had the potential for a 3 percent greater net return than those who invested themselves. Although quantifying the value of financial advice is, without a doubt, a subjective exercise, there are many ways in which receiving good advice can translate into value:

Saving — It may be a basic concept, but saving continues to be one of the cornerstones of building wealth. One U.S. industry specialist estimated that in a world without financial advisors, 90 to 95 percent of retirement savings plans would not exist.[2] This may seem extreme, but it demonstrates that advisors often play a role in facilitating saving. Without this foundation, the ability to grow assets to meet future financial goals may be limited.

Portfolio Management — One of our most important roles is to manage risk within a portfolio according to an investor's specific risk tolerance levels. As discussed on the first page of the newsletter, this includes having appropriate portfolio guidelines in place, such as maintaining diversification and managing to a certain asset mix, while keeping individual needs in mind. As well, we are constantly navigating through the changing investing landscape. Today's challenges include low interest rates and slower growth; tomorrow's will likely be different.

Behavioural Coaching — Emotions can be an investor's worst enemy. A study by Dalbar, a financial services market research firm, attributed between 45 to 55 percent of an average investor's underperformance to psychological factors.[3] Why? The average investor often reacts to short-term noise and trades at the wrong time, buying at highs and selling at lows. As advisors, we help to remove the emotion from investing.

Tax Strategies — Tax strategies can make a significant difference to overall wealth. This includes understanding and adapting to changing tax law and investing in tax-advantaged ways, such as using registered plans, or optimizing asset location.

Withdrawal Strategies — The way in which an investor withdraws investments can help in conserving wealth. This depends on each individual investor's situation. As the time approaches where investors need to access capital, we are here to help put a withdrawal plan in place.

Total Wealth Management — Wealth management extends beyond an investor's portfolio. This may include business succession planning, tax and estate planning or insurance planning, as examples. Managing wealth across all aspects of an investor's life can improve an investor's wealth position. Along with our broader team, we can act as a resource for many other wealth management activities.

We are committed to providing value as we help you to achieve your financial goals, working together with you, as you leverage our expertise.

Sources: 1. Putting a value on your value: Quantifying Vanguard Advisor's Alpha". Vanguard, March 2014; 2. Louis Harvey, President, Dalbar. "How retirement advisors really add value"; 3. Dalbar "Quantitative Analysis of Investor Behaviour", 2013.

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