TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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To My Clients:

While we face continued challenges this winter with the resurging virus, we can take comfort in the news of promising vaccines to bring optimism for 2021. Continue looking forward and positioning your wealth for better times to come; I am here to provide this support.

This is likely a different holiday season for many of us. I hope that you and your loved ones stay safe and healthy, and I wish you every happiness for the holidays and the year ahead.

Morris Wealth Advisory Group

Paving the Road to Recovery

It is a testament to the human spirit: adversity often builds strength. While 2020 was a year that many would rather forget, it has paved the way for the road to recovery.

There are signs that better times may lie ahead. After the spring 2020 shutdowns, many economists were surprised by the speed at which economic activity rebounded once markets reopened. Employment levels grew faster than anticipated, as did consumer spending. Though the cooler months have slowed momentum due to a resurgence of the virus and new shutdowns, we shouldn't overlook the ability of economies to recover in 2021 once things restart.

Unlike previous recessions, the economic effects have been uneven and concentrated to certain sectors. This has resulted in a relatively weak multiplier effect for the overall economy. Canada's housing market has shown resilience. Many companies continue to adapt to the new normal, reassessing business models, leaning operations and innovating within the digital space.

Yet, others continue to struggle. In the service industry, hard hit with its many small businesses, there has been well-needed recognition that some of the most vulnerable citizens work in sectors that help hold our society together. Canadian equity markets have been hindered more than their U.S. counterparts, largely due to pressure on the energy and resources sectors. Sectors that have been able to thrive, such as technology, have helped drive U.S. equity markets.

One must not overlook the significance of stimulus efforts in providing support. Canada has the largest stimulus deficit of any nation globally in 2020.[1] This has helped to fuel an ongoing debate that challenges mainstream economics. Proponents of "Modern Monetary Theory" (MMT) argue that a country with its own currency should not worry about accumulating debt and can print as much money as needed, as long as there is an increase in demand to keep the currency's value stable. Regardless of this heterodox view, the good news is that the current cost of carrying debt remains low due to near-zero interest rates. In the 1990s, more than 35 percent of government revenue went to pay interest costs on federal debt. Today this percentage hovers in the single digits.[2] Many economists remain concerned with the future debt burden: will recovery drive enough economic growth to reduce this burden or will austerity in the form of tax increases or reduced spending be needed?

In the U.S., a reset has begun as a result of the highly contested presidential election, widely watched by Canadians. After an autumn of rampant civil and social unrest, there is hope that new leadership and a much-needed stimulus package will support the U.S. this winter.

Most notably, we have made remarkable progress in the race to find a vaccine in a significantly compressed timeline. This is exceptional, given the typical vaccine time-to-market is 10 to 15 years. The fastest to date has been the mumps vaccine, which took four years.[3]

Progress in combatting a pandemic takes time. However, as we have seen in 2020, equity markets don't wait on the sidelines for recovery to happen. They are, after all, forward looking. Moreover, periods of retrenchment have almost always been followed by new growth, expansion and progressing equity values. There is little reason to expect otherwise in this cycle.

After a difficult 2020, we are all deserving of a better year ahead. Continue to look forward to better times to come.

1. As a % of GDP; 2. "The Bearable Lightness of Canada's Debt Burden", Globe & Mail, 10/30/20, p. B6; 3. http://nationalgeographic.com/science/health-and-human-body/human-diseases/coronavirus-vaccine-tracker-how-they-work-latest-developments-cvd/

■ Retirement Planning

Don't Need Excess Funds? RIF Minimum Withdrawal Planning

As you think about retirement, maximizing your retirement income is an important part of this exciting transition. Ultimately, it's your after-tax income that counts: paying the least amount of tax on your income can help you keep more of your hard-earned dollars.

Carefully consider and plan for all sources of income, including pension income, non-registered assets, and Tax-Free Savings Accounts (TFSA). If you have sufficient funds through pension income and non-registered assets to meet your retirement expenses, it may make sense to only withdraw the mandatory minimum amount from your registered Retirement Income Fund (RIF) or locked-in plans such as Locked-in Fund (LIF), Locked-in Retirement Income Fund (LRIF) or Prescribed Retirement Income Fund (PRIF) each year. This allows for continued tax-deferred growth within the plan. Here are some additional strategies to help keep funds invested for longer:

Basing the withdrawal rate on a younger spouse's age — If you have a younger spouse, consider basing your withdrawal rate on their age in order to lower the amount of the required annual withdrawal, thereby helping to keep more assets to potentially grow within the plan on a tax-deferred basis.[1]

Making your first withdrawal at the end of the year in which you turn 72 — You are required to convert your registered Retirement Savings Plan (RSP) or Locked-in Retirement Account (LIRA) into a RIF/LIF/LRIF/PRIF by the end of the year in which you turn age 71, but don't need to make the first withdrawal until the end of the year in which you turn age 72.

Timing annual withdrawals at the end of each year — The timing of withdrawals can make a difference over time. If you take your withdrawal at the end of each year, instead of the beginning, you allow for greater time and potential compounding of funds within the plan.

RSP Season Reminder

Deadline for 2020 RSP contributions: **March 1, 2021.**

RSP contribution limit: 18 percent of the previous year's earned income, to a maximum of $27,230 (for 2020).

For example, consider a 71-year-old with a marginal tax bracket of 40 percent and an RIF worth $500,000 that has an annual rate of return of five percent. If this individual withdraws the minimum from the RIF at the end of the year in which they turn 72, the after-tax income from age 72 to age 90 will be higher than if payments were made at the start of the year. As well, by the age of 90, $315,970 would be remaining in the RIF, as opposed to $293,177, if payments were made at the start of every year.[2]

Plan Ahead

While these strategies involve minimum withdrawals from your RIF, consider that, in some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. Every situation is different. As such, please get in touch if you require support as you think ahead.

1. Provincial locked-in plan legislation for LIF/LRIF/PRIF allows for the use of a younger spouse's age, with the exception of New Brunswick; 2. Based on current prescribed RIF withdrawal factors.

■ Income-Splitting Strategies

Investment Loans to Spouses Can Make Sense

Consider income-splitting opportunities for the year ahead. With the prescribed rate at its lowest level possible, one strategy may involve splitting income with a spouse by use of a loan.

Making a bona-fide loan to a spouse for investment purposes is one way to put family investments in the hands of a lower-income spouse.

Why is a spousal loan required for this strategy? Generally, you achieve no tax advantage if you were to simply give funds to a lower-income spouse to invest. This is because the Canada Revenue Agency (CRA) attributes any investment income earned on these funds back to the higher-income spouse, as if earned by that spouse, and it is taxable at the spouse's higher marginal tax rate. This is known as the "attribution rules."

A spousal loan must be documented and interest must be paid by the borrowing spouse at the CRA prescribed rate. Any interest for the year must be paid no later than January 30 after the year-end. Failure to do so means the attribution rules will apply, and any returns on the investment will be taxable in the hands of the higher-income spouse. Interest paid will be taxable income to the spouse loaning the money and may be deductible from the investment income earned by the lower-income spouse.

The lower the prescribed rate relative to the return on investments, the greater the opportunity to benefit from such a strategy. The current prescribed interest rate is one percent, the lowest possible rate (see CRA website[1]).

Muddy Waters: The TFSA

An exception to the attribution rules applies to the Tax-Free Savings Account (TFSA). While the Income Tax Act prohibits anyone other than the TFSA holder from making contributions, it does not prevent an individual from gifting assets to a lower-income spouse who then contributes that gift to his/her own TFSA.

However, the attribution rules may apply when money gifted and then contributed to a TFSA is subsequently withdrawn within a short period of time. The CRA has stated that where a higher-income spouse gifts funds to a lower-income spouse to contribute to a TFSA, and these funds are immediately withdrawn from the TFSA and reinvested, future income or capital gains earned would be taxable to the original high-income spouse.[2]

Please seek the advice of a tax specialist for your particular situation.

1. https://canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html; 2. See CRA technical interpretation #2010-0354491E5.

Investing Resolutions

Looking Forward: Lessons from the Pandemic

Amidst the many hardships created by the pandemic, there may be prudent lessons that can assist us in finding greater future financial success. As we look to better times to come, here are some reminders:

Don't Overlook the Merits of an Emergency Fund

The pandemic has been a stark reminder that unexpected events can affect everyone, regardless of income level. Economic shutdowns have affected the income streams of many, highlighting the benefits of having an emergency fund in place. For some high-net-worth individuals, a common notion has been that having enough assets negates the need to have funds set aside for an emergency. But one of the strongest arguments for having an emergency fund is to avoid the need to liquidate investments on short notice, especially since larger daily expenses may need to be covered. For retirees, while emergency savings may not be needed to replace a missed paycheque, they may help support other unanticipated costs, such as health care.

Avoid Emotionally-Driven Investment Decisions

The equity market sell-off in March 2020 and the ensuing rebound reminds us that markets can quickly reverse their course, even during the most challenging times. This illustrates the difficulty in attempting to time the market — a testament to the importance of staying the course with your investments. Not everyone is able to keep calm during a crisis, which is understandable. However, this is where our role as advisors comes into play — to help provide objectivity and perspective and offer counsel. While it may be difficult to abandon the worry that comes with fluctuating portfolio values, it is important not to let these worries derail you as you work towards achieving your ultimate goals.

Reassess Your Current Budget

This is not to admonish anyone about their spending habits, however taking time to sit down and map out the family income and expenses each month can be revealing. More notably, the current pandemic has altered many household spending habits, due to working remotely or lifestyle changes — perhaps you have saved more by not going to the office or gym or traveling for vacation. Reevaluating spending on a periodic basis may uncover opportunities to put more towards retirement savings, which has the potential to pay significant benefits down the road.

Don't Make Unnecessary Withdrawals

Making early withdrawals from retirement accounts can result in unintended consequences. While the pandemic may have made this temporarily necessary, it is important to have a thoughtful plan for prioritizing sources of potential income during difficult times. Why? Liquidating investments to generate cash flow could potentially result in unanticipated taxes or, in the case of retirees, the loss of income-tested benefits such as OAS (Old Age Security). Equally important, careful thought should be given to how to make up for the potential loss of retirement income down the road.

Market Perspectives

Equity Market Volatility: The Norm

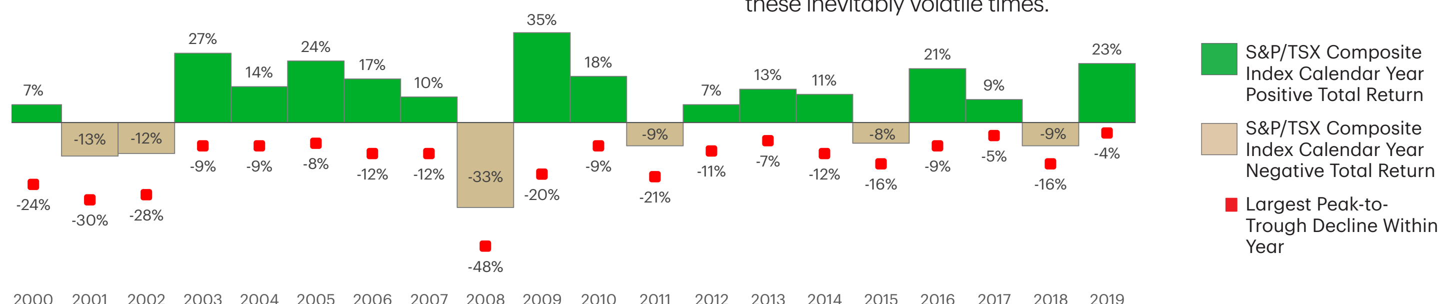
Was 2020 a more volatile year in the equity markets? With heightened noise, it may have felt as though the markets were particularly unsettled.

Yet, a look back over the last 20 years shows that volatility has always been a common feature of the equity markets. The chart below shows the biggest peak-to-trough drawdowns during the year for the S&P/TSX Composite Total Return Index and the resulting annual returns. In 12 of the last 20 years, there has been a double-digit, intra-year correction. Significant volatility is no stranger to the markets.

Today, many factors have helped to drive volatility. Interest rates continue to be at historical lows and many traditional lower-risk, fixed income investments no longer provide meaningful returns, which has pushed many investors into equity markets in search of higher returns. There was no shortage of negative news in 2020, which may also have helped to support volatility. As well, there continues to be significant money sitting on the sidelines, which has driven volatility as investors enter and exit the markets.

However, keep in mind that short-term volatility often has little bearing on what happens over the longer term. In fact, in half of the years where the market experienced a double-digit, intra-year correction, the market ended up finishing in positive territory. Extending the time horizon out across many years may further reduce the effects of volatility.

These perspectives may be good food for thought as we weather these inevitably volatile times.



Source: S&P/TSX Total Return Index, Jan. 1, 2000 to Dec. 31, 2019.

■ Looking South of the Border

U.S. Election: The Changing Guard

After a highly contested election complicated by civil unrest and a heated campaign, the American people have decided on a change in leadership. As a Canadian, you may be wondering what impact this change may have on your investments.

We can observe that regardless of the political party that occupies the White House, there is no distinct pattern or outcome for the equity markets. In fact, respected author and investor Ben Carlson wrote in a recent *Fortune* magazine article that politicians often have less of an impact on equity market performance than most people would like to believe. Carlson has shown that the long-term trend of the stock market has been up no matter who the president is.[1] It should also be noted that no president in modern history has been able to prevent the stock market from experiencing a large drawdown, either.

What We Know: Biden Administration's Policies, In Short

Throughout the campaign process, much focus was given to Biden's pledge to increase taxes for corporations and higher-income individuals, reversing some of the tax cuts enacted by the Trump administration. These increases have been proposed in seeking to fund trillions of dollars of stimulus measures, social services, manufacturing, green tech and infrastructure projects. A new fiscal stimulus plan has been called "crucial" and was largely stalled by the election. Biden has also expressed support in raising the national minimum wage to $15/hour to stimulate the economy as it moves into recovery. High-net-worth Canadians who hold U.S. situs assets will be watching closely as a change to U.S. estate tax law, including lowering the exemption level, has been proposed.

Biden's policies would likely impact various sectors, including energy, financials and communications. Biden has supported a clean energy agenda, which has concerned many in the oil and gas sector. A proposed tax regime would likely affect the banking sector and greater regulation of the communications sector has been proposed. From a global policy perspective, it is expected that the Democrats will deal with trade policy more diplomatically, which may help temper escalating global trade tensions over the past four years.

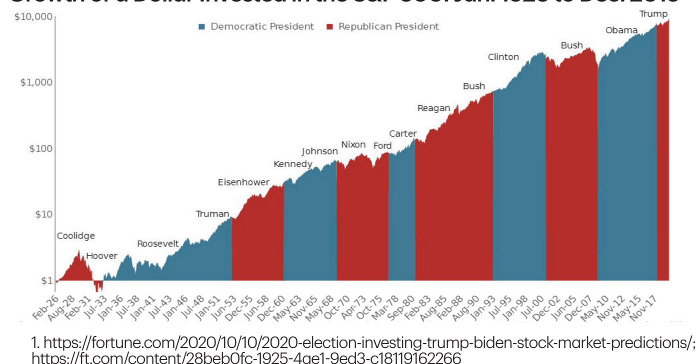
However, it should be noted that success in passing new measures may be difficult as it is largely dependent on Congress and, at the time of writing, the Senate continues to be controlled by the Republicans. This split in power is often welcomed by investors. Carlson has shown that when a Democrat is president and Republicans control Congress, average annual returns of the S&P 500 since 1933 have been 13.0 percent.[1]

The Bottom Line

Basing an investment strategy on the outcome of an election is not a prudent exercise. Nobody can be certain that campaign promises will lead to policy changes or even impact future economic outcomes once Biden takes office on January 20, 2021. For example, Trump's 2016 promises of deregulation suggested that the energy sector would have fared well during his time in office; in hindsight, many other factors negatively impacted the sector.[2] Regardless of what lies ahead, the private sector will continue to produce jobs, invest in innovation and drive growth over the longer term. Often, the winners will be those companies that can best position themselves to adapt to changes in the competitive and regulatory landscape over time.

As advisors, we structure portfolios using diversification to help prepare for inevitable changes and ensure that we are not exposed to any single adverse event. We make course adjustments when required and are constantly monitoring investments given that operating landscapes and competitive conditions are always changing. What we shouldn't lose sight of is that the long-term trend of the stock market has been up, regardless of who is in power.

Growth of a Dollar Invested in the S&P 500: Jan. 1926 to Dec. 2019



1. https://fortune.com/2020/10/10/2020-election-investing-trump-biden-stock-market-predictions/; 2. https://ft.com/content/28beb0fc-1925-4ae1-9ed3-c18119162266

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