TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Summer 2021

Richard Morris, CFP®, FMA
Vice-President
Investment Advisor

905 707-6855
richard.morris@td.com

In This Issue

To My Clients:

As we find ourselves at the halfway mark of another year that has required continued endurance, there is hope that we are emerging from the worst of the pandemic. With the return of summer, our perseverance and resilience should be rewarded.

I would like to thank those of you who have introduced me to friends and family. I remain available to provide a fresh opinion on an existing portfolio or advice relating to a new situation.

Wishing you many days of well-deserved relaxation this summer.

Morris Wealth Advisory Group

Patience & the Longer View

In the excitement of rising markets, it may be easy to overlook the importance of patience in investing. Instant gratification has become a way of life. We have been conditioned to expect instantaneous results through influences like on-demand television and one-click shopping. Many of us aren't willing to wait more than two seconds for a website to load.[1]

The 1972 Stanford Marshmallow Experiment suggested that we are hard-wired to favour instant gratification.[2] In the experiment, children were offered the choice of one marshmallow immediately, or two if they waited 15 minutes. While most wanted to wait, less than one-third were able. Those who waited showed greater lifelong successes, which may be a good reminder for investors. Success in building wealth can often involve patience.

During market advances, patience can be left on the sidelines. Many new investors have entered the markets, some with expectations that securities will continue to deliver the gains seen in recent times. Yet, in order to make gains, even the best performing security is not good if you don't buy it at a low price and sell it for higher. As Warren Buffett has said, "price is what you pay, value is what you get."[3] Part of Buffett's success has come from purchasing quality investments at attractive prices. For those starting off, having positive returns in the early years can be important, since this is the base upon which future returns compound.[4]

For most investors, the objective is to create wealth over the longer term — and not tomorrow. This involves investing over market cycles. In buoyant markets, it may be easy to forget that advances do not happen at a constant rate. The chart on page 3 shows S&P/TSX Composite Index (TSX) annual returns over 40 years. It's worth pointing out how few of these returns fall within the long-term average of 6.3 percent.[5] Patience, through time in the markets, helps to provide predictability in investment returns.

Investing also requires the understanding that financial markets can fluctuate in the short term, and the patience to see this through. On average, the TSX experiences a drop of at least seven percent each year,[5] which can provide an opportunity to put capital to work. Market drawdowns are often more rapid than advances. Last spring, in just 22 days the TSX forfeited almost 9 years of gains, and it took 200 days to return to prior highs. Yet, this speed of recovery was unprecedented. Over the past 40 years, it has taken an average of 380 days for the TSX to recover from just a 10 percent drop.[6] Equity markets can take the elevator down, but patience is needed when they take the stairs up.

We've needed particular patience in the fight against the pandemic and the return to normalcy. Global recovery has been divergent: the U.S. economy has largely reopened from the pandemic; here at home, we've needed greater patience. With strengthened commodities prices, as well as increasing inflationary pressures, the investing environment looks much different than it did a year ago. Considerations of risk, value, quality, diversification, tax and personal objectives continue to be as important today as ever. These changing times are when advisors can help shift gears where necessary, providing thoughtful evaluation and scrutiny in investment choices.

Enjoy the market advances, but keep your eye on the horizon and don't overlook the value of patience towards achieving your longer-term goals.

1. akamai.com/us/en/multimedia/documents/content/akamai-performance-matters-key-consumer-insights-ebook.pdf; 2. en.wikipedia.org/wiki/Stanford_marshmallow_experiment; 3. Thank you to Warren Buffett for providing permission to use his quotation. 4. Sequence of returns has no impact on a portfolio's final dollar value if no withdrawals or additions are made; 5. S&P/TSX Composite Index 10/29/80 to 4/30/21; 6. S&P/TSX Composite Index close, 2/20/20 - 17,944.1, 3/23/20 - 11,228.5, 1/7/21 - 18,027.6.

■ Federal Budget 2021: A Recap

Five Ways in Which the Federal Budget May Affect You

In April, the federal government released its first budget in more than two years. Here are some ways it may impact you.*

The federal budget was largely focused on supporting strong economic recovery as we continue the fight against Covid-19. It offered an extension to various Covid-19-related benefits, resulting in a record deficit and significantly higher projected debt for the foreseeable future. While there were no changes to personal or corporate income tax rates, here are five ways you may be impacted:

Seniors: Extending Benefits — If you are 75 years of age or older as of June, 2022, a one-time Old Age Security (OAS) payment of $500 will be made this August. For this same age group, monthly OAS payments will be increased by 10 percent, beginning in July, 2022. If you aren't in need of these funds, consider investing them.

Investors: Potential Opportunities? — The government has pledged $8.8 billion over the next five years to support a greener future. Of particular note, the budget indicated the objective of raising $5 billion through its inaugural green bond launch planned for the 2021-2022 fiscal year. Proceeds will be used to finance a variety of projects, including green infrastructure, cleantech and nature conservation. According to the budget documents, the presence of government backed bonds may support more mature investors who are "looking for a green portfolio but also need to manage their investment risk."[1]

High-Net-Worth Spenders: A Luxury Tax — If you plan on purchasing a luxury vehicle in the near future, consider making a purchase by Dec. 31, 2021. As of January 1, 2022, sales of luxury cars and personal aircraft with a retail price of over $100,000, as well as boats with a price of over $250,000, will incur a new tax. It will be calculated at the lesser of 20 percent of the value above those thresholds, or 10 percent of the full value of the vehicle.

Student (Loans) in the Family? — If you have a (grand)child with student loans in the form of Canada Student Loans or Canada Apprentice Loans, the budget extends the waiver of interest accruing on these loans to March 31, 2023. The budget has also increased the threshold for this assistance from those earning $25,000 per year to earnings of $40,000 per year. Remember that students may claim a tax credit for interest on qualifying student loans.

Business Owners: Immediate Expensing — If you operate a Canadian-controlled private corporation, your business will now be able to purchase up to $1.5 million of certain capital assets and fully expense these in the year they become available for use. This includes eligible assets purchased on or after April 19, 2021 and before 2024. There may be tax benefits achieved by immediately expensing certain assets. However, as there are varying outcomes resulting from expensing versus capitalizing a purchase, please seek the advice of a tax professional.

For greater detail on all of the initiatives proposed, see the Government of Canada website: budget.gc.ca/2021/home-accueil-en.html

1. Budget 2021: A Recovery Plan for Jobs, Growth and Resilience, Government of Canada, page 166.
*At the time of writing, the budget proposals had not been passed into law.

■ The Importance of Assessing Risk

Be Aware: Good Times Can Drive Risky Behaviour

Financial speculation is often driven by the insatiable human desire to get rich quick, thriving during buoyant investing environments and when new technologies emerge.

Today we see similar themes in the investing world. The rapid rise in equity markets has given confidence to many investors that money may be easily made. This confidence can drive risk-taking behaviours. We are also living in a period of technological change. New innovation can often make it difficult to assess risks, as expectations are largely driven by hope and uncertainty about the future. When rapid change leads to quick profits, this further drives speculative behaviour and creates froth in the markets.

As an example, Dogecoin, a cryptocurrency named after a "doge meme" on the internet, was created as a joke between two engineers. It was never meant to be a serious cryptocurrency, and its co-creator sold all of his holdings back in 2015. Yet, this past May it became the fourth most valuable digital currency on the market, appreciating by more than 14,000 percent this year.[1]

U.S. regulators recently warned investors about the dangers of buying into SPACs (special purpose acquisition companies). SPACs sell shares to raise funds, with the objective of taking a private company public. They are referred to as "blank cheque" companies for a reason: they have no operating business and often no stated targets for the acquisition. With the rise in SPAC issuances and the increasing endorsements by celebrities, regulators have alerted investors not to be "lured into participating in a risky investment."[2]

Perhaps one of the more telling examples of potential speculation[4] involves a small deli in New Jersey. The share market valuation of the deli's owner soared to over US$100 million earlier this year, despite the deli being the only operating asset. The deli was closed for most of last year due to the pandemic, yet it only had combined sales of around US$35,000 for the past two years. Fortunately, after U.S. regulators were notified, the shares were delisted from the over-the-counter market.[3,4]

The Importance of Risk Control

It may be difficult not to get caught up in the excitement — we'd all like to ride the next superstar investment to financial freedom. We may also feel that we aren't successful investors unless we are in the middle of the action. However, these are precisely the times in which understanding and assessing risk continues to be an important part of investing. While such an approach will not produce the results that make overnight headlines, it provides a good litmus test to help avoid being carried away by the enthusiasm of the moment.

For most investors, investing involves time, patience and the understanding that wealth is often not easily created overnight.

1. markets.businessinsider.com/currencies/news/dogecoin-price-rally-eclipses-xrp-4th-largest-crypto-doge-2021-5-1030391242; 2. sec.gov/oiea/investor-alerts-and-bulletins/celebrity-involvement-spacs-investor-alert; 3. cnbc.com/2021/04/22/100-million-new-jersey-deli-company-delisted-from-otc-market.html; 4. Update: some reports suggest that the deli listing was created as a potential shell-company reverse merger; nytimes.com/2021/06/02/magazine/your-hometown-deli.html

Thinking Ahead for Future Generations

Estate Planning: Protecting the Wealth Transfer

We often look for ways to safeguard our wealth against common risks, such as defending portfolios from market downturns or protecting family in the event of an untimely death of an income earner. Yet, a frequently overlooked risk involves the transfer of wealth to future generations.

With over one trillion dollars of inheritances expected to be passed along within the next decade, taking actions to preserve family wealth across generations has never been more important.[1] Does your estate plan consider the risks associated with wealth transfer and incorporate strategies to help mitigate those risks? Here are some considerations:

Preventing Your Estate from Being Contested

It isn't uncommon for disputes to arise during the estate administration and settlement process, especially for families with complex dynamics. In some cases, these disputes can escalate to litigation. While court battles are not only time consuming and stressful, they are quite costly, which can significantly erode family wealth. Perhaps worst of all, they can tear apart families. Disputes can arise for many reasons, including outdated or poorly drafted documents, poorly chosen executor(s) and lack of communication about estate plans with beneficiaries.

There may be ways to help minimize this risk. Communicating with heirs about your intentions while you are alive can help to avoid surprises or disappointment. Most importantly, estate documents should be properly drafted using a reputable professional, including specific instructions in a will or trust to eliminate doubt. They should be reviewed regularly and updated as circumstances require. Care should also be taken when choosing the estate executor(s), since poor decisions and actions by the executor have been known to lead to litigation.

Helping Beneficiaries Manage a Wealth Transfer

Another risk may involve recipients of a transfer. Certain beneficiaries may need support to manage their inheritance. Minor or young beneficiaries may not be financially responsible; spouses may require help in managing certain assets, such as investments or a business. Provisions made for beneficiaries with disabilities or other challenges may require special planning. As well, safeguarding wealth from beneficiaries who may be exposed to current/future creditors, such as business partners, customers or former spouses, may be a priority.

One of the more common tools used to help support and protect beneficiaries is a testamentary trust, which can hold assets for their benefit. This can help to manage assets and limit access by specifying the timing and quantum of distributions to be made.

Accounting for Divorce or Blended Family Dynamics

The transfer of family wealth may need to be protected in order to account for a complex family dynamic, such as a blended family. In some cases, the way in which assets are currently structured may not necessarily be meeting your objectives. For instance, having assets jointly held in a current relationship may put children from a previous marriage at risk of unintentional disinheritance. An unplanned division of estate assets may also occur if a current spouse becomes a primary estate beneficiary, when the assets were intended for children from a previous marriage. In some provinces, a new marriage can revoke an existing will and the instructions leaving assets to children from a previous marriage would be invalidated. As such, it is important to seek the advice of a lawyer who understands complex family scenarios to help ensure that your assets are passed along as intended.

If you have the desire to leave a lasting legacy as you pass along family wealth, consider planning ahead to protect from these potential risks. Given our familiarity with your financial position, we are here to act as a resource. As always, we recommend the support of tax and legal professionals as it relates to your particular situation.

1. financialpost.com/personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready

Equity Market Perspectives

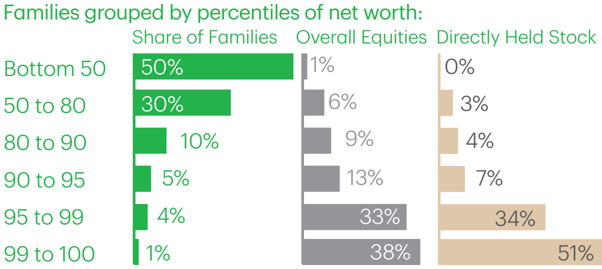
Two Interesting Charts for Investors

Here are two interesting charts that provide differing perspectives. The first shows the income inequality in the stock market. Prior to the pandemic, the top 20 percent of earners owned 93 percent of equities, thus suggesting that investing in the markets is largely for the wealthy. As the markets have risen during pandemic times, income disparity continues to rise.[1]

The second chart shows the annual returns for the S&P/TSX Composite Index. It's worth pointing out how the distribution of returns has significantly varied over this period. Only 20 percent of annual returns fall within the long-term average return of 6.3 percent over the past 40 years. Patience, through time in the markets, can help to provide predictability in investment returns.

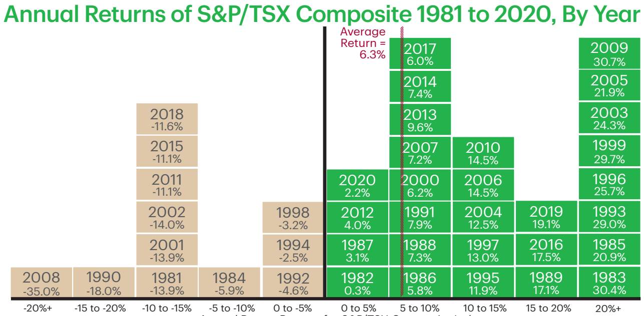
Wealthier Families Own a Greater Share of Overall Equities (2019)[1]

Families grouped by percentiles of net worth:



1. nytimes.com/2021/01/26/upshot/stocks-pandemic-inequality.html#:~:text=When%20the%20Stock%20Market%20Rises,share%20of%20overall%20equity%20holdings

Annual Returns of S&P/TSX Composite 1981 to 2020, By Year



Source: S&P/TSX Composite Index data, 1/1/81 to 12/31/20, Yahoo Finance.

Estate Planning

Your Power of Attorney and Executor: Is a Review Warranted?

When was the last time you reviewed your estate plan? While this should be done at least every five years and especially when personal circumstances change, the continuing effects of the pandemic remind us of the value in revisiting estate planning when the circumstances around us also change.

If you are overdue for a review, perhaps a good place to start is with those you have appointed to help carry out your estate plan: the "attorney" named under power of attorney (POA) documents and the executor of your will.* Here is how the pandemic continues to change the way in which we think about this support.

The importance of "checking in." When was the last time you spoke to your named executor/liquidator* about the role? The pandemic may have altered an individual's capacity to act on your behalf. A front-line healthcare worker may not be able to manage additional duties if under significant work obligations. Immune-compromised individuals may be unable to safely perform certain functions of the role. If the individual is not aware that they have been appointed, consider that court intervention will be required if they are unwilling or unable to act and an alternate has not been named. Under normal circumstances, this is a lengthy and costly process; throughout the pandemic, this has been complicated by further delays as court operations have been impacted in many provinces.

The value in communicating the "basics." Have you provided direction to help support those acting on your behalf? With your executor, have you communicated where important documentation can be found? This is important to prevent an unnecessary search, yet with many businesses continuing to have reduced operations (including banks, law firms), access to documents may be even more challenging. Is your attorney aware of the financial or healthcare choices you wish to make in the event of your incapacity? The health consequences of Covid-19 have highlighted the differing treatment outcomes that some may find more controversial, such as the use of a ventilator for life support.

The understanding that procedures may have changed. Is your executor aware that their tasks may need to be carried out differently? On a positive note, there have been advancements as a result of the pandemic — many provinces have now allowed for virtual witnessing of certain documentation and electronic submissions for various court-related applications.** However, the pandemic has also made seemingly easy procedures more difficult or time-consuming, such as constraints on in-person meetings. Jointly appointed executors may struggle to effectively act in unison. With the limits on travel, if an appointed executor doesn't live locally, will they be able to fulfil their role?

As you review your estate plan, the impact of the ongoing pandemic on those appointed to support you is just one area to contemplate. In some cases, you may need to make changes to those named to support you, or appoint temporary alternatives during this period. For a discussion on this, or other aspects of your estate plan, we can help to connect you with a specialist who can provide support. Please get in touch.

*In Quebec, the POA is known as a mandate and the person named in the mandate is referred to as a mandatary. The executor is known as a liquidator.

**Some of these measures have been approved under emergency conditions and may be temporary.

With the Compliments of:

Richard Morris, CFP®, FMA
Vice-President
Investment Advisor
905 707 6855
richard.morris@td.com

Julie Morris, CFP®
Associate Investment Advisor
905 707 6508
julie.morris@td.com

TD Wealth Private Investment Advice
220 Commerce Valley Dr West, 3rd Floor,
Markham, Ontario L3T 0A8
Toll Free: 1 800 322 1777
Fax: 905 707 2049

www.richardmorris.biz

Morris Wealth Advisory Group