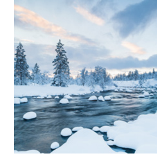
TD Wealth

# Wealth Insights

TD Wealth Private Investment Advice

Winter 2025



## How Do You See the Glass?

As we head into another year, the classic question feels as relevant as ever: *is the glass half full or half empty?*

It may be a fair assessment of sentiment today: opinions seem especially divided. Challenges like a rising cost of living, higher debt levels and global tensions weigh heavily on many minds. In our modern era of connectivity, the constant stream of negative news makes it easy to focus on the difficulties. Yet, we're also living in a time of remarkable advancement compared to any other period in history, with longer life expectancies, significantly reduced poverty levels, substantial wealth and one of the highest standards of living.

Economies, too, appear to be navigating contrasting narratives. Over 2024, the situation was often described as a "delayed landing." Despite ongoing predictions of a recession since 2022, economic news remained in a space that could be seen as either half full or half empty. The calls for a hard landing that persisted at the start of 2024 largely faded over a year of change: we transitioned to an easing interest rate environment, inflation appeared to be largely tempered and, despite many uncertainties, equity markets continued to climb.

What will 2025 bring? Reflecting on the past year reminds us that markets and economies can be unpredictable in the short term. However, with a focus on the longer term, a strong case can be made that both markets and economies will continue to advance. Seeing the glass half full doesn't mean that downturns or setbacks won't occur along the way, but viewing the wealth journey over longer periods allows us to see a full cycle of events — and the substantial opportunity should we choose to participate (see page 2).

Indeed, the glass metaphor can also remind us of the value of maintaining a balanced perspective when considering the near-term challenges. While Canada's lagging economic growth and declining productivity remain prominent concerns, a recent article in the popular press offers an interesting view on our economic performance among G7 nations. Since the end of 2019 before the pandemic began, Canada's position has been comparatively strong. Although our real GDP growth of 5.5 percent trails the impressive 10.7 percent growth of the U.S., we rank a respectable second in the G7.[1]

Another concern is how far equity values have advanced, prompting some prognosticators to suggest an imminent "lost decade" for U.S. equities. While valuations for certain growth stocks appear stretched by traditional metrics, the prospect of falling U.S. interest rates and strong earnings growth may impact this assessment. At the same time, valuations in other sectors and regions remain more balanced. A look at the S&P 500 over the last 90 years also reminds us that rolling 10-year returns below 3 percent are rare, largely occurring in the worst economic periods in history: the Great Depression, stagflation of the 1970s and the Great Financial Crisis.[2] Even still, if the rapid gains driven by the tech giants are expected to slow, this doesn't preclude the prospect of continued wealth building. We find ourselves in a period where strategic security selection is even more important — and this is where our work as advisors shines through.

How do you see the glass? Here's to the New Year, and a glass filled with health, happiness and continued prosperity.

1. www.washingtonpost.com/opinions/2024/10/10/economy-great-year-election/; 2. awealthofcommonsense.com/2024/10/3-stock-market-returns-for-the-next-decade/

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### To Our Clients:

*Happy 2025! We hope that your holiday season was busy in the best way, and that you're facing a new year with fresh perspectives, a clean slate or a renewed sense of purpose. RRSP season is now upon us — a reminder of the importance of building wealth for the future. An article on page 3 suggests many of us can make better use of tax-advantaged accounts.*

*It continues to be a privilege to support your wealth management. Wishing you and your loved ones the best for the year to come, and always.*

**— Darryn & Andrew**

■ Don't Forget — Time Can Be Your Great Ally

# Reminders To Start a Year: Two Charts on the Power of Compounding

It's been said that *"investing is like planting a tree. The best time to plant a tree was 20 years ago. The second best time is now."*

A market observer recently noted that "*quiet compounding*" — the silent, gradual growth over long periods — has given rise to some of the most remarkable features of the universe: from towering sequoias and complex organisms to majestic mountains. This concept also holds true in investing: the power of compounding can yield noteworthy results, though it is often overlooked because it requires time. As we start a new year, the following charts may serve as a reminder of the potential impact of compounding over time.

**1. How $100,000 grows over time.** If left to compound at an annual rate of return of five percent, $100,000 would grow to over $1.1 million in 50 years. Even modest increases in the rate of return can influence long-term outcomes. For instance, a one percent increase in rate of return to six percent would lead to over $1.8 million in 50 years. Time similarly has an impressive impact. Extending an investment period from 30 to 50 years can lead to substantially greater outcomes:

**Impact of Time & Rate of Return on an Investment of $100,000**

| | 4.5% | 5.0% | 6.0% |
|---|---|---|---|
| 30 Years | $374,532 | $432,194 | $574,349 |
| 40 Years | $581,636 | $703,999 | $1,028,572 |
| 50 Years | $903,264 | $1,146,740 | $1,842,015 |

**2. The path to one trillion.** With the market's run in 2024, Warren Buffett's Berkshire Hathaway became the eighth U.S. company to reach the prestigious trillion-dollar market capitalization (share price multiplied by outstanding shares). This success can be attributed to compounding, with profits reinvested into new investments allowing the company's value to substantially grow. However, this didn't happen overnight — building meaningful wealth, whether for a corporation or an individual, often takes patience. In fact, this milestone was the result of nearly six decades of perseverance. When Buffett took control in 1965, Berkshire was a struggling textile mill valued at around $22 million.[1] It became publicly traded in 1980 (*Initial Public Offering, IPO*), but it would take another 44 years to reach trillion-dollar status.

How long does it take to reach a trillion-dollar valuation? The chart is a reminder to investors that meaningful growth is often measured over decades, not days or even years. While Canada has yet to produce a trillion-dollar company, it's worth pondering just how large a trillion truly is — even compared to a million:

**How Many Years to Reach a Trillion-Dollar Valuation?**

| U.S. Publicly Traded Companies | Year of Origin[1] | IPO[2] Year | Year Achieved $1 Trillion | Years From IPO |
|---|---|---|---|---|
| Meta (Facebook) | 2004 | 2012 | 2021 | 9 |
| Tesla | 2003 | 2010 | 2021 | 11 |
| Alphabet (Google) | 1998 | 2004 | 2020 | 15 |
| Amazon | 1994 | 1997 | 2018 | 21 |
| NVIDIA | 1993 | 1999 | 2023 | 24 |
| Microsoft | 1975 | 1986 | 2019 | 33 |
| Apple | 1976 | 1980 | 2018 | 38 |
| Berkshire Hathaway | 1839 | 1980 | 2024 | 44 |

1. Wikipedia; 2. Initial Public Offering date; www.visualcapitalist.com/berkshire-hathaway-1-trillion-club-how-long/

- A million seconds is just under 12 days.
- A billion seconds is about 32 years — roughly a third of a lifetime.
- A trillion seconds is around 32,000 years — more than all of recorded history!

Note: This article is not intended to offer investment recommendations. Its purpose is to highlight the power of compounding and the patience needed to achieve meaningful growth. 1. https://www.berkshirehathaway.com/letters/1985.html

# Happy 2025! A New Year Financial Checklist

The start of the year is a great time to review your finances.

A recent *Wall Street Journal* article is a reminder of the importance of regularly reviewing financial details: "*His Ex Is Getting His $1 Million Retirement Account. They Broke Up in 1989*." As we begin another year, consider reviewing account beneficiaries, especially if you've left a job or had changing life circumstances. There may also be an opportunity to consolidate accounts, such as multiple employer retirement accounts, to simplify administration and prevent accounts from being forgotten over time. If you need assistance with investment accounts, let's connect. Here are other considerations:

- ☑ **Contribute to your RRSP.** The Registered Retirement Savings Plan (RRSP) deadline for the 2024 tax year is **March 3, 2025**, limited to 18 percent of 2023 earned income to a maximum of $31,560 for 2024. You don't have to claim the deduction in the year contributions are made; you may defer it to a future year if you believe your marginal tax rate will be substantially higher.
- ☑ **Fund the TFSA.** The 2025 Tax-Free Savings Account (TFSA) annual dollar amount is $7,000, bringing the eligible lifetime contribution limit to $102,000.
- ☑ **Review your estate plan.** Review or update your will and estate plan, including power of attorney or related documents, to account for any recent life changes.
- ☑ **Review your insurance.** Even if you have the right insurance in place, rates can change over time or new discounts or programs may be available. Consider the opportunity to negotiate better rates, such as by bundling multiple policies like auto and home.
- ☑ **Evaluate your savings.** Even for high-net-worth investors, a rising cost of living underscores the value of a budget to identify spending patterns. Effective saving remains one of the few aspects of wealth management that is fully within our control.
- ☑ **Debt management.** If you have high-interest debt, it may be a good time to prioritize repayment or refinance as rates change.
- ☑ **Changes in health status.** In our work as advisors, many observe clients overlooking the impact of health changes in their financial planning. If you or your family members experience longer-term changes, valuable support may be available. At a basic level, one overlooked benefit is the disability tax credit.
- ☑ **Organize financial documents.** With tax season just around the corner, consider organizing both digital and paper financial documents, ensuring secure storage for sensitive documents.

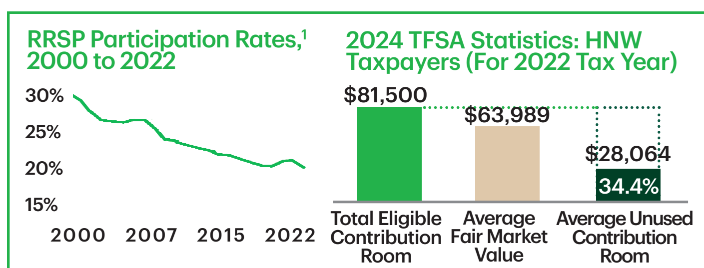
For more information or ideas, please contact the office.

■ RRSP Season Is Here Again

# Tax-Advantaged Accounts: Why Are We Falling Short?

Despite our increasing tax burden, Canadians are not maximizing tax-advantaged accounts. Why are we falling short?

While many of us are unhappy about the high taxes we pay, one way to ease this burden is by fully utilizing tax-advantaged accounts. Yet, it appears we are not making the most of the opportunity. Participation rates for the RRSP have declined over the past two decades, falling from 29.1 percent of taxpayers in 2000 to just 21.7 percent in 2022.[1] While TFSA participation has increased (since the TFSA's inception in 2009), a significant amount of TFSA contribution room remains unused. Even high-net-worth (HNW) taxpayers[2] have, on average, over 34 percent of unused TFSA contribution room. Additionally, the average fair market value remains *below* the total contribution limit. What accounts for these disappointing statistics?




**First, the RRSP:** The RRSP often gets a bad reputation because of the future tax liability: withdrawals are fully taxed as income at marginal tax rates. Some investors believe that investing in a non-registered account is better because only dividends, income and capital gains will be taxed at withdrawal, with favourable tax treatment for dividends and capital gains. Yet, what is often overlooked is the initial tax deduction for contributions. If your marginal rate is the same at both contribution and withdrawal, you are effectively getting a tax-free rate of return on your net after-tax RRSP contribution (chart, top). In practice, many contribute during higher-income working years and withdraw in retirement when income is lower, which can result in a lower tax rate and further enhance the overall benefit.

### A Reminder: The Registered Account Advantage

| | RRSP | TFSA | Non-Registered |
|---|---|---|---|
| Pre-tax income contribution | $30,000 | $30,000 | $30,000 |
| Tax on income @40%* | — | ($12,000) | ($12,000) |
| After-tax contribution | $30,000 | $18,000 | $18,000 |
| Growth in 30 years @5% annual return | $129,658 | $77,795 | $77,795 |
| Tax on liquidation of account @40%** | ($51,863) | — | ($11,959) |
| Net after-tax proceeds | $77,795 | $77,795 | $65,836 |
| **Gain vs. non-registered account** | **18.2%** | **18.2%** | — |

*For the RRSP, assumes tax deduction of 40% is claimed to net taxes to zero. **Assumes capital gains for the non-registered account, taxed at a 1/2 inclusion rate or 50%.

**For the TFSA:** Several factors may contribute to its underutilization. When it was first introduced, many misunderstood it as merely a "savings account," with funds deposited in low-interest accounts, missing out on growth potential. Others continue to view it as a short-term tool, withdrawing funds for immediate expenses rather than allowing investments to grow. The opportunity cost is significant: starting today, investing the total eligible 2024 TFSA lifetime contribution limit of $95,000 plus $7,000 annually could grow to almost $650,000 in 25 years at a 5 percent annual rate of return — completely tax free upon withdrawal! Of course, this assumes funds remain invested to compound and grow.

Another factor is that some investors may adopt a more risky approach with TFSA investments, which can be detrimental for two reasons. If an investment realizes a substantial loss, that contribution room is lost forever. Additionally, unlike a non-registered account, there is no relief as TFSA losses cannot be claimed for tax purposes.

**How about you?** Are you maximizing tax-advantaged accounts?

1. Proportion of tax filers, https://www150.statcan.gc.ca/n1/daily-quotidien/240402/dq240402b-eng.htm; 2. HNW is defined as income over $250,000.

# In Brief: The "Great Mortgage Renewal" Is Here

It's been termed "the great renewal": since 2024, a substantial number of Canadian mortgages have been up for renewal.

Around 1.2 million mortgages are up for renewal at higher rates in 2025 alone.[1] Despite some relief with easing interest rates in 2024, borrowers have seen some of the highest mortgage rates in recent times. Since 1950, the lowest CMHC 5-year term rate was 3.2 percent in 2021, but rates once soared to an astonishing 21.75 percent in 1981.[2]

Do you or your family members have a renewing mortgage? This may be an opportune time to explore options. Start early to allow time to negotiate better terms or potentially switch lenders. Here are just a handful of considerations:

**Consider your current financial situation** — If your current situation or goals have changed, consider making adjustments to better fit your financial needs. Given a higher cost of living, this may involve lowering payments by extending the term length; or, conversely, if you have excess funds, you may wish to pay the mortgage down faster to help temper the cost of higher rates.

### CMHC Mortgage Lending Rate, 5-Year Term, 1975 to Aug. 2024

**Be aware of your options** — Don't overlook the mortgage term options available to you. For example, you may reassess whether a fixed or variable rate is better for your particular situation: fixed rates provide stability, while variable rates can offer savings if interest rates decline. Or, consider term length: shorter-term mortgages may offer flexibility by not locking you into a longer-term commitment, especially if rates decline. You may also review payment frequency or amortization period. If you are refinancing or switching lenders, understand the terms as there may be associated fees and penalties.

If you need support, or for a deeper discussion, please call the office.

1. Canada Mortgage & Housing Corp.: https://www.cmhc-schl.gc.ca/blog/2023/rising-rates-homeowners-greatest-shocks-lie-ahead#; 2. Conventional Rate, Stats Can T: 34-10-0145-01.

# More Perspectives: Mortgage Debt & the Great Renewal

## Around 36 percent of Canadians hold a mortgage — with a large portion set to renew this year.[1] Are we prepared?

Although the Bank of Canada cut interest rates multiple times in 2024, mortgage rates remain at levels above the low rates we observed in 2020 and 2021.[2] For many years, historically low interest rates made it easier for many to assume debt, particularly in the form of mortgages.

If you or your family members hold a mortgage, it may be worthwhile to consider how higher rates could impact your financial situation. Higher rates raise the cost of holding a mortgage. Those with fixed-rate mortgages won't see an impact until renewal, but variable-rate mortgage holders — representing around one-third of all Canadian mortgages — have already faced rising payments or longer amortization periods following the interest rate hikes in 2022 and 2023.[3]

Consider that a two percent increase in mortgage interest rates, from 3 percent to 5 percent, can increase monthly payments on a 25-year, $330,000 mortgage (the average value of a new loan[4]) by around $358 per month. From a monthly perspective, this may not seem overly significant, but over the life of the mortgage, this equates to over $107,000 in additional interest costs!

### Are There Ways To Pay Down a Mortgage More Quickly?

Given the potential increasing cost of holding a mortgage, it may be worthwhile to consider paying down a mortgage more quickly, where possible. Here are a handful of ideas. As always, consult your mortgage rules to ensure that penalties do not apply.

**1. First, buy within your means** — Before making any home purchase, it's important to assess whether the mortgage is comfortably affordable. Planning for contingencies is important, such as a temporary loss of income due to unemployment. Mortgage payments should be manageable alongside other living expenses — consider the impact that higher inflation has had over recent years. It's also important to anticipate future increases in expenses, such as those related to having children, like childcare or post-secondary education.

**2. Make regular payments** — Missed payments can result in additional fees and interest charges, and can adversely impact your credit score. Making regular payments is important at the beginning of the mortgage when the principal amount is high and the mortgage's interest is a large component.

**3. Set up "accelerated" weekly/bi-weekly payments** — Accelerated payments allow for extra payments to be made against the principal as part of the regular payment stream — equivalent to an extra monthly payment per year. This will not only save on interest costs but also reduce the mortgage's amortization period — the time it takes to pay down the mortgage.

**Example: How Accelerated Payments Can Reduce Interest Cost**
For a $150,000 Fixed-Rate Mortgage at 5.5%

| Payment Type | Amount | Amortization | Interest Cost |
|---|---|---|---|
| Monthly | $915.59 | 25 years | $124,676 |
| Bi-Weekly | $422.34 | 24.8 years | $124,519 |
| Accelerated Bi-Weekly | $457.79 | 21.25 years | $103,054 |

https://itools-ioutils.fcac-acfc.gc.ca/MC-CH/MCCalc-CHCalc-eng.aspx

**4. "Overpay" payments** — If you have extra funds, consider rounding up your payments. Even small amounts added to weekly payments can significantly reduce your mortgage balance over time.

**5. Make annual lump sum payments** — Many mortgages permit an additional annual lump sum payment. Extra funds, such as from a work bonus, inheritance or a tax refund from an RRSP contribution can help reduce your mortgage principal.

1. https://www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/financial-well-being-mortgages.pdf; 2. https://www.theglobeandmail.com/business/article-bocs-macklem-warns-interest-rates-will-likely-fall-gradually-and-not/; 3. Estimate in 2023; https://financialpost.com/news/canadians-love-affair-variable-rate-mortgages-over; 4. At Q2 2024, https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/mortgage-and-debt/average-value-new-mortgage-loans-canada-provinces-cmas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