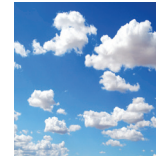




Wealth Insights

TD Wealth Private Investment Advice

Spring 2023



The Winds of Change

“Change is inevitable...”

The world of investing has never been a stranger to change. A look back at the largest publicly-traded companies globally* provides one such perspective on how things can change. While technology companies have been dominant in more recent times, would you recall that energy companies were the leaders just over a decade ago? And just two decades earlier, six of the 10 largest companies were from Japan; at that time, a nation seemingly poised to overtake the rest of the world.¹

Indeed, the winds of change continue to blow. In his latest memo, respected investor Howard Marks suggests that we are in the midst of a significant “sea change” for the financial markets. In his view, we are seeing a departure from a long period of declining interest rates that supported economic growth by reducing businesses’ cost of capital and increasing profitability, encouraging the use of leverage and increasing the fair value of assets. For the first time in decades, we are faced with higher and sustained inflation and interest rates, which he believes will likely provide headwinds for the years immediately ahead.²

Regardless of whether you agree with this assessment of the path forward — Marks aptly acknowledges that we never know with certainty where we’re headed — the winds will continue to shift. Every financial cycle differs from those that came before. Though higher inflation and interest rates are influencing today’s investing environment, just as excessive optimism may have been imprudent in the past, it would be hasty to become too pessimistic about current conditions.

Changes in interest rates, inflation, monetary and economic policies and many other factors have always created near-term uncertainties. Throughout time, the companies that have succeeded in meeting the challenge of change have been rewarded with higher stock prices. Over time, economies have continued to grow, demonstrating our collective ability to adapt and advance. This time is not likely different. Perhaps we will also see a return to a more healthy view of risk-return profiles and valuation measures, where wealth is built over time. In exuberant times, these appeared to be easily abandoned.

These have been challenging times for investors. Much of the recent financial market volatility has been driven by uncertainty over the path forward for interest rates as the central banks continue their efforts to bring down inflation. Until there is greater clarity, we can expect volatility. Though it may be difficult to see through these periods, better days will eventually come; change is inevitable.

In these changing times, we should be reminded of the value of thoughtful analysis, evaluation and portfolio oversight — these skills

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James Morton, CIM®
Senior Portfolio Manager
Senior Investment Advisor



Catherine Morton
Investment Advisor

The Morton Group

TD Wealth Private Investment Advice

To Our Clients:

It was a volatile start to 2023, driven by worries that the central banks would continue raising rates and new challenges in the U.S. financial sector. Have the patience to see this period through; inflation will eventually be brought under control and markets will adjust. This time of year, income taxes are naturally on our minds. There are actions we can take to help minimize these liabilities, which may be important in these times of high inflation; some as simple as maximizing tax-advantaged accounts like TFSA's or RRSP's. Call for support.

We hope that spring brings renewal, growth and expansion.

— James & Catherine

should be considerations as we navigate through the unavoidable cycles. A sound investment process involves having a plan to set priorities while assessing the changing landscape and the potential opportunities to come, in conjunction with the risks involved, and making informed decisions when necessary — all with a view for the longer term. We are here to distill the key factors influencing the ever-changing financial markets from the mountain of available fact and opinion, and position portfolios to support each individual investor’s requirements — so that you can achieve your wealth goals.

*When comparing the top 10 publicly-traded companies by market capitalization. 1. www.cnbc.com/2014/04/29/what-a-difference-25-years-makes.html; https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization; 2. https://www.oaktreecapital.com/insights/memo/sea-change

Wealth Insights

■ Protecting Yourself and Others

Be Aware of Evolving Scams

As the sophistication of scams continues to grow,¹ so, too, have the associated losses. The Canadian Anti-Fraud Centre (CAFC) reports that last year Canadians lost over \$530M to fraud — a rise of 40 percent since 2021.

One of the latest financial scams involves scammers building relationships over time with victims online or via text. Eventually, they convince victims to invest using websites that look like legitimate trading platforms or investment firms. Victims are then tricked into thinking their investments are making money and are encouraged to invest more.² This scam, termed “pig butchering,”* was initially associated with cryptocurrencies, but has since evolved to involve the gold market.³

Can we protect ourselves from evolving scams? As a starting point, there are often common signs that may indicate a fraudulent situation:

It seems too good to be true. This may be as unassuming as an unexpected money transfer sent to your email address. Or, it may be as sophisticated as an investment opportunity that offers significant returns. If it appears too good to be true, it may be a sign of a scam.

Personal/financial information is requested. Be wary when personal or financial information is requested or asked to be confirmed. A credible financial institution is unlikely to ask for this information.

There is a sense of urgency. Many scams pressure individuals to act immediately or focus on lost opportunity or penalties to evoke fear.

There is secrecy or you are made to feel guilty. Some scams try to evoke feelings of guilt or shame; others prey on loneliness or isolation. In many cases, you may be asked to keep matters secret.

There are also actions we can take that may help act as safeguards:

Don't respond. Don't answer a call if you don't recognize the caller; often a scammer's goal is to find out if a mobile/phone line is active. Never respond to text messages or social media requests from unknown sources. Never open email attachments or reply to unsolicited emails.

Never provide personal data to those you don't know.

Validate the source. “Spoofing,” when a scammer impersonates someone else, is becoming more sophisticated and is now being done through phone calls and texts. There may be subtle indications that a source is fake: you aren't addressed directly by name or a text contains spelling/grammar errors. If you aren't certain whether an individual/situation is credible, double check. Try calling a general number found on the internet. Or, conduct a general internet search to determine if a source is trustworthy or if others have been targeted by a scam.

Shred personal data or limit/disguise personal data online. Fraudsters have been known to obtain personal information from discarded garbage/recycling or via online sites such as social media posts, which can be used to target you or your family.

Contact appropriate authorities. If you have been targeted, notify the appropriate authorities, such as your financial institution, credit bureau (Equifax, TransUnion), the Better Business Bureau and CAFC.

Support loved ones. Talk to more vulnerable individuals, such as children or isolated seniors, about cybersafety and how they can be more secure, making sure they are aware of new and evolving scams.

Educate yourself. While this article provides a brief overview, there are many online resources that provide greater details on the latest scams, as well as ways to identify and protect against evolving fraud, including:

- Better Business Bureau: www.bbb.org/ca/news/scams
- Canadian Anti-Fraud Centre: www.antifraudcentre-centreantifraude.ca

*“Pig butchering” is named after the practice of fattening a pig before slaughter. 1. www.cnn.com/2023/01/07/phishing-attacks-are-increasing-and-getting-more-sophisticated.html; 2. www.cnn.com/2022/12/26/investing/crypto-scams-fbi-tips/index.html; 3. www.consumeraffairs.com/news/fools-gold-the-story-behind-a-fake-gold-market-pig-butchering-scam-021523.html

■ Market Perspectives

Equity Returns: The Long & the Short of It

It may not come as a surprise, but in this digital age our attention spans appear to be decreasing.

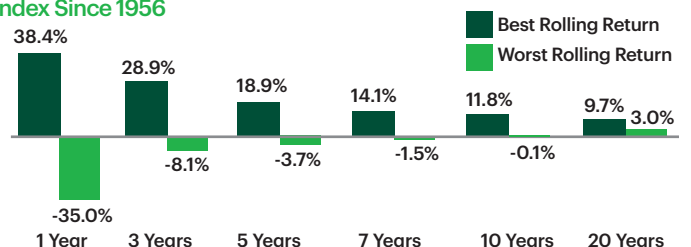
You may recall a 2015 *Time* magazine article that suggested most Canadians have an attention span of eight seconds, less than the “ill-focused goldfish” — a claim that has since been debunked.¹ More recent research suggests our attention spans are narrowing due to the growing amount of information we are fed, facilitated by technological advances.² Similarly, these two factors may impact the way investors hold equities. Back in the 1950s, the average holding period for stocks was around 100 months, or 8 years. By 1990, this dropped to 26 months. And today, it is closer to 5.5 months!³

Yet, history shows that when it comes to investing, the longer your ability to focus, the better. Why? Over shorter time frames, investors must endure significant periods of downward volatility and reacting to it may work to our detriment. However, this volatility smooths out the longer you extend your investing period. Consider the range of outcomes for the best and worst annualized returns of the S&P/TSX Composite Index (not including dividends reinvested) since 1956. Over one-year periods, the variability is substantial: historical annual returns span between -35.0 percent and +38.4 percent. As the time horizon extends to decades, the range of the best and worst returns narrows significantly, and the likelihood of negative returns also diminishes.

During volatile times, for some investors it may be difficult to maintain a longer-term view. Yet, the long and the short of it is that by extending a time horizon, historical probabilities favour the longer-term investor.



Best & Worst Annualized Returns Over Different Holding Periods: S&P/TSX Composite Index Since 1956



Note: This analysis is based on S&P/TSX Composite rolling calendar year returns. The variance grows significantly if rolling monthly returns are used.

1. <https://www.bbc.com/news/health-38896790>; 2. <https://www.theguardian.com/society/2019/apr/16/got-a-minute-global-attention-span-is-narrowing-study-reveals>; 3. <https://www.visualcapitalist.com/the-decline-of-long-term-investing/>

■ Perspectives on Investment Returns

A Reminder: Taxes & Inflation Can Impact Investment Returns

When we think about our investments, investors should consider the impact of taxes and inflation. Both can have a significant impact on portfolio returns over time.

As a reminder, consider the way that different types of investments in non-registered accounts are taxed. Interest income from fixed-income investments like guaranteed investment certificates (GICs) or treasury bills is fully taxable at the investor's marginal tax rate. Capital gains, which result from buying and selling investments such as equities or capital property, receive the most favourable tax treatment because only 50 percent of the capital gain is reported and tax is paid at the investor's marginal tax rate. Dividend income is generally taxed at a lower rate than interest income because of the dividend tax credit that applies to most dividends received from eligible Canadian corporations.

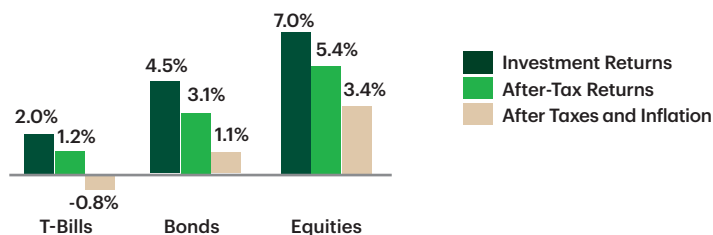
Inflation can also erode an investment's returns as it reduces purchasing power over time. The impact of inflation on returns is calculated by comparing the "nominal" rate of return — before inflation — and the "real" rate of return: the real rate of return represents the nominal rate of return minus inflation. In our current economic environment, as interest rates have risen, investors may look to hold fixed-income investments like guaranteed investment certificates (GICs). At current rates, a one-year GIC may yield around four percent, but with an inflation rate hovering around six percent, this results in a negative "real" rate of return of two percent. And this is before taking taxes into account.

The chart shows the effect of taxes and inflation on varying investment returns, based on longer-term averages, in a non-registered account.



The bottom line: As investors, we need to ensure that our assets can grow enough to offset the potential effects of taxes and inflation, while taking into consideration our own levels of risk tolerance. This includes the importance of using asset location strategies to maximize returns on an after-tax basis, including the use of tax-advantaged accounts where possible, such as the Tax-Free Savings account or Registered Retirement Savings Plan, to our benefit. The impact of taxes and inflation on our returns should not be overlooked.

The Impact of Tax and Inflation on Investment Returns (Illustrative)



*Based on a non-registered account. Assumes 40% tax rate on interest income; 20% on capital gains; 30% on dividend income. 2% long-term inflation rate. T-Bill returns: 2% interest income; Bond returns: 2.0% capital gains; 2.5% interest income; Equity returns: 5.0% capital gains; 2% dividend income.

■ Estate Planning

Estate Planning in the News: Contesting a Will

As the saying goes: *"Where there is a will...there is a relative."*

While meant to be a humorous twist on the saying *"where there's a will, there's a way,"* it is also a reminder that within the estate settlement process there are beneficiaries involved. And, when more assets are involved, there is often a greater chance of conflict. One of the latest high-profile estate planning conflicts to make the headlines is that the will of Elvis Presley's daughter is being contested. This has prompted some to ask how easy it is to contest a will.

Generally, there are very specific legal grounds for which a will can be challenged — it cannot be for reasons such as a beneficiary feeling they are being unfairly treated. Those may include "testamentary" capacity, such as when the person who created the will (known as the "testator") did not have the mental capacity to understand the implications of their will when they created it; for instance, if they were suffering from a mental disorder, such as dementia, that could affect their judgment. There may be reasonable grounds if the will was not properly executed and proper legal steps weren't taken to make the will valid, as in the case where the testator signed the will in the presence of two witnesses, but the witnesses failed to sign it. In some provinces, the witnesses cannot be beneficiaries of the will, as an example. Another common reason for challenging a will is due to "undue influence" if it can be shown that the testator was coerced into changing their will. Depending on province, there may also be grounds to challenge a will if there is no provision made in the will for dependents or a spouse.

There is often a limitation period in which a will can be challenged, sometimes limited to a period from the date the potential challenger became aware of their case.* It can become a costly and time-consuming process, and one that is likely to create further emotional conflict.

Notably, this should remind us of the importance of carefully constructing our own will to ensure that it not only carries out our wishes as intended, but is also done in a way that minimizes future conflict or potential contestation. This includes drafting wills while in good health, making sure the document is legally executed and periodically revisiting it to account for any changes to circumstances or wishes. As always, it is recommended to seek the support of a lawyer and estate planning specialist as it relates to your situation.

*Each province/territory has its own rules.

When Was the Last Time You Revisited Your Will?

Despite the recent pandemic and the suggestion that more Canadians were influenced into preparing/updating estate planning documents,¹ it seems as though the statistics on wills haven't changed significantly. A recent survey suggests that 52 percent of Canadians still don't have a will and that number jumps to 70 percent for those ages 18 to 34 and 66 percent for those ages 35 to 54.²

1. <https://www.newswire.ca/news-releases/pandemic-influenced-canadians-to-prepare-estate-planning-documents-832378633.html>; 2. <https://www.newswire.ca/news-releases/more-than-half-of-younger-canadians-are-including-charitable-giving-in-wills-rcb-royal-trust-survey-803551073.html>

■ Insurance Planning

Have You Reviewed Your Life Insurance Needs?

One of the lessons that the pandemic has taught us is the importance of preparing for unexpected events before they happen. As part of that planning, have you considered whether your life insurance meets your needs?

As part of the retirement planning process, we often suggest that our clients consider the use of life insurance for its many benefits. As life insurance is often more difficult and costly to obtain in the later years, it's worth considering at a younger age and while an individual is in good health.

Yet, even if you haven't planned in advance for insurance as part of your wealth plan, it may not be too late. We most often see individuals in their 60s and 70s purchase life insurance as a planning tool and certain insurance companies will even issue life insurance to individuals up to age 85.

Here are four areas where it may prove valuable in your planning:

Complement Investment Returns — Many insurance products blend certain aspects of insurance with investing. Depending on the type of insurance and the policy, there may even be choice in how the investment portion is invested, and the potential for a certain amount of growth to be on a tax-sheltered basis. This may be one way to complement investment returns, especially in situations in which the cost of managing the policy is reasonable. Upon death, the proceeds will pass to beneficiaries on a tax-free basis. While older individuals will be subject to higher premiums, there may still be a benefit gained from the tax-sheltering opportunity and the eventual tax-free benefit payout. It can be easy to project the internal rate of return on a life insurance payment and might complement a conservative part of one's investment portfolio.

Support Philanthropic Efforts — Insurance may be a way to create a legacy and, in some cases, provide benefits even while you are alive. For example, you could have a charitable organization purchase an insurance policy on your life while you donate the cash annually to pay the premiums. This way, you would receive a tax credit for the annual cash donated. You could own a life insurance policy and name the charity as the beneficiary or donate appreciated shares to fund an insurance policy. There may be a variety of tax-efficient ways to use



insurance to support your charitable endeavours.

Help to Cover Taxes on Death — Many estates incur a considerable amount of taxes on death and this situation may be complicated by the presence of illiquid assets such as real estate or a family corporation. A life insurance policy may help to effectively cover those taxes, so that your estate isn't left with a shortage of cash when these taxes come due. For example, there may be a significant capital gains tax liability upon the transfer of a cottage or cabin and the proceeds from an insurance policy can help to cover these taxes to keep the property within the family.

Equalize an Estate — In cases where you wish to leave your estate to multiple beneficiaries and it is important to provide assets of approximately the same value, life insurance may potentially help to provide that equalization. You may have assets that are better left to certain beneficiaries, rather than being shared, such as a family business. In these instances, the insurance death benefit can be used to help equalize the inheritance for those heirs who may not be the beneficiary of these assets.

We Can Assist

In many cases, it is never too late to explore the opportunities for insurance to play a role in retirement and beyond. There are many products available to support a variety of investment, tax, retirement and succession planning solutions. For a broader discussion, please call the office.

The Morton Group — TD Wealth Private Investment Advice
77 Bloor Street West, 21st Floor, Toronto, Ontario M5S 1M2
www.themortongroup.ca

James Morton, CIM®
Senior Portfolio Manager
Senior Investment Advisor
416 307 8863
james.morton@td.com

Catherine Morton
Investment Advisor
416 413 3337
catherine.morton@td.com

Daniel Morton, CIM®
Associate Investment Advisor
416 307 8826
dan.morton@td.com

Charles Wurtzburg, FMA, CIM®
Associate Investment Advisor
416 307 8814
charles.wurtzburg@td.com

Jan Andrews
Client Service Associate
416 308 9872
jan.andrews@td.com

The **Morton** Group

