TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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In This Issue

To My Clients:

These have been very difficult times for so many. Please know that I continue to work hard for you and your investments.

The newsletter has an updated look. Feel free to pass it along to family or friends who could benefit from my wealth management advice. I hope you will find time to enjoy some leisurely pursuits this summer.

Maintaining a Longer-Term View

It has been said that "there are decades where nothing seems to happen and then there are weeks where decades happen."[1]

For many of us, it may have felt as though the events of a decade happened over the last quarter. The spring brought unprecedented change: Physical distancing, isolation at home and the voluntary shut down of economies. This led to equally unprecedented reactions, including oil futures prices reaching negative levels, entire industries being shut down, and record unemployment levels.

Similarly, equity markets caught many off guard, most likely because they fell and then rallied so quickly. Typical bear market cycles last between 18 to 36 months. Yet, this past spring, we saw one that was compressed into a matter of weeks. Record highs for the S&P/TSX Composite Index in mid-February were met by a decline of 37 percent by late March. But by the end of April, markets posted their best month since 1987.[2]

Now, economies are cautiously beginning to reopen. As the world moves towards some semblance of "normal," perhaps we can reflect on certain experiences from the spring:

The world can be surprising. Sometimes the biggest risks are things that cannot be foreseen. In investing, this is why one of the most important roles we serve as advisors is to help identify and manage risks. This includes a primary focus on preserving hard-earned capital, while maintaining a disciplined approach to controlling risk within portfolios.

Setbacks can happen too quickly to ignore. But consider that progress often happens too slowly to notice. Since 1928, we have endured the Great Depression, a world war, recessions, market busts and lengthy bear markets. Despite many bumps along the way, the S&P 500 Index grew from around 13.4 to its current level of around 3,000[3,4] — a compounded annual growth rate of over 6 percent, not including reinvested dividends. Time — if you can stick with it — has been a powerful force in investing as it can compound growth.

The world continues to change. Due to physical distancing and isolation efforts, individuals, companies and industries were affected both positively and adversely. The technology sector serves as an example, for which our increasing dependence as a result of isolation transformed certain players to be more defensive. As advisors, we are constantly monitoring investments based on current market conditions and navigating this changing landscape.

Global policy responses have been faster and deeper than ever. Throughout the crisis, some media reports have suggested a repeat of the Great Depression when projecting unemployment and GDP levels. However, our historic troubles may have been compounded by poor policy decisions: reduced liquidity and no fiscal stimulus in the initial years of economic decline.[5] In contrast, today's policy makers continue to do as much as possible to minimize the implications.

In the near term, economic data and earnings are expected to reflect the true impact of economic shutdowns. Ongoing market volatility can be expected as we continue to face new challenges: Recessionary economies, high unemployment and continuing containment efforts. Despite the challenges, better times will prevail. In preparation, I believe a disciplined approach emphasizing quality, diversification and a solid plan is expected to serve investors well over time. Maintain a longer-term view and please call with any concerns.

1. V. Lenin, https://best-quotations.com/authquotes.php?auth=651; 2. S&P/TSX Composite at 2/21, 3/23, 4/29; 3. macrotrends.net/2324/sp-500-historical-chart-data; 4. At 6/1/20; 5. http://hbr.org/2020/05/the-u-s-is-not-headed-toward-a-new-great-depression?ab=hero-main-text

■ Estate Planning Reminders

The Will is Not Enough

The health-related consequences of COVID-19 have prompted many to contemplate end-of-life planning. Many think that this means updating a Will — which is very important. Yet, ensuring your Power of Attorney is up-to-date is equally necessary as this document operates, when needed, while you are alive.

Without properly documented instructions, there is the potential for family disputes during stressful times. Where there is no Power of Attorney, a family may have to apply to the courts or have someone appointed as guardian to manage both personal care and property — a potentially lengthy and costly process. As such, the following should be considered in addition to your Will:

Power of Attorney for Personal Care and Property — Do you have a plan in place to support you in the event you are unable to speak for yourself? One of the most important aspects of planning for incapacity is to identify substitute decision makers you trust to make financial and/or healthcare decisions on your behalf. They are often called an "attorney."* Having this document in place generally allows the attorney(s) to make decisions if you cannot act for yourself. You can appoint a different attorney for your Power of Attorney for Personal Care and Power of Attorney for Property.

Advanced Directive — What kind of care would you want to receive if you were unable to communicate? Our current crisis has led to the question of whether an individual would want to use a ventilator for life support. In provinces where applicable, this document provides specific medical or lifestyle decisions to clearly indicate your wishes and provide guidance to your substitute decision maker.

Other Considerations

Beyond a Will and Power of Attorney documents, there may be other documentation to consider. Beneficiary designations for registered plans** and beneficiaries of life insurance should be revisited as well.

Estate planning integrates many considerations: asset ownership, beneficiary designations, income tax rules and most importantly, your wishes. It is therefore important to retain local legal expertise to help ensure your Will and Power of Attorney documents reflect your intentions.

*The name, terms and conditions of the Power of Attorney document vary by province (e.g. known as a mandatary in Quebec); **In Quebec, the designation may have to be done using a Will.

■ During Uncertain Times

Finding Balance with Your Portfolio

How have you reacted to the markets of late? In uncertain times, it may be tempting to take a conservative approach to help protect investments from the downside.

Selling all your stocks and holding cash is one alternative, though not practical for many investors. The potential capital gains tax consequences may be one reason this would be unpalatable. But more importantly, equity markets are largely unpredictable and cyclical in nature. The risk of being out of stocks is, over the long run, likely greater than the risk of owning them.

If the turbulence of the markets prompts you to want to take action, here are some constructive considerations when thinking of making adjustments to your portfolio:

Restoring Portfolio Balance — If a particular holding dominates within a portfolio, there may be an opportunity to rebalance. We often think of rebalancing by selling appreciated shares; however, it's not always necessary to sell a position in order to bring balance back in check. Rebalancing can be done by investing new capital in asset classes that are now underweight. This brings the added discipline of focusing on undervalued sectors or asset classes for new investment opportunities.

Upgrading or Switching Securities — Certain companies or industries may offer greater stability and be better able to withstand these uncertain times. Companies with strong balance sheets, low debt and healthy cash flows may be better positioned to fund operations during difficult times. Buying into industries that are anticipated to be least affected by an adverse economic climate, such as those in "defensive sectors" like consumer staples or healthcare, may help to shield against the downside because they serve consumers' basic needs throughout every market cycle.

Finding Income — As government treasury yields and interest rates have reached all-time lows, many traditional income-yielding investments may provide dismal returns. For investors searching for income, there may be suitable opportunities with equity investments. Certain quality, sustainable companies have a history of continuing dividend payments during market downturns. Care must be taken when determining which quality equities or funds have reliable dividend payout streams. However, during down market times, there may be an opportunity for continued dividend payouts while waiting for prices to rebound from depressed levels.

Dollar-Cost Averaging (DCA) — Down markets may represent opportunities for investors to put money to work for the longer term. In volatile times, a DCA program can help to separate the emotions associated with turns in the market from investing decisions. Buying at regular intervals, regardless of market conditions, has the potential to lower the overall cost of shares purchased, turning a downturn to your advantage.

Active Management — During bull market times, the virtues of active management are often largely ignored. Actively managed funds can offer benefits that may be particularly helpful in today's uncertain markets. Professional managers are continuously adjusting to the changing environment, assessing the relative merits of each security and their risk/return potential on an ongoing basis, perhaps more rigorously than most individual investors. Funds may also offer wide diversification in holdings, helping to reduce portfolio risk.

Changes to RIF Withdrawal Rates in 2020

Seniors: Should I Withdraw Less from My RIF in 2020?

In March, the Federal Government reduced the 2020 minimum withdrawal amounts from a registered Retirement Income Fund (RIF) by 25 percent "in recognition of volatile market conditions and their impact on many seniors' retirement savings."[1]

Withdraw Less from Your RIF?

While the lower withdrawal requirement allows investments within a RIF more time to potentially recover from a market downturn, there may be other opportunities for seniors who don't require RIF income.

You may consider, instead, transferring investments "in kind"[2] from a RIF to a Tax-Free Savings Account (TFSA), subject to available TFSA contribution room. While the withdrawal from the RIF will be taxable in the year of transfer, should investments recover, the TFSA will generate no taxable income on future withdrawals or investment income, unlike the RIF.

There may be an additional tax opportunity. For seniors who have a lower marginal tax rate today than they expect to have in the future (including at death), drawing RIF income above the minimum levels may be a way to potentially lower an overall lifetime tax bill. RIF withdrawals will be taxed at the current, lower tax rate, instead of at a higher anticipated future marginal tax rate. If these funds are invested in a TFSA, any future gains will not be subject to the higher future marginal tax rates. Note that withholding taxes will apply to RIF withdrawals in excess of the minimum amount.[3] Also keep in mind that the effect on any income-tested government benefits should be considered when contemplating this strategy.

Note that the reduction in the minimum withdrawal factors for the 2020 year also applies to Life Income Funds and other locked-in RIFs. If you have already withdrawn more than the lower minimum amount in 2020, you are not permitted to re-contribute any excess to your RIF.

Please get in touch for assistance with this or any other RIF matters or seek advice from a tax professional.

1. canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-benefits-credits-support-payments.html; 2. This will be a two-step process; 3. Calculated without reference to the 25% reduction.

2019 Tax Balances and Instalments Due Sept. 1, 2020

Reminder: The Canada Revenue Agency (CRA) has extended the deadline for balances and instalments due to Sept. 1, 2020.

For those who follow regular calendar remittances, keep in mind that the Sept. 15 quarterly remittance occurs just two weeks later. As such, plan ahead to help avoid cash flow issues. However, if income has dropped significantly in 2020 compared to what was initially anticipated, the amount required for the instalment payment may be less than what was originally planned. The advice of a tax professional regarding your situation may be beneficial.

Adapting to the New Normal

Your Home Office: There May Be Tax Benefits

For many office workers, working from home became a new reality in light of the spread of COVID-19. Workers who are new to the work-from-home experience should keep in mind that there may be potential tax benefits.

To be allowed a deduction for home-office expenses, the CRA requires one of the following conditions to be met: i) The workspace is where you mainly do your work (more than 50 percent of the time); or ii) You use the workspace only to earn employment income, and it is used on a regular and continuous basis for meeting clients, customers, or others in the course of your employment duties.[1]

Three different types of workers may qualify: employees, commissioned salespeople and self-employed workers. Deductible expenses vary based on the type of worker, but generally include electricity, heating, maintenance, and supplies. Property taxes and home insurance can be claimed by commissioned salespeople and self-employed workers. Self-employed workers may also claim a portion of mortgage interest and capital cost allowance. The portion that can be claimed is based on the area attributed to the home office, as a proportion of the total finished area of the home.

For individuals who are not self-employed, in order to deduct certain expenses your employer must certify that you were required to use your home as a workspace as a condition of employment, by completing *CRA Form T2200: Declaration of Conditions of Employment.* Also note that any expenses reimbursed by the employer, such as internet costs or office supplies, cannot be claimed.

While the current CRA rules normally require that you spend more than 50 percent of total work time in the home office during the tax year in order to claim these deductions, some accounting professionals have indicated that there may be exceptions. Given the unprecedented circumstances in which people have been mandated to work from home for a portion of the year, the CRA may consider cases on an individual basis or may make adjustments to its policies.[2,3]

In the foreseeable future, it is likely that this 50 percent threshold will be met by more workers as continued distancing efforts are expected to result in fewer workers returning to traditional office spaces.

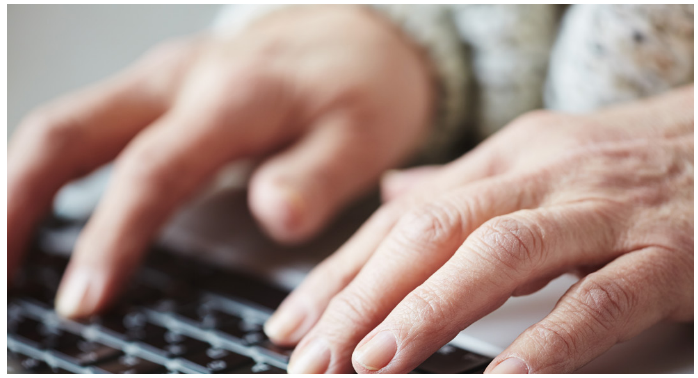
For detailed information on allowable expenses, and other related rules, please consult the Canada Revenue Agency or seek advice from an accounting professional.

1. canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/commission-employees/work-space-home-expenses.html; 2. theglobeandmail.com/investing/globe-advisor/advisor-news/article-pandemic-led-flight-to-home-offices-brings-tax-perks/?fbclid=IwAR24-wttdbsJ4SfIoK1d5gRR77hoUEYUyeBa0GshEy5s9oi23TXpheggZQc; 3. business.financialpost.com/personal-finance/taxes/can-you-deduct-home-office-expenses-if-youre-forced-to-work-from-home-during-the-pandemic

■ Estate Planning

Creating a Will During COVID-19: Exercise Caution

In light of COVID-19, many people have turned their minds to their estate plans. One news report indicated some Canadians have flocked to online Will-creation sites — one of which saw sales up by 700 percent from the same period last year.[1]



A Will is the cornerstone of any estate plan, and creating one on your own may appear easy using the support of a Will kit or online tool. However, there may be good reasons why more thoughtful planning can be beneficial.

While you can create legal documents online, they may not be legally binding. Canadian law currently requires that Will documents be physically printed and stored offline. In order to be valid, a Will must also be signed in the presence of two witnesses who are required to sign the document.

As a result of COVID-19, some provinces have issued emergency orders to permit virtual witnessing of legal documents including Wills.[2] But, these difficult circumstances may also heighten concerns about situations involving lack of capacity or undue influence.[3] In addition to this, there may be other nuances in provincial laws and/or language that may affect the validity of a Will.

Legal Does Not Mean "Effective"

Even if the document is valid, do you fully understand family law or succession regulations within your province, federal and provincial tax implications, or how beneficiary designations impact the distribution of your estate? These can change over time, and also create risks or potential future consequences to your estate plan. Today's families are more complex than ever, with divorces, remarriages and blended family arrangements. In these cases especially, careful wording in a Will can help to ensure that assets are distributed after death as intended. Equally important, a Will that has been quickly drafted, such as one created in reaction to the current pandemic, may not have been done with careful consideration of all aspects of the estate.

Is Your Will Updated?

If you do have a Will in place, how old is it? Perhaps this may be a good time for a thorough review of the complete document, especially if your circumstances have changed.

Seek Advice

The support of a professional can not only ensure the validity of a Will, but also that it correctly reflects your wishes. Taking the time to do a deep discovery with an estate planning professional can help to ensure that your plan completely reflects your needs and intentions.

Improper documentation or vague instruction can lead to misunderstanding, conflict or even court battles. Don't let this be your legacy.

1. https://www.cnbc.com/2020/03/25/coronavirus-pandemic-triggers-rush-by-americans-to-make-online-wills.html; https://www.ctvnews.ca/health/coronavirus/should-you-create-or-update-your-will-in-light-of-covid-19-1.4879831; 2. https://www.investmentexecutive.com/news/industry-news/ontario-quebec-allow-legal-documents-to-be-signed-virtually/; 3. https://www.torkinmanes.com/our-resources/publications-presentations/publication/virtual-witnessing-of-wills-and-powers-of-attorney-permitted-in-ontario-during-covid-19

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