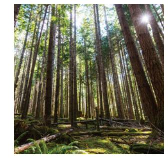
TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Spring 2021



Zeljka Walker, FMA®, EPC, CDFA®, CFP®, CIM®, FCSI®
Vice President, Portfolio Manager, Investment Advisor
604 482 2491
zeljka.walker@td.com

In This Issue

To My Clients:

For many of us, spring couldn't have come sooner. At the time of writing, volatility has returned to the equity markets. Seasoned investors will remember that it plays a common role in the markets and, after many months of market advances, should be expected. It may also provide opportunities to put capital to work as we continue to build portfolios for the future.

Enjoy the warmer and longer days ahead and please don't hesitate to call for any investing matters.

Will Markets Continue Their Climb?

"It's tough to make predictions, especially about the future." These are the words of baseball Hall of Famer, Yogi Berra. Even if you aren't a baseball fan, Berra's wit can be appreciated for being as astute as it is funny — and his words may carry some good lessons for investing.

In the middle of a public health pandemic, equity markets have continued their advance. The S&P/TSX Composite and S&P 500 indices have posted record highs. By a variety of measures, many stock valuations have been looking stretched. The S&P 500 CAPE ratio is at its highest level since the dot-com bubble years — when it peaked at 44.2X. At the start of February it hovered around 34X.[1]

While it may seem like exuberance to some degree, markets tend to be forward looking in nature: economic recovery is expected as economies reopen. There are other reasons: persistently low interest rates, and the pledge by central banks to hold them at these levels, has led investors to equity markets as — "TINA" — there is no alternative. Bank deposits and guaranteed investment certificates pay measly returns and bond yields are low. Stimulus measures have helped to inflate asset prices as well. There has also been a significant influx of new investors into the stock markets during the pandemic.

Will the markets continue their climb? As Berra perhaps most famously said, "it ain't over till it's over." We may not know what inning we're in because markets can often advance further than one thinks. During the dot-com years, even after then-Federal Reserve Chairman Alan Greenspan's infamous "irrational exuberance" speech in 1996, the markets continued their rise for more than three years. Today, while there is a considerable amount of excess, some argue that there isn't the same magnitude of financial leverage that accompanied past exuberance. And, certain areas of the markets are still expected to benefit from continued economic recovery as things return to normal.

Regardless, focusing on how far the markets have advanced can be counterproductive. Berra once said, "baseball is 90 percent mental; the other half is physical." Questionable math aside, the same principle can hold true in investing. Our challenge as investors is to ignore the noise. When times are difficult, it can hinder positive action: "it's not a good time to buy now because..." Or, when the market progresses, it may raise anxiety levels: "how high can it go?" And, when there may be temptation to chase the markets, Berra's words offer sage advice: "Don't always follow the crowd, because nobody goes there anymore. It's too crowded."

This often involves a longer-term commitment to a plan that has been constructed to help achieve your goals. Along the way, there may be limited value in trying to predict the direction of the markets — your overall success isn't dependent on calling the top of any cycle. For most longer-term investors, the road ahead will bring both ups and downs. Success is likely to be achieved by those investors who have confidence in that plan and maintain discipline in good times and in bad, regardless of whatever pitches may be thrown.

1. CAPE ratio = cyclically-adjusted price-to-earnings ratio, which measures a stock price by the average of earnings for the last 10 years, adjusted for inflation. The current value is for the S&P 500 at 2/1/21; Source: ycharts.com/indicators/cyclically_adjusted_pe_ratio

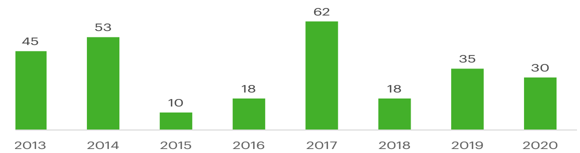
Investing Perspectives

Investing During Buoyant Market Times

Many market observers may feel as though we've been debating a stock market bubble for at least a decade. In December 2013, a headline in the popular press read: "Nobel prize winner warns of US stock market bubble."[1]

Since that time, the markets have reached multiple new highs and the bubble headlines have continued.

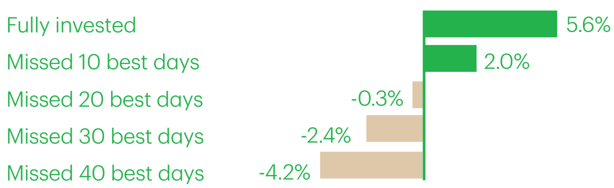
Chart: Number of Times the S&P 500 Index Closed at All-Time Highs[2]



For some, this has been cause for discomfort. After all, while markets can climb, they can also fall. But here are some considerations to keep perspective:

Timing the markets is difficult — While avoiding a market fall is ideal in theory, accurately timing the markets is a difficult, if not impossible, task. And, it's not just about protecting your investments from market drops; equally important is ensuring you benefit from market gains. After the markets fell last spring, many were surprised at the speed in which they reversed their course. Consider the consequences of missing the best days of performance in the markets.

Chart: Impact of Missing Best Days of Performance, S&P 500 Index



Source: S&P 500 Total Returns, 1/1/1999 to 1/1/2019. Data accessed from Yahoo Finance.

Remember your time horizon — With many of us spending extended periods of time at home, it may be easy to pay greater attention to the daily market movements. Yet, many of us are longer-term investors with a time horizon that extends well beyond today. As such, movements over the short term should matter less. History has shown that the longer your time horizon, the greater the possibility of positive outcomes. As longer-term investors, we will see numerous peaks — and troughs — as we invest across the market cycles.

Table: Likelihood of Positive Outcomes Based on Time Frame

Time Frame	Positive	Negative
Daily	56%	44%
1 Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%

Source: S&P/TSX Composite Index, 1/1/1985 to 1/1/2020. TMX data.

Avoid liquidating: rebalance — If gains in your portfolio make you want to take action, consider making adjustments to your portfolio diversification or asset mix. When we think about the process of reallocation, we often look for opportunities to adjust into areas that stand to benefit in changing environments or pare back positions that have exposure to negative dynamics. Rebalancing, to get your portfolio diversification or asset mix back to its targets, may be one way to take gains while keeping invested for the future.

Rely on professional support — The high valuations of current markets may make it difficult to see opportunity. Yet, there are areas of the markets that haven't experienced the same acceleration in performance. For example, at the time of writing, many value stocks have had a sharp run over the past seven months, but not the extended gains of growth stocks. One of our roles is to critically assess the potential opportunities that may exist, or are to come, while managing risks in a challenging landscape.

Continue to look forward and leave the day-to-day worries of your portfolio to the professionals who are here to help manage it.

1. cnbc.com/2013/12/02/nobel-prize-winner-warns-of-us-stock-market-bubble.html; 2. S&P 500 Index 2013 to 2020.

It Starts with Saving...

How Much is $30 Per Week Worth?

Success in building wealth can start with saving. What may seem like a little can make a big difference over time if you're able to stick to a regular savings plan.

If you have (grand)children learning about finances, the table below may be a worthwhile share. It shows the potential impact that just $30 per week of savings — or $1,560 per year — can have down the road based on various rates of return. It's a good reminder of the considerable power of time and compounding.

Table: How Much is $30 Per Week Worth?

	Annual Return		
Years	4%	5%	6%
30	$90,226	$108,194	$130,587
40	$153,655	$198,383	$258,894
50	$248,216	$346,925	$492,335

Compounded monthly at annual rate. No taxes, fees, inflation included. For illustrative purposes only.

For those wanting to save more, it may be as simple as making moderate lifestyle changes like reducing impulse purchases or giving up the daily designer coffee. In the words of an old English proverb: "mighty oaks, from little acorns grow," and it all starts with saving.

Teaching kids about compounded growth?

Here is a fun play on numbers that demonstrates the magic of compounding:

Q: Would you rather have $50,000 per year for 30 years or a penny[1] that doubled in value every year for 30 years?

A: With the doubling penny, you would have over $10.7 million after 30 years, versus $1.5 million with the first option. Although a 100 percent annual rate of return is unrealistic, the example shows the profound effect of compounding over time.[2]

1. The penny is no longer in circulation but considered legal tender and will retain its value indefinitely; 2. Does not include the effect of any taxes or fees.

Personal Income Tax Season is Here

Working From Home? Don't Forget to Claim Home Office Expenses

Did you work from home last year? As a result of Covid-19, the Canada Revenue Agency (CRA) has made changes to the rules surrounding home office expense claims for employees.

The CRA has introduced two simplified methods for claiming home office expenses on your 2020 personal income tax return:

New Temporary Flat Rate Method — A simplified flat rate method to calculate the home office expense deduction has been introduced for those eligible for the 2020 tax year. If you worked from home more than 50 percent of the time, for at least four consecutive weeks in 2020 due to Covid-19, you may claim $2 for each day worked from home, to a maximum of $400 per individual. This method can be used by those claiming eligible home office expenses, not any other employment expenses, as long as you were not reimbursed by an employer for all of your home office expenses.[1] Under the temporary flat rate method, you do not have to get a signed form (*T2200 or T2200S*) from your employer to support the requirement to work from home.

Simplified Detailed Method — If you expect your home office expense claims to exceed the temporary flat rate maximum of $400, the CRA requires individuals to use a "detailed method." The CRA has created simplified forms for the detailed method (*T2200S & T777S*). While *Form T2200S* does not have to be attached to the tax return, it should be saved for auditing purposes. Under this method, the employee will need to calculate the size of their work space, as a proportion of the home, and detail the hours per week that the space was used for work. The CRA has provided an online calculator to help perform this calculation.

In both simplified processes, employees must complete and attach *Form T777S*[1]*, Statement of Employment Expenses from Working at Home Due to Covid-19*, to their tax return. For 2020, the CRA will accept an electronic employer signature on *Form T2200S or T2200*.

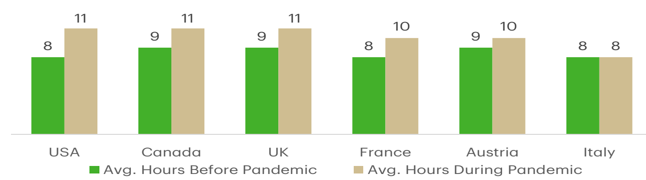
Changes to Eligible Expenses

The CRA has also expanded the list of claimable expenses. As a result, reasonable home internet access fees may now be claimed. Detailed information regarding allowable expenses and claims can be found at the Government of Canada website: canada.ca/cra-home-workspace-expenses

1. For expense claims other than home office expenses, *Form T777* will need to be completed.

Chart: Working From Home May Mean Working More...

A recent study suggests working from home has led to a 2.5 hour increase in the average working day globally, and a working day that is two hours longer in Canada. The only nation that hasn't increased its hours? Italy.



Source: forbes.com/sites/zakdoffman/2020/03/24/coronavirus-work-from-home-longer-hours-more-distractions-and-this-surprising-privacy-threat/

Macroeconomic Perspectives

Interest Rates, Inflation and the Risk of Doing Nothing

In 1981, Pierre Trudeau was prime minister, Terry Fox ended his run and "Celebration" by Kool & the Gang made best performing single. It was also a time when a five-year mortgage rate hovered around 21.5 percent and inflation hit a high of over 12 percent.[1]

For most of the 1970s and early 1980s, inflation ran rampant. This led to a period of stagflation. At one point, an Anti-Inflation Board was set up to control wages and prices. Since then, it has been widely recognized that the central banks are responsible for keeping inflation in check as part of their policy objectives.[2]

For many years, the Bank of Canada and U.S. Federal Reserve (Fed) have targeted a two percent core inflation rate.[3] Over the last decade, inflation has generally hovered close to this target, due to monetary policy actions as well as persistently low price and wage increases. It should be noted that the measure of core inflation doesn't include some of the more volatile components of our goods and services, such as food and gas. Many Canadians would argue that food costs have largely outpaced core inflation rates!

Today's Realities: Low Interest Rates, Low Inflation

Of course, it is unlikely that we will see the return of the inflation rates of the 1970s and early 80s, but even moderate inflation can have a significant impact over time. The chart (below) shows the erosion of purchasing power of $100 with just moderate inflation rates.

Table: Erosion of Purchasing Power of $100 with Moderate Inflation

	Inflation Rate		
Year	1%	2%	3%
0	$100	$100	$100
10	$90.53	$82.03	$74.41
20	$81.95	$67.30	$55.37
30	$74.19	$55.21	$41.20

This should also remind us of the value of investing funds for the future. With interest rates at near-zero levels, many savings accounts yield paltry returns. Add in the subtle effects of inflation and doing nothing with your money can have its own risks.

There are differing views on the longer-term path for inflation. With central banks pledging to keep interest rates low for the foreseeable future, there is the potential for rising inflation — traditional economics suggests that when rates are low and the economy grows, inflation generally increases. Last year, the Fed also signaled a major shift in its approach to managing inflation, allowing it to run above the previous two percent target to stimulate growth and tackle unemployment.[3]

1. bankofcanada.ca/wp-content/uploads/2010/09/selected_historical_v122497.pdf; 2. federalreservehistory.org/essays/great-inflation; 3. federalreserve.gov/newsevents/speech/powell20200827a.htm

How Much Do You Need to Retire?

Worried about retirement? Specifically about the cost of retirement and whether you will have enough money? If so, you're not alone.

According to recent surveys, more than half of Canadians are concerned about their retirement savings and the pandemic has only made the situation worse.[1]

Worrying Too Much?

Some studies have shown that perhaps we worry too much about our funds in retirement. One retirement expert estimated that a couple could live on around $44,000 per year.[2] Government safety nets may help supplement the amount required if personal assets were exhausted. Many of us would dispute this assessment — and most would like retirement to go beyond subsistence! However, while the pandemic has created income issues for some, it has shown others how much discretionary spending could be reduced — though few would want retirement to mirror pandemic life.

If you are fortunate enough to have a defined benefit pension plan at work, you will have at least some idea of your retirement income. However, as the world continues to change, these pension plans have become increasingly rare.

Registered Retirement Savings Plans (RSPs) are typically the other major component of retirement savings for many Canadians. If you convert your RSP to a registered Retirement Income Fund (RIF), you must withdraw at least the prescribed minimum amount from the RIF each year. How much can a RIF provide? For an individual who prudently contributes to their RIF over time, it may play a substantial role. The table shows the payments that would be received by the RIF annuitant based on current minimum withdrawal requirements for a plan value of $300,000 at age 70. Assuming a five percent annual return on investments, changes in the RIF value are shown. For those worried about outliving assets, the numbers provide some comfort. At age 90, 60 percent of the original asset value is still available, and this doesn't consider other sources of retirement income.

Need More Income?

If income beyond a RIF will be needed, planning ahead can ensure that other sources will be available. A RIF is flexible in the amount of income you can draw, so some retirees will withdraw more than the minimum during years when needed. A Tax-Free Savings Account has also become a significant investment vehicle that can help fund retirement. And, in many cases, people do not stop working at age 65. While they may leave lifelong jobs, they may end up doing something else productive and perhaps even profitable!

For those concerned about longevity risk, the Canada Pension Plan has the potential to provide a greater payout if payments are deferred to the age of 70. The current annual maximum benefit is $14,445 for an individual starting payments at age 65, but this rises by 42 percent at age 70. Yet, fewer than one percent of retirees delay CPP until age 70, despite studies continuing to show that it can be one of the more financially prudent decisions should you live beyond the average life expectancy of 82 years old.

I Am Here to Assist

One of my roles is to provide assistance as clients prepare for a comfortable retirement. I can assist with worksheets and tools to help estimate your requirements as you plan for the future. Continue to look forward with confidence!

1. hoopp.com/docs/default-source/about-hoopp-library/advocacy/abacus_executive_summary_2020.pdf; 2. thestar.com/business/personal_finance/opinion/2020/02/10/a-fulfilling-retirement-may-be-cheaper-than-you-think-heres-why.html

Table: RIF Income Generated Using Minimum Withdrawal Payments

Age	*Income*	*RIF Value (Year End)*	*Age*	*Income*	*RIF Value (Year End)*
69		$300,000	74	$14,819	$294,398
70	$15,000	$300,000	75	$14,720	$291,984
71	$15,000	$299,160	80	$13,870	$272,352
72	$14,958	$297,963	85	$12,274	$236,867
73	$14,898	$296,384	90	$9,672	$180,049

*Based on $300,000 RIF value at age 69, compounding at a five percent annual return and with minimum withdrawal factors. Intended for illustrative purposes only.

With the Compliments of:

Turek Walker Wealth Group — TD Wealth Private Investment Advice
700 West Georgia Street, Suite 1000 - 1101, Vancouver, BC V7Y 1A2
T: 604 482 2491 TF: 1 888 668 9966 F: 604 482 8427
www.walkerwealthgroup.ca

Zeljka Walker, FMA®, EPC, CDFA®, CFP®, CIM®, FCSI®
Vice President, Portfolio Manager,
Investment Advisor
604 482 2491
zeljka.walker@td.com

Jo-Ann Qi
Client Service Associate
604 482 8412
jo-ann.qi@td.com

Turek Walker Wealth Group