

Investment Focus

WINTER 2023

The Sun Also Rises

Investing is never a smooth road, and 2022 was a difficult reminder that the markets can go down just as they go up. Financial markets were largely challenged by the aggressive actions of central banks in raising rates in their attempt to combat high inflation; a stark contrast to the excessive exuberance of 2021. Indeed, the market pendulum can swing from one extreme to the other, with prices often overshooting underlying “fair values” in both directions during the course of a cycle. As renowned investor Benjamin Graham once said, *“In the short run, the market is a voting machine. But in the long run, it is a weighing machine.”*

While it is never easy to see asset prices under pressure, it has led to a more healthy outlook for how risk assets are viewed and, perhaps, more thoughtful consideration of how capital is deployed. For the equity markets, we have seen a return to more reasonable multiples and fair values, better reflecting fundamentals like corporate earnings and economic growth that drive prices over longer time periods.

It is instructive that throughout the turbulence of 2022, renowned investor Warren Buffett added to his portfolio — reportedly his largest net purchases in 30 years.¹ Buffett’s investment thesis has always been to buy quality companies at reasonable prices, with the intention of holding them for the longer term. He knows that there will be down years and uses them to seek opportunity, strong in his conviction that brighter days lie ahead. Since the start of the millennium, Buffett has actually underperformed the S&P 500 over 40 percent of the time on an annual basis.² Yet, he has stuck to his approach to outperform the markets over time. It is a reminder that even for the most respected investors, investing is never a smooth road.

Have we seen the bottom of this cycle? As the saying goes, it’s always darkest before dawn. As we enter 2023, many of the same challenges we faced in 2022 persist: geopolitical tensions, lingering inflation, though there are positive signs of slowing, higher interest rates and continuing central bank tightening policies intended to slow economies. While economies need to slow for inflation to moderate, let’s not forget that we may be well positioned to endure these times. Our financial systems continue to be healthy; many companies and individuals are not heavily indebted, a previous driver of more serious downturns. Labour markets have been strong, though this has complicated central bank efforts to rein in inflation. And, after a volatile year, the prospect of an economic slowdown may be somewhat reflected in equity prices: Markets often discount the direction of the economy well ahead of time. Most important, while short-term setbacks are expected to occur from time to time, corporate profits and economies have continued to grow over longer periods — and this isn’t likely to change.

This points to the importance of continuing to plan for a better tomorrow. As investors, we will inevitably experience dark days and even down years; yet, as Buffett’s actions remind us, we shouldn’t forget that the sun also rises.

With the turning of another year, we would like to express our gratitude for your continued confidence in our services. We look forward to brighter days ahead. May 2023 bring good health, peace and prosperity.

1. <https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-60-billion-record-stock-purchases-portfolio-2022-8>; 2. When comparing BRK-A annual returns against the S&P 500 from 1999 to 2021. www.cnbc.com/2021/01/08/how-warren-buffetts-uphill-battle-against-the-sp-500-is-changing.html

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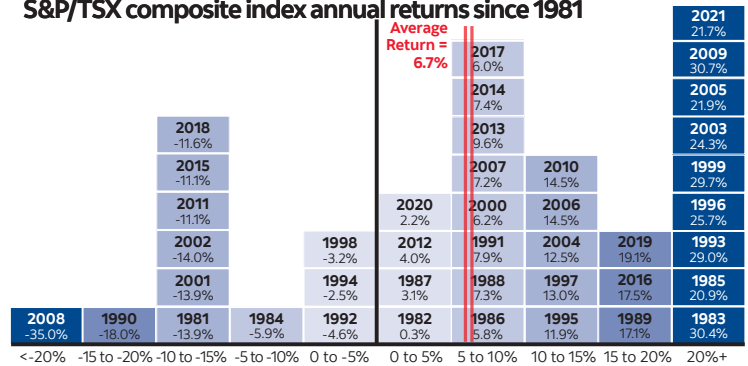
Investing Resolutions for 2023 to Help Keep Perspective

A recent article in the *Washington Post* offered a different perspective to the view that kids these days are getting too much screen time. In fact, there's another demographic struggling to put down their devices: baby boomers. As one man put it: *"My 75-year-old dad's phone may as well be an implant; he lives with it like a teenager!"*¹ Of course, this has implications for our investing ways. With easy access at our fingertips, we may all be guilty of checking investment accounts too frequently. In this regard, and as we begin a new year, here are three resolutions that can help to make better investors:

Pay less attention to investment accounts. It's worth a reminder: Emotions can impact our investing decisions. When we are threatened by the possibility of losses, our brains take control to avoid these losses and we may not make the best investing decisions. In 2022, excessive pessimism dominated the markets. As one market pundit noted, perception swung from *"flawless to hopeless,"* and, for many, the urge to react may have felt overwhelming. One important variable for investing success is how long you are able to stay invested. As such, consider checking accounts less frequently.

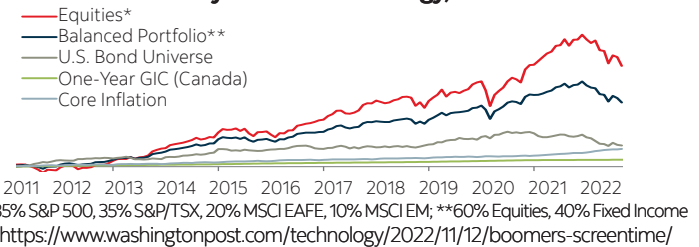
Think longer term. Markets go up and down and returns vary from year to year. While we commonly discuss "average" returns, it's worth repeating that annual returns often don't fall close to this average. Consider the wide dispersion of S&P/TSX Composite Index annual returns since 1981. In 19 of 41 years, returns were less than the average of 6.7 percent. Almost one-third of the time, they were negative. Yet, average returns compounded over time can lead to superior results. An investment of \$55,000 would yield about \$209,000 in 25 years at a rate of return of 5.5 percent; in 55 years, it would yield over \$1 million.

S&P/TSX composite index annual returns since 1981



Remember that equities continue to be one of the best wealth generators of asset classes. Given the market volatility in 2022 and with yields on low-risk, fixed income alternatives at levels not seen in over a decade, products like guaranteed investment certificates may look appealing. While this may be a good opportunity for cash on the sidelines, equities continue to be one of the best asset classes in which to generate wealth and beat inflation over the longer term.

Cumulative returns by investment strategy, 2011 to current



Have You Been Appointed Estate Executor? Five Mistakes to Avoid

Administering an estate can be a time consuming and complex task, often occurring during an emotionally difficult time. It isn't uncommon for mistakes to be made, which can lead to increased tax liabilities, conflict with beneficiaries or, worse yet, litigation. Equally concerning, the executor (liquidator) may be held personally liable for any errors.

If you have been appointed as executor, being aware of these potential pitfalls may help as you contemplate the role. If you are planning for your own estate, carefully choosing your executor is important to prevent these and other mistakes. In brief, here are common mistakes often made by executors:

1. Not following the directives of the will. Estate lawyers say that executors can sometimes ignore parts of the will, such as forgiving loans that were to be collected, perhaps due to lack of knowledge or because it is easy or convenient. Others may choose to distribute assets differently than directed within the will, under the belief that they have a more 'fair' idea for this distribution. Neither situation is within the executor's authority.

2. Failing to communicate. One of the executor's duties is to respond to reasonable enquiries from beneficiaries. Sometimes executors become so involved in the process that they forget to communicate. Silence can often be misinterpreted as being secretive, which can prompt estate disputes. Maintaining transparency and ongoing communication can go a long way in preventing conflict.

3. Making incorrect distributions. Oftentimes, distributions are incorrectly made before other liabilities are paid, such as taxes or outstanding debts. Sometimes this is because beneficiaries pressure the

executor. Often overlooked: the executor must identify unknown creditors, which can involve a time-consuming process of creating a public notice. Advertising for creditors can protect the executor should a claim be made after the estate has been distributed.

4. Being too prudent. Some executors try to keep estate expenses low, which can result in higher costs. For example, an executor who completes tax returns without the help of an accountant may miss eligible tax credits or deductions. In the past, advertising for creditors in the newspapers of multiple cities was very costly, so some avoided the process, only to be caught by surprise when claims were made.

5. Treating estate funds as their own. Given the assets often available within an estate, some executors may wrongly use them for their own purposes, such as to make loans to themselves or family members. Others may make more honest mistakes, such as incorrectly using funds to cover travel costs for family members to attend a funeral.



RRSP Checkup: How Well Are You Managing Your RRSP?

It is once again Registered Retirement Savings Plan (RRSP) season. How well do you manage your RRSP? Here are some questions to ask:

Do you consider the timing of RRSP deductions? With any RRSP contribution, you're entitled to a tax deduction for the amount contributed so long as it is within the contribution limit. Keep in mind that you don't have to claim the tax deduction in the year the RRSP contribution is made. You can carry it forward if you expect income to be higher in future years such that you may be put in a higher tax bracket, potentially generating greater tax savings for a future year.

When do you make contributions? By making contributions at the beginning of the tax year or throughout the year, instead of waiting until March 1st for a deduction from the previous year, you may benefit from the longer time for tax-deferred growth. Due to the power of compounding, over time this can make a noticeable difference.

When was the last time you updated beneficiary designations? It may be beneficial to review account beneficiaries (in provinces where applicable), especially in light of major life changes. For example, in the event of separation or divorce, be aware that named beneficiaries may not be revoked, depending on provincial laws. Therefore, the designation of an ex-spouse may still be in effect.

Have you considered a spousal RRSP? For couples in which one spouse will earn a high level of income in retirement, while the other will have little retirement income, a spousal RRSP may potentially be a valuable income-splitting tool. If you are working past age 71 and have a younger spouse, you can no longer hold your own RRSP after the year you turn 71, but you can still make a contribution to a spousal RRSP as long as your spouse is age 71 or less at year end and you have RRSP contribution room. This may be a good way to get a deduction and shift income to a spouse.

Have you planned for your RRSP's eventual maturing? There may be benefit in gradually drawing down RRSP funds as you approach retirement.

This may be useful if an individual is currently in a lower tax bracket than they expect in future years. Others may seek to limit future sources of taxable income in order to minimize the possible clawback of income-tested government benefits such as Old Age Security. One strategy may be to use RRSP withdrawals to fund Tax-Free Savings Account (TFSA) contributions (subject to available room). As the TFSA grows, there may be greater flexibility to receive tax-free income that can augment or replace Registered Retirement Income Fund (RRIF) withdrawals later. At death, TFSA funds can pass tax free to heirs, unlike residual RRSP/RRIF funds that are subject to tax, potentially at high marginal tax rates.

Do you allow your RRSP to grow uninterrupted? Consider the implications of making taxable withdrawals from the RRSP to pay down short-term debt. You may be paying more tax on the RRSP withdrawal than you'll save in interest costs. In addition, once you make a withdrawal, you won't be able to get back valuable RRSP contribution room. There may be better options, such as a TFSA in which contribution room resets itself in the following calendar year.

Always seek assistance from tax professionals regarding your situation.



RRSP Contribution Deadline: March 1, 2023 for the 2022 tax year, limited to 18 percent of the previous year's earned income, to a maximum of \$29,210 (for the 2022 tax year).

A Brighter Side to Inflation: The Largest Index Adjustment in Years

There may be some good news that comes with the significant inflation we've been enduring. The adjustments made to certain government income tax and benefit amounts — such as the basic personal amount (the federal non-refundable tax credit on an income tax return), the annual dollar limit for the TFSA and the GST/HST tax credit — will be the highest seen in many years. This is because the government adjusts these amounts based on inflation using consumer price index data. With inflation reaching 40-year highs in recent times, the indexation increase is the largest since the 1980s.

Indexation Increase Per Year, 2019 to Current

2019	2020	2021	2022	2023
2.2%	1.9%	1.0%	2.4%	6.3%

Many of these adjustments take effect on January 1, such as the increase to the TFSA dollar limit. However, other adjustments will take place on July 1, such as income-tested benefits like the GST/HST tax credit and the child disability benefit, as this coincides with the beginning of the program year for these benefits. It will also increase our income tax brackets.

Why is this important? The adjustment helps compensate for the higher cost of living we are experiencing. For instance, if the tax bracket thresholds are not indexed to inflation, an increase in income would mean higher taxes paid and a loss of purchasing power. This occurred when Alberta de-indexed its tax brackets in 2019, effectively forcing Albertans to pay \$646 million more in taxes from 2020 to 2022.¹ Alberta will resume indexing for the 2022 tax year.

For more information on the indexation adjustment, please see: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html>

1. www.cbc.ca/news/canada/calgary/alberta-taxes-indexation-inflation-1.6510978

2023 TFSA Dollar Limit: As a result of adjustments for inflation, the 2023 TFSA annual dollar limit will increase to \$6,500, bringing the eligible lifetime amount to \$88,000. The annual dollar limit hasn't increased since 2019.

Don't overlook the opportunity for tax-free growth!

For 2023: A Little More Happiness?

We've been through a lot lately: a pandemic, ongoing war, high interest rates, inflation and market volatility. As we enter another year, we may all benefit from a bit more happiness. Studies continue to show that cultivating an optimistic view leads to better outcomes, and this can extend into our financial lives. In fact, the "economics of happiness" has become a recognized field of study, supported by doctoral dissertations and professorships. For years, Harvard, Stanford and Yale have offered business courses devoted to happiness. And, social psychologists continue to actively study the human quest for happiness, so much so that it has become a big business.

The Economics of Happiness

There is, indeed, a link between happiness and economic outcomes. Research shows that it can make us more productive, wealthier and nicer.¹ The share price of *Fortune's 100 Best Companies to Work For* posted annual increases of 14 percent, compared to just six percent for the overall market between 1998 to 2005. One study primed people to feel happy and found they were 12 percent more productive than their peers.² Another looked at hundreds of studies on the causal effect of success on happiness and found the reverse: the stronger effect was how happiness engenders success.³ A recent study in China may provide some insight: when web broadcasters who rely on voluntary viewer tips for income showed more positive emotions, their tips increased.⁴

Yet, when it comes to the happiness of society as a whole, we may not be doing a good job. *The World Happiness Report* suggests that worry and sadness have been rising over the past 10 years. It may be particularly telling that Canada has fallen in its global happiness rank: from 5th in 2012 to 15th in 2022. Wealth has increased substantially, but we haven't increased our happiness. This may not necessarily be a surprise — many studies show that while wealth leads to improved happiness, once it reaches a certain level the effects plateau: Money can buy happiness, but only to a certain extent. As such, many economists now argue that we need a greater focus on increasing

societal happiness.⁵ Back in the 1970s, Bhutan began to track happiness through its Gross National Happiness Index. Other countries, like New Zealand and the U.K, have now begun to follow suit by building well-being metrics into their policymaking.



Is happiness the key? Reflecting on the many challenges of today, happiness guru Arthur Brooks believes so: "*you have to start (by) trying to simulate a happiness movement... Then you save the country.*"

1. <https://www.theguardian.com/lifeandstyle/2014/nov/03/why-does-happiness-matter>; 2. https://warwick.ac.uk/newsandevents/pressreleases/new_study_shows; 3. <https://escholarship.org/content/qt1k08m32k/qt1k08m32k.pdf>; 4. <https://www.theatlantic.com/family/archive/2022/10/prioritizing-happiness-before-success/671714/>; <https://www.weforum.org/agenda/2019/02/what-will-succeed-gdp/>

The Secret to Finding Happiness?

Researchers suggest that 50 percent of our happiness is genetic, 40 percent is under our control and 10 percent depends on circumstances. Here are some ideas for finding happiness based on an over-80-year Harvard study:

- Buy more time. Spending money on time-saving purchases can promote greater life satisfaction.
- Stay connected to family and friends.
- Volunteer to gain a sense of purpose.
- Practice gratitude. Perform regular acts of kindness.
- Find your "inner child." Revisit activities that provided joy when you were younger.
- Invest in experiences rather than material objects.
- Surround yourself with happiness: it can be contagious.
- Reduce decision-making opportunities for regret or worry.
- Continue to look forward: don't second-guess decisions!

Source: Health & Happiness Go Hand in Hand, M. Solan, Harvard Men's Health, 11/1/21.

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