

Financial Focus



**NATIONAL BANK
FINANCIAL**
WEALTH MANAGEMENT

Feeling fearful when markets turn? Time for a risk reality check

Depending on your age and investing experience, the market downturn in March caused by the COVID-19 crisis may have been a real shock or just the latest in a series of unfortunate events in your financial life. Either way, these types of market gyrations bring to the fore our personal relationship with risk.



While we may understand risk as a concept (especially easy to do when the markets are up), it takes a serious downturn to face our emotional reaction to the uncertainty that comes with investing. If you've been feeling anxious, it may be time to re-evaluate your tolerance for risk.

The risk/return relationship

Every type of investment carries some kind of risk. Even if you choose not to invest, you experience what we call opportunity risk – because you could have made more money by investing than by staying on the sidelines.

Lower-risk vehicles such as Guaranteed Investment Certificates (GICs) may protect capital, but you may trade off any chance of significant potential for growth. Over time, this could mean falling short of your goals. To compensate, you may need to save more, spend less, generate more income, or delay the achievement of your objective (for example, retiring at 65 instead of 60).

Investments like equities can offer greater returns, but these come with higher-risk profiles. Keep in mind there is a wide variety of equities to consider across a broad risk spectrum. Quality, blue-chip companies with histories of

price growth which pay dividends and have good prospects will fall lower on the spectrum. Conversely, stocks in companies that have newer products, operate in more volatile markets, or are denominated in foreign currencies all carry greater – and different kinds of – risks. These have the potential for very high rates of returns, but you need to assess if these are appropriate for your portfolio given your objectives.

Remember, too, that risks can be managed. For example, holding a diversified portfolio helps to reduce the impact of a temporary downturn in any one investment type.

Keep perspective

It's human nature to overestimate our ability to handle risk when times are good – and to be exceedingly fearful after a big loss. That's why it's essential to focus on your portfolio as a whole, and to keep your investing goals and time horizon in mind.

Next steps: At the end of the day, your portfolio should take enough risk to help generate the returns needed to meet your long-term objectives – but not so much as to make you uncomfortable. If you're ever feeling uneasy, let's talk.



Helen Forrest
Senior Investment Advisor
Tel: 905-980-6311
helen.forrest@nbc.ca



Madeline Woodhead, PFP
Investment Advisor
Tel: 905-980-6310
madeline.woodhead@nbc.ca



Donna Vieno
Investment Associate
Tel: 905-980-6307
donna.vieno@nbc.ca

**Forrest Woodhead
Wealth Management Group**
40 King Street
St Catharines, ON L2R 3H4
Toll Free: 1-866-520-1221
Fax: 905-684-0562

In this year like no other, it can be hard to focus on the future. But as your investment partner, we keep our focus on the long term, so you'll be ready when tomorrow comes. In this unpredictable year, let's discuss how we can keep your investments on track. In the meantime, enjoy the summer as best you can.



FORREST | WOODHEAD
Wealth Management Group

These goal-defining questions will help create a better investment plan

It's probably the most common cliché in financial matters: you need a plan based on your "unique" goals and circumstances. The truth is the plan is not the hard part. Instead, it's being able to articulate what your goals really are. We all start with high-level goals like to "be successful," to "be secure in retirement," or to "make a lot of money." But what do these really mean? To incorporate some detail into those lofty goals, explore these areas and questions. Consider them carefully, don't rush, be honest with yourself, and try to be as specific as possible with your answers.



Work. What role does work play in your life? Is it your passion or just a way to earn a living? How long do you think you'll want to work? Will that always be in your current job, or do you want to finance a change to another career or maybe even launch a business? Will you want to retire completely from work, or might you keep working in some capacity – part-time or as a consultant? In the meantime, are you thinking about taking a break such as a professional sabbatical or a maternity/paternity leave?

Lifestyle. Are you living the life you want? Do you feel you have done a good job balancing the "now" with saving for the future? Are there things you dream about – a cottage, boat, studying or retraining, travelling or exploring the world – but then write off as unrealistic? Don't judge yourself. Just think about how you might change your life, if you could.

Home. Are you satisfied with your home? Is it too small or too big? Is it in the wrong neighbourhood? The wrong city? What would make your residence better for you and your family? Do you see yourself staying in your house after you retire? If not, as you get older, what adaptations or modifications in your living space do you foresee needing?

Health. How does your health impact how you live and how you want to live? Do you want to invest more in preventative health measures to live a better life now and in the future? What might that look like for you? Do you have health issues for which you need to plan as you get older? Do your children or parents have health issues that you anticipate will affect you? Do you want/expect to be a caregiver for a loved one?

Family. How important is family, however you define it, in your life? Are there family goals – financial or otherwise – that you

haven't achieved yet? Imagine your family situation in five, ten and twenty years: how do you envision that evolving? How might your role in the family change over these years? Are there things you want to do for your family down the road for which you have not yet begun to plan?

Mind and soul. What keeps your mind and soul nourished? What makes you happy? How will you keep your mind engaged and soul fulfilled as you age? Might you travel the world, volunteer at home or overseas, or mentor using your life/work skills? Do you want to challenge yourself by learning a new skill, language, or area of study? Maybe paint, draw, or write? Are there people, groups or organizations with which you are involved that you want to support now and in the future?

Business. Do you want to start a business soon or perhaps when you retire? Does operating that business require start-up funds or new education on your part? Do you own a business now? If so, what are your present goals for your business and for your future role? As part of your succession planning, will you bring family members in or do you intend to sell it at some point?

Legacy. What do you want your legacy to be? Do your children or family members have goals that you want to enable? After you are gone, are there charities or causes you would like to have benefit from your success? Do you want to have an impact with the next generation through fostering the values you hold dear?

Next steps: These are admittedly big questions. Don't feel you need to have all the answers already. If you start small and identify new or changed priorities, let's talk. Remember, life goals are the foundation of any meaningful investment strategy.

Our 4-step approach turns goals into plans

Once you've defined your life goals, we can help integrate them into an actionable investment plan with our 4-step approach that improves your chances of achieving financial success.

1. Understand. Your needs are the foundation of your personalized financial approach. That is why we begin by taking the time to know you better through identifying your objectives, priorities, investment horizon, and risk tolerance. We will explain the best way to invest given your particular situation, making sure that you understand all the challenges that lie ahead.

2. Plan. We perform a detailed analysis of your situation and develop a personalized action plan to align with your objectives. We evaluate the

feasibility of your goals over the short-, mid-, and long-term while factoring in your lifestyle, budget, investments, taxes, insurance, retirement, and more. Your plan generates another highly valuable document: your investment objectives. These define the criteria that will dictate the composition and management of your portfolio.

3. Act. Now is the time to act upon your personalized plan by evaluating the different solutions available. We'll discuss several approaches to enhance the value of your portfolio by tapping into the financial market's

potential. We also ensure you fully understand and are comfortable with the solutions proposed.

4. Monitor. We closely monitor the financial markets and economic environment with a wide array of tools to evaluate whether you are still on the right path toward your objectives or if we should make a few adjustments. As your situation evolves over time, it becomes increasingly important to assess the impact of market changes on your wealth, and to adjust your plan accordingly by repeating the 4-step process.

If retirement is in your future, should you leave debt in the past?

Not long ago, most Canadians wouldn't have considered carrying debt into retirement. That attitude has changed. For example, one 2018 study from a major Canadian financial institution found that 25% of Canadians are living with debt in retirement. And 20% of retirees are still making mortgage payments.



Is this a good idea? The answer is: it depends. Low interest rates mean that carrying debt into retirement is much less burdensome than it was when interest rates were sky-high. However, there is still a cost, one which could increase if interest rates should rise.

Factors to consider

The decision that's right for you will depend on several factors.

What kind of debt are you carrying and what is the interest rate? It's important to understand the difference between "good" debt and "bad" debt. Good debt includes borrowing for items that are likely to increase in value (such as your home), or borrowing when the interest is tax-deductible (for example, when you borrow to generate taxable investment income). Bad debt is usually high-interest consumer debt for items that have no long-term value — for example, using your credit card to support your retail therapy.

Are you a pre-retiree, semi-retired, or already retired?

Sometimes, age matters. If you are still earning a salary with the potential for increases, you are more likely to be able to focus on eliminating debt before you retire. If you are already retired, this becomes a question of managing your debt on a fixed income so that you can continue to live the lifestyle you want.

Do you want to leave an inheritance for your children or bequeath a gift to charity? If you have no children or grandchildren, and no desire to support a charitable endeavour, you may be quite comfortable carrying debt into retirement. When you pass away, the value of your estate can then be used to repay any remaining debt.

Are you planning to downsize to a smaller home at some point? For many Canadian families, the largest debt they are ever likely to assume is the mortgage on their home. If you are carrying a mortgage and plan to stay in your house through retirement, you'll need to be sure of sufficient cash flow to cover payments.

On the flip side, if you are planning to sell and perhaps move to a smaller dwelling, a substantial capital gain may be realized after repaying any mortgage balance. If the property was your principal residence, this gain is tax-free and can be reinvested to help generate income needed to achieve your retirement goals.

Next steps: In the end, no single solution is right for everyone. There are a whole range of circumstances and many variables to take into consideration. Whatever your situation, we can help you determine if a shift in your retirement investment strategy can help your overall situation.

Concerns about your cottage, chalet or camp? Now is the time to act!

With rising temperatures and longer days, many of us turn our thoughts to our cottages, chalets and camps. And, increasingly for the Boomer generation, those thoughts include how, when, and whether to pass their vacation properties on to their children.

Like most estate planning issues, the financial part must be preceded by often difficult or dreaded discussions with family members. Because of this, actions are often delayed, and potential options missed. Starting the discussion now means time is on your side and decisions won't need to be rushed.

As the owner, what do you want? Start by being honest with yourself about your own goals. Too often everyone assumes the parents want the kids to have the cottage and that the kids want it. Maybe you'll want to sell to finance your snowbird lifestyle or to meet other estate planning goals. Maybe you'll want to avoid family rancour and having to referee sibling conflicts. Perhaps the property will form part of a larger estate fairness conversation involving other personal and business assets. Before opening the dialogue, take a moment to determine what you want.

What do the kids, and the grandkids, want? Don't assume all your children and their children feel the same way about the place. Enjoying time spent at the cottage versus wanting to own and maintain it are two different things. Also, keep in mind that your family may have an idealistic desire to own the cottage, but are not yet aware of the financial implications. Most cottage successions involve a substantial tax liability that may affect how they view the issue. Nevertheless, understanding how they feel about it now is a great place to start.

Paint a financial picture. Chances are your family has no idea about the financial challenges related to a recreational property. Consider opening up about the maintenance costs,



property taxes, and the potential capital appreciation of your place. This conversation often can be a challenge for the owner as well, since you may also be uncomfortable revealing finances to other members of your family.

Explore different scenarios. Once you have an idea about everyone's goals and some of the financial implications, you can start to explore different ways to achieve those goals. If some potential heirs don't want to be a part of the next generation of owners, you could explore having these heirs sell their shares if resources are available. For those who want to take on ownership, there are legal options such as creating a trust or less formal ones like entering into a co-owner's agreement covering ongoing costs and options to sell up.

Next steps: Seek out professional insights. Lawyers, accountants, mortgage professionals, and investment advisors can all provide advice and knowledge that is relevant to cottage succession. Chances are all of them will start with the same question: "What are you trying to achieve?" By already having had some of the family discussions, you'll at least have partial answers to those questions, and you'll then get much more specific and relevant advice in return.

Selling up? Here's what the next generation wants

A 2019 report from a major real estate brokerage found a big jump in the percentage of Millennials interested in purchasing a recreation property, up 14% to 56%. Millennials are also more likely than their Boomer parents to be interested in this acquisition for its investment potential. But what makes having a cottage an attractive option? Here's what Canadians identify as the top 5 features when considering their present or a future purchase of a recreational property:

Source: The RE/MAX 2019 Recreational Property Trends Survey, conducted by Leger, June 2019.

Recreational Property Purchase: Top Decision Criteria (%)

