

# Financial Focus

## Is there opportunity in market volatility?



When markets are volatile, everyone's pleased with the upswings, perhaps eagerly checking out their portfolio balance. But the downswings can be another story. Maybe those portfolio balances still get checked, but nervously.

### Silver linings

Fortunately, during the wealth accumulation years, market downturns can bring opportunity. When share prices fall, the money managers behind your investments see prospects for profit. They can add to current holdings at discounted prices or invest in companies on their watch list that were previously too expensive.

Just as money managers can take advantage of buying low, so too can investors. All you need to do is continue making regularly scheduled contributions, even when markets are down. Sometimes it may take patience and discipline, but when markets recover and stock prices rise, the money managers' individual stock picks and your continued investments can boost your portfolio's value. It's a buying opportunity.

### When to manage volatility

Market volatility doesn't always have a silver lining. When

approaching retirement, you don't want to risk a significant market downturn that might cause you to postpone your retirement date. So most investors typically make their investments more conservative to help preserve their portfolio as retirement nears.

During retirement, market downturns certainly don't represent buying opportunities – since you're now drawing income, not investing new money. Several strategies are available to minimize the effects of market volatility, including holding investments in stable companies historically less volatile and drawing retirement income from a cash reserve that allows time for any downtrodden equity investments to recover.

**Next steps:** Talk to us if volatile markets, particularly the downswings, ever cause you to worry. We can discuss investment opportunities and also make sure your portfolio remains aligned with your risk tolerance.



**Helen Forrest**  
Wealth Advisor  
Tel: 905-980-6311  
helen.forrest@nbc.ca



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



**Donna Vieno**  
Wealth 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

Summertime is family time, so how about reviewing the ways you're supporting your children's or grandchildren's future? For example, make sure that education savings account for increasing costs. Or consider income-splitting by gifting funds to your children that they can contribute to their TFSA. Talk to us about how you can help secure your children's or grandchildren's future.

## Why diversification matters

Investing can be unpredictable. Will interest rates remain the same, go up or fall – and when? Exactly where are we in the market cycle, and how long until we enter the next phase? Will a geopolitical event, health crisis or other incident shock the markets? Which investments offer the most opportunity over the next year?

Everyone can try to make predictions, but no one can always know the answers. That's one of the key factors behind the strategy of creating a fully diversified portfolio. Since we can't predict the market leaders or underperformers year to year, it's best to cover all bases.

### Benefits of diversification

A well-diversified portfolio can benefit investors in three key ways.

**Minimize risk.** By spreading your investment dollars across a variety of investments, you ensure that you won't be over-invested in any particular underperforming market.

**Enhance performance.** Every January, investment analysts predict which markets will be among the year's leaders, and invariably every December we're reminded to expect the unexpected. However, if your investments are fully diversified, you will likely have some exposure to the year's market leaders, which can potentially enhance portfolio returns.

**Reduce volatility.** If a portfolio only includes a handful of investments that respond alike to the same economic conditions, portfolio returns could rise and fall sharply at the whim of the markets. A fully

diversified portfolio is constructed with investments that react differently to economic conditions, which smooths out returns and reduces portfolio volatility over time.

### A look at market indexes

Talking about portfolio diversification in theory is instructive, but the benefits are much clearer and more impactful when you view market unpredictability in reality. Take a look at the table below to note the following observations.

- The notion that an investment can go from laggard to leader in just one year is demonstrated by Global Bonds. In 2017, they sit at the very bottom rank, then in 2018 Global Bonds rise to market leader.
- To see how any investment can be unpredictable year to year, follow Canadian Equities from left to right to track a zig-zag path that hops up, down and in between.
- By diversifying, you have a greater chance of gaining exposure to the best-performing markets. In just the six years represented on this table, four different indexes held the position of market leader.



### Ways to diversify

The broadest way to diversify an investment portfolio is through investing in different asset classes, the major ones being equities, fixed income and cash equivalents. You can also be diversified within each asset class. For example, within equities, you can be invested in small-cap, mid-cap and large-cap companies – “cap” or capitalization referring to a company's size.

Investment style offers another way to diversify, as value and growth investments often take turns outperforming each other. Investing in a variety of geographic regions also provides all the benefits of diversification – and opens up specific investment opportunities less available in Canada.

**Next steps:** If you would like to talk about the various ways your investments are diversified, please get in touch.

## Market leaders change year to year

Financial market indexes ranked in order of performance

- Canadian Equities
- U.S. Equities
- International Equities
- Emerging Markets Equities
- Canadian Bonds
- Global Bonds

	2016	2017	2018	2019	2020	2021
Best	21.1%	28.7%	7.7%	24.8%	16.6%	27.6%
	8.1%	17.4%	4.2%	22.9%	16.3%	25.1%
	7.7%	13.8%	1.4%	16.5%	8.7%	10.8%
	1.7%	9.1%	-5.6%	12.9%	7.3%	-2.5%
	-1.5%	2.5%	-6.5%	6.9%	6.4%	-3.1%
Worst	-2.0%	0.3%	-8.9%	1.4%	5.6%	-5.5%

Canadian Equities: S&P/TSX Composite Index | U.S. Equities: S&P 500 Index | International Equities: MSCI EAFE Index | Emerging Markets Equities: MSCI Emerging Markets Index | Canadian Bonds: FTSE Canada Universe Bond Index | U.S. Bonds: Bloomberg U.S. Aggregate Bond Index | Global Bonds: Bloomberg Global Aggregate Bond Index

All returns are in Canadian dollars. This table is provided for illustrative purposes only. Note that it is not possible to invest directly in an index. Source: Morningstar Research Inc., December 31, 2021.

## Should you and your spouse retire together?

It may seem natural and expected for a couple to have the same retirement date, starting this new chapter of their life together. But it's quite common for spouses to retire at different times.

### Personal reasons

An age gap of several years or more is behind a great many couples' decision for one spouse to retire before the other. But a variety of situations can lead to retiring at different times. One spouse may retire earlier than planned due to ill health. Or a spouse may leave their job to look after an elderly parent who needs care. Perhaps one spouse receives an early retirement offer from their employer. Or one spouse might work past the traditional retirement age because they find their work fulfilling, while the other spouse looks forward to retirement.

### The financial factor

The decision of whether or not to retire at the same time often involves a financial factor. Take the situation of a couple with an age gap. Say one spouse is 65 and the other is 60. They're



thinking about both retiring now, so they'll have more of their younger years to enjoy retirement together. However, if the older spouse retires now, and the younger spouse works for a few more years, the additional savings may give the couple a more comfortable retirement lifestyle. Also, while the younger spouse receives income, the retired spouse can possibly delay withdrawals from retirement savings.

How does this couple decide?

**Next steps:** It can be a lot easier when you involve us with the financial side of the decision. We can show you what your estimated level of retirement income and overall financial picture could be with a staggered retirement and a synchronized retirement. Then you can consider both the personal and financial factors to make an informed decision.

## Funding a grandchild's education

If you have a grandchild or grandchildren, or expect to in the future, you might be thinking about contributing to their education fund. With enough savings, they'll have a much wider variety of career opportunities open to them, and they'll have no worries upon graduation over paying off student debt.

### Opening an RESP

A Registered Education Savings Plan (RESP) is typically the first choice for two reasons – contributions grow tax-deferred, and you benefit from the Canada Education Savings Grant (CESG). The first \$2,500 of annual contributions triggers a \$500 grant deposited into the plan, to a maximum of \$7,200 for each beneficiary.

A grandparent can open an individual RESP for one grandchild, or a family RESP for two or more grandchildren. As the person opening the plan (known as the subscriber), you would be the only person who can make contributions and withdrawals.

Another option is available when your child has opened an RESP with your grandchild as the beneficiary. You can simply gift funds to your child who, in turn, contributes the money to their RESP.

In fact, RESP rules also allow for two separate plans that fund the same child's education. However, this choice calls for more coordination involving contribution amounts, investment decisions and the withdrawal strategy.

### More funding options

There are many reasons to look beyond an RESP. Perhaps you want to contribute to your grandchild's education, but



your child is content funding an RESP on their own. Or maybe you just want to ensure your grandchildren can afford high-tuition programs, such as law or medicine.

A tax-smart option is to invest in your own Tax-Free Savings Account (TFSA), dedicating the funds to your grandchildren's education. An in-trust account can be especially tax-efficient when you invest in equities, as capital gains would be taxable to your grandchild. Though not as tax-friendly, a non-registered account offers simplicity and flexibility.

**Next steps:** Let us know when you're thinking about helping to fund a grandchild's education. We'll work with you to determine which education savings vehicle is best for you and your grandchild.

## Should you invest in cryptocurrency?



The first cryptocurrency, Bitcoin, was designed as a digital currency to make and receive payments exclusively online, without involving a financial institution.

Today, there are thousands of cryptocurrencies – but they've become more of an investment phenomenon than a usable currency. As an investment, cryptocurrency has been extremely volatile. For example, there have been periods in the past couple of years when you could have tripled a Bitcoin investment in 12 months or lost half the value of your investment in three months.

Investors can buy a specific cryptocurrency from an online exchange or trading platform, or invest through a cryptocurrency mutual fund or exchange-traded fund (ETF).

Speculators aim to benefit from the large swings by buying low and selling high. Long-term investors are willing to ride out the volatility, expecting their investment to trend upward over time.

**Next steps:** As a high-risk asset class, cryptocurrency is not for every investor. If you do want to learn more about cryptocurrency as an investment, please get in touch.

## What to do after you pay off your mortgage

It's a significant milestone when you make that final mortgage payment. Now you have a sizable amount of extra funds to use as you wish. The question is, what's the best way to apply this new cash flow?

For many people, the prudent decision is to allocate the funds to retirement savings. This choice can either allow you to retire earlier or spend your retirement more comfortably.

But you might have other goals in mind. The money could help fund a child's or grandchild's education, or go toward an adult child's down payment on their first home. You could make home or vacation property renovations, fund a vacation, pay for a second car or bolster an emergency fund.



**Next steps:** In many cases, our services can help you with choosing your goal. For example, a couple may want to confirm their retirement savings are on track before funding their child's down payment. We're here to assist you with the financial side of your decision.

## Preparing an estate directory



**Imagine if an estate executor (or personal representative, liquidator or estate trustee, depending on the province) was about to administer an estate, only having the will. They would have a tough time searching for contact people, important documents and hidden information.**

That's why it's important to develop an estate directory including everything your executor needs.

Start with the contact information of your lawyer, accountant, advisor and beneficiaries. State the location of your will, insurance policies, tax

returns and safety deposit box. Provide bank account information. List assets, including registered plans and investment accounts, real estate and valuable items. Also, list debts, whether credit cards, a mortgage, loan or line of credit. This is not even a complete list, so imagine the complex ordeal an executor would face without this help.

**Next steps:** Please feel free to contact us about the information an estate directory should include. If you've already prepared a directory, it's a good idea to review it periodically, and make updates when required.