Holbrook Wealth Management Group
Newsletter

Winter 2023

In this edition

Stuart Holbrook, B.A. Econ., FMA, PFP®, CIM®
Wealth Advisor & Portfolio Manager
204-925-2273
stuart.holbrook@nbc.ca

Ann Mallare
Associate
204-925-2275
ann.mallare@nbc.ca

1000 – 400 St Mary Avenue
Winnipeg MB R3C 4K5
Toll Free: 1-800-461-6314
Fax: 204-942-6194

Look Forward, Not Back

One of the weaknesses of human nature is our tendency to focus on what is most recent in our memories. Our minds are naturally influenced by things that have just happened, and this can impact the way we make decisions. In investing, this can be amplified. The market pendulum can sometimes 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.*"

The year that has passed was no exception. Financial markets were largely challenged by the aggressive actions of central banks as they raised rates to combat high inflation. As a result, there was a significant reversal from the excessive exuberance that characterized 2021. While it's 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.

Yet, many of the same issues we faced in 2022 persist, including geopolitical tensions, lingering inflation, higher interest rates and continuing central bank tightening policies intended to slow economies. While these are important issues not to be trivialized, we shouldn't allow them to obstruct our view as we look forward.

This is because the investing journey can be a long one – depending on our objectives, sometimes as long as our lifetimes. For most investors, investing involves building wealth for down the road, and not tomorrow. We can often forget that short-term performance may have little impact on longer-term results.

Veteran investors recognize that market downturns are a normal part of the cycle and allow for them, often using them to build investment positions for the future. Despite the volatility of 2022, it is instructive that Warren Buffett continued on his buying spree, adding a record amount of purchases to his portfolio throughout the year.[1] He knows that interruptions will occur from time to time, and uses these periods to seek opportunity, strong in his conviction that better days lie ahead.

Likewise, we can all benefit from continuing to position ourselves for the years to come. Indeed, the opportunity to build significant wealth remains within reach for both young and old investors alike. We often use the "Rule of 72" as a simple way to estimate how many years it will take funds to double at various rates of return — and it's worth a reminder. By dividing 72 by an average rate of return of 5 percent, it shows that funds can double in around 14 years (72÷5=14.4). So, even if you've achieved the respected age of 70, chances are you can still live to see your funds double – and, twice still if you become a centenarian![2]

As we begin another year, don't lose sight of the importance of planning for the future. After a challenging year, I would like to express my gratitude for your continued confidence in my services. May 2023 bring brighter days and better markets. Continue to look forward, not back.

1. https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-60-billion-record-stock-purchases-portfolio-2022-8; 2. Assuming average life expectancy in Canada of age 84 (females) and 80 (males); https://data.worldbank.org/

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

HOLBROOK WEALTH MANAGEMENT GROUP

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.

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!

Inflation and the Impact on Timing CPP Benefits

While there has been little reason to embrace the high inflation of today, there may be a silver lining for certain government benefits. Higher inflation means higher Canada Pension Plan (CPP) benefits and the outcome can be especially significant the longer you wait to begin. The standard age to start CPP is 65, but you can begin as early as age 60. In fact, most people start early.[1] However, if you have yet to apply for CPP, it may be an opportune time to revisit the timing decision.

How Does Inflation Impact CPP Benefits?

CPP payments are impacted by inflation in two ways. First, like most government benefits, they are indexed to the consumer price index (CPI). The CPP uses the measure of CPI over the 12-month period ending October of the previous year and makes adjustments the following January 1. Second, CPP is also adjusted based on the year's maximum pensionable earnings (YMPE), an amount indexed to wage inflation. Over recent times, increases to the YMPE have been significant: 4.94 percent in 2021 and 5.36 percent in 2022. This was largely due to the pandemic when the services industry suffered and fewer people worked in lower-paying jobs, pushing up average weekly earnings.[2]

The Timing Decision to Take CPP

If you start receiving CPP benefits before age 65, payments will decrease by 0.6 percent each month to a maximum of 36 percent (at age 60). If you start after 65, payments increase by 0.7 percent each month, to a maximum of 42 percent (at age 70 or after). However, by waiting to take benefits, CPP amounts can grow based on inflation, and this is further enhanced by the increased benefit of starting later.

A recent analysis shows the potential impact. It looks at an individual who started CPP at age 60 in January 2020, with a decreased benefit of 36 percent (0.6% x 60 months). Assuming the maximum CPP pension amount of $1,175.83 in 2020, she received $752.53. Had she waited a year and started at age 61, she would have received $857.07 (a 28.8 percent decreased benefit from $1,203.75). If she waited until age 62, she would have received $982.81, or 30.6 percent more than she would have received at age 60.

Just how significant is the difference? The table shows the potential increase over time, based on actual 2021 and 2022 figures. It assumes future CPI adjustments (after 2022) of two percent and maximum retirement pension increases of three percent based on existing actuarial assumptions. By these calculations, at age 90 an individual would have a cumulative pension that is 83 percent larger by waiting to start at age 70, compared to starting early at 60.

Table: Sample Monthly CPP Benefit for Individual with Maximum Pension Amount[3]

Year	Age	Pension Amount Starting Age 60	Pension Amount Deferring	Increase Over Amount at Age 60
2020	60	$752.53	–	–
2021	61	$760.06	$857.07	12.8%
2022	62	$780.58	$982.81	30.6%
2023*	63	$796.19	$1,105.26	46.9%
2024*	64	$812.11	$1,234.17	64.0%
2025*	65	$828.36	$1,369.83	82.0%
2026*	66	$844.92	$1,529.44	103.2%
2027*	67	$861.82	$1,697.40	125.6%
2028*	68	$879.06	$1,874.05	149.0%
2029*	69	$869.64	$2,059.78	173.7%
2030*	70	$914.57	$2,254.97	199.7%

*Estimates based on CPI of 2% and YMPE of 3%

Of course, many factors should be considered as you decide when to begin CPP, including expected longevity, the impact of income-tested benefits, the need for income and more. However, the impact of inflation may be one compelling reason for individuals to consider waiting to begin CPP benefits.

1. financialpost.com/personal-finance/fp-answers-when-should-i-take-cpp; 2. www.benefitscanada.com/pensions/governance-law/why-cpp-premiums-are-getting-a-bigger-bump-than-planned/; 3. www.advisor.ca/columnists_/lea-koiv/consider-inflation-when-deciding-when-to-begin-cpp/

New Year's Advice for the Younger Generation: It Starts With Saving

At one time in the not-so-distant past, our society was tuned into saving. We wouldn't think of buying something until we saved enough cash to pay for it, whether for a car or other consumer goods. Only for the rare, big-ticket item, such as a home, would we go into debt.

Today, this quaint notion has largely gone by the wayside. Younger generations appear more impulsive, often choosing to ignore the admonishments to "wait" before spending. Our increasingly on-demand and cashless society, with easy access to credit cards and lines of credit, can land many in difficulty with debt. Often missing has been the discipline of the past: "Can we afford this?" The lack of a saving strategy has implications for investing: Without saving there is no accumulation of capital; Without capital there can be no investment.

It's Hard to Save!

Often, those who profess to want to save will protest that it is impossible to do today. Yes, the cost of living is high and inflation is creating further pressures, with many people having a tough time making ends meet. Yet, there may be certain ideas that can help improve our personal fiscal habits, and here are some tips:

Paying Ourselves First — It is interesting how the shift to spending from saving has occurred during a time in which the general wealth of Canadians continues to grow. Sometimes, the problem with saving is a lack of will. One easy way to make saving a regular habit is to "pay yourself first." This involves having a portion of each paycheque automatically set aside in a separate account: via a payroll deduction at work, an automatic bank account debit, a dollar-cost-averaging investment plan or similar program. The theory: What you don't see, you won't miss — and otherwise spend. How much you allocate is up to you, but almost any amount sent to savings can create a sizeable amount over the years that can be invested to create future wealth.

Consider a Budget — This is not to admonish anyone about their spending habits. Yet, just the effort of sitting down and mapping out the family income and expenses each month, without doing anything else, can be revealing. It will pinpoint where your money is going — in debt repayment, entertainment costs, daily expenses, commuting costs or others. As a result, you may be able to determine areas on which to focus in order to bring spending into better balance.

Cut Consumption — Minor reductions in consumption can lead to meaningful savings that can be put towards building an investment portfolio or other worthwhile cause. Some ideas? Consider that skipping the $5 coffee each workday for a year could achieve annual savings of $1,250. Or carpooling to work could save on gas and parking. There may be an opportunity to prioritize and cancel memberships or subscriptions. Or, avoiding lifestyle creep to "keep up with the Joneses" — the pressure to buy certain things because others around you have them.

With some forethought, you can build your own list of possible savings that fits your lifestyle and circumstances. You may surprise yourself with what you can achieve. Finding just $3,000 in savings each year can accumulate to over $100,000 in just 20 years if invested at a five percent rate of return. Not a bad basis for a real investment program!

Who Wants to Be a Millionaire? Use the "Gift" of Time — One of the greatest gifts that most young people have is time, largely because of the significant impact that compounding investments can have over time. It may surprise many young people, but the ability to become a millionaire is well within reach if you start early. Consider that at a rate of return of five percent, a 25-year-old who invests $655 per month could achieve $1 million in 40 years, by the time they reach age 65. By starting 20 years later, that same individual would need to invest $2,433, or almost four times the amount each month to achieve the same outcome (chart below).

Chart: Monthly Investment Needed to Reach $1M Over Time

	At Average Rate of Return of...		
Time	**4%**	**5%**	**6%**
In 20 years...	$2,726	$2,433	$2,164
In 30 years...	$1,441	$1,202	$996
In 40 years...	$846	**$655**	$502

*Assumes monthly compounding at annual rate of return. Taxes, fees & inflation not included.

The bottom line? Success in building wealth is often within reach for many of us...and it can all start with saving!

Stuart Holbrook, B.A. Economics, FMA, PFP®, CIM®
Wealth Advisor & Portfolio Manager
204-925-2273
stuart.holbrook@nbc.ca

Ann Mallare
Associate
204-925-2275
ann.mallare@nbc.ca

1000 – 400 St Mary Avenue
Winnipeg MB R3C 4K5
Toll Free: 1-800-461-6314
Fax: 204-942-6194

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

HOLBROOK WEALTH MANAGEMENT GROUP