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Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Tax-smart investing is a year-round concern

Spring is tax-filing time. But, from an investing perspective, there is no wrong time to consider the tax implications of choosing, organizing, or selling investments for your portfolio.

Choosing investments

Any discussion of investments and taxes should start with the old adage: don't let the tax tail wag the investment dog. The best investments for you are the ones that will help you meet your goals while also being appropriate for your time horizon and risk tolerance. Any tax advantage should always be a secondary concern.

Organizing investments

It's important to know that different kinds of investment income are taxed differently in Canada. Interest income, often earned from Guaranteed Investment Certificates (GICs) or bank account interest, is taxed like earned income and is the least efficient from a tax perspective. Canadian Dividend income is taxed at a lower rate thanks to the Canadian Dividend Tax Credit, and income from capital gains is more tax-efficient, as only 50% of the gain is taxable. Equity-type investments such as stocks are the most likely sources of dividend and capital gains in your portfolio.

With this in mind, it may make sense to hold investments that pay interest income in registered accounts like Registered Retirement Savings Plans (RRSPs), which defer the tax, or Tax-Free Savings Accounts (TFSAs), which eliminate the tax liability.

Selling or moving investments

Taxes can be an important consideration when you sell an investment or move it from one account to another. For instance, for most investments that have capital appreciation, the taxable gain is only triggered when you sell them. Withdrawals from your RRSPs will also incur a tax bill, unless they are for an allowed purpose such as the Home Buyers Plan. You can also trigger a tax liability (in this case, a "deemed disposition"), by transferring an investment from a non-registered account to your RRSP.

If you're looking to draw a regular income stream from your investments, designing a tax-efficient draw-down strategy is key. Then, rely on professional assistance to maximize your after-tax income.

Next steps. Being tax-savvy with your investments is a key element to building your wealth over the long term and generating efficient income when you need it. It can require some specialized knowledge and a holistic view of your individual situation. We can help you get it right.

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Whatever the investment markets are doing, it's important to keep in mind what ultimately matters – the good health and well-being of you and your loved ones. Despite the financial bumps, life does go on: The kids or grandkids are growing up and retirement continues to get a little closer. The best way to stay on track is to have a portfolio review where we take stock where you stand now, revisit your life goals and financial targets, and make any changes that are necessary. Whether it's for some hand-holding and perspective, or to make necessary changes, we're always here for you.

NASH
Family Wealth Management

Living through a market downturn is part of investing. Here's how to keep perspective.

At the beginning of 2020, investors could be forgiven for having forgotten this truism of stock market investing: what goes up can also come down. The bull market in stocks had begun in 2008 and, despite some hiccups, there were no bears to be found for over a decade. The arrival of the COVID-19 virus changed all that – and quickly! After days and days of sell-offs, a bear market (meaning a drop of more than 20% in value) reared its head in mid-March for many of the major indexes around the world.

When the daily news is full of stories of "sell-offs," it can be tempting to feel that maybe you should be joining in. But to keep perspective, and avoid panic, consider these six points:

1. Losses have already happened. If a market downturn leads you to sell your holdings, then you will have locked in the losses that have already happened. That means there's no way to recover those losses. Of course, prices could fall further – no one can predict the future. But selling ensures that you can't participate in any recovery in prices on holdings that you have already sold.

2. Sell-offs don't discriminate. During times of market panic or broad-based selling driven by news events, sellers often don't take the time to evaluate the quality of their holdings in the same way they did when buying them. If you, or your advisors, carefully chose a stock or a fund as a good quality, long-term holding for your portfolio, ask yourself why that's not still the case. Chances are that over time the market will recognize the inherent value of that holding and its price will return to a more reasonable level.

3. Rebounds are unpredictable. Investors who stay in the market are sure to be participating when the market recovers. There are no guarantees, of course, but markets have recovered from many calamities including 9/11, the Eurozone crisis, the Great Recession of 2007, and many more. However, the shape and the timing of any recovery is nearly impossible to predict. Some rebounds are "V-shaped" with a quick fall and an equally quick recovery, while others are "U-shaped," taking longer to make a comeback. If you are looking to take money out and time the recovery before getting back in, you are attempting an almost impossible task.

4. Equities are only one part of your portfolio. Trust the power of diversification – it is intended for times like this. The point of having a diversified portfolio is that when one asset class (like equities) is having a tough time, the other parts (like fixed-income and cash equivalents) are mitigating those losses. Sometimes looking at the overall value of your portfolio rather than the daily close of the TSX or the S&P 500 can help you keep perspective.

5. What (and when) are you investing for? Keeping your investing time horizon in mind may help you stay the course. For instance, if you are investing for your retirement and that date is 15 years away, today's downturn may be a forgotten memory by then. You certainly have time to participate in any recovery. If you're close to retirement or have shorter-term investing goals, then your portfolio will likely reflect that with a greater share invested in less volatile investments. If you're not sure where you stand, or your goals have changed, it's probably time to revisit your investing strategy.

6. Professionals are at work on your behalf. Many of the questions and concerns that you are dealing with at times like this, professional investment advisors and money managers deal with every day on behalf of you and all the other investors they serve. Plus, they have access to added information sources, investment expertise and, more often than not, the lived experience of having guided clients and portfolios through previous market turmoil. Remember that you have that expertise and perspective already at work for you.

Next steps. Even the most experienced and knowledgeable investors need some hand-holding during tough markets. Don't hesitate to seek our counsel to keep news and market events in perspective, and to revisit how your investments are doing in relation to your long- and short-term goals.

How have world epidemics affected global markets before?

As shown in the adjacent table, the effects of global epidemics and pandemics, like those of many more common viruses, tend to be short-lived when it comes to world stock markets. No two situations are alike, however, and the ramifications of COVID-19 remain to be seen.

EPIDEMIC	YEAR	MSCI WORLD INDEX		
		1 month	3 months	6 months
SARS	2003	8.64%	16.36%	21.51%
Avian Flu (H5N1)	2006	-0.18%	2.77%	10.05%
Swine Flu (H1N1)	2009	10.90%	19.73%	39.96%
Ebola	2014	-0.09%	2.37%	4.37%
Zika	2016	-6.05%	-0.88%	-0.57%
Ebola	2018	-7.42%	-13.74%	-3.49%

Note: Past performance is no guarantee of future results.

Source: *Market Watch* (marketwatch.com), February 24, 2020. https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22

Why a digital estate plan has become a necessity

Just a few years ago, the idea of a digital estate plan seemed like an issue for the distant future. Now that has all changed as we hear about those who have passed away leaving loved ones unable to cancel social media pages, unlock online photo libraries, or locate accounts for financial products purchased and managed only in the digital realm. The time to think about our digital estate has come. Here are a few things to consider:

Documents. Our financial "papers" are seldom on paper anymore. Are key documents like your Will stored on your computer? Could your loved ones or your executor/liquidator find them? Or, are they protected with passwords only you know? Consider having paper back-ups stored in secure places like a home safe or a safety deposit box. If you used a lawyer, make sure they also have a copy of your most recent estate plan and Will.

Accounts and passwords. So much of our financial life now takes place online: banking, access to our investment accounts, and much more. But, also consider the number of financial commitments you have entered into online – everything from your Netflix or Spotify service to software subscriptions to auto club and other memberships. Many of these payments will continue until cancelled, or until the method of payment such as a credit card is shut down. A quick glance at your credit card statements may reveal just how many of these contracts you have. Consider maintaining an up-to-date list of these digital commitments.

However, don't include your digital passwords on a list for the benefit of your executor. That exposes you to risk now and liability if you suffer a breach of security, as you will have failed to adequately secure your passwords as most agreements require you to do.

Digital assets. One of the most shocking cases of the loss of digital assets happened in early 2019 after Gerald Cotten, the 30-year-old CEO of Quadriga, Canada's biggest cryptocurrency exchange, died while travelling in India. His sudden death left the company unable to gain access to $145 million of Bitcoin and other digital assets.

While Bitcoin ownership is limited to less than 5% of Canadians, almost all of us have digital assets of some kind. For instance, about 90% of Canadians have a loyalty program card and, on average, have four loyalty cards in their wallets.[1] Some of us have the equivalent of hundreds or thousands of dollars' worth in points. What happens to them if we die? Some programs allow for a transfer of points value; others do not.

Increasingly, expensive assets like seasons' tickets to big league sports teams exist only within a digital app behind a password that only you know. Online photo libraries, with thousands of personal memories, are other digital assets that are easy to overlook. Again, the key here is to document the existence of these assets while protecting your identity and security.

Social media. With some social media sites, such as Facebook, you can take action now by choosing the permanent deletion of your account when you die or the continuation of a "legacy" page which can stay active as a memorial. Create an inventory of your social media accounts, alter the settings now (if applicable), and leave instructions for your executor as to your wishes.

Next steps: Digital estate planning is a new and growing area – and estate law has trouble keeping pace with our ever-evolving digital lives. As with all estate matters, follow these golden rules: don't procrastinate, document your assets, communicate your wishes, and make sure the right people can find the information when it's needed.

1. "Reward programs are shifting - here's what Canadians need to know." *The Globe and Mail,* March 21, 2018.

A complete picture helps you make better choices

Your investment plan is an important part of your plan for financial success and well-being. It's not the only element, however, and by making sure that all the parts of your personal financial situation work together, you can enhance its value and power.

Here's a look at the potential benefits of a "big-picture" approach.

Minimize tax. Are you holding your investments in the most tax-efficient manner? For example, the interest income generated by investments held outside of a registered plan is fully taxable at your marginal rate. Within a registered plan, it's tax-deferred. Repositioning your holdings may save you hundreds or even thousands of dollars in tax every year.

Tax rules can be complex, of course. Professional assistance can help you explore the possibilities and avoid potential tax traps.

Optimize RRSPs. People often have more than one Registered Retirement Savings Plan (RRSP). Perhaps they've dealt with several companies in the past or have forgotten about small plans opened long ago. Others may have opened separate RRSPs to access different kinds of investment opportunities.

Maintaining separate accounts can result in investment gaps and duplication. Consolidating your RRSPs may make them easier to manage and improve your asset allocation. You might also save money on administration fees.

Coordinate pensions, RRSPs and TFSAs. People often make RRSP investments without considering their employer-sponsored pension plans. Yet when RRSPs and pensions work together, the result can often be a larger nest egg to meet your retirement needs. If you are using your Tax Free Savings Account (TFSA) to save for your retirement as well, then consider coordinating all three for maximum benefit.

Also, factor all of your plans into your personal asset allocation. A defined-contribution plan, in which you make investment choices, can be fully coordinated with your RRSP and TFSA. A defined-benefit plan with a guaranteed payout can be considered similar to a fixed-income asset, so that your other investment plans could be more aggressive than they might otherwise be.

Consider your mortgage. Finding the best rates and features when taking out or renewing a mortgage can reduce your long-term interest costs substantially and cut years off your mortgage. Paying down your mortgage early frees up additional cash for investment elsewhere.

Coordinate insurance. You may not think of insurance as part of your total financial approach, but it's not a factor to overlook. Adequate life and disability coverage are necessary to protect your income, your family, and yourself. Duplicate coverage may mean you are paying more than needed and are diverting funds away from other financial priorities. Be sure to consult a licensed insurance professional for assistance.

Next steps: We can help with a holistic view of your investment plans. A portfolio review can be a great way to help you benefit from examining your full financial picture.

Investing

These safer options are essential

Cash or cash-equivalent investments are perhaps unexciting, but nevertheless are essential parts of any portfolio. This asset class could include money-market investments such as Treasury Bills (T-Bills), Money Market Funds, a High-Interest Savings Account, or even cash itself. Here's how these help:

Provides liquidity. Liquidity means the investment can be converted to cash at a moment's notice without any significant loss of value. If you have an unexpected obligation or opportunity, the liquid part of your portfolio enables you to have funds at the ready.

Permits short-term savings. If you set a very short-term savings goal, these investments may be the best option to save your money with no or little risk.

Acts as a 'parking lot.' In managing your portfolio or in your financial matters, in general, you may have money "in transition," that is to say, between two longer-term uses. These investments are classic ways to provide safety and perhaps still generate a small gain while waiting.

Accommodates time out of the market. In certain market conditions, it may make sense to take some money off the table and increase the cash portion of your asset mix.

Serves as emergency savings. A prudent financial plan allows for emergencies, often a fund equivalent to three to six months of salary. Because we don't know when emergencies will happen, these safe, very liquid investments can be ideal.

Next steps: If any of the above situations apply to you, let's schedule a review soon to examine which investments are right for your portfolio.

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