Spring 2021

Financial Focus

Tax-smart investing is a year-round affair

Tax is top of mind in the Spring as we face the filing deadline, although it's often too late to implement any changes that affect the previous year. The truth is, when it comes to investing, there is no tax season – it's a year-round concern. These three tips will help you take a smart approach.

1. Understand the different ways investments are taxed. In Canada, income from different types of investments is taxed differently. Interest income, often earned from Guaranteed Investment Certificates (GICs) or bank account interest, is taxed like earned income, at your highest marginal rate. It is the least efficient from a tax perspective. Dividend income is taxed at a lower rate thanks to the Dividend Tax Credit, and income from capital gains is even 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.

2. Take a holistic approach to tax across your portfolio. A holistic approach involves looking not just at the tax treatment of individual investments but across your portfolio as a whole. It may also be helpful to consider your financial situation beyond your investment portfolio, including real estate investments, cash savings, and your wages. For instance, if you are drawing income from your investments as well as earning wages from work, you'll want to make these different types of income work together in a tax-efficient way. Similarly, if you are close to retirement, you may want to begin rebalancing your portfolio to be ready to generate tax-efficient income.

3. Find the right balance between tax-advantaged accounts and non-registered investments. Canadians have access to several tax-advantaged account structures including, of course, Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs). Each has its advantages. While contributions to an RRSP can offer an immediate tax benefit, you'll pay tax at your full marginal rate on withdrawals. TFSAs offer no benefits on contributions, but all withdrawals – on the original investment and all profits – are tax free. Your goals, your age, and your financial situation will determine the best strategy for tax efficiency.

Next steps: Being tax savvy with your investments is a key element of building wealth over the long term and generating efficient tax income when you need it. Professional advice is key.

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Spring is traditionally a time of optimism. This year, more than most, we could all use an extra-large dose. Optimism is at the heart of all saving and investing: the belief that a dollar invested today will grow in order to make our future even better. We're optimistic about what the future holds, and we carefully tend to your investments to make that happen for you and your family. We look forward to checking in on your progress. We're available to meet virtually to discuss your progress when it's convenient for you. Let's talk soon!

NASH
Family Wealth Management

With health in the news, can investors benefit?

The investment markets in 2020 surprised us all by being resilient to the shocks that accompanied the pandemic. Nevertheless, some sectors have prospered and some have struggled in this "new normal." With health care, hospitals, vaccines and treatments in the news, investors may wonder whether there is opportunity in the health care sector. For interested investors, here are a few themes to consider and explore.

A diverse market sector

Health care is a large segment within most advanced economies, comprising a wide variety of companies that provide all kinds of products and services. These include well-known areas such as pharmaceuticals (the companies researching and manufacturing drugs and other remedies) as well as health care providers (those running services including hospitals and clinics). Health care equipment and medical supplies are other traditional areas. The sector also includes new and innovative industries such as life sciences and biotech companies using technology and scientific data to discover ground-breaking categories of drugs, novel medical advancements, and alternative methods to deliver health care services, like telemedicine.

These opportunities provide a wide spectrum of potential, but also a wide degree of risks. Conservative investors may like the predictability of traditional service providers and manufacturers. Those with a greater appetite for risk may seek out the innovators, but need to keep in mind that many medical discoveries don't translate into commercially successful drugs or products – and the risks are considerable.

For instant diversification, health care specialty funds may offer exposure to all sectors within the health care spectrum, but check the Fund Facts to understand how they are managed. Conversely, some small-cap, medium-cap, and technology specialty funds may offer a way to explore the innovators.

Big countries, big players

When it comes to health care companies, not all countries are created equal. Canada, for instance, is not a major player. In fact, health care represents only about 1.3% of our large-capitalization firms in the market. Contrast this with the heavy hitters like the United States and Japan, where health care companies represent 14% and 13% of large-cap companies, respectively.[1]

Within the health care sector, countries vary greatly by industry predominance as well. The U.S., Japan, and Europe all have a large pharmaceutical industry with several global powerhouses each. In biotech, the U.S. dominates with 48.2% of the firms in the industry, while companies in the Asia Pacific area hold 24% of the market.[2] In generic drugs, three of the largest five manufacturers are located in India and Israel.[3]

To access health care companies not listed in Canada, consider global equity funds that have a large proportion of assets invested in this sector. Similarly, it's likely that many U.S. equity funds will have large health care segments in their portfolios. Remember to check the Fund Facts of these funds for details on their allocations to health care, the segments and companies invested in, and the risk profiles associated with them.

Next steps: Regardless of how the COVID-19 pandemic plays out, health care remains a massive industry with companies of all shapes, sizes and focus that offer interested investors many different ways to share in the possibilities associated with caring for the global population. If you'd like to understand how your current investments are exposed to health care opportunities and explore further, let's schedule a portfolio review.

1 MarketLine Industry Profiles. *Global Biotechnology.* December 2019. Cited in *The Top Countries for Biotech Firms and Research.* August 2020. https://www.thoughtco.com/ranking-the-top-biotech-countries-3973287

2 Siblis Research. *Sector Weightings, Canadian, U.S. and Japan Stock Markets.* December 2019. https://siblisresearch.com/data/tsx-composite-sector-weights/

3 European Pharmaceutical Review. *Top 5 Generic Drug Makers.* July 2019. https://www.europeanpharmaceuticalreview.com/article/93095/top-five-generic-drug-makers/

On the bleeding edge: trends in health care

Investors looking to understand options for the future may want to consider the emerging trends in science and technology poised to transform this sector in the coming years. The World Economic Forum has identified[1] these five key trends:

Gene therapy. This therapy works by targeting a missing or non-functioning gene in a patient's DNA, and then adds or replaces it with a working gene to generate a needed protein. For example, tests have targeted the E1A and P53 genes that cause cancer cells to die or revert to normal.

Personalized medicine. Tailoring a treatment or drug regimen to the unique needs and genetic makeup of an individual patient to obtain better outcomes defines this approach. Scientists can now identify glitches in DNA scripts that reveal which drugs may be dangerous or ineffective for certain patients, or can calculate dosages at individualized levels for optimal outcomes.

Immune-oncology. Advancements in cancer research are looking to encourage the patient's own immune system to fight cancer cells to beat the disease. By modifying the immune system to recognize that cancer cells are foreign and attacking it, this treatment avoids the issue of traditional therapies which kill healthy cells as well as cancerous ones.

Artificial intelligence (AI). AI is already crunching data to improve diagnostics, drug development, and clinical trials. For example, machine-learning algorithms have improved our ability to automatically detect evidence of conditions such as lung cancer, stroke, and diabetic retinopathy in medical images, thereby making diagnostics cheaper and more accessible.

Digital wearable devices. "Wearables" offer patients and their health care providers the promise of a wealth of personal data to better manage chronic conditions. From specific devices like smart glucose pumps for diabetes to broad approaches such as the health functions of digital watches, these inventions look set to become a ubiquitous part of our lives.

1 World Economic Forum. *5 Key Trends for the Future of Healthcare.* January 2018. https://www.weforum.org/agenda/2018/01/this-is-what-the-future-of-healthcare-looks-like/

Investing into the recovery: three ideas to consider

As a COVID-19-triggered global recession turns toward a vaccine-led economic recovery, what are the economic and investment themes likely to be in play in the markets? Here are three ideas to consider.

First, a few words of caution: It's important to remember that no two recessions and no two business cycles are identical and, thus, it's impossible to predict future market performance. Keep in mind, also, that concepts like the business cycle are not absolute nor rigid, and not all experts will agree what stage an economy is at. Nevertheless, patterns do exist. Investment theory tries to make sense of those patterns and the available economic data to help us understand what might be going on at a given time.

1. Don't let fear keep you on the sidelines for too long. History has shown that stocks can deliver some of their best returns early during the market cycle – even though, to many on "Main Street," it feels like the downturn isn't over yet. This effect may feel especially true during this pandemic, when those suffering most are small neighbourhood businesses like restaurants or hairdressers.

2. Don't shy away from stocks, especially large company stocks. At the end of a recession, interest rates are often low, which is positive for equities. Large companies, especially, may be well positioned to put cheap capital to profitable use. A rebound in corporate earnings (typical of the early stages of a recovery) is also positive for stock valuations. Further, many of the businesses that have done well during the pandemic are large corporate entities with the financial heft to endure economic crises or supply the products and services that are in demand in our lockdown lifestyles. Companies providing digital and at-home services, in particular, continue to fare well.

3. Do consider what's changed. Returning to positive markets doesn't mean returning to yesterday's economy.

Consider what has changed during the pandemic, including consumer spending habits and technology adoption, to determine which sectors will prosper going forward.

It's important to make a distinction between short-term effects and profound, substantive changes to our society and economy. Lockdowns have decimated companies in the travel, tourism, and hospitality sectors while grocery, home improvement, and digital services have excelled. But, as societies open up, will these trends reverse? Some have predicted that consumers, once freed from lockdown, may go on a travel and hospitality binge lasting two or three years.

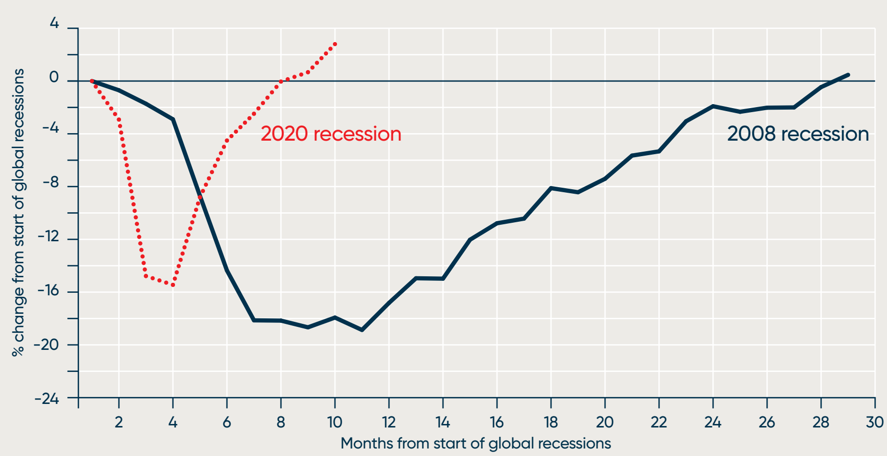
Long-term trends, such as the move online for many businesses, were already under way and have rapidly accelerated during the pandemic. And, it seems likely this will continue apace even after recovery.

Next steps: Whatever is happening in today's markets, remember that your investment decisions should be driven by your personal portfolio goals and your individual tolerance for risk. Seeking professional investment advice is the best way to assess the opportunities ahead.

Signs of life: global trade has fully recovered

In a typical recession, consumers tend to reduce their consumption of goods more than their consumption of services. However, in last year's downturn, service consumption took a hit from shutdown measures, leaving a larger share of spending to goods. As this chart demonstrates, global trade volume by September 2020 had fully recovered from the pandemic – only seven months after the start of the recession. This is four times faster than the 29 months it took for commerce to recover in the wake of the 2008-2009 financial crisis.

World trade volume since beginning of the recessions* (2020 last observation: September)



*July 2008 and February 2020. NBF Economics and Strategy (data via CPB)

Source: NBF Economics and Strategy, *Hot Charts*, November 25, 2020 (Vol. XXI, No. 62)

Your legacy: match your charitable giving to your values

Charitable giving can be an important part of your financial life, both now and in your estate plan. It gains in meaning when your gifts are connected to values and causes you care about. It sounds simple, but articulating our values and turning them into an effective charitable giving strategy can be difficult. Many of us simply default to giving to well-known organizations. Instead, consider developing a meaningful giving plan using these four steps.

1. Reflect upon your values. Do you have a strong sense of your core values? Some of us have deep and abiding connections with our faith or ethnic communities. Some of us have a long history of volunteering or community involvement. Still others have strong political associations or engagement with social causes. As philanthropy experts advise, how we live our lives offers the strongest clues to what our core values are.

But others live quieter lives, and here it can still be instructive to look at how we spend time. Do you have a cottage, like to camp or hike, or spend time outdoors? Maybe land conservation, wildlife protection, or animal welfare means a lot to you. Do you love to read, or read to your grandchildren? Maybe the arts, literacy, your local library or supporting up-and-coming writers holds meaning for you. Were your college or university years a transformational experience for you intellectually, socially, or in terms of the opportunities it provided? Perhaps education is a key value.

2. Consider your desired impact. Even if you have a clear sense of your values and the causes you might like to patronize, there is likely to be a wide range of impact your support could bring about. Consider the above example of higher education. Within a university setting you could support primary research, a chair or award in teaching, or very direct financial assistance for students through scholarships, bursaries, or emergency funding. While all are welcomed by the university, different priorities may be more meaningful to you based on your values or personal experience. If you have the means to do so, you may even be able to create a type of impact that doesn't currently exist and which could add a new layer of meaning to your generosity.

3. Explore organizations that align. With a better sense of your values, and the causes and impact you'd like to support, you are ready to find organizations that match your goals. Because this is your charitable giving plan, a fundamental requirement will be that the organization has charitable tax status. You may want to attach other criteria such as geographic reach (is it Canadian or international in scope?) or the percentage the organization spends on administration versus programming.

While this step can seem daunting, you are not alone. Most large charitable institutions and universities have departments to assist donors and will be happy to help you find a meaningful way to give. Omnibus organizations like United Way/Centraide, Imagine Canada, or the Community Foundations in large cities including Vancouver, Toronto, and Montreal (as well as many smaller towns) are set up to help donors find ways to fund initiatives that may align with your intentions, but which may be hard to find on your own. If using a Donor-Advised Fund is part of your plan, they also offer the ability to sustain a wide variety of charities through their structures.

4. Connect now, later, or both. Chances are this process will inspire a sense of connection to the causes and groups that are aligned to your own values. You may even want to get involved offering your time or expertise. Now is also the stage at which to consider the financial practicalities. Do you want to start contributing now, or is this a part of your estate planning? A joined-up charitable giving strategy can encompass both. If you want to start now and hold off on the estate planning, be sure to seek professional financial and tax advice about adding charitable giving to your financial strategy and investment plans. If you are focusing on estate planning, it is especially important to bring all your legal and financial advisors together to ensure your plans are clear, consistent, and co-ordinated. This is particularly true if your plans will involve gifting assets like securities.

Next steps: The ability to engage in philanthropy is one of the most satisfying aspects of financial success. To create a meaningful legacy for ourselves and our world provides one of the truly great rewards of our lives. If we can help you get there with the financial parts of your plan, we'd be honoured to help.

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