

# Financial Focus

## Taking care of your financial peace of mind



Investors generally felt optimistic when 2022 began, following a banner year of stock market performance. In the U.S., the S&P 500 Index reached record highs in 2021, and at home the S&P/TSX Composite Index posted a 25.1% total return.

But market corrections can come out of nowhere. Markets turned volatile in the early months of 2022 and when the correction struck during spring, investors saw their portfolio value drop.

It's perfectly normal to feel anxious when your investments lose value, but there are ways to look at the situation that can help you stay calm.

### Ways to view volatility

First of all, bear markets or corrections have always been with us, and every time the markets have recovered. The market plunge triggered by the 2020 pandemic was followed by a quick recovery, whereas the market fallout resulting from the 2008 financial crisis had a longer recovery period. Patience may be required, but market corrections are historically followed by recoveries and, eventually, bull runs.

You can also look at a down market as a buying opportunity. By continuing to invest, you accumulate

more shares or fund units when prices are lower, aiming to profit when markets eventually recover.

Another important viewpoint is to see the longer time horizon. Say an investor is 10 years away from beginning to withdraw funds to provide retirement income. That's typically plenty of time to allow for a market recovery and to position their portfolio to fund their retirement. Focussing on the long-term objective, not on short-term volatility, can be helpful psychologically.

### Talk to us

Finally, if you feel anxious about the market's effects on your portfolio, please talk to us. We can help reassure you that temporary pullbacks won't prevent you from achieving your longer-term goals – and that support can go a long way to giving you financial peace of mind.

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Some financial to-dos must be completed by year-end; start tackling them soon and you'll have an easier December. If you have a Registered Education Savings Plan (RESP), you must contribute \$2,500 by December 31 to trigger the Canada Education Savings Grant of \$500 for 2022. You'll need to make any charitable donations by year-end if you want receipts for your 2022 tax return. If you plan on making a Tax-Free Savings Account (TFSA) withdrawal in the near future, see the *Financial Tips and Strategies* on Page 4 to find out why this year is better than waiting until January 1 or later.

## Achieving multiple financial objectives

Do you remember the days when multiple financial goals meant saving for the down payment on your first home while putting a little away in your Registered Retirement Savings Plan (RRSP)?

Then life happened. Add education savings to the mix, an emergency fund, and saving for family trips or a vacation property. Soon enough you're juggling half a dozen or more financial goals, and it can feel overwhelming.

### Two traps to avoid

If you ever attempted to meet multiple goals before you had an advisor, you may be aware of two common traps. The first is over-committing to near-term goals, which is tempting because they're more easily attainable. But that spells trouble if you underfund long-term goals that rely on early contributions for compound growth.

The other trap is spreading your money thinly among too many goals without prioritizing needs over wants. You fall behind on everything.

Understanding these traps can give you a better appreciation of what's behind an effective plan.

### Creating a balance

Your investment program is the result of a strategic plan that properly distributes your monthly savings

amount across short-term, medium-term and long-term goals.

**The process.** It all begins by listing your current goals, categorizing them by time horizon, and prioritizing your goals according to needs and wants. Next is determining each goal's total cost and breaking down that sum into an amount to save annually, and ultimately each month or pay period. This stage requires some give-and-take to find a balance where short-term goals can be realized without putting long-term goals at risk.

Next, we recommend which registered or non-registered vehicles (or a combination) suits each goal. We then choose the asset allocation between fixed-income, cash-equivalent, and equity investments appropriate for each goal based on the time horizon and on your personal risk tolerance.

### Targeted or blanket approach.

Most often, when matching goals to investment vehicles, we use a targeted approach. This is where a goal is assigned to one or more vehicles, with specific investments designated to meet that singular goal. For example, the goal of building an emergency fund for retirement years might be assigned to one spouse's Tax-Free Savings Account (TFSA), using a conservative mix of fixed-income and equity investments.



Sometimes a blanket approach is used where a pool of investments covers several goals with similar time horizons. An example is a large allocation of fixed-income investments in a non-registered account that meets a variety of short-term needs, like a bathroom renovation or the down payment on a new car.

### Monitoring your goals

We regularly review your goals to make sure they remain on track – and make adjustments if needed. Also, we monitor each goal's time horizon, making the asset allocation more conservative as you approach the time you'll begin to access funds.

Changes are also made if a life event affects your financial status. For example, someone who makes an equalization payment in a divorce may need to scale back some spending, whereas a couple who just paid off their mortgage may be able to fast-track one or more goals.



## Tell us when your goals change

As life evolves, financial goals change: a child becomes engaged and you'd like to cover the wedding costs; you wish to go on a long overseas trip; your child announces they aim to study medicine out of province.

All of these changes in financial goals have consequences. You may have the challenge of needing to save more, or to decrease the amounts you dedicate to existing goals. You may gain the opportunity of having freed-up cashflow to apply to other goals. So, keep us up to date whenever you have a financial goal that's attained, new, abandoned, or modified.

## What to do if you're asked for a loan

One of these days, a friend or relative might ask you for a loan. Sometimes, whether to grant their request is an easy call.

If the person is close to you and has a genuine need, you may be inclined to provide the funds. But if the person isn't always responsible and you question how the money will be spent, you might want to say no.

### Weighing your decision

It's the decisions in the grey area which are more difficult, but here are some considerations that may prove helpful.

You can begin with the loan amount. If it's a large sum, perhaps capital for a start-up, consider whether the loan might affect your

financial situation. Will there be tax consequences in accessing the funds? Will you put your own savings goals at risk?

Think of the consequences if the loan doesn't remain confidential. Other friends or relatives might approach you for loans at any time.

Imagine your reaction if your relative or friend was unable to pay back part or all of the money. If you'd feel resentful, you should ask yourself if helping out is worth the risk of a weakened relationship. But, if you imagine no ill will, granting their request will be much easier.

### Saying yes or no

If you decide to give the loan, consider the terms. Are you fine with



keeping the loan open-ended, or do you prefer to discuss the timing of repayment?

If you decide against the loan, it may be easier to say that it's not personal. You could explain that money issues have been known to harm relationships, and you don't want to take that risk.

## Choosing the beneficiary for your RRSP or RRIF

Tax planning is often behind the choice of a beneficiary for a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF).

If you name a "qualified beneficiary," they can receive RRSP or RRIF assets tax-deferred. A qualified beneficiary is your spouse or a financially dependent child or grandchild. If you name any other beneficiary, your RRSP or RRIF assets would be taxed as income on your final return.

**Designating your spouse.** When you designate your spouse as the beneficiary of your RRSP, the plan will be wound up upon your passing, and assets can roll over tax-deferred to your spouse's RRSP.

With a RRIF, you have a second option. You can name your spouse as a successor annuitant, in which case your spouse simply takes over the existing RRIF. It's a smoother transfer than that of a beneficiary designation, with less planning and reporting required. But, naming your spouse as the beneficiary of your



RRIF does offer flexibility. For example, there may be tax-planning reasons to leave some RRIF assets in the estate, with the balance going to the spouse's RRIF or RRSP.

**Naming a non-qualified individual.** If you name a non-dependent child, grandchild or another person as the beneficiary of your RRSP or RRIF, they'll receive the assets tax-free. But keep in mind that your estate pays the tax, so you must plan for that tax liability.

**Leaving a charitable gift.** If you plan on leaving a charitable gift, naming a charity as the beneficiary of your RRSP or RRIF offers significant tax benefits. Your estate would receive

a tax credit for the donation equal to the amount of the RRSP or RRIF assets. Typically, the tax credit offsets the tax payable on plan assets – so the estate pays no tax on the RRSP or RRIF proceeds.

**Naming your estate.** Some financial commitments or tax situations may call for naming the estate as the RRSP or RRIF beneficiary. For example, you may need to help fund a trust or cover capital gains tax on a vacation property.

Note that Quebec residents must use their Will, not an RRSP or RRIF form, to indicate how they want registered plan assets distributed.

## Is a spousal RRSP still useful?

Contributions to a spousal Registered Retirement Savings Plan (RRSP) are tax-deductible to the higher-income spouse, and withdrawals are taxable to the lower-income spouse. But is this tax advantage still worthwhile in light of pension income-splitting provisions?



Today's pension income-splitting rules enable the higher-income spouse to allocate up to 50% of their eligible pension income, which includes Registered Retirement Income Fund (RRIF) payments, to the lower-income spouse. Although this makes spousal RRSPs less significant, there are situations when a spousal RRSP still offers unique benefits.

**Retiring before age 65.** If you're under age 65, pension income-splitting is primarily limited to payments from a registered company pension plan. You must be 65 or older to split income from a RRIF. But, if you retire before 65, you can supplement retirement income with spousal RRSP or spousal RRIF withdrawals taxed at the lower-income spouse's rate.

**Contributing to an RRSP past age 71.** If you have a younger spouse, you can continue to contribute to a spousal RRSP after you turn 71. This way, if you still have earned income, you can benefit from the RRSP tax deduction.

**Splitting more than 50% of pension income.** Pension income-splitting rules allow you to split up to 50% of eligible pension income. But, you can split more than 50% of your pension income by making withdrawals from a spousal RRIF, which can help equalize spouses' taxable income.

## Timing TFSA withdrawals

When you plan your year-end financial to-dos, it's a good idea to keep any upcoming Tax-Free Savings Account (TFSA) withdrawals in mind.

Say that someone has always contributed the maximum annual amount to their TFSA and plans to withdraw funds in the next few months to pay for a bathroom renovation. If they take out the money in January 2023, they can't replace those funds until 2024 – the year following the withdrawal.

But if the withdrawal is made by the end of December, the amount will be added to next year's TFSA contribution limit. They would have the favourable option to replenish the withdrawn amount anytime in 2023.



Note that this year-end strategy applies to individuals who have contributed their current lifetime limit to their TFSA. If you have TFSA contribution room available, you can contribute up to your allowable limit at any time.

## How often should you check your investments?



There was a time when investors would only view their investment performance every month or quarter. Today, with up-to-date account information available online or on a smartphone, many investors check their balances a couple of times a month, weekly, or even daily.

Active investors who are constantly buying and selling shares would have good reason to check their investments frequently. But traditional investors with well-diversified portfolios and a long-term objective are usually fine

monitoring their investment performance monthly, quarterly, or at even longer intervals.

If you do check your investments frequently and it doesn't affect your wellbeing, you're fine. However, it's a different story if you're prone to worrying.

While markets, historically, trend upward over time, any short-term period may consist of a series of upswings and downturns. Constantly witnessing this volatility reflected in your portfolio can be stressful. In this case, you may want to check your portfolio less often for greater peace of mind.