Silicz Birdsall Advisory Group

Newsletter

Winter 2019

In this edition

Charlene M. Birdsall
CPA, CMA, CIM, RIAC
Investment Advisor and
Portfolio Manager
204-925-2252
charlene.birdsall@nbc.ca

Michael Silicz
B.A. (Hons.), M.A., M.P.Adm., LL.B., RIAC
Investment Advisor and
Portfolio Manager
204-925-2265
michael.silicz@nbc.ca

Investing Resolutions for 2019

The year 2018 will be remembered as a difficult one for the Canadian equity markets. Trade tensions and tariffs imposed by the U.S. created ongoing volatility at home and abroad. Concerns over Canada's competitiveness have been put under the spotlight, the result of falling foreign direct investment, slowing gross domestic product growth and problems in getting our deeply discounted oil to broader markets. While the federal government acknowledged the need to support business competitiveness in its late November fiscal update, it remains to be seen how the proposed measures will help to impart change.

Despite these challenges, it is worthwhile to remember that the financial markets have faced similar situations over time and have eventually recovered to reach new highs. Longer-term investors are often at the mercy of developments that take place over the short run. Most often, we can't do much about them or their impact on the markets. But, as investors, we can focus on the things within our control. In this time of new year resolutions, here are some ideas:

Keep Calm and Carry On — This is a good reminder that portfolio suggestions have been put in place to help weather the inevitable periods of volatility. This may include diversification and asset allocation, rebalancing where necessary, limiting the size of any one holding and focusing on quality holdings.

Keep perspective — Portfolio gains do not always occur at a steady state. Volatility in the markets remains one of the certainties of investing. While keeping expectations on an even keel may be difficult, focus on your longer-term objectives and keep building your investment portfolio with them in mind.

Put time on your side — Don't overlook the opportunity to continue saving for the future. Put time on your side and contribute to tax-advantaged accounts such as your TFSA (the January 2019 contribution limit is now $6,000!) and RRSP. A great way to build portfolios may be to turn lower prices to your advantage.

Invest in yourself — Follow through with your new year's pledge to eat better or get to the gym. Taking care of yourself can pay dividends to your financial well-being down the road. Consider that you may be able to work longer or reduce future health care expenditures if you stay healthy until a ripe old age. In the words of Warren Buffett: *"anything you invest in yourself, you get back tenfold, and nobody can tax it away or steal it from you."*

As we look forward, we hope that the year ahead will be full of happiness and success for you and your loved ones. Contact us anytime by phone or email if you have any questions about your portfolio.

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RIA Responsible Investment Association

Spousal RRSPs: Split Income, Save Tax

Over the years, the government has eliminated many income-splitting opportunities available to investors. However, if you have a spouse (common-law partner), a spousal Registered Retirement Savings Plan (RRSP) may be a good income-splitting opportunity for a situation in which you would earn a higher level of income in retirement, while your spouse will have little or no source of retirement income.

A spousal RRSP is a plan to which you contribute and for which you receive tax deductions based on your available contribution room, similar to a traditional RRSP. However, the difference is that with a spousal RRSP, your spouse is the annuitant, so any funds withdrawn are considered that spouse's income and must be included in his/her income tax return (except for funds to correct an over-contribution). As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you.

Be aware that income attribution rules may apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands. To potentially avoid these rules, you could instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP will be made.

While pension income-splitting rules allow you to allocate income drawn from a RRIF to your spouse for tax purposes, consider that this can only be done after reaching the age of 65. Pension income splitting is also limited to 50 percent of eligible pension income, which includes RRIF withdrawals once you are at least age 65. A spousal RRSP can provide income splitting at any age and can enhance the opportunity, since the full amount of the RRSP income may be included in the tax return of your spouse, who may have a lower tax rate than you. If you are over age 71 and have a younger spouse, it can delay the taxation of retirement income as the spousal RRSP can continue, without any minimum withdrawals being required, until your spouse reaches age 71.

RRSP Reminders

> 2018 Contribution Deadline: **Friday March 1, 2019.**

> **Turning 71 years old this year?** Please get in touch to discuss options for converting your RRSP.

SAVING FOR THE FUTURE

Dispelling the RRSP/RRIF Myths

Participation rates for the Registered Retirement Savings Plan ("RRSP") have been declining over recent years. In fact, some Canadians believe there is "no point" in investing in the RRSP because of the taxes due in retirement. To quote Donald Trump, that is "FAKE NEWS!" – an RRSP can provide a substantial tax advantage, even once it converted into a Retirement Income Fund ("RIF") at 71. Let's look at a couple of the myths:

Myth: There is no point in investing in an RRSP as you pay all the savings back in taxes when you retire.

While you do pay tax on RRSP withdrawals, don't forget that you received a tax deduction at contribution. This is often overlooked: people confuse pre-tax with after-tax dollars. A $4,000 RRSP contribution is equivalent to a $2,800 after-tax contribution to a non-registered account at a 30 percent marginal tax rate.

Myth: The RRSP is disadvantaged as investment earnings are subject to higher taxes, since withdrawals incur tax at regular rates, whereas capital gains realized in a non-registered account are taxed at a lower rate.

If you assume a constant marginal tax rate and adjust for pre-tax and after-tax amounts, the RRSP will generally outperform a non-registered account that holds identical investments. The chart below demonstrates this outcome, whereby a pre-tax contribution of $4,000 has been made for 20 years. The example assumes a 30 percent marginal tax rate and growth of capital at 5 percent over a 20-year period.

	RRSP Account	Non-Registered Account
Pre-tax annual contribution	$4,000	$4,000
After-tax contribution: 30% tax rate	n/a	$2,800
Total contribution over 20 years	$80,000	$56,000
Cumulative growth: 20 years at 5%	**$138,877**	**$97,214**
Tax at withdrawal at 30%	$41,663	$6,182[1]
Net after-tax amount	$97,214	$91,032
Difference	*+6.8%*	

1. Realized capital gain of $97,214 - $56,000 = $41,214 taxed at 50% inclusion rate.

The benefit is even greater if the individual has a lower marginal tax rate in retirement.

As such, don't overlook the tax-deferral benefits of compounding over time using the RRSP.

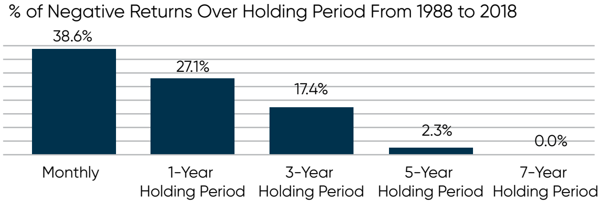
Volatility: More Common Than We May Think

For the Canadian equity markets, 2018 was a turbulent year — one that saw poor performance and increased volatility, with the Canadian market down 11% and the US market down 5% year to date at the time of this writing. While volatility in the equity markets may be a source of discomfort, did you know that it is more common than we may think? Here are some perspectives:

Volatility plays a common role in the equity markets. Consider this historical perspective on volatility: since 1970, almost 60 percent of the annual returns of the S&P/TSX Composite Index* have been year-over-year changes (either gains or losses) of greater than 10 percent. Almost 30 percent of the annual returns have been year-over-year changes of greater than 20 percent. Yet, even with these swings in both directions, over this period the index has had an annualized return of 5.9 percent (not including the impact of dividends).

The impact of volatility smooths out over time. On a monthly basis, the likelihood of the S&P/TSX Composite Total Return Index experiencing a negative return is 38 percent during the past 30 years. Yet, the probability of negative returns decreases as the time horizon increases. Over a three-year rolling holding period, the probability of a negative return is 17 percent and this drops to 0 percent when considering seven-year rolling holding periods and beyond.

% of Negative Returns Over Holding Period From 1988 to 2018



Source: S&P/TSX Composite Total Return Index from 9/30/88 to 9/28/18.

Volatility can provide opportunity. During temporary periods of downward volatility, the resulting price movements of many quality securities often do not reflect their long-term performance potential. This may provide a short-term opportunity to purchase good investments at a lower price. At the same time, remember that any decision to sell securities should not be based on an emotional reaction to volatile markets, as this can mean falling into the trap of selling securities at a low point.

As difficult as it may be in practice, try and keep perspective during periods of volatility. Fluctuations in the equity markets are a normal part of investing, and techniques such as diversification and asset allocation are meant to help minimize risk in portfolios during these inevitable times. Continue to stay the course and please call if you have any concerns.

Notes:*Uses S&P/TSX Composite Index returns from 31/12/1969 to 28/09/2018. Annual returns have been calculated from 31/12/1969 to 31/12/2017.

Fact or Fantasy: What's Your Retirement Plan?

Last fall, the U.S. Mega Millions lottery made history when it became the largest jackpot of all time at a whopping US$1.6 billion. Reportedly, at one point before the draw, lottery tickets were selling at a rate of 550 tickets per second!

The odds are that you won't win the lottery, yet surprisingly surveys continue to show that some Canadians plan on funding their retirement with a lottery jackpot.[1] Yet, the average Canadian has a much better chance of being struck by lightning:

Estimated odds of certain events:

Winning U.S. Mega Millions Lottery:
1 in 302,575,350[2]

Winning Canada's Lotto Max:
1 in 28,633,528[3]

Being hit by lightning:
1 in 300,000[4]

A More Viable Option?

In reality, the path towards having a million dollars in retirement may be well within reach for disciplined investors who have the luxury of time. Consider the use of the Tax-Free Savings Account (TFSA). If a 25-year-old started a TFSA at inception (in 2009) and fully contributed each year, the TFSA could yield around $1 million just after reaching the age of 70, assuming a compounded annual rate of return of 5 percent and a continued TFSA contribution limit of $6,000 per year beyond 2019.

Your TFSA: Have You Fully Contributed?

2019 TFSA Dollar Limit: $6,000

Lifetime Limit: $63,500 (for eligible residents, at least 18 years of age in 2009, who have not yet contributed)

Source: 1. canadianbusiness.com/blogs-and-comment/retirement-lottery/, 1/30/14; 2. cnbc.com/2018/10/19/the-rules-were-changed-making-odds-of-winning-mega-millions-so-slim.html; 3. https://lotto.bclc.com/lotto-max-and-extra/prizes-and-odds.html; 4. canada.ca/en/environment-climate-change/services/lightning/safety/fatalities-injury-statistics.html

Kids & Wealth: To Shirtsleeves in Three Generations?

There is a saying, *"from shirtsleeves to shirtsleeves in three generations,"* which suggests that wealth gained by a family can easily be lost in just three generations. As such, many wealthy families are now focusing on teaching children how to manage money to try and encourage its longevity.

Instilling sound financial values at a young age can be relevant for any family to improve financial success. Here are some ideas to get children started on the right path:

1. Start with Your Money Message

Cultivating a healthy relationship with wealth may begin by sending a message that may appear counterintuitive: It's not about the money. Too much focus on wealth can remove a child's sense of purpose and drive. Instead, define other family values to deemphasize family wealth. Questions about wealth can create meaningful discussions. For example, if a child asks: "are we rich?", it may provide an opportunity to discuss the realities of the world. Over 40 percent of the world lives on less than US$2/day, and there are different families: i) those who don't have enough; ii) those with just enough; and iii) those who have more than enough. Being in the latter group means that a family has enough to meet needs and wants, while still having funds to share.

2. Put Children to Work

Developing independence and a strong work ethic at a young age can prepare children for the real world. Children should have the opportunity to fail. This can start early, such as not taking a child's homework to school when they forget it, or not bringing forgotten hockey equipment on game day. Kids learn valuable lessons from consequences; you don't want to disable behaviours that can be carried into the future. Learning the value of a hard-earned dollar is also important, even if a child comes from a family that doesn't need the money. First jobs can foster solid work habits and help to develop money management skills like saving and budgeting.

3. Teach Kids Ways to Manage Money

Children can be taught the difference between needs and wants, as well as the value of saving. If a child is given only a set amount of funds, they can learn to prioritize. When money is earned or received as a gift, consider putting a portion into savings. You can then work with the child to define the purpose for these savings. Older children can be taught about compounding and investing to grow funds into the future.

4. Determine Your Family Strategy

Family meetings can be used to identify collective goals and create a sense of purpose. Some experts suggest that family members, including young children, develop a financial, intellectual and social capital goal for the year, documenting and tracking these goals.[1] The family can then review their progress and celebrate their accomplishments together.

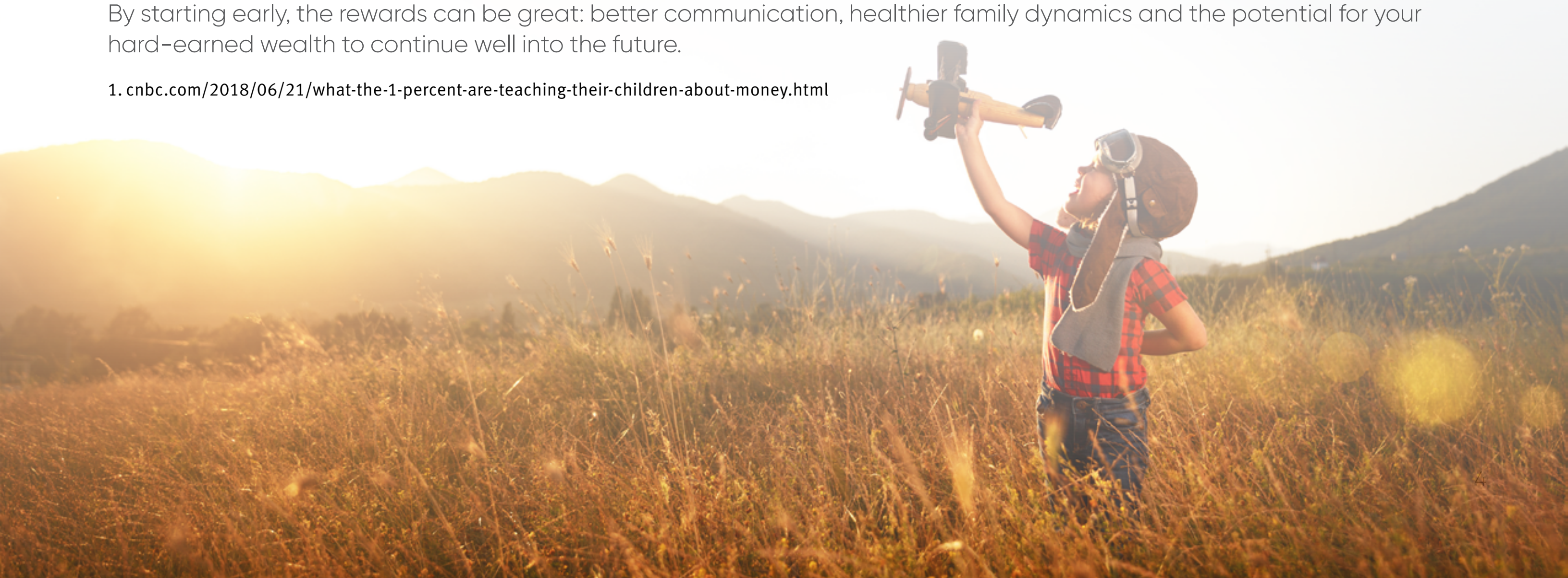
5. Give Back

Consider involving all family members in the process of giving back, such as making charitable contributions a family activity by volunteering together or donating in lieu of holiday gifts.

We Are Here to Help

These are just a handful of ideas, intended as a starting point. We can provide tools and resources for your situation. By starting early, the rewards can be great: better communication, healthier family dynamics and the potential for your hard-earned wealth to continue well into the future.

1. cnbc.com/2018/06/21/what-the-1-percent-are-teaching-their-children-about-money.html



Update Your Will: A Checklist

One of the most important estate planning actions you can take is to make sure you have a valid will. To die without one ("intestate") can have significant and perhaps undesired effects, including that your tax-planning or succession plans may be compromised as a result. This would be unfortunate, as a valid will is relatively inexpensive to put in place. It is also important that your will reflects your current circumstances, which requires a periodic review.

Look over the accompanying checklist to see if any adjustments are needed to your final instructions. If you answer "no" or "don't know" to any of the questions, perhaps a review is in order. Why not resolve to make your estate plan a priority for 2019? If you need assistance, please call.

Estate Planning: You & Your Will – A Checklist	**YES**	**NO**	**DON'T KNOW**
Do you have a valid will in place?	☐	☐	☐
If yes, have you reviewed it since 2014? Many experts suggest a review every 5 years.	☐	☐	☐
There have been no major life events recently? This may include birth/deaths, marriage/divorce, a move to a new province.	☐	☐	☐
Are the named executors/estate trustees still appropriate?	☐	☐	☐
Are all of your assets covered by the terms of the will? For example, if you have started a new business does it require special treatment or mention in your will?	☐	☐	☐
Have you considered the impact of taxes? Upon death, some investment accounts may be fully taxable, such as RRSPs or RRIFs. Others may be taxable only on income or capital gains. There may be ways to plan for tax, such as using a spousal rollover to defer taxes, or insurance to fund tax liabilities.	☐	☐	☐
Have you considered ways to reduce probate fees, if applicable (to your province of residence)? In some cases, this fee could amount to nearly 1.5 percent of the value of your estate.	☐	☐	☐
If needed, have you structured your will to help protect assets? This is often applicable for blended families or for business owners where potential creditors may be involved.	☐	☐	☐

Introducing... Chidi!

This season, our team's associate Kim Bautista's girlfriend Ashley brought home a bundle of joy! Meet Chidi! He is a 5 pound half Shih-Tzu, quarter Jack Russell and quarter Bichon. He has been quite energetic and an uplifting spirit during exam time for them; with Kim earning his B. Comm (Hons.) and Ashley earning her B. Sci (Eng.). Chidi enjoys chewing on everything he lays his eyes upon, whether it comes to socks or even the dining room chair. With a bit of training though, Chidi knows how to sit, lay down and roll over. Chidi is also getting used to being potty trained! The hardest part is that Chidi refuses to sleep in his bed, instead opting for small tight corners such as under desks or under the table. In a month or so they expect he will stop teething and stop biting everything. While he does have his moments, Kim reports Chidi's been very well behaved and a is a pleasure to introduce to everyone!

Charlene M. Birdsall, CPA, CMA, CIM, RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2252
charlene.birdsall@nbc.ca | charlenebirdsall.ca

Michael Silicz, B.A. (Hons.), M.A., M.P.Adm., LL.B., RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2265 — Toll free: 1-800-461-6314
michael.silicz@nbc.ca | michaelsilicz.com

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