

# Silicz Birdsall Advisory Group Newsletter



Autumn 2020



## In this edition

Navigating Through Uncertainty .....	1
Back-to-School Time: Keep Good Records .....	2
Year-End Tax-Planning Checklist .....	2
Estate Planning: Looking Beyond the Will .....	3
The Ongoing Importance of Diversification .....	3
Estate Planning: What Have You Told Adult Children? .....	4
What Comes After a Trillion? .....	5
From our Corner .....	6

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## Navigating Through Uncertainty

In August, Crew Dragon made history as the first crewed orbital flight using a commercial spaceship. It was a true lesson in navigating through uncertainty. The landing was highly automated compared to previous space missions, slicing through the atmosphere at 27,000km/hour in 1,900°C temperatures before slowing to 30km/hour for touchdown in the Gulf of Mexico.

Today, as a result of the pandemic, we find ourselves similarly navigating through uncharted territory. We have entered a new era of digitization, deglobalization and debt.

Technology continues to drive the speed of change. While it has helped to keep economies from completely shutting down during the pandemic, it has also changed the way many of us live, adapting work and play to the confines of our homes.

The pandemic has also accelerated the trend towards deglobalization, exposing nations' overdependence on global supply chains. Over the summer, the U.S. continued to take actions to protect its national interests, reimposing tariffs on Canadian aluminum, which were then lifted in September, and instigating further trade tensions with China.

In order to support economies, the world has become substantially levered. Debt can be helpful when it is used to finance productive assets and generate new wealth to help economies grow. But problems can happen when debt is overextended. While stimulus efforts have helped to prop up economies and asset prices during these difficult times, many questions remain. As stimulus measures wind down here at home, how will the economy acclimate to significant levels of debt? What will drive economic recovery going forward?

For many investors, today's concerns are likely different than those of the spring. The rebound of equity markets after the March lows created a disconnect between equity market performance and what was happening on the ground. Will the markets continue to push ahead? The more recent volatility we have seen in the markets should be expected during this particularly uncertain time. While we have experienced deflationary pressures in recent months, some wonder if inflation is an impending longer-term threat.

Given the continuing uncertainty, gold recently hit all-time highs. South of the border, the value of the U.S. dollar has been falling. U.S. containment efforts have been slower than expected, hampered by social and civil unrest. With just weeks until the Presidential election, all eyes will be on the U.S. as a change in leadership may be imminent.

During periods of extreme change, it is more important than ever to take advantage of professional advice in managing financial assets. Investing requires shifting gears on a continuous basis, particularly in assessing new situations. Fast-moving markets can mean additional risks, so careful review and monitoring of investments is vital. Balancing portfolio exposure to account for the many risk factors and potential economic outcomes can ensure that investing for the long term remains a profitable strategy.

As the successful return of Crew Dragon should remind us, overcoming uncertainty is often necessary for us to advance and progress. We continue to harness the inevitable changes so that your investments continue to work for you.

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## Back-to-School Time: Keep Good Records

If you have a student in the family attending post-secondary school, no doubt this may be a unique fall. While some students have left town to attend school in person, many are staying home for a semester of online learning.

For parents or grandparents, here are some reminders of the tax benefits available for students to help soften the ever-increasing cost of higher education.

**RESP** – Hopefully you already have a Registered Education Savings Plan (RESP) in place. We mention the RESP on a regular basis because we feel it is important for families. From a tax perspective, the RESP provides the opportunity for compounded growth over time while deferring taxes. As well, there are other meaningful benefits. If certain conditions are met, the federal government's Canada Education Savings Grant (CESG) is worth up to \$500 per year per student beneficiary to a lifetime maximum of \$7,200. RESPs also encourage disciplined saving. If you don't have a RESP for members of your family, please get in touch.

Beyond the importance of saving to support a student's education, you should keep good records to take advantage of tax benefits. As a result of the pandemic, students who received the **Canada Emergency Student Benefit (CESB)** from May to August should note that the CESB is considered taxable income. As such, they will receive a T4A tax slip for the amount received.



**Tuition Tax Credit** – The federal government provides this non-refundable credit worth 15 percent of the amount of tuition fees, with no maximum. Provincial credits are also available. If a student doesn't have sufficient income to use the credits in the year of attendance, a credit for up to \$5,000 of tuition fees can be transferred to a spouse/common-law partner, or to parents or grandparents. Any remaining tuition amount can be carried forward for use by the student in a future year.

**Moving Expenses** – While this may not be applicable this semester, moving costs may be deductible. For students attending post-secondary programs at least 40 km from home, these expenses may be deducted from scholarships or grants required to be included in income. Depending on the circumstances, certain moving expenses may also be deductible against income from a summer job.

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## Year-End Tax-Planning Checklist

It's only autumn, but this is a good time to be thinking about our financial affairs in preparation for the year end. December 31<sup>st</sup> is the deadline for many tax-related activities. As you consider the opportunities to best position yourself, here are some ideas:

- ✓ **Capital Gains/Losses:** Consider realizing capital losses to offset realized capital gains for 2020, or take advantage of the carry-back rules to recover taxes paid on taxable capital gains realized in three preceding taxation years. There may also be opportunities to transfer capital losses between spouses. In order to do this, please get in touch well before the end of the year.
- ✓ **Income Splitting:** There are various ways to split income. For example, you may pay reasonable salaries to spouses for services provided to your self-employed business or private company. You may elect to split eligible pension income with a spouse on your tax return. With interest rates at low levels, income splitting with a spouse may also be achieved by way of a prescribed rate loan. A tax advisor can provide the best options available to you.
- ✓ **RRSP Contributions:** Why wait until the last moment if you are planning to make Registered Retirement Savings Plan (RRSP) contributions for the 2020 year? Remember, you can contribute until 60 days after the calendar year to impact 2020 taxes.
- ✓ **RESP Contributions:** If you have a Registered Education Savings Plan (RESP), consider making a contribution before year end. While this won't impact your 2020 taxes, you may benefit from the Canada Education Savings Grant for 2020.
- ✓ **Charitable Donations:** Make eligible charitable donations before December 31<sup>st</sup> to benefit your 2020 taxes. Remember that gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for its fair market value, but also eliminates the associated capital gains tax.
- ✓ **RRSP Conversion:** If you turned 71 this year, make sure to collapse your RRSP. Consider making a final RRSP contribution, as this must be done by year end, not the usual March 1, 2021 deadline.
- ✓ **Pension Income Tax Credit:** If you're at least 65 years of age and don't have eligible pension income, consider purchasing an annuity or opening a small Registered Retirement Income Fund before year end to claim the federal pension income tax credit. Eligible pension income may also be split with a spouse on a tax return.

Many of these actions require planning, so don't wait until it's too late. For further assistance, please contact us and, as always, seek advice from a tax professional.

## Estate Planning: Looking Beyond the Will

The health-related consequences of Covid-19 have prompted many to contemplate the importance of estate planning. While creating and updating a will is an essential part of preparing for when we are no longer here, an area often overlooked is how things will be managed while we are alive but unable to provide direction.

Without properly documented instructions, there may be the potential for family disputes during stressful times. In some cases, a family may have to apply to the courts or have someone appointed as guardian to manage both personal care and property – a potentially lengthy and costly process. As such, the following should be considered in addition to your will:

### Power of Attorney for Personal Care and Property

Do you have a plan in place to support you in the event you are unable to speak for yourself? One of the most important aspects of planning for incapacity is to identify substitute decision makers you trust to make financial and/or healthcare decisions on your behalf. They are often called an “attorney.”<sup>1</sup> Having this document in place generally allows the attorney(s) to make decisions if you cannot act for yourself. Generally, you are able to appoint a different attorney for Power of Attorney for Personal Care and Power of Attorney for Property.

### Advanced Directive

to receive if you were unable to communicate? Our current crisis has led to the question of whether an individual would want to use a ventilator for life support. In provinces where applicable, this document provides specific medical or lifestyle decisions to clearly indicate your wishes and provide guidance to your substitute decision maker.

### Other Considerations

Beyond a will and Power of Attorney documents, there may be other documentation to consider. Beneficiary designations for registered plans<sup>2</sup> and beneficiaries of life insurance should be kept updated and revisited from time to time. The arrangement of assets, such as the use of joint ownership with rights of survivorship<sup>3</sup>, may also be a consideration as, depending on the circumstances, it may help with the transfer of assets.

Estate planning goes well beyond a will. As estate planning is governed by provincial legislation, it is important to consult local legal and estate planning experts to ensure your will and Power of Attorney documents reflect your intentions.

Notes: 1. The name, terms and conditions of the Power of Attorney document vary by province (e.g. known as a mandatary in Quebec); 2. In Quebec, the designation may have to be done using a will; 3. Not applicable in Quebec.

## The Ongoing Importance of Diversification

Uncertainty has always played a common role in the financial markets, but due to Covid-19 the path forward may feel particularly uncertain. In these times, diversification remains an important element of portfolio construction. The chart (right) shows the performance of select asset classes/geographies over the past decade (in C\$). Here are some observations, which provide the case for diversification:

- › No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- › As we have seen with Covid-19, industries, sectors and even entire asset classes can fall out of favour, and sometimes with little warning. Diversification can help to protect from the downturns that may affect asset classes at different times.
- › There is often a large gap in performance between the best and worst performing asset class. Diversification helps to smooth out performance returns within a portfolio.
- › Markets change, and so does your portfolio. This is why rebalancing on a periodic basis is important, to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes, Best to Worst: 2010 to 2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canadian Equities 17.61%	U.S. Bonds 10.59%	EM Equities 15.61%	U.S. Equities 41.27%	U.S. Equities 23.93%	U.S. Equities 21.59%	Canadian Equities 21.08%	EM Equities 28.26%	U.S. Bonds 8.92%	U.S. Equities 24.84%
EM Equities 12.67%	Canadian Bonds 9.67%	Int'l Equities 14.72%	Int'l Equities 31.02%	U.S. Bonds 15.39%	U.S. Bonds 20.46%	U.S. Equities 8.09%	Int'l Equities 16.82%	Global Bonds 7.70%	Canadian Equities 22.88%
U.S. Equities 9.06%	Global Bonds 8.26%	U.S. Equities 13.43%	Canadian Equities 12.99%	Canadian Equities 10.55%	Int'l Equities 18.95%	EM Equities 7.34%	U.S. Equities 13.83%	U.S. Equities 4.23%	Int'l Equities 15.85%
Canadian Bonds 6.74%	U.S. Equities 4.64%	Canadian Equities 7.19%	U.S. Bonds 4.60%	Global Bonds 9.65%	Global Bonds 16.15%	Canadian Bonds 1.66%	Canadian Equities 9.10%	Canadian Bonds 1.41%	EM Equities 12.43%
Int'l Equities 2.13%	Canadian Bonds -8.71%	Canadian Bonds 3.60%	Global Bonds 3.94%	Canadian Bonds 8.79%	Canadian Bonds 3.52%	U.S. Bonds -0.80%	Canadian Bonds 2.52%	Int'l Equities -6.03%	U.S. Bonds 3.37%
U.S. Bonds 1.24%	Int'l Equities -9.97%	Global Bonds 2.01%	EM Equities 3.93%	EM Equities 6.63%	EM Equities 2.04%	Global Bonds -1.45%	Global Bonds 0.34%	EM Equities -6.87%	Canadian Bonds 2.61%
Global Bonds 0.04%	EM Bonds -16.40%	U.S. Bonds 2.01%	Canadian Bonds -1.19%	Int'l Equities 3.67%	Canadian Equities -8.32%	Int'l Equities -2.00%	U.S. Bonds -3.18%	Canadian Equities -8.89%	Global Bonds 1.44%

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GRI; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMX Canada Universe Bond Index; US Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; US Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.



## Estate Planning: What Have You Told Adult Children?

In our work with clients, it isn't uncommon to find parents who haven't had any discussions with their adult children about their estate plans. Estate planning may be a difficult topic to approach: not many people like to talk about death, and the intensely private subject of finances can further complicate matters.

However, excessive secrecy can make a potentially difficult situation even worse. How will anyone know how to deal with your assets in the case of death? Or, in the situation where you are alive but unable to act for yourself, how can those appointed to act on your behalf ensure your wishes are carried out as intended?

The health-related consequences of Covid-19 have been a stark reminder of the value in having end-of-life planning discussions with family members. It isn't necessary to divulge any detailed information about your finances or your will in advance, but it may make sense to inform family members of your intentions.

In some cases, parents have appointed adult children as executors but haven't made them aware. Others may be aware, but have not been provided with information on where Power of Attorney (POA), will and other important documentation is stored. It is important for an attorney (the person appointed under a POA document\*) or next-of-kin to know where to find these documents in an emergency situation. This can help prevent a needless search or avoid other complications, such as incorrectly assuming a will does not exist.

Communicating what is important to you, how you would like to be remembered and your desired legacy may also be important to family members. Without any instruction, survivors may struggle with doubt about whether they made the right decisions. This can be especially difficult during a time of grief. Some individuals plan their funeral arrangements in advance; others may wish to make loved ones aware of causes or charities important to them. Having a dialogue with adult children may also provide an opportunity to pass along family values.

If you own a business and wish to see it continue within the family, it is important to have discussions with family members in advance. Planning today can not only provide clarity over your intention for the business' succession, but it can also help provide tax and other financial benefits down the road.

While these discussions can be difficult, having them while you are alive and well may provide comfort to you and your adult children that you continue to support them, even after you are gone.

\*The name, terms and conditions of the POA document vary by province (e.g. known as a mandatary in Quebec).

### Does Your Estate Plan Require a Review?

Here are some questions that may prompt a review:

1. Is my plan structured in a way that promotes efficient administration and limits expense?
2. Will my plan minimize family effort or even controversy?
3. Are my assets structured to limit exposure to potential liability (i.e., former spouses, creditors)?
4. Do I have protection in place to allow my family to make financial and health care decisions in the event I am unable?
5. Can my family maintain their current lifestyle if I am no longer able to contribute?



## What Comes After a Trillion?

In the effort to combat the pandemic, the sheer amount of stimulus pledged by governments globally has been staggering. In July, then Finance Minister Bill Morneau delivered Canada's economic update, which replaced the regular spring budget. It was an economic tally of the measures taken to date. The 2020-21 deficit is expected to be \$343.2 billion, largely attributed to pandemic relief programs.<sup>1</sup>

At latest count, \$212 billion will have funded the government's four major initiatives: the Canada Emergency Business Account and Canada Emergency Wage Subsidy, supporting businesses; the Canada Emergency Response Benefit, supporting workers; and the Canada Emergency Student Benefit, supporting students.

### What is a Trillion?

The crisis is expected to increase Canada's national debt by over 30 percent. Prior to the pandemic, Canada held \$1.083 trillion of debt on its balance sheet.<sup>2</sup> In 2020-21, this will rise in excess of \$1.4 trillion. However, this pales in comparison to the U.S., which had national debt of over US\$23 trillion at the start of the year,<sup>3</sup> and is expected to add trillions of dollars in fiscal stimulus to combat the crisis.<sup>4</sup>

Just how much is a trillion? To put the magnitude of the jump from one billion to one trillion into context, if we were to travel back in time by a billion seconds, we would be in 1989. However, to go back a trillion seconds would take us to around 30,000 B.C. What comes after a trillion? A "quadrillion." At the start of 2020, it was estimated that global debt totalled \$257,600 trillion, or \$0.26 quadrillion.<sup>5</sup>



### Is There Need to Worry?

Current national debt levels do not indicate any risk of imminent default, so long as economies and fiscal institutions continue to function and taxation continues. Canada also entered the crisis with one of the lowest government debt-to-GDP ratios of the major developed countries.<sup>6</sup> With interest rates at historical lows, the cost of borrowing has gone down, so it's not a terrible time to be adding debt. According to Morneau, "the government will save over \$4 billion in public debt charges in 2020-21 compared to the forecast presented in 2019" due to lower interest rates.<sup>2</sup>

### How Will We Pay for This Stimulus?

Given these daunting figures, how we will pay for these efforts? Even prior to the pandemic, there were concerns about our high debt levels. Governments can reduce national debt in three main ways: cut spending, raise taxes, or grow the economy faster than debt – faster growth can produce more revenue and also increases the economy's capacity to carry debt.

Few would dispute the need for stimulus – crisis times are precisely when government spending should occur. However, down the road there may be a significant economic cost for the generations to come who will likely shoulder our continuing debt.

1. [cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115](https://www.cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115); 2. [canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html](https://www.canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html); 3. [cnn.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html](https://www.cnn.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html); 4. [ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3](https://www.ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3); 5. [reuters.com/article/us-global-debt-iif/global-debt-shattering-records-idUSKBN1ZC1VQ#:~:text=E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion](https://www.reuters.com/article/us-global-debt-iif/global-debt-shattering-records-idUSKBN1ZC1VQ#:~:text=E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion); 6. [investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/](https://www.investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/)

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## From our Corner

Seeing that Winnipeg is now at "code orange" and wearing masks in public is mandatory, we wanted to share with you our latest fashion choices! Please note that we are still able to meet you in person at our office, as we have a COVID compliant regime including a board room that is sanitized regularly. We are also proud to offer you virtual meetings via MS Teams – ask us how – and are happy to meet when is convenient for you.

