Silicz
Wealth Management Team

Newsletter

Summer 2021

In this edition

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Bring on Summer!

It's hard to believe but a year ago we were all experiencing "lock down" no matter where we were on the continent, as COVID continued to upend our lives, the markets and the world. Now a full 15 months later, many of you will be vaccinated, some of you may be making travel plans, and with summer around the corner, things are hopefully looking up. We all have experienced changes in our lives, and we all have much to be grateful for especially in light of all these changes we have been through.

With this in mind, I would like to welcome you to the inaugural Silicz Wealth Management Team newsletter. I'm excited to announce that I am now leading my own practice going forward. I have made some simple, beneficial and positive changes that you'll be able to experience right away!

To start with, my team and I are offering more digital options for your convenience. One of the main results from the client survey many of you answered back in the fall time **(thank you!)** was the desire for more digital service. This is definitely in line with the post-COVID world where we now more than ever shop, meet, and interact digitally in ways we never have before. We are happy to offer you a variety of digital services that are consistent and will make your lives easier. Some of the recent practice management upgrades we are excited to offer you include:

Electronic signatures via DocuSign – less paper!

We're excited to formally announce our team's embracement of DocuSign – digital signing technology! Going forward, you'll be offered by default the choice to "sign" documents electronically on your phone, tablet or computer. It is convenient, super easy, and speeds up administration considerably. Should you still want to deal in paper, that option is always available, and note that some things still need to be done on paper (notarized documents and beneficiary changes for example). Next time we send you a form to sign electronically, Jas, Tracy or I will send you a heads up via email or phone about the incoming DocuSign email so as not to catch you off guard.

Sending in money electronically

Another new and convenient service we can offer is the electronic transfer of money in and out of your National Bank Financial account. Should you prefer to send regular contributions in electronically instead of by cheques, please reach out to us and we can help facilitate this through your existing online banking.

Improved automatic savings into your accounts

If you would like to save money directly into your account, instead of investing directly into a mutual fund, we can now facilitate this.

Virtual Meetings

As you're likely aware, I am available to meet in person (COVID compliant), but can also meet you virtually over Microsoft Teams. If you would like to review your portfolio, just reach out to me (Michael) directly. You can also now book a meeting with me at anytime by clicking the link in my email signature, or by clicking right here in this newsletter, to see when I'm available. Try it out! I hope to soon offer a virtual seminar on the topic of wills and estates – stay tuned!

Tracy Boutet will continue to work alongside me to provide any administration required for your accounts, and Jas Deol will continue as my investment associate, able to help you with trades in addition to handling the team's marketing efforts and computer administration. I thank you for allowing me to manage your investments, I look forward to helping you grow your wealth prudently, and will continue to work hard to maintain your trust and confidence. If there is anything my team and I can do to assist you in any way, please contact me directly, I am here for you.

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In Short: The 2021 Federal Budget — How It May Affect You

In April, the federal government released its first federal budget in two years. Perhaps most notably, the federal government expects to continue its significant spending — over $101 billion for the next three years — to support strong economic recovery in the fight against Covid-19. It extended various emergency benefits, resulting in a record deficit and significantly higher projected debt for the foreseeable future.

Some would argue that the excessive spending has Canada wading into "Modern Monetary Theory" (MMT) waters. MMT suggests that federal government spending shouldn't be constrained by its revenues, which are largely created through taxation. It suggests that countries that issue their own fiat currency should determine what their requirements are and spend accordingly, not worrying about running larger deficits as long as inflation is under control. Given the pledged spending, it may seem as though Canada is embracing this new way of economic thinking. And we're not the only ones. Many governments have followed suit, with an estimated US$12 trillion spent globally in just the first 8 months of the pandemic.[1]

While the future economic consequences are yet to be seen, the injection of significant liquidity into the economy appears to be having inflationary effects. We see increasing commodity prices (lumber prices have more than tripled this year!) and steepening grocery bills, as just some examples. Beyond the spending spree, the budget had no changes to personal or corporate income tax rates. Here is how you may be impacted:*

For Seniors: Extending Benefits. Seniors who are 75 years or older as of June, 2022 will receive a one-time Old Age Security (OAS) payment of $500 by this August. For this same group, monthly OAS payments will be increased by 10 percent beginning in July, 2022. If you aren't in need of these funds, consider investing them. If you haven't maxed out contributions, a tax-free savings account is an ideal way to potentially grow funds on a tax-free basis.

For Investors: Green Investing. The budget pledges $8.8 billion over five years to support a greener future, including the issuing of $5 billion of green bonds to finance green projects. The budget suggests that the presence of government-backed bonds may support more mature investors who are "looking for a green portfolio but also need to manage their investment risk."[2] With the rise in support for green investing, if you are interested in incorporating environmental factors into your portfolio, please call the office.

For High-Net-Worth Spenders: A Luxury Tax. If you're considering the purchase of a luxury vehicle in the near future, you may want to do so by Dec. 31, 2021. As of January 1, 2022, sales of cars and personal aircraft with a retail price of over $100,000, as well as boats priced over $250,000, will incur a new tax. It will be calculated at the lesser of 20 percent of the value above those thresholds, or 10 percent of the full value of the vehicle.

For Business Owners: Accounting for Capital Assets. If you operate a Canadian-controlled private corporation, the business will now be able to purchase up to $1.5 million of certain capital assets and fully expense these in the year they become available for use. This includes eligible assets purchased on or after April 19, 2021 and before 2024. There may be tax benefits achieved by immediately expensing certain assets so please consult a tax professional as it relates to your situation.

For greater detail on the initiatives proposed, see the Government of Canada website: budget.gc.ca/2021/home-accueil-en.html

1. theglobeandmail.com/business/article-whatever-we-may-think-of-modern-monetary-theory-its-day-in-the-sun-has • 2. Budget 2021: A Recovery Plan for Jobs, Growth and Resilience, Government of Canada, page 166.
* At the time of writing, the budget proposals had not been passed into law.

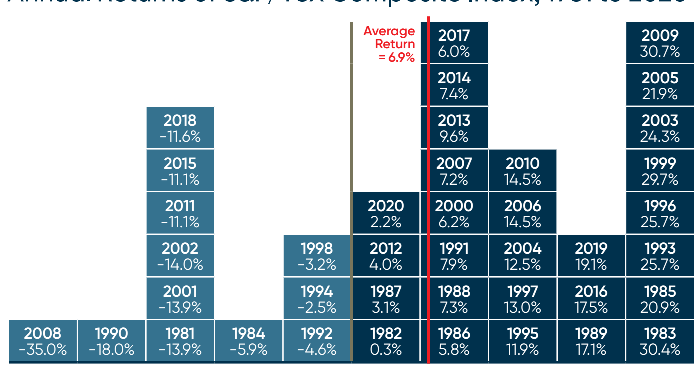
Stock Market Returns: Never a Constant

During buoyant market times, it may be easy to forget that advances in the equity markets often do not happen at a constant rate.

The chart to the right shows the annual returns of the S&P/TSX Composite Index over the past 40 years. It's worth pointing out how the distribution of returns has significantly varied over this period. In fact, only 20 percent of annual returns fall within the long-term average return of 6.3 percent over the past four decades.

Most of us are longer-term investors and will invest over multiple market cycles. While we should enjoy the market's advances, we shouldn't forget that patience, through time in the markets, is often key in helping to provide predictability in investment returns over time.

Annual Returns of S&P/TSX Composite Index, 1981 to 2020



Source: S&P/TSX Composite Index annual returns 1981 to 2020.

Estate Planning: Preparing for a Wealth Transfer

With over one trillion dollars of inheritances expected to be passed along over the next decade, taking action to preserve wealth across generations has never been more important.[1] Does your estate plan protect this wealth transfer? Here are some considerations:

Preventing Your Estate from Being Contested

It isn't uncommon for disputes to arise during the estate settlement process, especially for families with complex dynamics. In some cases, these disputes can escalate to litigation. While court battles are not only time consuming and stressful, they can also end up being very costly, which can significantly erode family wealth. Perhaps worst of all, they can tear families apart. The reasons are many, including outdated documentation, poorly drafted documents, poorly chosen executor(s) and lack of communication about estate plans with beneficiaries.

There may be ways to minimize this risk. Communicating with heirs about your intentions while you are alive can help to prevent surprises. Importantly, estate documents should be drafted using a reputable professional and should include specific instructions to eliminate doubt. Documents should be reviewed and updated as circumstances require. Care should also be taken when choosing an executor(s), as poor actions by executors can lead to litigation.

Helping Beneficiaries Manage a Wealth Transfer

In some cases, beneficiaries may need support to manage wealth. Young beneficiaries or those with disabilities may not be financially responsible; spouses may need help managing assets such as investments or a business. Beneficiaries may also need to be protected against potential current or future creditors, such as business partners, customers or former spouses.

One of the more common tools used to support beneficiaries is a testamentary trust to hold and manage assets for their benefit. This can help to limit access and manage assets by specifying the timing and amount of distributions to be made.

Accounting for Divorce or Blended Family Dynamics

The transfer of family wealth may need to be protected to account for a complex family structure. In some cases, the way in which assets are currently structured may not be meeting your objectives. For instance, having assets jointly held in a current relationship may unintentionally put children from a previous marriage at risk. An unintended division of assets may also occur if a current spouse becomes a primary beneficiary, when assets were intended for children from a previous marriage. In some provinces, a new marriage can potentially revoke an existing will and the instructions leaving assets to children from a previous marriage would be invalidated. As such, the advice of a lawyer who understands complex family structures can ensure that assets are passed along as intended.

If you have the desire to leave a lasting legacy, planning ahead can help protect family wealth. Given our familiarity with your financial position, we can act as a resource. We recommend the support of tax and legal professionals as it relates to your particular situation.

1. financialpost.com/personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready

Tax Planning: A Spousal Rollover May Not Always Make Sense

In married or common-law partnerships, using a spousal rollover[1] has become a conventional strategy for many estate plans. Under a spousal rollover, any associated capital gains on certain capital property or registered plan income that transfers to a surviving spouse will be deferred until the spouse disposes of, or is deemed to have disposed of, those assets or withdraws them (in the case of registered plans).

However, in some cases, there may be reasons why it may not make sense. Why? While deferring tax is often beneficial, it can also result in unintended consequences. Take, for example, a situation in which a surviving spouse rolls their deceased spouse's Registered Retirement Income Fund (RRIF) to their own RRIF. This increases their RRIF minimum annual withdrawal requirements. The higher income results in a higher marginal rate of taxation, and the spouse is now subject to the Old Age Security clawback.

Some forward planning could have potentially reduced the overall tax-related burden. For instance, it may have been better for the deceased spouse to bleed down their RRIF in the years in which they had a lower marginal tax rate. Or, it may have made sense for the RRIF to be partially converted to cash upon death, with only a portion transferred to the surviving spouse's RRIF.

Be aware that an automatic rollover of capital property occurs, for tax purposes, upon the death of the first spouse. As such, an election will need to be made to not use the spousal rollover on a property-by-property basis.

There may be other situations in which electing to not use the spousal rollover may make sense. For example, the deceased may have capital losses carried forward from previous years that can be used to offset realized capital gains. Or, the marginal tax rate on the date-of-death return may be low. The deceased may also own qualified small business corporation shares with unrealized capital gains or an unused lifetime capital gains exemption.

As always, seek the advice of a tax-planning expert as you plan ahead for your particular situation.

1. For tax purposes, a person is generally deemed to have disposed of capital property at fair market value immediately before death. While there may not have been an actual sale, there may be associated gains or losses realized for tax purposes. Unless a rollover is available, the fair market value of a registered plan is included in the deceased's income in the year of death. A spousal rollover is available where such property is transferred to a surviving spouse/common-law partner.

Talking to Adult Children: The Hot Housing Market

For those of us who can remember, the average cost of a Canadian home was around $164,000 when we started the millennium.[1] In just over 20 years, this has risen to around $716,000 — and, what you get for that price can vary depending upon your location.[2]

What is driving these increases? Lack of supply in some markets has helped push prices higher. As prices continue to increase, many buyers have entered the markets feeling a sense of urgency and fear of missing out. Low borrowing costs have also prompted some to take on mortgages beyond their means. With prices at all-time highs, there has also been increasing speculation.

The situation is especially discouraging for the younger generation who may feel as though home ownership is quickly becoming out of reach. In a recent interview, Robert Kelly, former Chair of the Canadian Mortgage & Housing Corporation (CMHC), suggested that we have a problem and better education is needed.[3] He is an advocate for stiffening the current mortgage rules and suggests that the federal government needs to provide support to increase the housing supply across many markets.

For the younger generation still hoping to enter the housing market, Kelly suggests keeping these four considerations in mind:

Consider that a house is not a guaranteed investment. While we may have become used to a hot housing market, it hasn't always been this way. Kelly points to U.S. housing data over 100 years, which shows an average increase in value of around one percent per year. Buyers also need to consider that there are many hidden costs associated with home ownership and, unlike other investments, it often involves a significant up-front cost.

Focus on needs vs. wants. Focusing on what is needed may help buyers to make more prudent decisions. While a 4,000 square foot home may be the aspiration, a smaller footprint is likely to sufficiently meet an individual's living needs while being more financially achievable.

Factor in the risk of rising interest rates. Consider the impact of a reset in interest rates one or two years down the road. Many mortgage holders may not factor in the likely scenario in which interest rates increase by one percent. Would you still have discretionary income to go on vacation or eat out at restaurants?

Think about absolute debt — and lower it. When holding a mortgage, it is important to consider not just the monthly payments, but also the total amount of debt. The average Canadian household debt-to-income ratio is extremely high at around 175 percent[4] — the highest of the G7 advanced economies. This puts many individuals at risk of default, such as in the event of a job loss. Kelly suggests that a responsible debt level is around 90 percent, where many G7 countries currently sit.

How About Your Personal Situation?

We have been approached by clients who have asked for perspectives on selling their home. While the gains may be enticing with prices at all-time highs, keep in mind that if you were to sell your home you would still need a place to go — which will likely incur a financial and perhaps even a lifestyle cost. Care should be taken when evaluating the options. Another option may be to sell a home and then rent, potentially leading to higher discretionary funds to support retirement or to gift to children during your lifetime. Renting may also be more pragmatic for many younger folks, in instances where taking on higher debt loads does not make sense.

1. theglobeandmail.com/real-estate/the-market/canadian-home-value-has-doubled-since-2000-report/article4249097 • 2. cbc.ca/news/canada/photos/canada-real-estate-prices-scroller-1.6004260 • 3. bnnbloomberg.ca/real-estate/video/canada-has-a-problem-former-cmhc-chair-robert-kelly-on-the-nation-s-hot-housing-markets~2160679 • 4. ctvnews.ca/business/canadian-households-added-record-mortgage-debt-in-q4-statcan-1.5344672; data.oecd.org/hha/household-debt.htm

Estate Planning: Having End-of-Life Discussions with Loved Ones

It is understandable that many of us prefer to avoid the subject of end-of-life planning, or at least try to put it off until the last moment. Yet, the pandemic should remind us of the importance of these discussions.

Many people may have given thought to their wishes in the event of grave illness, but may not have had serious conversations with loved ones. More so, there is an even greater likelihood that their wishes have not been documented. Perhaps most surprising, studies have shown that there are often discrepancies between what people want and what they expect to happen at the end.[1] To bridge this gap, having a conversation about end-of-life preferences may be a good first step.

Difficult Conversations: End-of-Life Planning

While we may prefer to avoid the subject of end-of-life planning, the pandemic reminds us that unexpected losses can happen. This is why discussing end-of-life wishes is important — not only to provide comfort to loved ones that the right decisions will be made, but also to help avoid potential complications such as family disputes or, worse, the need for court intervention.

We Are Here to Provide Support

Perhaps one of the more positive outcomes of the pandemic will be that it helps to facilitate discussions between loved ones. Having a conversation is the first step. Documenting these wishes as part of a broader estate plan is also important. If you are looking for resources to help support these difficult conversations with adult children or elderly parents, please call.

If you haven't had these conversations, here are some questions to start the dialogue

Who do you wish to make decisions on your behalf if you are unable?

It is important to identify trusted individual(s) that can make decisions the way you wish and on your behalf if you are unable. The person(s) should be made aware of their role, as well as the preferences for your care.

In a medical crisis, what type of treatment do you want, or not want?

Some people may have strong feelings about different types of medical treatment. Have you considered how invasive you want medical care to be, such as being kept alive on a respirator, including a breathing machine or ventilator? If you are in pain and can't make clear decisions, are you comfortable with high doses of painkillers? Your preferences may depend on the amount of time that passes for treatment — if it is temporary, or should the situation persist over the longer term.

What are your preferences for quality of life and types of care?

Quality of life preferences can be very personal — some may be fine with having help getting dressed or bathed, but not with being tube-fed to stay alive. It may be important for individuals to live independently within their own home. Others may be comfortable in assisted care, such as in a hospice or palliative care facility.

The Economist Magazine: End-of-Life Survey Reasons for Not Having End-of-Life Wishes Documented

(Top Four Responses Listed = 85 Percent)

- **49%** Haven't gotten around to it
- **27%** Never considered it
- **5%** Worried it might change your mind about what you want
- **4%** Don't think it would be useful

1. kff.org/report-section/views-and-experiences-with-end-of-life-medical-care-in-the-us-findings/

Responsible Investing: Four Reasons to Consider ESG Investing

Responsible Investing (RI) is quickly growing to become a standard. With accelerating commitments by policymakers and business leaders to address environmental, social and governance (ESG) issues, RI has gained a greater focus in the investing world. Increasingly, investors are prioritizing ESG factors into their investment objectives. Have you integrated ESG factors into your own investing? Here are four considerations:

1 There are a wealth of investment options.

Until recently, it was difficult for investors to incorporate ESG factors into their investing. Negative screening was the main approach to RI, which involved avoiding investments that didn't meet ESG standards. With greater attention to ESG issues, this has led to other approaches to investing in this space. Last year, the world's largest fund manager announced sweeping changes to position itself as a leader in RI, committing to assessing ESG factors in its investments "with the same rigor that it analyzes traditional measures such as credit and liquidity risk."[1] Today, there are over $30 trillion in assets under management (AUM) with a sustainable strategy globally.[2] In Canada, RI assets account for almost two thirds of total AUM, or $3.2 trillion.[3] Investors can now create with ease portfolios that incorporate their own personal ESG values.

2 RI can support and enhance performance.

For years, there was a long-held view that investors who prioritized ESG factors sacrificed greater returns. However, newer studies suggest that the reverse often holds true — companies integrating these practices into their operations have the potential for improved investment results over the longer term.[4] Why? One reason is because focusing on ESG factors can provide a more comprehensive view of potential risks and opportunities. For instance, of the S&P 500 companies that filed for bankruptcy between 2005 and 2015, 88 percent exhibited weak ESG ratings for years leading up to the filing.[5]

3 Investors can make a positive impact.

The choices that investors make can send a message to business owners. With new commitments by global policymakers and business leaders, there has been increased transparency which has led to improved reporting and accountability by businesses and business leaders. By voting with their wallets, investors can hold companies accountable in generating a positive social or environmental impact alongside a financial return.

4 Responsible investing is the future.

There has been a distinct pivot by governments, policymakers and business leaders in actively supporting and financing environmental and social movements. This past spring, the U.S. committed to cutting greenhouse gas emissions by around 50 percent by 2030.[6] U.S. President Biden has pledged almost $2 trillion to an infrastructure bill that focuses on shifting to greener energy, and proposed $1.8 trillion to support social improvements for American families.[7] Similarly, Canada has pledged a significant cut in greenhouse gas emissions. Even China, seen as a global offender, has stated its commitment to "protect the environment and deliver social equity and justice in the course of green transition."[8] Environmental and social change appears to be the new focus on many agendas, providing a platform to drive responsible investing into the future.

How My Team and I Can Assist

If I manage your investments directly as your portfolio manager, then rest assured – I'm already doing this! FYI I'm currently the Chair of the Responsible Investment Association of Canada's nomination committee. Further, a couple years back now, I was honured to be named the Responsible Investment Advisor of the Year by Wealth Professional in 2019! I have already structured your portfolio to integrate ESG factors that are important to you. If I don't manage your investments directly (meaning I we chat before I buy/sell things), please contact me for more of a discussion on this. I'm confident by now everyone I work for has heard me talk about some sort of ESG investment, and at this point if you're portfolio isn't managed directly by me, we should be shifting even more assets into renewables and sustainability. Call me if you have any questions on this! RI was the future a few years back, and is now the present... I am trying to figure out where the puck's going next...

1. blackrock.com/institutions/en-gb/blackrock-client-letter • 2. forbes.com/sites/newyorklifeinvestments/2020/09/17/3-tips-to-get-started-with-sustainable-investing/?sh=59a85772627f • 3. riacanada.ca/research/2020-canadian-ri-trends-report/ • 4. tiaa.org/public/pdf/ri_delivering_competitive_performance.pdf; forbes.com/just-companies/#2ea3f1c82bf0; Gunnar Friede, Busch & Bassen, "ESG and financial performance", Journal of Sustainable Finance & Investment, 2015 • 5. markets.businessinsider.com/news/stocks/10-reasons-to-care-about-esg-investing-bank-of-america-2019-9-1028557439 • 6. cnbc.com/2021/04/22/biden-pledges-to-slash-greenhouse-gas-emissions-in-half-by-2030.html • 7. cnn.com/2021/03/31/politics/infrastructure-proposal-biden-explainer/index.html • 8. Chinese President Xi Jinping, "For Man and Nature: Building a Community of Life Together," April 22, 2021. U.S. President Biden's Leaders Summit on Climate.

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From Michael's Corner

It's been 15 months of being locked down – that's a long time – so I am hopeful you and your loved ones will be able to get outside and enjoy yourselves!

Here's a few pictures of Elijah (now 5) and Asher (now 2) making the best of the summer so far!