Wealth Insights

Personal Newsletter from The Riedl Group

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

The Riedl Group
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Wealth Management

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We have moved, but it is business as usual. We have tried to make the transition as seamless as possible and will continue to provide you with the personal service that you should expect.

While in-person meetings may be difficult for some, we remain available to you remotely. We look forward to welcoming you to our new office at National Bank Financial.

Thank you for your trust and confidence in our services during what has been an unprecedented year. Sending our best for the upcoming holiday season.

-The Riedl Group

WINTER 2021

For 2021: Optimism & Hope

The turning of a new year is synonymous with optimism and hope. After a difficult year, it may feel as though optimism is in short supply. Yet, here are some reasons why better times may lie ahead for 2021.

While the cooler months have brought a resurgence of the virus and new shutdowns, we shouldn't overlook the potential for an economic rebound in 2021. After the spring shutdowns, Canada's economy performed better than expected as things reopened. Employment rebounded faster than anticipated, as did consumer spending. This was in part due to significant stimulus measures. Canada's stimulus deficit is likely to be the largest globally in 2020, yet with interest rates at near-zero levels the cost of carrying this debt remains historically low.[1]

Unlike most recessions, the economic impact has been particularly uneven. Sectors that have been able to thrive during the pandemic, such as technology, have helped to drive equity markets. Canadian equity markets, largely influenced by energy and resources sectors, have been hindered by lower demand due to the economic slowdown. Yet, Canada's housing market has shown resilience; many companies have reassessed business models, leaning operations or innovating in the digital space.

The U.S. has chosen a new path forward after a highly contested presidential election, widely watched by Canadians. After an autumn of civil and social unrest, there is hope that change will temper tensions and bring a necessary stimulus package to support Americans throughout the winter.

Most notably, we've made remarkable progress in the race to find a vaccine. This is an exceptional feat, given the typical vaccine time-to-market is 10 to 15 years. The fastest ever – the mumps vaccine – took four years.

Progress in combatting a pandemic takes time. Progress in investing may involve greater endurance. During 2020, while the many ups and downs of equity markets captured attention, they aren't the ones that matter for most longer-term investors. Assuming you can stay the course for long enough, the results can be significant. The Rule of 72[2] provides a good reminder: at an annual rate of return of five percent, an investment will double in around 14 years. For those who may not think they have the benefit of time, consider that 90 percent of renowned investor Warren Buffett's wealth was made after the age of 65.[3]

Brighter days lie ahead. Even the worst periods of retrenchment have been followed by new growth, economic expansion and progressing equity values. Moreover, as we saw in 2020, equity markets don't wait on the sidelines for recovery to happen. Continue to look forward with optimism and keep positioning yourself for the better times to come.

1. As a % of GDP; 2. Rule of 72: It takes approx. 72÷(rate of return) years for investment to double; 3. Based on shares of Berkshire Hathaway (BRK-A). 8/30/95: $25,300; 10/30/20: $302,500.

In this issue

Estate Planning: What Have You Told Adult Children?

In our work with clients, it isn't uncommon for us 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 the pandemic 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).

Interest Rates, Inflation & the Risk of Doing Nothing

For those old enough to remember, the late 1970s and early 1980s were periods rife with high inflation and interest rates. In 1981, inflation rates reached over 12 percent and the now defunct Canada Savings Bond returned 19.5 percent interest.[1] While high interest rates meant great returns on low-risk assets like guaranteed investment certificates, it also meant unaffordable mortgages!

Since that time, it has been widely recognized that the central banks are responsible for keeping inflation in check as part of their policy objectives. For many years, the Bank of Canada and U.S. Federal Reserve (Fed) have targeted a two percent core inflation rate. Over the last decade, inflation has generally hovered close to this target, due to monetary policy actions as well as persistently low price and wage increases. It should be noted that the measure of core inflation doesn't include some of the more volatile components of our goods and services, such as food and gas — everyday costs incurred by most individuals. Many Canadians would argue that food costs have largely outpaced core inflation rates!

Today's Realities: Low Interest Rates, Low Inflation

Of course, it is unlikely that we will see the return of the inflation rates experienced in the 1970s. However, even moderate inflation can have a significant impact over time. The chart shows the erosion of purchasing power of $100 with just moderate inflation rates.

Chart: Even Moderate Inflation Can Erode Purchasing Power

	Inflation Rate		
Year	1%	2%	3%
0	$100	$100	$100
10	$90.53	$82.03	$74.41
20	$81.95	$67.30	$55.37
30	$74.19	$55.21	$41.20

This should also remind us of the value in investing funds for the future. With interest rates at near-zero levels, many savings accounts yield paltry returns. Add in the subtle effects of inflation and doing nothing with your money can have its own risks.

While the effects of the pandemic may have created short-term deflationary pressures, there are differing views on the longer-term path for inflation. With central banks pledging to keep interest rates low for the foreseeable future, there is the potential for rising inflation — traditional economics suggests that when rates are low and the economy grows, inflation generally increases. As well, in 2020 the Fed signaled a major shift in its approach to managing inflation, now allowing it to run above the previous two percent target. This significant change in policy stance was undertaken to try and stimulate growth and tackle unemployment as a result of the pandemic.

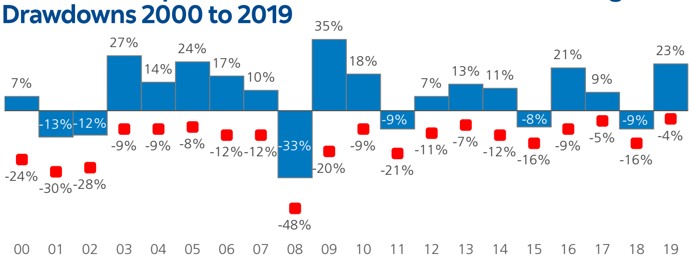
1. Bank of Canada monthly historical CSB rates and CPI. www.bankofcanada.ca

Reminders for the New Year: Building Wealth Takes Time

It may be easy to lose sight of the importance of time in building wealth. Today, the reasons are many: heightened market volatility, an increasing focus on immediacy and the influence of media in the digital age. Yet, in investing, having a longer time horizon takes advantage of compounding, which can have profound effects over time. This involves the difficult task of enduring inevitable and unpleasant short-term events like recessions and even an unexpected pandemic. The following may help to provide perspective:

Volatility is a Common Market Feature — The chart below shows the biggest peak-to-trough drawdowns each year for the S&P/TSX Composite Total Return Index and annual returns since 2000. In 12 of the last 20 years, there has been a double-digit, intra-year correction. Significant volatility is no stranger to the markets. Yet, in half of those years, the index finished in positive territory.

S&P/TSX Composite Total Return Index: Peak-to-Trough Drawdowns 2000 to 2019



Markets Are Cyclical: Nothing Lasts Forever — Equity and financial markets are cyclical. History shows that markets spend more time in positive than negative territory. Since 1956, there have been 13 bull and 13 bear markets. The average bull market has lasted 54 months, with an average gain of 131 percent, whereas the average bear market has lasted only 9 months, with an average loss of -27 percent.[1] Business cycles are also cyclical, typically lasting around seven years. While Canada has had seven recessions over the past 50 years, they have lasted an average of only 11 months.

Your Time Horizon May Be Longer Than You Think — The pandemic has put pressure on many incomes, which may require some to make adjustments to retirement options or timing. But don't overlook the opportunity to make up for lost time. Just as increasing longevity requires planning, it may also allow time for recovery. Consider that an investment with a five percent compounded annual return will double in approximately 14 years. As such, a 70-year-old may still have the potential for investments to double within their lifetime,[2] and possibly even twice if they become a centenarian.

The Impact of Time in Investing Can Be Significant — Time can be one of the investor's greatest allies. The chart below shows the impact of time in generating retirement savings: with a longer time horizon, an investor would require a significantly lower monthly investment to yield $1,000,000.

Monthly Investment Amount Required to Reach $1M Over Time*

	At Average Annual Rate of Return of...		
Years	4%	5%	6%
20	$2,726	$2,433	$2,164
30	$1,441	$1,202	$996
40	$846	$655	$502

*Assuming monthly compounding at annual rates of return shown. Effect of taxes, fees or inflation ignored.

Stay focused on your own investing time horizon and remember to keep time on your side.

1. S&P/TSX Composite 1/1/56 to 9/30/20; 2. Assumes average life expectancy of 83 years old.

In Short: Upcoming Changes That May Affect You

As always, change is imminent! In brief, here are some of the notable changes that have occurred in the last quarter or are upcoming:

Tax-Advantaged Accounts — The **Tax-Free Savings Account (TFSA) dollar amount for 2021 is $6,000**, now making the total eligible lifetime limit at $75,500. The **RRSP contribution deadline for the 2020 tax year is Monday March 1, 2021**, limited to 18 percent of the previous year's earned income, to a maximum of $27,230.

Income-Splitting Opportunities — The Canada Revenue Agency (CRA) prescribed interest rate for spousal loans remains at one percent: the lowest possible rate. Making a bona-fide loan to a spouse for investment purposes is one way to split income and lower taxes, by putting family investments in the hands of a lower-income spouse. In October, the CRA confirmed that refinancing an existing prescribed rate loan at a lower rate may be done with part of the proceeds from the original loan without triggering the attribution rules.[1]

Working from Home — The CRA has added home office furniture to the list of expenses that employers can reimburse tax free (up to $500) if related to Covid-19. This was previously limited to personal computer equipment expenses. A new short-form T2200 is in the works, which is required to be completed by the employer in order for employees to deduct home office expenses.[2]

Covid-19 Benefits — New Federal government pandemic-related benefits began in the fall, including for those who become ill or miss work to care for a sick family member. A withholding tax of 10 percent will be deducted. U.S. citizens in Canada who received U.S. Covid-related government assistance will not have to include payments on Canadian tax returns. For detailed information, see: https://canada.ca/en/services/benefits/ei/cerb-application/transition.html

Legal Tender — Bid farewell to $1, $2, $25, $500 and $1,000 bills in circulation. As of January 1, 2021, they no longer have the official legal tender status as an approved payment of debt.

For more information on any of these changes, please call the office.

1. https://investmentexecutive.com/news/industry-news/cra-offers-flexibility-on-prescribed-rate-loans/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-All-afternoon; 2. https://advisor.ca/tax/tax-news/cra-employers-can-now-reimburse-home-office-furniture-tax-free/

Looking Forward: Lessons from the Pandemic

Amidst the many hardships created by the pandemic, there may be prudent lessons that can assist us in finding greater financial success. As we look to better times to come, here are some reminders:

Don't Overlook the Merits of an Emergency Fund

The pandemic has been a stark reminder that unexpected events can affect everyone, regardless of income level. Economic shutdowns have affected the income streams of many, highlighting the benefits of having an emergency fund in place. For some high-net-worth individuals, a common notion has been that having enough assets negates the need to have funds set aside for an emergency. But one of the strongest arguments for having an emergency fund is to avoid the need to liquidate investments on short notice, especially since larger daily expenses may need to be covered. For retirees, while emergency savings may not be needed to replace a missed paycheque, they may help support other unanticipated costs, such as health care.

Avoid Emotionally-Driven Investment Decisions

The equity market sell-off in March 2020 and the ensuing rebound reminds us that markets can quickly reverse their course, even during the most challenging of times. This illustrates the difficulty in attempting to time the market — a testament to the importance of staying invested. Not everyone is able to keep calm during a crisis, which is understandable. This is where our role as advisors comes into play — to help provide objectivity and perspective and offer counsel. While it may be difficult to abandon the worry that comes with fluctuating portfolio values, it is important not to let these worries derail you from achieving your ultimate wealth goals.

Reassess Your Current Budget

This is not to admonish anyone about their spending habits, however taking the time to sit down and map out family income and expenses each month can be revealing. More notably, the current pandemic has altered many household spending habits, due to working remotely or lifestyle changes — perhaps you have saved more by not going to the office or gym or traveling for vacation. Reevaluating spending on a periodic basis may uncover opportunities to put more towards retirement savings, which has the potential to pay significant benefits down the road.

Don't Make Unnecessary Withdrawals

Making early withdrawals from retirement accounts can result in unintended consequences. While the pandemic may have made this temporarily necessary, it is important to have a thoughtful plan for prioritizing sources of potential income during difficult times. Why? Liquidating investments to generate income could result in unanticipated taxes or, in the case of retirees, the loss of income-tested benefits such as Old Age Security. Equally important, careful thought should be given to how to make up for the potential loss of retirement income down the road.

With the compliments of...

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