Wealth Insights

Personal Newsletter from The Riedl Group

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The Riedl Group
National Bank Financial
Wealth Management

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Autumn is the season of change. This year, change may be particularly abundant: some of us may have returned back to the office and (grand)kids may be back to in-person learning. If your personal situation has recently changed, a discussion may be worthwhile to assess any changes to your wealth plan.

Sending our best for the cooler days ahead. If we can be of assistance, please don't hesitate to call.

—**The Riedl Group**

How Often Are You Checking?

According to recent reports, investors using a U.S. discount brokerage platform are checking their portfolios at an alarming rate of seven times per day.[1] It's not difficult to do. Today, often all it takes is one quick swipe on our smartphones. However, frequent portfolio checking may be hazardous to your investing health.

Modern behavioural scientists have shown that our cognitive biases can cause investors to make decisions that may not be in our best interests. By checking portfolios frequently, there is a greater chance that we will trigger these biases. One reason is that frequent checking means a higher probability of seeing a loss, which can drive emotional reactions. By checking S&P/TSX Composite Index performance on a daily basis, there is a 48 percent likelihood of seeing negative performance. If you were to check only once per year, this would decrease to 28 percent.[2] However, even seeing positive performance may cause us to act in haste, such as selling a well-performing investment too early.

How about you: do you check your portfolio too frequently?

In his latest book, Nobel laureate Daniel Kahneman, father of behavioural finance, suggests that it's not just our biases that can influence poor decision making, but also the "noise" around us. And, as the markets continue to climb the wall of worry, there has been no shortage of noise.

Consider one of the more recent topics to consume financial circles: inflation. There has been significant unwanted variability in opinion — or noise — on the path forward. Some have warned that an inflationary era is upon us. Others support a more transitory view and suggest we may be too quick to ignore the deflationary forces. Consider the impact technology has had on lowering our cost of living. One example: the lithium-ion battery costs 97 percent less than three decades ago and is far more efficient.[3]

Market reactions have been mixed. Bond yields usually rise with rising inflation expectations, as inflation erodes the purchasing power of a bond's future cash flows so a higher yield compensates for this risk. However, over the summer, despite rising inflation rates, bond yields remained low and actually fell. Even gold, considered a hedge against inflation, was down at the halfway point of the year.

All this to suggest that predicting the course of near-term markets and economies has always been difficult. We've also never experienced a situation of this magnitude: the unprecedented actions to combat the pandemic have helped to distort market and economic cycles. In many ways, the path ahead will be understood only in hindsight. As your advisors, we are here to help cut through the noise to focus on what is important. Also important is being aware of the effects of paying too much attention to your portfolio or to the noise. Continue to look forward and leave the day-to-day focus on your portfolio to those who are here to manage it.

1. On average. www.reuters.com/breakingviews/chancellor-robinhood-is-more-sheriff-than-rebel-2021-07-15/; 2. S&P/TSX Composite Index 1985 to 2020; 3. https://news.mit.edu/2021/lithium-ion-battery-costs-0323

In this issue

NATIONAL BANK FINANCIAL
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Be Aware: TFSA Overcontributions & Electronic Notifications

A recent article published in the popular press reminds us of the importance of paying attention to electronic communications relating to Tax-Free Savings Account (TFSA) overcontributions.

If you contribute beyond your TFSA limit, the penalty can be significant — equal to one percent per month on the excess amount for each month that you are over the limit. In recent years, the Canada Revenue Agency (CRA) has provided some leniency: you may request a waiver of the penalty tax due to "reasonable error" and if the overcontribution is withdrawn "without delay."

The article discusses a taxpayer who was sent a warning letter electronically to his CRA "My Account" due to excess TFSA contributions. The taxpayer claimed he never saw this letter. Two years later, when his Notice of Assessment (NOA) detailed the penalties and interest owed, he took action to remove the excess amount and wrote the CRA to request relief. However, this was denied as the CRA asserted that he had not withdrawn the excess within a reasonable time, when the warning letter was first sent. The taxpayer then took the issue to a federal court, yet the judge upheld the decision not to waive the penalty. The article is a good reminder to not only be aware of your TFSA limit, but to also check for notifications if you sign up for electronic communications.

This may be especially important to remember as the world continues to go digital. The 2021 federal budget proposed changes to improve the CRA's "ability to operate digitally," allowing the CRA to send NOAs electronically without the taxpayer having to explicitly authorize them. This may apply to those who file income tax returns electronically. Those who file paper returns will continue to receive a paper NOA.

It's prudent to keep good records of your TFSA transactions. When checking *My Account* for contribution room information, be aware that there may be delays in updating TFSA contribution amounts, especially early in the calendar year when the previous year's information may not be fully accounted for. Some taxpayers have also noted that historical information may not always be correct. In this case, you will need to contact the CRA to update these records.

1. financialpost.com/personal-finance/taxes/missing-a-message-from-cra-doesnt-let-taxpayer-off-the-hook-in-tfsa-overcontribution-case

The Season of Giving: "Doing Good" and Benefitting Your Taxes

Many of us wish to support charities that are important to us. In "doing good," it can also work to your benefit in the form of a tax credit. Here are just a handful of options:

Cash Donations — Any donation to a qualifying charity results in a tax receipt that entitles the donor to a tax credit. The federal credit is 15 percent of the first $200 donated per year and 29 percent (or 33 percent*) beyond this threshold. After taking provincial tax into account, the total benefit may exceed 40 to 50 percent, depending on province of residence. This credit can be pooled with your spouse to be claimed by whichever spouse can best use it to their advantage. Donations can be carried forward for up to five years. Charitable donations are limited to 75 percent of net income in any year except upon death. Donations of up to 100 percent of net income are allowed for tax purposes in the year of death and the year preceding.

Donating Appreciated Securities — Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax. If you wish to do this for the 2021 tax year, let us know well in advance of the year end as donations must be made before December 31 and settlement times may vary.

In-Kind Gifts — You may consider donating personal property which a charity can then convert to cash. For example, by donating a used car to charity, you may be eligible to receive a tax receipt for its appraised value. Special tax rules may apply to in-kind gifts so check with a professional tax advisor on how to best handle the situation.

Private Foundations — Individuals with more substantial assets may consider establishing a private foundation as a vehicle for charitable activities. Money paid into the foundation may result in an immediate tax benefit while the foundation can direct future gifts as it sees fit. However, the ongoing cost of the foundation may be a disadvantage.

Donor-Advised Funds or Community Foundations — These may be cost-efficient alternatives to a private foundation by eliminating certain legal and administrative costs, while still allowing you to direct donations and achieve tax benefits. The benefit of a donor-advised fund is that the contribution will be deductible in the year it is made, but funds can be distributed in future years and the donor may be able to direct how funds are invested by the charity until distribution.

We can help provide perspectives on these or other options available and can recommend resources to support many of these endeavours. Please consult a tax advisor as it relates to your situation.

*The federal donation tax credit rate for donations over $200 increases to 33 percent to the extent that an individual has taxable income that is taxed at 33 percent.

Business Owners & Family Succession — Changes as a Result of Bill C-208

Keeping a business in the family has become easier and less costly. Over the summer, Bill C-208 was passed. Before this, the Income Tax Act treated the proceeds of intergenerational sales as deemed dividends to the vendor, whereas sales to third parties were treated as lower-taxed capital gains that could be used against the LCGE.* Bill C-208 eliminates this treatment and also enables corporate reorganizations among siblings to take place without being subject to anti-avoidance rules in certain circumstances.

*Lifetime Capital Gains Exemption. However, Bill C-208 reduces access to the LCGE if taxable capital involved exceeds $10 million; at $15 million or more, there is no access at all.

What is Generational Wealth Planning?

After a lifetime of building wealth, many of us have a desire to leave a lasting legacy for our families. As such, some are now focusing on generational wealth planning to support this longevity. This goes beyond just designating bequests for (grand)kids through an estate plan. A generational plan considers future generations, including those you may never meet, with the objective of supporting your wealth's longevity in complement to traditional estate planning documents — these legal documents can help to distribute assets, but the generational plan keeps assets working into the future.

Start with a Plan and Document It — A generational plan should set out goals and provisions for how money will be used by future generations, as well as how it will be accessed and replenished. For instance, you may wish for family members to invest in themselves, stipulating that funds should be used for higher education, or a business start-up or expansion. By offering heirs the means to obtain an education or run a business for themselves, they can gain the experience needed to create wealth and grow it. Once you determine your desired goals and provisions, it is important to formally document the plan so that it can be passed along to future generations. You may also consider the use of certain tools (such as a trust) to support your plan.

Communicate Your Plan; Be the Family Resource — It is important to communicate your plan to family members. Often, parents keep their finances and related values secretive, missing the opportunity to pass along their ideals to children. A generational plan puts you in the position of leadership and guidance by allowing heirs to understand your vision for your wealth after you pass away. While particular financial details need not be shared, the vision can act as a catalyst for meaningful family discussions. The plan can also form the basis of a family constitution, enabling future generations to carry forward the intentions set forth in the plan.

Even if a generational wealth plan isn't your desired path forward, there may be actions that can be taken to help protect and preserve assets for the future:

Consider Protection Tools, Such as a Trust — Certain tools may help to protect future wealth in situations in which beneficiaries may not be financially responsible or where you wish certain goals to be attained. A testamentary trust can provide protection by putting estate assets under the control of a responsible trustee. The terms of the trust can specify the timing and amount of distributions to be made to heirs. Other tools may be considered, such as life insurance, to help protect and grow assets.

Create a Professional Support System — Having a support system of trusted professionals may be a valuable part of ensuring a successful generational wealth transfer, especially when heirs may not have the skillset to independently manage funds.

Creating a generational legacy can be one of the greatest gifts you leave behind. For support as you plan ahead, please get in touch.

Inflation: How Has Purchasing Power Changed?

Over thirty years ago, a Big Mac hamburger would put you back around $2. Today, it costs over triple the price. Yet over that period, average family income has only risen by 91.8 percent and the Consumer Price Index (CPI), the official measure of inflation, increased by 107 percent, or just 2.2 percent per year.

One of the most pressing questions in financial circles today is whether inflation will become a problem, or if current inflationary pressures are temporary as the central banks would like us to believe. Those who believe inflation may be more pervasive cite various factors that signal a potential shift: significant government stimulus, aging demographics in low-cost manufacturing geographies and empowered labour that puts upward pressure on wages and prices. Others suggest that inflation won't be able to maintain its recent pace after struggling to climb for many years, largely attributing it to pandemic-depressed prices.

How has purchasing power really changed? The chart shows the prices for select items in 1987 and today. While prices for many things have gone up, technology has made others more affordable: TVs are not only larger and thinner, but cheaper! What about your personal experience? Statistics Canada has released a personal inflation calculator at: https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020015-eng.htm

Changes in the Prices of Select Items: 1987[1] & 2021

	1987	2021	Change
Cdn. Family Income (Avg.)[2]	$37,118	$71,200 (2019)	+91.8%
Cdn. House (Avg.)[3]	$129,702	$716,000	+452.0%
Flat Screen Television[4]	$1,599 (32")	$750 (55")	-53.1%
Top Apple Computer[5]	$9,150	$7,400	-19.1%
Microwave[4]	$580 (680W)	$140 (1100W)	-75.9%
Bottle of Dom Perignon[6]	$85.25	$267.95	+214.3%
Big Mac Hamburger[7]	$2.05	$6.77	+230.2%
University Tuition[2]	$1,137	$6,580	+478.7%
Consumer Price Index[8]	67.5	139.6	+106.8%
S&P/TSX Composite Index[9]	3,729.30	20,035.30	+437.2%

1. 1987 data, Report on Business Magazine, Apr. 2012, pg. 13; 2. StatCan T-1110019101; Undergrad tuition www150.statcan.gc.ca/n1/daily-quotidien/200921/dq200921b-eng.htm; 3. CREA data; 4. Sony HD TV, bestbuy.ca; 5. MacPro, apple.ca; 6. LCBO data; 7. economist.com; 8. bankofcanada.ca, accessed 03/21; 9. At close on 6/7.

Regardless of the path forward, the good news for investors is that the S&P/TSX Composite Index has gained over 430 percent throughout this time. If history is any indicator, equity markets continue to be a great way to grow funds for the future.

Do You Have These Seven Habits of Highly Effective Investors?

Over thirty years ago, the book "The 7 Habits of Highly Effective People" quickly became a bestseller by offering a common-sense approach to improving life outcomes through personal change. Investing may be seen in a similar light — establishing certain habits can help to make better investors.

Here are seven practices that can serve investors well:

1. Recognize that time is one of your greatest assets. The odds of investing success fall in your favour when you combine a long time horizon with the power of compounding investments. Even average returns, compounded over a long period of time, can lead to superior overall results. Consider that a one-time, lump-sum investment of $55,000 will yield around $209,000 in 25 years at a compounded annual rate of return of 5.5 percent. However, in 55 years, it will yield over $1 million.

2. Accept that markets are inherently volatile. Volatility is what allows equities to be one of the greatest generators of returns of any asset class over the longer term. While volatility has been muted for most of this year, recognize that it is a permanent fixture in equity markets. Over time, equity markets will have incredible up periods, such as the one we have experienced this year, but also difficult down times.

3. Maintain patience, through good times and bad. Participation, by having the patience to see through the inevitable ups and downs, can make a significant difference in investing. Successful investing often involves the patience to overcome many short-term setbacks in order to enjoy longer-term compounding and progress.

4. Don't abandon risk controls. When equity markets are rising, it may be easy to get caught up in the excitement and forget that various guidelines have been established to control risk within a portfolio — for example, strategic diversification, rebalancing to a certain asset mix, limiting the size of any holding and maintaining quality criteria for holdings. These help to guard against being caught in the prevailing momentum by identifying potential risks that may not be overly apparent.

5. Stop listening to the noise. Everyone has an opinion on investing and the markets. In good times, everyone can sound like an expert and we may fear missing out. In difficult times, the media headlines can magnify economic misery and instill fear. At the end of the day, thoughtful analysis should drive decision-making — not any peripheral noise.

6. Save more. Saving is one of the cornerstones of building wealth. You can build wealth without a high income, but you have no chance without a high savings rate. Saving is one aspect that an investor can control — unlike the many others which we cannot, such as stock market performance, interest rates or the timing of recessions.

7. Continue to have confidence in the value of support. We are here to provide support at every stage of the investment journey to help you achieve your goals, and this can extend beyond investment advice. This may include helping to instill discipline, through saving or investing, or to enhance total wealth management, through retirement-planning, tax-planning or estate-planning support. Studies continue to show that advised clients have greater assets — more than 3.9 times the assets than non-advised investors after 15 years — and greater discipline through volatile times.[1]

1. IFIC, https://www.ific.ca/en/articles/canadian-investors-value-advice/; https://www.cirano.qc.ca/files/publications/2016s-35.pdf

With the compliments of...

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