NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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WEALTH MANAGEMENT TEAM
SUCCESS WITH VALUE



Financial Focus

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A wealth plan evolves as your life does, so it's important to let us know about changes in your personal, family or work life. One article addresses this topic in general, while others examine changes at different life stages – when you marry, have a child and become an empty-nester.



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Investment

Life changes and your investments

As your personal and family life evolves, a great many events and new situations over the years may affect different components of your wealth plan.

Some developments lead to straightforward changes in wealth planning. For example, the birth of a child typically prompts a parent to purchase life insurance. Entering retirement may trigger tax planning, especially the splitting of pension income with your spouse.

However, situations that call for adjustments to your investments are often less obvious. In some cases, this may be because investors first deal with the psychological impact of the life change.

Adjusting your investment strategy

Perhaps a retiree has certain investments intended to become estate assets and be passed to their heirs. But now they have a grandchild with special needs, so the retiree withdraws funds from these designated investments to contribute to a Registered Disability Savings Plan (RDSP).

Say that an individual has just gone through a divorce and is dealing with both the emotional stress and the financial consequences of paying support. This person has now become less tolerant of risk and makes their investment portfolio more conservative.

Every year, an individual has contributed the maximum to their Tax-Free Savings Account (TFSA) – but not this year or the next four years. Their child plans to buy a home, so they'll redirect the money normally allotted to their TFSA and gift it to their child for First-Home Savings Account (FHSA) contributions.

Keep us informed

You may not encounter any of the circumstances just outlined, but you'll likely experience other events and situations that will affect your wealth plan and investments in particular. Let us know about any changes in your life so we can ensure your investments remain aligned with your evolving needs and goals.

When couples face a challenging financial decision

A couple may encounter many situations that require difficult decisions. When any of these cases involve a financial factor, you can involve us to help arrive at a solution.

Here are some examples of situations in which spouses may face a dilemma in their financial life.

A difference in risk tolerance

In this scenario, conflicting risk tolerances pose a challenge. Each spouse in a recently retired couple holds a different view on how most of their funds should be invested. One spouse is comfortable maintaining a substantial equity allocation to pursue further growth, as they're still in their mid-60s. The other doesn't want to spend retirement worrying about the markets and prefers a very conservative approach. Their advisor offers a solution that works for both. The couple will maintain a large pool of conservative investments and a separate equity portfolio designed for lower volatility. In any year when markets are down, they'll draw income from the conservative pool. They'll also gradually reduce their allocation to equities over time.

Spending versus saving

One spouse is primarily a saver, concerned about the future, while the other is comfortable spending, guided by the idea of living for today. For example, one spouse thinks they should invest their annual bonuses, while the other wants to use the money for a family ski trip. Both spouses meet with their advisor and view their different approaches as a conflict. The advisor explains that a saver and a spender can benefit from each other by finding a balance that allows them to enjoy life now while meeting their wealth-planning goals. For the bonuses, invest one and splurge the other.

Approach to parenting

Consider a blended family where each spouse brings their own children. Each spouse has one child in university, and both children have well-paying spring and summer jobs. One parent believes that education savings should cover all of their child's education costs. The other thinks their child should pay their own tuition because it builds character and makes them study more seriously – and that's what the parent did as a student. Each parent sticking to their own beliefs may cause friction between the step-siblings, so they discuss the situation with their advisor to ensure they consider all options. They decide that each child will cover their own tuition for one semester.

When to retire

A couple can still face a tough decision even when the spouses don't necessarily have differing views. Consider a couple with a five-year age gap who are struggling to decide whether both will retire when the older spouse turns 65. It's a decision based on personal and financial factors. Does the younger spouse still want to work? Are both spouses comfortable with one retiring earlier? Their advisor can illustrate their projected financial future based on different retirement dates. By considering their personal views and assessing the financial impact, they'll have all the information needed to make a decision with confidence.

If you and your spouse ever face a difficult financial decision, please let us know. Together, we can find a solution that suits you both.

The challenge for singles

When it comes to making financial decisions, someone who is single, divorced or widowed may face a different set of challenges.

Discussion often helps arrive at a solution, but you don't have the benefit of talking through a problem with a partner. Perhaps you can talk with someone close to you, but not everyone feels comfortable discussing personal financial matters with a friend or family member.

That's where we can help. You can contact us, and we can share ideas and explore your options together.

The matter doesn't need to be about how you invest. Perhaps a sibling asks you for a loan, and you're unsure whether to say yes. You have a tempting job offer, but it would require you to move. Or perhaps you're wondering whether it's okay to tap your emergency fund for a kitchen renovation.

Whether you're just looking for a sounding board or want guidance, we're here to help however we can.



Opening an RESP

When you open a Registered Education Savings Plan (RESP), you have five decisions to make, and you can consult us for guidance.

1. **When to open your RESP.** You can open an RESP once you have a social insurance number (SIN) for your child – there's no minimum age.
2. **Selecting the provider.** You can open an RESP with an authorized provider. Individual and family RESPs offer flexibility, allowing you to decide when and how much to contribute while choosing investments that align with your goals. Group plans, also known as scholarship plans, generally follow a predetermined contribution schedule, and all members' funds are invested according to the same strategy.
3. **Individual or family plan?** You can open an individual or a family RESP, and there's not much difference between them. If you have one child, you can open an individual plan or a family plan. If you have two or more children, you can open a family plan or an individual plan for each child. With a family plan, it's smoother to move funds from one child to another, though you can still transfer funds between individual plans. Some parents prefer individual plans to clearly track contributions and withdrawals for each child, but these transactions are still separated by beneficiary in a family plan. Ultimately, the decision is a matter of personal preference.
4. **Choosing your investments.** Typically, an RESP begins by favouring equities and gradually shifts over the years toward fixed-income investments and cash equivalents, becoming very low-risk by the time a child reaches post-secondary school. We'll ensure that your RESP investments align with your personal risk tolerance and time horizon.
5. **Frequency of contributions.** How much and how often you contribute is up to you (unless it's a group plan), and you may want to set up automatic contributions. You can get off to a good start by taking advantage of the Canada Education Savings Grant (CESG), which matches 20% of your contributions up to a maximum grant of $500 per year, with a lifetime maximum of $7,200.[1]



1 Residents of Quebec and British Columbia may also receive a provincial education grant.

When the nest empties

Life changes when your children leave home, and you have mixed emotions of melancholy and pride. You'll also find out that your financial life changes.

Here are some ways your wealth plan may evolve after your children leave the nest and become financially independent.

Cash management. The money that once went to supporting your children is now yours, and your discretionary income increases, especially when you pay off your mortgage. You might use these funds to bolster your retirement savings or to help meet other financial goals.

Downsizing. Whether to stay in the family home is as much a practical or emotional decision as a financial one. But if you choose to downsize for financial reasons, you can unlock that capital to help meet one or more goals.

Life insurance. If you have term life insurance to protect your family, you can talk to your insurance professional about scaling back your coverage, now that your children are financially independent. You may still need coverage to secure your spouse's financial future or to cover remaining mortgage payments.

Retirement planning. Your children have started a new chapter in their lives, but you have too, and you may want to give more thought to your retirement plans. Where you'll live and your desired retirement lifestyle affect how much you need to save and when you can retire.

Estate planning. A child entering adulthood may affect your estate plan. For example, you may want to choose your child to administer your estate. Or, someone with a vacation property may have planned for their two children to inherit it, but needs to change that plan because one child is moving out of the province.

If your children have already left home or an empty nest is on the horizon, talk to us about the ways your financial life may change.

Rebalancing to help manage risk

A portfolio's asset allocation is the way savings are divided among asset classes, typically equities, fixed income, and other investments. One factor that determines how much to invest in each asset class is your risk tolerance.

Market movements can upset a portfolio's balance. Say an investor's portfolio is designed to be 60% equities and 40% fixed income, but equities have been on a bull run. As a result, the portfolio is now 70% equities, and the investor is taking on too much risk.

In order to re-establish the desired asset allocation, a portfolio is rebalanced. The trigger to rebalance can be when one asset class is off its target by a specified percentage, such as 5% or 10%. Or a portfolio can be rebalanced according to a schedule, for example, every six to 12 months.

To carry out the rebalancing, some investments can be sold from the outperforming asset class to purchase investments in other asset classes. This method offers the added benefit of selling high and buying low. Another method is to direct new contributions to the asset class or classes that are currently below their target allocation.

Remain aware of loss aversion

Loss aversion is a cognitive bias that can make a person fearful enough of losing that they behave in ways that avoid loss.

In investing, avoiding loss can be appropriate, such as when you're saving for a short-term goal or when a conservative investor holds lower-risk investments to stay true to their risk tolerance.

However, loss aversion can negatively affect investment decisions. An investor might panic when the market corrects, tempted to sell some investments in case the correction becomes a crash. The trouble is that selling guarantees a loss, whereas waiting allows for a potential recovery.

Another investor may be reluctant to make new contributions when the stock market is reaching numerous record highs, worried that the market is due to fall. But giving in to this fear means potentially missing out on further gains.

Committing to investing on a regular basis, regardless of market conditions, helps allay these fears.



How lifestyle inflation can sneak up

Lifestyle inflation, also known as lifestyle creep, occurs when you earn more income and spend too much of the extra funds on lifestyle-enhancing expenses.

Spending more when you make more is natural. However, if you overdo it, you may find that you're not getting ahead financially, even though your income has increased.

Typically, lifestyle inflation builds gradually over time. Perhaps a couple who had dined out once in a while now goes to upscale restaurants on a regular basis, in effect turning a want into a need. Also, smaller wants become larger ones, such as luxury cars or lavish vacations.

This syndrome can lead to taking on unnecessary debt and falling behind on financial goals, including saving for retirement.

To avoid lifestyle inflation, awareness is key. You can spend wisely, in ways that enhance your lifestyle without living beyond your means. Also, you can plan to increase the amount you save and invest when your income rises and when you receive an annual bonus or tax refund.

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