Brown | Yzenbrandt Wealth Management Group Newsletter

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In this edition

Kimberly Brown B.Comm, CFP®, CIM®
Wealth Advisor
Portfolio Manager
250-953-8458
kimberly.brown@nbc.ca

Dirk Yzenbrandt B.Sc., CIM®
Wealth Advisor
Portfolio Manager
250-657-2224
dirk.yzenbrandt@nbc.ca

Sylvia Yzenbrandt
Wealth Associate
250-657-2214
sylvia.yzenbrandt@nbc.ca

Look Forward, Not Back

One of the weaknesses of human nature is our tendency to focus on what is most recent in our memories. Our minds are naturally influenced by things that have just happened, and this can impact the way we make decisions. In investing, this can be amplified. The market pendulum can sometimes swing from one extreme to the other, with prices often overshooting underlying "fair values" in both directions during the course of a cycle. As renowned investor Benjamin Graham once said, "*In the short run, the market is a voting machine. But in the long run, it is a weighing machine.*"

The year that has passed was no exception. Financial markets were largely challenged by the aggressive actions of central banks as they raised rates to combat high inflation. As a result, there was a significant reversal from the excessive exuberance that characterized 2021. While it's never easy to see asset prices under pressure, it has led to a more healthy outlook for how risk assets are viewed and, perhaps, more thoughtful consideration of how capital is deployed.

Yet, many of the same issues we faced in 2022 persist, including geopolitical tensions, lingering inflation, higher interest rates and continuing central bank tightening policies intended to slow economies. While these are important issues not to be trivialized, we shouldn't allow them to obstruct our view as we look forward.

This is because the investing journey can be a long one – depending on our objectives, sometimes as long as our lifetimes. For most investors, investing involves building wealth for down the road, and not tomorrow. We can often forget that short-term performance may have little impact on longer-term results.

Veteran investors recognize that market downturns are a normal part of the cycle and allow for them, often using them to build investment positions for the future. Despite the volatility of 2022, it is instructive that Warren Buffett continued on his buying spree, adding a record amount of purchases to his portfolio throughout the year.[1] He knows that interruptions will occur from time to time, and uses these periods to seek opportunity, strong in his conviction that better days lie ahead.

Likewise, we can all benefit from continuing to position ourselves for the years to come. Indeed, the opportunity to build significant wealth remains within reach for both young and old investors alike. We often use the "Rule of 72" as a simple way to estimate how many years it will take funds to double at various rates of return — and it's worth a reminder. By dividing 72 by an average rate of return of 5 percent, it shows that funds can double in around 14 years (72÷5=14.4). So, even if you've achieved the respected age of 70, chances are you can still live to see your funds double – and, twice still if you become a centenarian![2]

As we begin another year, don't lose sight of the importance of planning for the future. After a challenging year, we would like to express our gratitude for your continued confidence in our services. May 2023 bring brighter days and better markets. Continue to look forward, not back.

1. https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-60-billion-record-stock-purchases-portfolio-2022-8; 2. Assuming average life expectancy in Canada of age 84 (females) and 80 (males); https://data.worldbank.org/

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Reducing Demands on Portfolios During Difficult Times

During more difficult market times, we often suggest the importance of reducing withdrawals to put less stress on investment portfolios. This can be especially challenging for those who have entered retirement and do not have the comfort of employment income. As well, many retirees are faced with mandatory minimum withdrawals from the Registered Retirement Income Fund (RRIF). However, we do know that markets are cyclical and expect them to resume their upward climb. This is why it's important to leave funds within a portfolio where possible to allow values to recover. Here are some thoughts, noting that individual situations vary based on factors such as income sources, taxation rates, lifestyle considerations and more.

Evaluate your liquid inflows — Having an understanding of your liquid inflows is important. For certain retirees, the income received through government benefits and employer pensions may be sufficient to meet living expenses. However, some may need to apply for additional benefits, like the Canada Pension Plan, to supplement income. Other retirees may consider picking up part-time work to generate income, shorten a retirement time horizon and increase a retirement portfolio by allowing a longer period of compounding for existing funds or through additional contributions.

Revisit your spending — With high inflation, money doesn't go as far as it used to, especially for essential goods like food and gas. A budget may identify opportunities to reduce non-essential expenses and potentially reduce the need for income. For retirees, while a general rule of thumb used in the investing industry has been a four percent withdrawal rate for retirement income, at the onset of retirement this may be high. Spending can change dramatically over a retirement life cycle and depends on many factors. Maintaining a budget can help to provide a clearer picture of income needed at any particular time.

Consider the sources of withdrawal and the impact on taxes — Withdrawing from investment accounts has the potential to trigger taxes. For retirees, in addition to required RRIF withdrawals, this may put you in a higher marginal tax bracket. If you do require funds, you may consider withdrawing from non-taxable sources, such as the TFSA. If you are turning to taxable assets, it may be beneficial to take advantage of tax-loss selling, as 50 percent of a capital loss can be used to offset taxable capital gains. Or, there may be benefit in selling assets with the highest cost basis first, then moving to assets where the cost basis is lower to reduce the potential tax hit. This isn't always the best choice, especially when considering lifetime tax optimization; if you expect to be in a higher marginal tax rate in future years, this may impact your decision.

For those who must make minimum withdrawals from the RRIF, here are a few additional ideas:

Make RRIF withdrawals at the end of the year — By taking withdrawals at the end of the year, it may allow greater time for asset values to potentially recover. This also allows for a longer period for potential growth within the plan.

Make an "in-kind" withdrawal — If you aren't in need of funds, consider making an "in-kind" withdrawal. While the fair market value at the time of withdrawal will be considered income on a tax return, you will continue to own the security. If this is transferred to a TFSA, subject to available contribution room, future gains will not be subject to tax.

Split RRIF income with a spouse — RRIF income qualifies as eligible pension income for pension income splitting. If you have a lower-income spouse and you're 65 or older, you can split up to 50 percent of your RRIF income to reduce your combined tax bill.

Have You Been Appointed Estate Executor? Five Mistakes to Avoid

Administering an estate can be a time-consuming and complex task, often occurring during an emotionally difficult time. It isn't uncommon for mistakes to be made, which can lead to increased tax liabilities, conflict with beneficiaries or, worse yet, litigation. Equally concerning, the executor (liquidator) may be held personally liable for any errors.

If you have been appointed as executor, being aware of these potential pitfalls may help as you contemplate the role. If you are planning for your own estate, carefully choosing your executor is important to prevent these and other mistakes. In brief, here are common mistakes often made by executors:

1. **Not following the directives of the will.** Estate lawyers say that executors can sometimes ignore parts of the will, such as forgiving loans that were to be collected, perhaps due to lack of knowledge or because it is easy or convenient. Others may choose to distribute assets differently than directed within the will, under the belief that they have a more "fair" idea for this distribution. Neither situation is within the executor's authority.
2. **Failing to communicate.** One of the executor's duties is to respond to reasonable enquiries from beneficiaries. Sometimes executors become so involved in the process that they forget to communicate. Silence can often be misinterpreted as being secretive, which can prompt estate disputes. Maintaining transparency and ongoing communication can go a long way in preventing conflict.
3. **Making incorrect distributions.** Oftentimes, distributions are incorrectly made before other liabilities are paid, such as taxes or outstanding debts. Sometimes this is because beneficiaries pressure the executor. Often overlooked: the executor must identify unknown creditors, which can involve a time-consuming process of creating a public notice. Advertising for creditors can protect the executor should a claim be made after the estate has been distributed.
4. **Being too prudent.** Some executors try to keep estate expenses low, which can result in higher costs. For example, an executor who completes tax returns without the help of an accountant may miss eligible tax credits or deductions. In the past, advertising for creditors in the newspapers of multiple cities was very costly, so some avoided the process, only to be caught by surprise when claims were made.
5. **Treating estate funds as their own.** Given the assets often available within an estate, some executors may wrongly use them for their own purposes, such as to make loans to themselves or family members. Others may make more honest mistakes, such as incorrectly using funds to cover travel costs for family members to attend a funeral.

RRSP Checkup: How Well Are You Managing Your RRSP?

It is once again Registered Retirement Savings Plan (RRSP) season. How well do you manage your RRSP? Here are some questions to ask:

Do you consider the timing of RRSP deductions? With any RRSP contribution, you're entitled to a tax deduction for the amount contributed so long as it is within the contribution limit. Keep in mind that you don't have to claim the tax deduction in the year the RRSP contribution is made. You can carry it forward if you expect income to be higher in future years such that you may be put in a higher tax bracket, potentially generating greater tax savings for a future year.

When do you make contributions? By making contributions at the beginning of the tax year or throughout the year, instead of waiting until March 1 for a deduction from the previous year, you may benefit from the longer time for tax-deferred growth. Due to the power of compounding, over time this can make a noticeable difference.

When was the last time you updated beneficiary designations? It may be beneficial to review account beneficiaries (in provinces where applicable), especially in light of major life changes. For example, in the event of separation or divorce, be aware that named beneficiaries may not be revoked, depending on provincial laws. Therefore, the designation of an ex-spouse may still be in effect.

Have you considered a spousal RRSP? For couples in which one spouse will earn a high level of income in retirement, while the other will have little retirement income, a spousal RRSP may potentially be a valuable income-splitting tool. If you are working past age 71 and have a younger spouse, you can no longer hold your own RRSP after the year you turn 71, but you can still make a contribution to a spousal RRSP as long as your spouse is age 71 or less at year end and you have RRSP contribution room. This may be a good way to get a deduction and shift income to a spouse.

Have you planned for your RRSP's eventual maturing? There may be benefit in gradually drawing down RRSP funds as you approach retirement. This may be useful if an individual is

currently in a lower tax bracket than they expect in future years. Others may seek to limit future sources of taxable income in order to minimize the possible clawback of income-tested government benefits such as Old Age Security. One strategy may be to use RRSP withdrawals to fund Tax-Free Savings Account (TFSA) contributions (subject to available room). As the TFSA grows, there may be greater flexibility to receive tax-free income that can augment or replace Registered Retirement Income Fund (RRIF) withdrawals later. At death, TFSA funds can pass tax-free to heirs, unlike residual RRSP/RRIF funds that are subject to tax, potentially at high marginal tax rates.

Do you allow your RRSP to grow uninterrupted? Consider the implications of making taxable withdrawals from the RRSP to pay down short-term debt. You may be paying more tax on the RRSP withdrawal than you'll save in interest costs. In addition, once you make a withdrawal, you won't be able to get back valuable RRSP contribution room. There may be better options, such as a TFSA in which contribution room resets itself in the following calendar year.

Always seek assistance from tax professionals regarding your situation.

RRSP Contribution Deadline: March 1, 2023 for the 2022 tax year, limited to 18 percent of the previous year's earned income, to a maximum of $29,210 (for the 2022 tax year).

A Brighter Side to Inflation: The Largest Index Adjustment in Years

There may be some good news that comes with the significant inflation we've been enduring. The adjustments made to certain government income tax and benefit amounts — such as the basic personal amount (the federal non-refundable tax credit on an income tax return), the annual dollar limit for the TFSA and the GST/HST tax credit — will be the highest seen in many years. This is because the government adjusts these amounts based on inflation using consumer price index data. With inflation reaching 40-year highs in recent times, the indexation increase is the largest since the 1980s.

Indexation Increase Per Year, 2019 to Current

2019	2020	2021	2022	2023
2.2%	1.9%	1.0%	2.4%	**6.3%**

Many of these adjustments take effect on January 1, such as the increase to the TFSA dollar limit. However, other adjustments will take place on July 1, such as income-tested benefits like the GST/HST tax credit and the child disability benefit, as this coincides with the beginning of the program year for these benefits. It will also increase our income tax brackets.

Why is this important? The adjustment helps compensate for the higher cost of living we are experiencing. For instance, if the tax bracket thresholds are not indexed to inflation, an increase in income would mean higher taxes paid and a loss of purchasing power. This occurred when Alberta de-indexed its tax brackets in 2019, effectively forcing Albertans to pay $646 million more in taxes from 2020 to 2022.[1] Alberta will resume indexing for the 2022 tax year.

For more information on the indexation adjustment, please see: https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html

1. www.cbc.ca/news/canada/calgary/alberta-taxes-indexation-inflation-1.6510978

2023 TFSA Dollar Limit: As a result of adjustments for inflation, the 2023 TFSA annual dollar limit will increase to $6,500, bringing the eligible lifetime amount to $88,000. The annual dollar limit hasn't increased since 2019.

Don't overlook the opportunity for tax-free growth!

Investing Resolutions for 2023

A recent article in the *Washington Post* offered a different perspective to the view that kids these days are getting too much screen time. In fact, there's another demographic struggling to put down their devices: baby boomers. As one man put it: "*My 75-year-old dad's phone may as well be an implant; he lives with it like a teenager*!"[1] Of course, this has implications for our investing ways. With easy access at our fingertips, we may all be guilty of checking investment accounts too frequently.

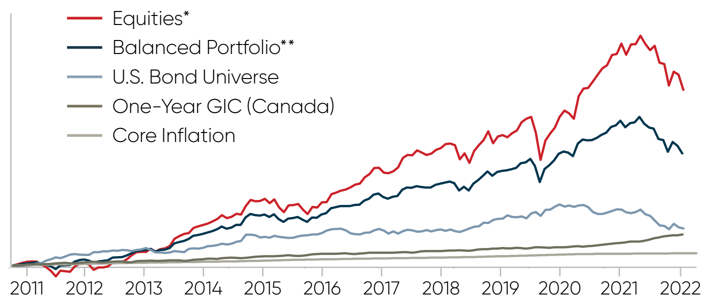
In this regard, and as we begin a new year, here are three resolutions that can help to make better investors:

Pay less attention to investment accounts. It's worth a reminder: Emotions can impact our investing decisions. When we are threatened by the possibility of losses, our brains take control to avoid these losses and we may not make the best investing decisions. In 2022, excessive pessimism dominated the markets. As one market pundit noted, perception swung from "flawless to hopeless," and, for many, the urge to react may have felt overwhelming. One important variable for investing success is how long you are able to stay invested. As such, consider checking accounts less frequently.

Look beyond annual returns. As we saw in 2022, markets will go down, just as they go up, and returns can vary quite significantly from year to year. While we commonly discuss "average" returns, it's worth repeating that annual returns often do not fall close to this average. Consider the wide dispersion of S&P/TSX Composite Index annual returns since 1981 in the chart. In 19 of 41 years, returns were less than the average of 6.7 percent. Almost one-third of the time, they were negative. Yet, average returns compounded over time can lead to superior results. Consider that an investment of $55,000 would yield about $209,000 in 25 years at a compounded annual average rate of return of 5.5 percent; yet, in 55 years, it would yield over $1 million.

Remember that equities continue to be one of the best wealth generators of asset classes. Given the market volatility in 2022 and with yields on low-risk, fixed income alternatives at levels not seen in over a decade, products like guaranteed investment certificates may look appealing. While this may be a good opportunity for cash on the sidelines, equities continue to be one of the best asset classes in which to generate wealth and beat inflation over time.

Cumulative Returns by Investment Strategy, 2011 to Nov. 2022

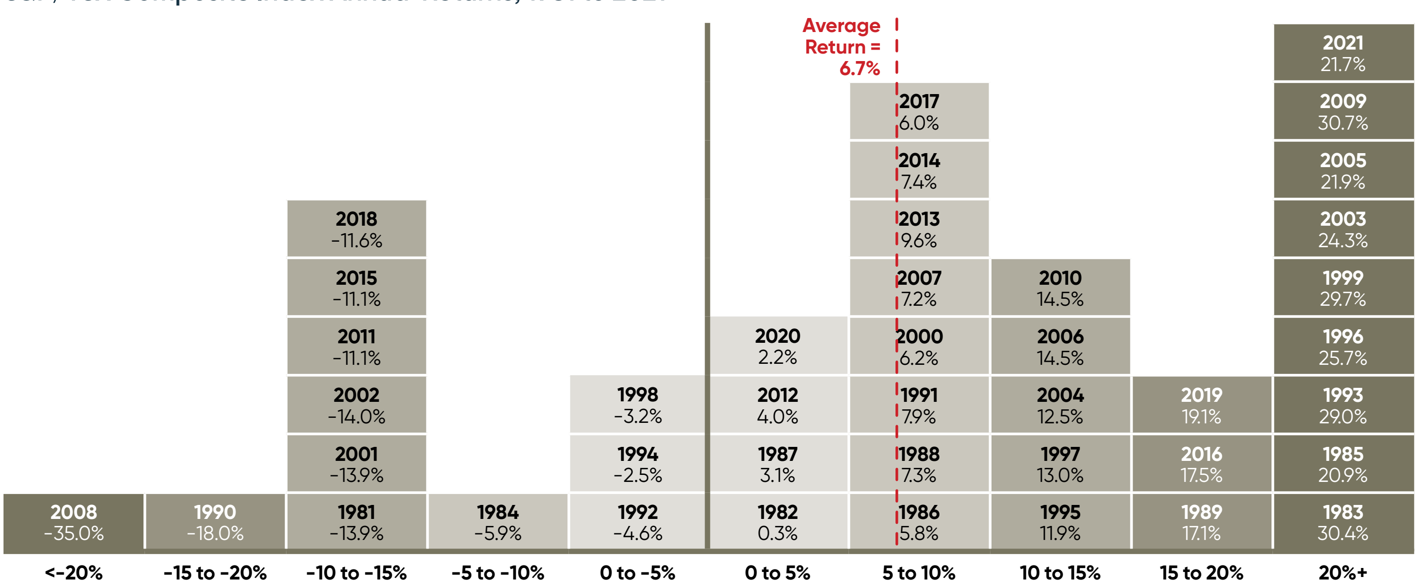


*35% S&P 500, 35% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM;
**60% Equities, 40% Fixed Income

A well-constructed portfolio has been put in place to meet your goals over the longer term. Have confidence that your plan continues to work for you.

1. https://www.washingtonpost.com/technology/2022/11/12/boomers-screentime/

S&P/TSX Composite Index Annual Returns, 1981 to 2021



New Year's Advice for the Younger Generation: It Starts With Saving

At one time in the not-so-distant past, our society was tuned into saving. We wouldn't think of buying something until we saved enough cash to pay for it, whether for a car or other consumer goods. Only for the rare, big-ticket item, such as a home, would we go into debt.

Today, this quaint notion has largely gone by the wayside. Younger generations appear more impulsive, often choosing to ignore the admonishments to "wait" before spending. Our increasingly on-demand and cashless society, with easy access to credit cards and lines of credit, can land many in difficulty with debt. Often missing has been the discipline of the past: "Can we afford this?" The lack of a saving strategy has implications for investing: Without saving there is no accumulation of capital; Without capital there can be no investment.

It's Hard to Save!

Often, those who profess to want to save will protest that it is impossible to do today. Yes, the cost of living is high and inflation is creating further pressures, with many people having a tough time making ends meet. Yet, there may be certain ideas that can help improve our personal fiscal habits, and here are some tips:

Paying Ourselves First — It is interesting how the shift to spending from saving has occurred during a time in which the general wealth of Canadians continues to grow. Sometimes, the problem with saving is a lack of will. One easy way to make saving a regular habit is to "pay yourself first." This involves having a portion of each paycheque automatically set aside in a separate account: via a payroll deduction at work, an automatic bank account debit, a dollar-cost-averaging investment plan or similar program. The theory: What you don't see, you won't miss — and otherwise spend. How much you allocate is up to you, but almost any amount sent to savings can create a sizeable amount over the years that can be invested to create future wealth.

Consider a Budget — This is not to admonish anyone about their spending habits. Yet, just the effort of sitting down and mapping out the family income and expenses each month, without doing anything else, can be revealing. It will pinpoint where your money is going — in debt repayment, entertainment costs, daily expenses, commuting costs or others. As a result, you may be able to determine areas on which to focus in order to bring spending into better balance.

Cut Consumption — Minor reductions in consumption can lead to meaningful savings that can be put towards building an investment portfolio or other worthwhile cause. Some ideas? Consider that skipping the $5 coffee each workday for a year could achieve annual savings of $1,250. Or carpooling to work could save on gas and parking. There may be an opportunity to prioritize and cancel memberships or subscriptions. Or, avoiding lifestyle creep to "keep up with the Joneses" — the pressure to buy certain things because others around you have them.

With some forethought, you can build your own list of possible savings that fits your lifestyle and circumstances. You may surprise yourself with what you can achieve. Finding just $3,000 in savings each year can accumulate to over $100,000 in just 20 years if invested at a five percent rate of return. Not a bad basis for a real investment program!

Who Wants to Be a Millionaire? Use the "Gift" of Time — One of the greatest gifts that most young people have is time, largely because of the significant impact that compounding investments can have over time. It may surprise many young people, but the ability to become a millionaire is well within reach if you start early. Consider that at a rate of return of five percent, a 25-year-old who invests $655 per month could achieve $1 million in 40 years, by the time they reach age 65. By starting 20 years later, that same individual would need to invest $2,433, or almost four times the amount each month to achieve the same outcome (chart below).

Chart: Monthly Investment Needed to Reach $1M Over Time

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

*Assumes monthly compounding at annual rate of return. Taxes, fees & inflation not included.

The bottom line? Success in building wealth is often within reach for many of us...and it can all start with saving!

Kimberly Brown B.Comm, CFP®, CIM®
Wealth Advisor
Portfolio Manager
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kimberly.brown@nbc.ca

Dirk Yzenbrandt B.Sc., CIM®
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Portfolio Manager
250-657-2224
dirk.yzenbrandt@nbc.ca

Sylvia Yzenbrandt
Wealth Associate
250-657-2214
sylvia.yzenbrandt@nbc.ca

National Bank Financial
700-737 Yates Street
Victoria BC V8W 1L6
Phone: 250-953-8400
Toll Free: 1-800-799-1175

www.kimbrown.ca

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