Canaccord Genuity Wealth Management

WEALTH
Perspectives

Winter 2021

Kruger Laine GROUP

For 2021: Continue to Look Forward

Amidst the ups and what seem like mostly downs of 2020, there has been light shining from the North. Despite the difficult circumstances we have faced, there are many bright spots to reflect on as we look forward.

Unlike previous recessions, the economic effects of the pandemic have been uneven and concentrated to certain sectors. This has resulted in a relatively weak multiplier effect for the overall economy. Sectors that have been able to thrive during the pandemic, such as technology, have helped to drive equity markets, as largely seen with the U.S. markets. Canadian equity markets, generally influenced by the energy and resources sectors, have been hindered by lower demand due to the slowdown. In response, many companies have reassessed their business models, cut costs and leaned operations.

After the spring shutdowns, Canada's economy rebounded better than expected as restrictions lifted. Employment levels grew faster than anticipated, as did consumer spending. The housing market continued to perform well. Unlike other developed nations, household incomes grew at a time when the economy contracted and savings rates also increased.[1]

One must not overlook the significance of government stimulus efforts. Canada has been very generous with its support and, as a result, will have the largest stimulus deficit of any nation globally in 2020.[2] While there are likely to be future consequences, the good news is that the current cost of carrying debt remains low due to near-zero interest rates. In the 1990s, more than 35 percent of government revenue went to pay interest costs on federal debt. Today this percentage hovers in the single digits.[3] Many questions remain: will recovery drive enough economic growth to reduce the burden or will austerity in the form of tax increases or reduced spending be needed?

Darkest Before the Dawn

In the near-term, the outlook continues to have an air of uncertainty as we endure the difficult winter months with an advancing virus. However, we can all take comfort in the recent news of the development of effective vaccines. This is a remarkable feat considering the typical vaccine time-to-market is 10 to 15 years — the fastest ever, the mumps vaccine, took four years.

South of the border, the U.S. has chosen a new path forward after a highly contested presidential election. Given considerable and continuing unrest, there is hope that change will temper tensions and bring a necessary stimulus package to help support Americans throughout the winter.

Progress in combatting a pandemic takes time, but we will get there. And, as we have seen in 2020, equity markets don't wait on the sidelines for recovery to happen. They are forward looking in nature — perhaps an admirable quality to uphold as we leave 2020 behind and bring in the new year.

1. https://nationalpost.com/news/canadas-generous-covid-19-income-supports-vastly-outpaced-other-developed-nations-oecd-report; 2. As % of GDP; 3. "The Bearable Lightness of Canada's Debt Burden", Globe & Mail, 10/30/20, p. B6.

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To Our Clients:

After a difficult 2020, we are all deserving of a better year and 2021 is one that looks to be promising for investors. Continue to look forward and don't overlook the opportunity to position your wealth for the future. As a reminder, the 2021 TFSA dollar limit is $6,000; it is also RRSP season.

This is likely a very different holiday season for many of us. We hope that you and your loved ones stay safe and healthy and we continue to be grateful for your confidence in our services.

PLANNING FOR THE YEAR AHEAD

In 2021: Will You Reach These Age Milestones?

We often remind our clients that as we get older, certain milestones are important when preparing for retirement. As we begin a new year, if you are nearing the following ages, take note of these considerations as you look to maximize your retirement savings. Don't leave money on the table. If you need help, please get in touch. It's also recommended to consult with a tax advisor who can assist with any tax-planning related matters.

Age 60 — You are able to begin early Canada Pension Plan (CPP) payments. Although the standard age for starting CPP payments is 65, you have the option to collect your CPP retirement pension as early as age 60. Payments will be permanently reduced if you begin early. You may also wish to defer CPP payments to receive an increased benefit by starting payments between the ages of 65 and 70.

Age 65 — Don't forget the federal Pension Income Tax Credit. The Pension Income Tax Credit allows you to claim a tax credit on an amount equal to the lesser of your pension income or $2,000. Since this is a non-refundable tax credit, it cannot be carried forward.

If you don't have a pension, one way for individuals aged 65 years or older to generate eligible pension income is by opening a Registered Retirement Income Fund (RRIF).[1] We can assist with this option.

Consider pension income splitting. If your spouse/common-law partner has a lower marginal tax rate and/or available tax credits to provide tax savings, you may consider pension income splitting. An individual can allocate up to 50 percent of their eligible pension income to a spouse for tax purposes. (Note that pension income splitting may occur as young as age 55 for qualifying individuals.)

Age 71 — Convert your RRSP before year end. You must convert your Registered Retirement Savings Plan (RRSP) before the end of the calendar year in which you turn 71 years of age. The most common choice is to open a RRIF, but there are other options to consider, including purchasing an annuity or distributing funds as income.

Make final payments to the RRSP before year end. Consider catching up on any unused contribution room from previous years before the end of the year. You won't be able to contribute until the usual RRSP deadline (which is 60 days after the end of the calendar year), as your plan will need to be collapsed before the year ends.

Consider contributing to a spousal RRSP. If you have reached the age of 71, but have a younger spouse and have leftover RRSP contribution room (or are still generating RRSP contribution room if still at work), consider a spousal RRSP. See below for more details.

1. There are certain exceptions in which the Pension Income Tax Credit can be used before the age of 65, including for those individuals 55 years of age or older who have certain qualifying types of pension income, or widow(er)s, so seek advice on your particular situation. In Quebec, the pension recipient must be 65 years old to split all types of pension income.

TAX PLANNING STRATEGIES

RRSP Season Again: Consider the Benefits of a Spousal RRSP

Over the years, the federal government has eliminated many income-splitting opportunities available to investors. However, if you have a spouse/common-law partner, a spousal Registered Retirement Savings Plan (RRSP) may provide a valuable opportunity if your spouse is expected to be in a lower tax bracket in retirement.

A Tax Break Now...A Tax Break Later

A spousal RRSP is a plan to which you contribute and receive tax deductions based on your available contribution room, similar to a traditional RRSP. However, the difference with a spousal RRSP is that your spouse is the annuitant, so any funds withdrawn are considered your spouse's income and must be included in their income tax return. As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you.

Be aware that income attribution rules apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last RRSP contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands.

Greater Flexibility Than Pension Income Splitting?

A spousal RRSP may provide an enhanced opportunity when compared to pension income splitting. Pension income splitting can only be done after reaching the age of 65 and is limited to 50 percent of eligible pension income. A spousal RRSP can begin before age 65 and the full amount of RRSP income may be included in the spouse's tax return. However, RRSP contributions can only be made until age 71. If you have a younger spouse, you can contribute to a spousal RRSP until the spouse reaches age 71.

For assistance with this, or other RRSP matters, please call the office.

Contribute to Tax-Advantaged Accounts

Deadline for RRSP Contributions for the 2020 Tax Year: Monday March 1, 2021, limited to 18 percent of the previous year's earned income, to a maximum of $27,230 (for 2020).

TFSA Annual Dollar Amount for 2021: $6,000, making the total eligible lifetime Tax-Free Savings Account contribution room $75,500.

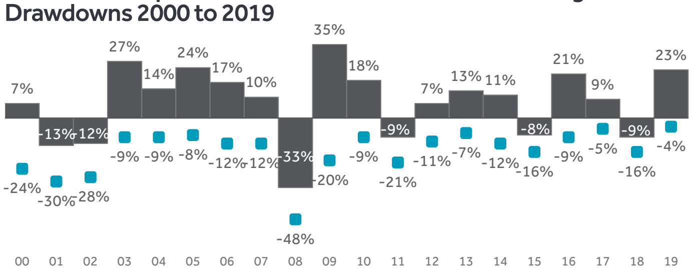
INVESTING PERSPECTIVES

Building Wealth Often 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, a longer time horizon takes advantage of the virtues of compounding, which can have a profound effect over time. This involves the difficult task of enduring inevitable short-term events, such as more unpleasant occurrences like recessions and even an unexpected pandemic. The following may help to provide perspective:

Volatility is a Common Market Feature — The chart 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.

Chart: Monthly Amount Needed 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

*Compounded monthly at annual return rates shown. Effect of taxes and fees 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.

Words of Wisdom from the Investing Wise

As we brace for a long winter, continue to look forward to the better times ahead. Here are some thoughts from the world's greatest investors on persevering through difficult times:

> ***"To be an investor, you must be a believer in a better tomorrow."***
> **— Benjamin Graham**

History reminds us that, in the short run, life is full of setbacks. The pandemic has been no exception. History also shows that over the long run, we have continued to advance and progress. Even the worst periods of retrenchment have been followed by new growth, economic expansion and progressing equity values.

> ***"Be fearful when others are greedy. Be greedy when others are fearful." — Warren Buffett***

Success in investing often means having the confidence to make decisions independently and not based on what everyone else may be saying or doing.

> ***"More money has been lost trying to anticipate and protect from corrections than actually in them." — Peter Lynch***

During times of downward volatility, there may be an urge to act to protect the value of investments. However, the rapid fall of equity markets in the spring of 2020 and the quick rebound should remind us that equity markets can quickly change direction, often with little or no notice. Timing the markets is a difficult, if not impossible, task.

> ***"Any sound long-range investment program requires patience and perseverance. Perhaps that is why so few investors follow any plan. Investment success is the purpose of investment planning; but a by-product of a good plan is peace of mind." — John Templeton***

A well-constructed wealth plan includes techniques that have been put in place to help weather difficult periods. These include holding quality investments, maintaining appropriate diversification and strategic asset allocation, and focusing on individual risk tolerance levels. Having the discipline to stick to the objectives set out in your wealth plan, especially during challenging times, is one of the hallmarks of successful investing.

U.S. Election: A Change in Leadership

After a highly contested election complicated by civil unrest and a heated campaign, the American people have decided on a change in leadership. As a Canadian, you may be wondering what impact this change may have on your investments.

We can observe that regardless of the political party that occupies the White House, there is no distinct pattern or outcome for the equity markets. In fact, respected author and investor Ben Carlson wrote in a recent *Fortune* magazine article that politicians often have less of an impact on equity market performance than most people would like to believe. Carlson has shown that the long-term trend of the stock market has been up no matter who the president is.[1] It should also be noted that no president in modern history has been able to prevent the stock market from experiencing a large drawdown, either.

What We Know: Biden's Policies, In Short

Throughout the campaign process, much focus was given to Biden's pledge to increase taxes for corporations and higher-income individuals, reversing some of the tax cuts enacted by the Trump administration. These increases have been proposed to fund trillions of dollars in stimulus measures, social services, manufacturing, green tech and infrastructure projects. A new fiscal stimulus plan has been called "crucial" and was largely stalled by the election. Biden has also expressed support in raising the national minimum wage to $15/hour to stimulate the economy as it moves into recovery. High-net-worth Canadians who hold U.S. situs assets will be watching closely as a change to U.S. estate tax law, including lowering the exemption level, has been proposed.

Biden's policies would likely impact various sectors, including energy, financials and communications. Biden has supported a clean energy agenda, which has concerned many in the oil and gas sector. A proposed tax regime would likely affect the banking sector and greater regulation of the communications sector has been proposed. From a global policy perspective, it is expected that the Democrats will deal with trade policy more diplomatically, which may help temper escalating global trade tensions over the past four years.

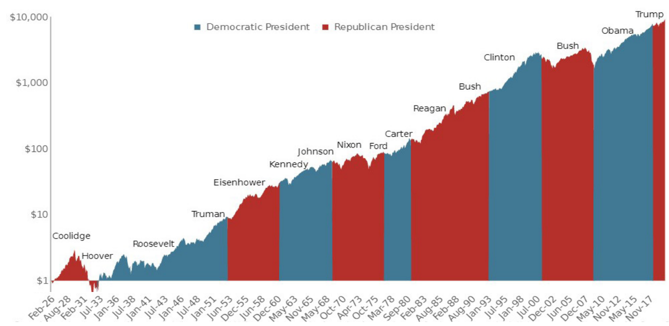
However, it should be noted that success in passing new measures may be difficult as it is largely dependent on Congress and, at the time of writing, the Senate continues to be controlled by the Republicans. This split in power is often welcomed by investors. Carlson has shown that when a Democrat is president and Republicans control Congress, average annual returns of the S&P 500 since 1933 have been 13.0 percent.[1]

The Bottom Line

Basing an investment strategy on the outcome of an election is not a prudent exercise. Nobody can be certain that campaign promises will lead to policy changes or even impact future economic outcomes once Biden takes office on January 20, 2021. For example, Trump's 2016 promises of deregulation suggested that the energy sector would have fared well during his time in office; in hindsight, many other factors negatively impacted the sector. Regardless of what lies ahead, the private sector will continue to produce jobs, invest in innovation and drive growth over the longer term. Often, the winners will be those companies that can best position themselves to adapt to changes in the competitive and regulatory landscape over time.

As advisors, we structure portfolios using diversification to prepare for inevitable changes and ensure that we are not exposed to any single adverse event. We make course adjustments when required and are constantly monitoring investments given that operating landscapes and competitive conditions are always changing. What we shouldn't lose sight of is that the long-term trend of the stock market has been up, regardless of who is in power.

Growth of a Dollar Invested in the S&P 500: Jan. 1926 to Dec. 2019



1. https://fortune.com/2020/10/10/2020-election-investing-trump-biden-stock-market-predictions/.

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