INVESTMENT FOCUS

Personal Newsletter from Stone Wealth Management

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Doug Stone, MBA, CFA, CFP®, FCSI
Portfolio Manager
HollisWealth, a Division of Industrial Alliance Securities Inc.
Insurance Advisor
Hollis Insurance
905-338-3223 ext. 140
doug.stone@holliswealth.com

Robert Ridgway, BAS, MBA, CFP®
Associate Investment Advisor
HollisWealth, a Division of Industrial Alliance Securities Inc.
Insurance Advisor
Hollis Insurance
905-338-3223 ext. 232
robert.ridgway@holliswealth.com

Leigh Ann Sullivan, Hons.BBA
Associate Investment Advisor
HollisWealth, a Division of Industrial Alliance Securities Inc.
905-338-3223 ext. 142
la.sullivan@holliswealth.com

For some, recent market volatility has been unsettling. While there will undoubtedly be short-term economic impacts from the coronavirus outbreak, we should remember that the situation is expected to be resolved. During these uncertain times, maintain confidence that your portfolio continues to be positioned for the longer-term. This, too, shall pass.

If friends or relatives could use some reassurance during these times, I would be happy to offer my perspectives.

— Doug

The Power of Patience

Over recent months, the world has been caught off guard by the spread of the coronavirus. As we continue to grapple with the potential implications and uncertainties, the situation reminds us of the possibility of "black swan" events — unpredictable occurrences that have major consequences.

We can't always predict how the markets will respond to surprise events; some cause major effects, while others do not. In the past, reactions to global health pandemics have often been temporary in nature. During the Ebola outbreak in 2014 and SARS epidemic of 2003, the S&P 500 declined by double-digit percentages over their course. However, in the 12 months following both events, markets regained these losses and posted additional gains.[1]

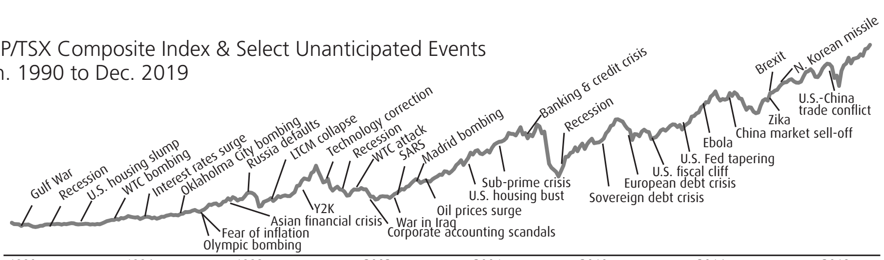
During these challenging times, it may be worthwhile to remember that negative market events may occur more frequently than we recall. Award-winning finance columnist Morgan Housel shows just how common these events have been over the past 30 years (chart below). Yet, despite their frequency and effects on the markets, the S&P/TSX Composite Index still gained over 800 percent during this time.[2]

As individual investors, we have little control over how the markets react to unpredictable events. Understandably, during times like these, the prevailing view may be one of worry and we may feel the need to take action. Yet, for the longer-term investor, patience is often most rewarded.

Even in the most difficult of situations, we have persevered and progressed. In spite of these setbacks, economies have continued to advance over time. This time is likely no different. As Housel reminds us: "The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of true patience."

1. marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22/; 2. Motley Fool, 07/29/16, adapted with permission; Total Return Data.

S&P/TSX Composite Index & Select Unanticipated Events
Jan. 1990 to Dec. 2019



In This Issue

HollisWealth®

Planning for Retirement

The RRIF & Your Retirement Withdrawal Strategy

Many of us contribute to a Registered Retirement Savings Plan (RRSP) to achieve tax deductions and tax-deferred growth to plan for retirement. When the RRSP must be collapsed, funds are often converted to a Registered Retirement Income Fund (RRIF), which requires minimum withdrawals prescribed by the government based on age.[1] RRIF withdrawals are treated as taxable income.

If you plan on holding a RRIF, some forethought should go into your withdrawal strategy. Why? In some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. On the other hand, funds kept in the RRIF for as long as possible can benefit from tax-sheltered growth. Here are some considerations, depending on your situation:

1. Use a younger spouse's age as a basis for withdrawals. If you have a younger spouse, you may use their age to determine the minimum withdrawal for your own RRIF. This may allow funds to be tax-sheltered for as long as possible or help in preserving income-tested benefits such as OAS. Keep in mind that you will need to notify us to make the change before the first RRIF withdrawal. Changes can't be made once a spouse's age has been used.

2. Accelerate withdrawals to optimize a lifetime tax bill. If your RRIF minimum withdrawal amount and other income put you in a lower tax bracket today than in the future, it may make sense to withdraw more than the minimum to minimize your overall lifetime tax bill. A withholding tax will apply to withdrawals above the minimum amount. If significant RRIF funds remain at death, in the absence of a spouse (which permits a tax-free RRIF rollover), the estate may also be subject to a high marginal tax rate.

3. Use RRIF income to split income or save tax. If you have a spouse in a lower tax bracket, RRIF income may be used for income-splitting purposes. Transferring a portion of the RRSP to a RRIF can occur as soon as the year in which you turn 65 to take advantage of pension-income splitting and the pension tax credit.

4. Use withdrawals to fund a TFSA. If RRIF withdrawals are not immediately needed, consider contributing funds to a Tax-Free Savings Account (TFSA).[2] This may be a way to continue benefitting from tax-preferred growth: future growth in a TFSA is tax free.

RRIF withdrawal considerations should be part of a larger retirement withdrawal strategy. Every situation is different, so call for assistance.

1. See the CRA website for minimum withdrawal rules; 2. Subject to available contribution room.

Saving Tax Is a Year-Round Exercise

Spring is the time when taxes are top of mind as personal income tax returns are due. Did you take action to reduce your tax bill in 2019? Perhaps you can do better this year. Here are four ways to help minimize payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. If you have an employer, consider updating Form TD1, which is used to calculate how much tax to deduct from your pay cheque. If you will have significant deductions in a given year, file CRA Form T1213 to reduce the tax taken from your pay.

Maximize the RRSP & TFSA — Consider setting up a monthly RRSP contribution plan. By providing an employer with confirmation of the deductibility of contributions, it may reduce the amount of tax withheld at source. While TFSA contributions won't impact your 2020 tax bill, don't underestimate the future value of tax-free compounded growth (see pg. 3).

Split Income with Your Spouse — If your spouse (common-law partner) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RRSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with a spouse. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

2019 Tax Filing Reminders

Sold a home? If you sold property in 2019, and in order to claim the Principal Residence Exemption, it must be reported on an income tax return. The CRA continues to crack down on tax compliance for real estate transactions.

Held foreign assets? If you held "specified foreign property" (SFP) with a total cost in excess of CA$100,000 (outside of a TFSA, RRSP, RRIF) at any time in 2019, you are required to file form T1135. For a full list of assets considered to be SFP, see the CRA website.

Optimize Asset Location — Different types of income (i.e., interest, dividends, capital gains) may be taxed differently depending on the type of account from which income is generated. For example, dividends paid on foreign investments held in a non-registered account may receive a foreign tax credit to help reduce or eliminate foreign withholding taxes. If this same asset is held in a TFSA, no foreign tax credit is available. Having a comprehensive view of your assets may identify opportunities to optimize asset location across different accounts.

Of course, these ideas and others depend on your personal situation. Seek the advice of a tax professional and call with any questions. Now is the time to take action to maximize tax savings for 2020!

Don’t Overlook Significant Opportunity

The TFSA: Don’t Delay!

Have you fully contributed to your TFSA? The latest statistics show that the average TFSA holder has a significant amount of unused contribution room — around 60 percent of available contribution room remains unused.[1] With cumulative eligible contribution room now at $69,500,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who maximized annual TFSA contributions since 2009. With no further contributions, in 30 years, the investor would have over $400,000 — at an assumed 5 percent rate of return per annum (see table). Most important: any income earned will not be subject to tax.

Seize the Opportunity: TFSA Growth Potential*

	Full contribution to 2020; No further contributions	Full contribution to 2020; Continued annual contributions of $6,000
In 20 years	$253,880	$462,196
In 30 years	$413,545	$832,109
In 40 years	$673,620	$1,434,659

*At a 5% compounded annual rate of return since TFSA inception in 2009. Assumes full annual dollar amount was contributed since 2009 at start of year.

What Is Your TFSA Strategy?

Don’t overlook the opportunity to grow investments on a tax-free basis within a TFSA. When the TFSA was first introduced, many individuals held cash or low-risk, interest-bearing investments inside the plan — possibly because it was introduced as a “savings account”. However, this approach forgoes the opportunity for longer-term, compounded, tax-free growth over time, which can be significant. As such, longer-term investors may be better served by using their TFSA as part of their investment strategy.

Use the TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals — no limitations on timing or amounts to be withdrawn, and the ability to recontribute withdrawn amounts[3] — can make the TFSA a savvy retirement planning tool.

Here are some of the potential opportunities:

- Preserve income-tested benefits or tax credits;
- Reduce taxable income in retirement;
- Supplement income to allow for the deferral of CPP/QPP benefits, potentially maximizing their value;
- Permit continued investment growth (beyond the age of 71, the age in which the RRSP must be collapsed) on a tax-free basis.

A Valuable Estate Planning Tool

The TFSA can be a valuable estate planning tool. Consider that the value of TFSA assets at the time of a holder’s death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate will be payable in provinces where applicable. Most important, if a surviving spouse is named as “successor holder”, the TFSA can continue to be operated by the spouse on a tax-free basis.[4] Please call for a review/update of TFSA beneficiary designations.

Are you making the best of your TFSA?

1. advisor.ca/tax/tax-news/average-unused-tfsa-room-rises-12-year-over-year/; 2. For those eligible since 2009; 3. Contribution room will be available starting in the next calendar year; 4. Based on their own contribution room. Any income earned after the holder’s death will continue to be sheltered from tax. Not in Quebec, where designations are not named in the plan.

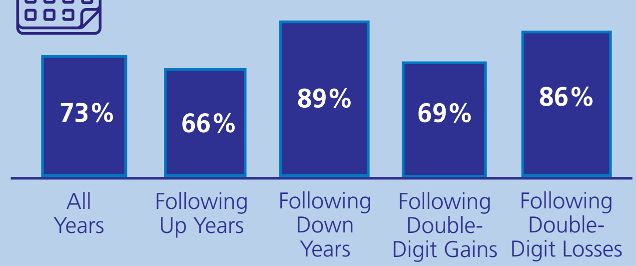
Looking Forward, Looking Back: Keeping Perspective

From year to year, stock market returns can vary widely. Volatility will always play a common role in the markets. While nobody knows how the equity markets will perform over the short term, history has shown that it is reasonable to expect markets to continue their upward climb over the longer term.

A look at the S&P/TSX Composite Index over the past 70 years provides good perspective for maintaining an optimistic outlook. On average, annual returns have been positive most of the time — regardless of the previous year’s performance.

Note: Past performance is not necessarily indicative of future performance. Chart has been used for illustrative purposes only.

Percentage of Time the S&P/TSX Index Was Up in a Calendar Year: 1950 to 2019



Source: S&P/TSX Composite Index Total Return Annual Data, 1950 to 2019.

What Is the Economic Path Forward?

Now that we have entered a new decade, with the prevailing theme of slower global economic growth, many investors are asking: what lies ahead?

Canada has experienced its longest economic expansion on record. The economy has more recently been supported by consumer spending and the housing sector, largely due to a strong labour market. Yet, there are questions as to what will drive future growth, given lingering obstacles faced by the energy sector, once the country's powerful engine, as well as growing debt levels — a concern shared globally.

The more recent concern is the effect of the coronavirus outbreak. There is no doubt that there will be short-term economic effects. However, these are unprecedented times. Never before have global policymakers been so pressured to engage in stimulus efforts.

China recently announced significant stimulus efforts to help support its economy. The U.S. Federal Reserve announced an emergency rate cut in early March, cutting rates from 1.75 to 1.25 percent. The Bank of Canada followed suit, lowering its overnight rate in response to concerns over the potential economic effects of the coronavirus spread.*

This is consistent with the actions that have been taken by countries globally for many years now. In some parts of Europe and in Japan, central banks have been using negative interest rates to stimulate growth. A look across various global benchmark interest rates shows that both U.S. and Canadian central banks still have room to continue lowering rates (see chart, inset).

Select Global Benchmark Interest Rates at March 4, 2020

Country	Rate	Direction*	Last Change
Canada	1.25%	↓	Mar. '20
United States	1.25%	↓	Mar. '20
U.K.	0.75%	↑	Aug. '18
Switzerland	-0.75%	↓	Jan. '15
Australia	0.50%	↓	Mar. '20
China	4.05%	↓	Feb. '20
Japan	-0.10%	↓	Feb. '16

*Indicates direction of last rate change.
Source: Global-rates.com, as of Mar. 4, 2020. Used with permission.

Although it may be difficult to look beyond the current coronavirus situation, there are factors to support an optimistic view for the longer-term. In the first months of the year, many geopolitical uncertainties were resolved. Trade tensions have subsided. Here at home, the USMCA (the second generation of NAFTA) was ratified. Abroad, the U.S. and China signed phase one of a trade deal. Britain officially exited the European Union after 47 years of membership, ending that political uncertainty. The U.S. Presidential impeachment trial ended without incident and it is likely that the U.S. government will continue to do all in its power to support the U.S. economy in a bid for re-election in November. The strength of the U.S. economy continues to be important for Canada as the United States is our largest trading partner.

While there will be challenges resulting from the coronavirus outbreak, we must remember that the situation will likely be solved. Despite this short-term setback, economies will continue to advance and progress. For investors, continue to look forward and maintain a longer-term perspective.

**Note: The next U.S. Federal Reserve rate announcement is scheduled for March 17, 2020.*

Stone Wealth Management
HollisWealth, a Division of Industrial Alliance Securities Inc.
Hollis Insurance
1400 Cornwall Rd., Suite 14
Oakville, ON L6J 7W5
T: 905-338-3223 F: 905-338-3337

STONE Wealth Management

HollisWealth®