

INVESTMENT FOCUS

Personal Newsletter from Watermark Stone Wealth

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As we try to move forward from two years of disruption from the pandemic, we are faced with new challenges, including geopolitical turmoil with the Russia/Ukraine crisis. As the saying goes, “life is just one (darned) thing after another.”

The current headlines continue to test our resolve, but don’t lose sight of your own wealth goals. Keep looking forward, remembering that time continues to be one of the investor’s great allies.

—Doug

The Return to “Normal”

Volatility has returned to the equity markets. For investors, it may feel particularly unsettling considering that extended periods of volatility haven’t been seen for some time. Yet, after over two years of disruption, consider that the return to “normal” is expected to take time and there will be the inevitable bumps along the way.

As we move forward, the central banks continue to be in the spotlight. Whether or not you agree with the significant stimulus actions taken over the past two years, they have helped to avert more serious financial and economic harm. However, central bankers are now confronted with the complicated task of winding down their support in the return to normal: increasing interest rates to more “normal” levels and reducing balance sheet assets after their aggressive bond-buying programs. Adding to the current challenges? Higher and sustained levels of inflation, which have largely been supported by ongoing supply chain disruptions — and, more recently, global geopolitical tensions with the Russia/Ukraine war.

Financial markets are often quick to react to these uncertainties and, with the many changes, volatility can be expected. Yet, while there are inevitable challenges, don’t listen to the doomsayers who suggest that they are insurmountable. Not to belittle the unique challenges we face today, but history reminds us that every market period has had its own obstacles that make it difficult to assess future prospects. Market pessimists have always been quick to offer their prognostications. Consider that over the past 50 years:

- Annual inflation exceeded 5 percent in 13 of those years.¹
- The stock market fell in more than 241 of those 600 months, or 40 percent of the time.²
- The stock market lost a quarter of its value at least seven times.²
- There were eight bear markets lasting a total of 77 months.²
- We had six recessions, cumulatively lasting almost six years.³

And, yet, over this period the equity markets, as measured by the S&P/TSX Composite Index, appreciated by over six percent on an annualized basis (not including reinvested dividends).²

Having a longer-term view reminds us that the markets have continued to progress over time, despite the many short-term uncertainties: credit and debt crises, recessions, many changing policies by central banks — and even war. During these times, don’t lose sight of your own financial goals: patience, alongside careful monitoring and prudent adjustments through our support, should stand you in good stead.

For many of us, it may feel as though there has been little respite from the challenges faced over the past two years. As we move into spring — quite fittingly referred to as the season of renewal — we are all looking forward to a return to normal.

1. www.inflation.eu/inflation-rates/canada/historic-inflation/cpi-inflation-canada.aspx; 2. Based on S&P/TSX Composite Index from close on Dec. 31, 1971 to Dec. 31, 2021: 1/1/72 - 990.54; 1/1/2022 - 21,222.80; 3. Based on recession data from cdhowe.org

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It's Tax Season Once Again: Ways to Be Tax Savvy

This time of year, income taxes are naturally on our minds. Many of us feel we pay too much tax. There are actions we can take to help minimize these liabilities, which may be even more important in these times of high inflation. Here are some ideas:

Consider the Support of a Tax Professional

The support of accounting or tax professionals may be beneficial to ensure your tax planning accounts for the most updated rules or to help prevent costly mistakes, such as incorrectly completing tax returns or neglecting to claim tax credits. It may also be helpful in more complicated situations, such as where a divorce is involved or if you hold a significant portfolio of foreign assets. As we grow older, it can provide continuity from year to year, which may be important in the event of health issues, incapacity or the death of a spouse.

Remember: The Tax Rules Continue to Evolve

The tax landscape continues to evolve. One example is the array of Covid-related benefits introduced over the past two years. Since the start of 2022, the Canada Revenue Agency (CRA) has announced tax changes that may impact certain tax positions. While these changes may not apply to personal income tax season, they are examples of the evolving landscape:

- **Work-from-Home Tax Credit** — As with the 2020 tax year, the CRA has again issued a simplified Form T2200 available to taxpayers for both the 2021 and 2022 tax years and has allowed a claim for up to \$500 of home expenses.
- **Automobile Deduction Allowance** — For 2022, the limit on the deduction of tax-exempt allowances paid to employees who use personal vehicles for business purposes has increased by \$0.02, to \$0.61/km for the first 5,000 km driven and \$0.55/km thereafter for all provinces. Mileage rates were last raised in 2020.¹
- **Expanded Trust Reporting** — Expanded annual reporting requirements for trusts were anticipated for the 2021 tax year, but in the first quarter of this year the government confirmed that this

was still pending. Draft legislation is expected to be passed for trusts with taxation years ending after Dec. 30, 2022.

- **A Pending Luxury Tax?** — The 2021 federal budget proposed a luxury tax that did not come into effect starting 2022. Draft legislation is expected,² but at the time of writing has yet to be introduced. The proposed levy is either 10 percent of the purchase value above a certain threshold (\$100,000 for new cars/aircraft; \$250,000 for boats) or 20 percent of the full value, whichever is less.



Make Tax Planning a Year-Round Exercise

Year-round tax planning can start with maximizing tax-advantaged accounts like Tax-Free Savings Accounts (TFSAs) or Registered Retirement Savings Plans (RRSPs). It may include adjusting asset location as investment returns — bond interest, Canadian and foreign stock dividends, capital gains — may be taxed differently depending upon where they are held, i.e., RRSP, TFSA or non-registered accounts. When it comes to your wealth plan, we're here to discuss tax-planning opportunities to help you keep more of your hard-earned dollars.

Put Your Potential Refund to Work

If you receive a tax refund, what will you do with it? Each year, 19 million Canadians receive a refund averaging \$1,801.³ Yet, only 18 percent plan to invest it in a RRSP, RESP or TFSA.⁴ Consider the potential upside: investing this amount each year for the next 25 years at an annual rate of return of 5.5 percent would yield almost \$100,000 in that time.⁵

For assistance with tax-related matters or for an introduction to an accounting professional, please call the office.

1. CRA "Benefits & Allowances"; 2. www.theglobeandmail.com/business/small-business/article-yacht-and-private-jet-makers-brace-for-cancelled-orders-under-liberal/; 3. www.financialpost.com/personal-finance/taxes/canadians-are-stalling-on-their-taxes-in-this-unusually-complicated-pandemic-year; 4. www.newswire.ca/news-releases/confusion-dread-and-fear-of-owing-money-fuel-tax-filing-procrastination-in-canada-860977490.html; 5. Compounded annually at 5.5%, assumes no fees/taxes.

Plan Ahead: Four Things You May Not Know About the RRIF

While RRSP season may be over, if you have yet to reach retirement, consider the value in thinking ahead to the time when you will eventually access these funds. Here are four things you may not know about the Registered Retirement Income Fund (RRIF).

1. You can convert the RRSP to the RRIF earlier than age 71. The RRSP matures by the end of the calendar year in which the holder turns age 71 and is often converted to a RRIF at that time. However, you are able to open a RRIF earlier than this age. Minimum withdrawal payments will still be required, but not until the calendar year following the year that the RRIF account is opened.

2. You can hold the RRSP and RRIF at the same time. While the RRIF is usually used by an investor to transfer funds once the RRSP matures, there may be instances in which you may want both. If you need to generate pension income to take advantage of the federal pension income tax credit, you could consider opening a small RRIF at the age of 65. At the same time, you can still continue operating your

RRSP to capture the ongoing tax deductions from your contributions. Consider also that you can notionally split up to 50 percent of your eligible pension income (which includes RRIF income from age 65) with a spouse (or common-law partner).

3. You are able to convert the RRIF back to the RRSP. If you've converted funds to the RRIF earlier than age 71 and realize that it's no longer to your benefit, you are able to convert it back. You may decide to do an early conversion if you retire early, take a sabbatical or have an extended leave from work, since the loss of income means you may be in a lower tax bracket or you may need funds. However, if you return to work, it may be beneficial to resume the RRSP.

4. You can base RRIF withdrawals on a spouse's age. If you have a younger spouse, it may be useful to use their age to result in a lower minimum withdrawal rate for your RRIF. Be aware that this must be done when first setting up the RRIF and before you have received any payments, so plan ahead.

Spring Cleaning? Start with Your Registered Plan Beneficiaries

When was the last time you reviewed your registered plan beneficiary designations? We often forget to revisit these designations after opening our accounts. However, failing to update beneficiaries is a common and potentially costly retirement and estate planning error that many investors make.

Here are some steps you can take to spring clean your beneficiary designations, as it relates to your registered plan accounts:

Create a list of your investment accounts. Then identify which accounts permit beneficiary designations, such as your Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF) and Tax-Free Savings Account (TFSA), including any accounts through your employer.

List the beneficiaries you have named for each account.

Determine if the named beneficiary is still current. It is possible that a named beneficiary is no longer alive, or perhaps a major life event, like divorce, has changed the status of an existing beneficiary. Be sure to revisit beneficiary designations following major life changes.

Consider whether a beneficiary should even be named. If no beneficiary is named, assets will pass through your estate. In some cases, a beneficiary is named instead of the estate to avoid probate fees.¹ While this may be ideal for tax-planning purposes, it can inadvertently create other issues. For example, if an adult non-dependent child was named as the RRIF beneficiary, the value of the RRIF will be paid directly to them, but the tax burden will fall back to the deceased's estate, unless a provision has been made in the will. This may cause unintended estate equalization issues.



If a spouse (common-law partner) has been named, determine if there are additional considerations. If a spouse is named as beneficiary for a TFSA or RRIF, you also have the option of naming them as “successor holder” or “successor annuitant,” respectively. Generally, the successor designation permits the continued operation of the account by the surviving spouse relatively seamlessly. For the TFSA, any income earned after your death would not be taxed. For the RRIF, there would be no tax consequences to your estate.

Seek assistance. We are here to assist with any changes to your beneficiary designations on your registered plan accounts. As you review these beneficiary designations, we recommend considering the support of estate planning and legal advisors to help ensure your estate planning objectives will be met.

1. Estate administration taxes. Note: This article does not apply to Quebec residents, as the rules surrounding beneficiary designations noted in this article are not applicable under Quebec law.

Helping to Protect Investors: The Trusted Contact Person (TCP)

Protecting the financial security of investors has never been more important. With a growing elderly population and our ever-increasing dependence on technology, there has been a rise in cybercrimes.

Fact: Over 46 percent of individuals who are 60 years and older have physical and mental disabilities.¹

Fact: Each year, one in six seniors falls victim to elder abuse.²

Fact: Regardless of age, we remain vulnerable to financial fraud and economic abuse. Canadians lost \$380M to fraud in 2021 alone.³

With these increasing challenges, the “trusted contact person” (TCP) has been introduced to provide an additional preventative layer of protection to support investors. The TCP is a person you choose, for which you have given us written consent to contact under certain circumstances, such as if there appears to be something amiss, if there is suspected financial exploitation or if there are concerns about decision making.

The TCP has no authority to make financial decisions or direct transactions and assumes no liability when it comes to your account(s). The TCP does not replace or assume the role of Trading Authority that may be authorized to an investment account. As well, the TCP is different from the Power of Attorney role that is put in place to provide support in the event of incapacity.

You are able to appoint anyone you wish to be your trusted contact person. It is recommended to select someone who is trusted, mature and knowledgeable about your personal situation and support network. The individual should be capable of speaking with you, and to us, about your well-being, including potentially sensitive topics such as your physical or mental health status.



You may also consider appointing multiple trusted contacts. The person(s) nominated can change and you are able to revoke designations entirely at any time.

While there may not be a current need for a TCP, implementing this safeguard in advance can help to provide protection down the road. Even if you have appointed a Power of Attorney, having a TCP adds an additional layer of protection to your account(s). If you would like to nominate a TCP for your existing accounts, or for more information, please get in touch.

1. www.un.org/development/desa/disabilities/disability-and-ageing.html; 2. www.who.int/news-room/fact-sheets/detail/elder-abuse; 3. www.antifraudcentre-centreantifraude.ca/index-eng.htm

Managing Risk: Why We Rebalance Portfolios

Recent market volatility has prompted some investors to rethink their perspective on risk. Reacting to short-term market fluctuations is not usually advised; instead, we continue to focus on the importance of having a plan in place with a view for the longer-term, and rebalancing a portfolio where required.

Rebalancing an investment portfolio involves adjusting the proportion of asset types to ensure it reflects your continuing goals. This is done because, over time, the value of the securities that make up your portfolio can rise and fall at different rates. This will change the asset allocation, which has been established to reflect your personal risk tolerance, goals and time horizon. Often, rebalancing involves trimming winners to get back to the target asset allocation level. For example, as a result of the market's climb in 2021, if the value of one holding has increased so much that it makes up a disproportionate part of the overall portfolio, it may be opportune to consider taking some gains to restore balance in the allocation.

Rebalancing may also be necessary if your investment goals or your risk profile change over time. Consider that as you reach the retirement age, you are likely to have a lower risk tolerance as your time horizon lessens and you look to provide income to support your retirement lifestyle.

Rebalancing helps to ensure that a portfolio doesn't become riskier — or less risky — than you intended when we first set up your allocations.

Helping to Avoid Timing the Markets

One of the virtues of rebalancing is that it helps to take the emotion out of the investing decision-making process. The rebalancing decision should occur when the portfolio's balance is not in check, and not in response to the markets being under pressure. This can allow investors to better achieve the objective of selling high.

Other Benefits: Even More Important for Retirees

For many younger investors, rebalancing may be less of a priority due to higher risk tolerance levels and the advantage of a longer



time horizon. However, for retirees who face a shorter time horizon, rebalancing can bring multiple additional benefits. By maintaining a portfolio's risk and allocation levels on an ongoing basis, it can add an element of volatility control. This may be especially valuable to retirees on a fixed income, who often have no choice but to draw on portfolios for living expenses, regardless of the economic environment. Rebalancing can help to assist with cash flow sourcing. In this age of ultra-low yields, it can help to make up any shortfalls from income-generating investments, or create reserves by trimming winning equity positions and adding them to bond holdings to be used when needed.

Rebalancing may be a way to meet the minimum annual withdrawal requirements of the Registered Retirement Income Fund. For those who do not need excess funds, rebalancing can serve as the source of funds for charitable giving, to not only support giving strategies, but also earn a potential tax break. Appreciated positions of publicly-listed securities can be donated to eliminate the taxes on the appreciation, as well as to benefit from a tax deduction on the value of contributed shares.

We Are Here to Assist

Rebalancing is just one of the important techniques we use to help manage risk in your portfolio. If you have questions about how this approach supports your investing program, please don't hesitate to contact us.

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