Newsletter

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In this edition

Growth Will Persist

A little over six years ago, renowned investor Warren Buffett made a bold prediction: The Dow Jones Industrial Average (Dow) would reach the milestone of one million within 100 years.[1] At first glance, his assertion appeared somewhat incredulous since the Dow was hovering around the 22,000 mark. Today, it stands close to the 39,000 level.

Yet, looking deeper into the numbers, the same could be suggested for the S&P/TSX Composite Index (S&P/TSX). At the time, the Dow needed to compound at less than 4 percent annually to achieve Buffett's target. Canada's S&P/TSX would need an annualized return of just 4 percent to reach the 1,000,000 mark by 2124.

However, Buffett's point wasn't to suggest whether some arbitrary benchmark could be achieved. Rather, his prediction was meant to reinforce confidence in future growth and the fact that we can all benefit if we choose to participate. History has shown that equities outperform most asset classes over the longer term; not so surprising since the overall growth in corporate profits has been an upward trajectory over time.

Today, we are living through a pivotal time due to the availability of big data, high-powered computing and advances in artificial intelligence (AI). While the U.S. equity markets have seen substantial gains due to the handsomely-rewarded technology stocks, the productivity and growth potential are expected to be far reaching, well beyond the tech sector.

Canada's stock market has trailed due to its more cyclical nature, but is poised to benefit from interest rate stability and declining long-term rates. Corporate earnings may be driven by higher margins through efficiency gains and lower input costs, particularly as inflation moderates. The comparative strength of the U.S. economy, our largest trading partner, may provide near-term support. And, the potential for interest rate cuts is expected to provide tailwinds to equity markets.

While Canada's economic output continues to be sluggish, consider that our economy has been relatively resilient given the challenges of the past few years. Wealth, wages and employment are all higher than they were before the pandemic began. And, seasoned investors accept that over time economies and markets will ebb and flow. Periods of retrenchment are natural parts of the business cycle and are sometimes necessary to allow economies to cleanse excesses and reset, or even spark innovation and growth. This is one reason that supports diversification in portfolio management. It is also why we continue to invest with a longer-term view.

Indeed, the longer-term outlook for economic growth continues to be positive, with technology set to drive productivity and continued innovation, alongside efforts by governments to control inflation and focus on infrastructure and sustainability initiatives — just some of the factors that should help us prosper in North America. Growth will persist — and we can all benefit if we choose to participate. We are here to provide wealth management ideas, strategies and support as we progress towards the 1,000,000 milestone.

1 https://www.wsj.com/articles/warren-buffett-says-the-dow-is-going-over-million-1505923803

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Tax Season is Here Again: Here Are Some Reminders

As we deal with tax returns, this may be a reminder that we should be doing all we can to minimize taxes. Here are some actions to consider:

Be Aware of the Deductions and Credits Available — Tax laws change annually, so consulting an expert can ensure you're maximizing available credits and deductions. This can also provide continuity in the event something were to happen to you or a spouse. Encourage younger folks to file a tax return, even if their income falls below the basic personal exemption to generate Registered Retirement Savings Plan (RRSP) contribution room.

Maximize Tax-Advantaged Accounts — Are you fully utilizing tax-advantaged accounts like the RRSP and Tax-Free Savings Account (TFSA)? At last count, only 30 percent of taxpayers earning $250,000+ had fully contributed to the TFSA, with an average unused amount over $23,000.[1] First-time home buyers have a new tax-advantaged "gift" from the government: The First-Home Savings Account.

Optimize Asset Location — The location in which you hold certain types of assets can make a difference. Different types of income (interest, dividends, capital gains) may be taxed differently depending on the type of account from which income is generated. For example, if you hold foreign investments that pay dividends in a non-registered account, you may receive a foreign tax credit for the amount of foreign taxes withheld. If the same asset is held in a TFSA, no foreign tax credit is available. By having a comprehensive view of your assets, there may be opportunities to optimize asset location across different accounts.

Plan with a Spouse — If you're part of a spousal unit with a higher and lower-income earner, there may be income-splitting opportunities. If you expect a spouse to have significantly less income than you in retirement, there may be an opportunity to contribute to a spousal RRSP for the low-income spouse. Retirees may be able to split eligible pension income on their tax returns or elect to split Canada Pension Plan benefits.

"Reduce" Your Refund — Instead of celebrating regular tax refunds, consider adjusting your tax deductions to avoid overpaying taxes throughout the year. Consider reviewing form TD1 with your employer to reduce the tax deducted from your pay. You may also file CRA Form T1213 if you know you'll have significant deductions in a given year.

Consider Opening a Small RRIF if Over 64 — The pension income tax credit generally becomes available at age 65, allowing for a tax credit on up to $2,000 of eligible pension income. If you don't have eligible income, consider setting up a small RRIF for the year you turn 65 (sooner, if widowed) to create pension income. You don't have to convert your RRSP to the RRIF until the year you turn 71, but this way you can still claim the pension tax credit.

These suggestions are just a starting point. As always, seek the advice of a professional tax advisor as it relates to your personal situation.

Be Aware: Interest on Overdue Tax

For Q2 2024, the interest charge on overdue tax is at its highest rate in over 20 years: 10 percent. The prescribed interest rate changes quarterly. Be sure to file your taxes on time and pay any taxes due in order to avoid this significant charge.

You Asked: How Long Do I Keep Tax Records?

You are required by law to keep tax records for at least six years from the end of the tax year to which they apply (or from their filing date).

1 The latest figures are 2022 statistics for the 2020 contribution year. https://www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-celi/2020/table3c-en.pdf

Are You Associated With a "Bare Trust" Arrangement?

Are you holding assets in an arrangement where there is a separate legal and beneficial owner, where the beneficial owner oversees the assets? You may be holding a "bare trust" arrangement and subject to new reporting rules.

What is a bare trust? According to the CRA, a bare trust "exists where a person, the trustee, is merely vested with the legal title to property and has no other duty to perform or responsibilities to carry out as trustee, in relation to the property vested in the trust."[2]

Here are two examples where a bare trust arrangement may exist:

- You have been added to the property title of an elderly parent to assist with estate planning, but the parent retains beneficial ownership/control.
- As a parent, you have added your name to the title of an adult child's home to help the child qualify for financing.

New filing requirements. Bare trusts are now subject to reporting requirements that changed for trusts with taxation years ending after December 30, 2023. For most trusts, even if there is no income or activity to report, a T3 Trust Income Tax and Information Return must be filed within 90 days of the trust's tax year end. The good news is that since reporting rules were expanded to include bare trusts, the CRA will provide penalty relief if a T3 return hasn't been filed by the deadline. This relief applies only to bare trusts for the 2023 tax year.

Seek assistance. Since the intent of the arrangement can impact whether or not it is considered a bare trust, if you believe you may be associated with a bare trust arrangement, it's best to discuss your situation with a tax or legal expert to understand if you are subject to filing obligations. For more information: https://www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/new-trust-reporting-requirements-t3-filed-tax-years-ending-december-2023.html

2 https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/p-015/treatment-bare-trusts-under-excise-tax-act.html.

Note: This is not intended to be a comprehensive or legal discussion. Please seek the advice of tax and legal experts.

Avoid These Six Common Investing Errors

While we can learn much about successful investing by studying the best investors, it can also help to learn from our mistakes. The CFA Institute has identified the most common investing mistakes and here are six:[1]

1. Having unrealistic return expectations — Having reasonable return expectations can support good decision-making, risk management and long-term planning. However, investors tend to have higher expectations than those who manage money professionally. One study suggests that Canadian investors expect an average annual return of 10.6 percent on investments, whereas financial professionals anticipate 6.5 percent, leading to one of the highest expectation gaps in the world.[1] Consider that the 50-year average return of the S&P/TSX Composite Index (dividends not reinvested) is 5.9 percent.[2]

2. Lack of clear investment goals — Some investors may become too focused on short-term returns or the latest investment fad. A recent study in the U.K. suggested that less than one-third of investors had any specific long-term goal in mind when investing.[3] However, even a modest investing program can yield significant dividends down the road. Investing just $20 per day at an average annual return of 6 percent would yield over $1.2 million in 40 years.

3. Failure to diversify — A well-diversified portfolio is important to achieve an investor's appropriate level of risk and return. Having too much exposure to a single security or sector comes with risks. Diversification is intended to protect from the downturns that may affect sectors at different times, while also giving access to the best performers. Consider the difficulty in consistently picking individual winning stocks over long periods: only 21.4 percent of U.S. stocks beat the market over 20 years from 1927 to 2020.[4]

4. Buying high and selling low — While a fundamental principle in investing is to "buy low and sell high," many investors do the opposite because they are motivated by fear or greed. It has been estimated that the loss in returns by "buying high and selling low" versus a buy-and-hold strategy is on average around 2 percent annually,[4] which can become meaningful over time.

5. Excessive trading — Investing often involves patience to endure down-market times. Timing the markets is difficult, if not impossible. Even if you were to exit the markets before a downturn, you'd need to reenter before the markets resume their upward climb. This often happens with little warning. Consider the S&P/TSX Composite — the rapid climb to end 2023 was largely unpredicted. Studies have shown that the average underperformance of the most active traders annually (vs. the U.S. stock market) is 6.5 percent.[4]

6. Reacting to media narratives — In this modern era of connectivity, we are being fed news at a rapid rate — and this news continues to be increasingly negative.[5] In periods of market declines, this may trigger fear, which can cause investors to make hasty decisions not in their best interests. Yet, despite the negativity, consider that since 1975 the S&P/TSX has posted annual positive gains 77 percent of the time.[6]

As advisors, we do our best to prepare clients by putting a plan in place to set priorities and using a disciplined approach that emphasizes asset allocation, strategic diversification, risk management and a focus on quality to guide us through the different cycles. We can also choose to integrate different techniques into investing programs to reduce impulsive decision-making, as many investing errors result from succumbing to our behavioural biases. This may include regularly rebalancing portfolios, using managed products to put buy/sell decisions in the hands of experts or incorporating systematic investing programs like dollar-cost averaging or dividend-reinvestment programs.

We are here to help keep you on course, to limit the impact of investment errors as we chart the path to longer-term success.

1 https://www.visualcapitalist.com/portfolio-return-expectations-by-country/
2 S&P/TSX Composite Index 12/31/1973 - 1,193.56; 12/29/2023, 20,958.40
3 https://www.fca.org.uk/news/press-releases/young-investors-more-likely-have-long-term-goals-mind-dating-when-investing
4 https://www.visualcapitalist.com/20-most-common-investing-mistakes/
5 https://www.bbc.com/future/article/20200512-how-the-news-changes-the-way-we-think-and-behave
6 https://en.wikipedia.org/wiki/S%26P/TSX_Composite_Index

Is Your Day-to-Day Living Impaired? The DTC May Offer Support

As the population ages, more elderly are being diagnosed with physical or mental disabilities. With greater awareness, children are now being diagnosed at an earlier age. While there has been a substantial rise in the number of Canadians living with a disability,[1] many are not aware that loved ones may qualify for the Disability Tax Credit (DTC). Consider these situations where individuals may qualify:

› A child suffering from ADHD;

› A senior whose daily living is impaired by cancer or Alzheimer's;

› An individual with Type-1 diabetes.

Eligibility for the DTC is dependent on how the disabling condition affects day-to-day living, not the diagnosis itself. In general, this includes those who suffer from a prolonged and present physical or mental impairment at least 90 percent of the time, for a continuous period of at least 12 months and are unable to perform certain functions necessary for everyday life (or it takes three times longer than if not impaired). The individual must be certified by a medical practitioner and an application must be approved by the Canada Revenue Agency (CRA).[2]

Why is the DTC a valuable wealth management tool?

1. Offers substantial tax benefits. This is a non-refundable tax credit that can be claimed on an income tax return. The federal disability amount for the 2023 tax year is $9,428 for those 18 years and older, with an additional $5,500 supplement for those under age 18.

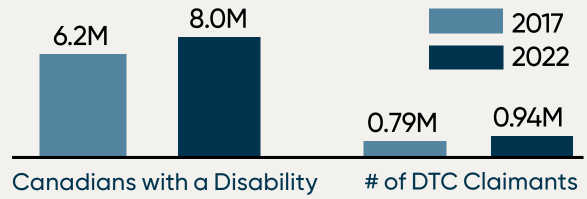
2. Potentially retroactive. If you were eligible for the DTC in past years but did not claim it, you may be able to claim it going back to 10 years. A credit retroactively applied may result in a refund on previous tax returns.

3. Beneficial, even if the individual has no taxable income. Any unused amounts may be transferred to an eligible supporting family member for that tax year, helping to offset their taxable income.

1 https://www150.statcan.gc.ca/n1/en/daily-quotidien/231201/dq231201b-eng.pdf
2 See: https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html

Disability Tax Credit: Are There Barriers to Access?

Despite a rise in Canadians with a disability, the number of DTC claimants remains low.



https://www150.statcan.gc.ca/n1/en/daily-quotidien/231201/dq231201b-eng.pdf?st=GgW7B2h5
https://www.canada.ca/content/dam/cra-arc/prog-policy/stats/dtc-stats/dtc-2022-tbl14-en.pdf

4. A gateway to other benefits. The DTC can help access other important benefits, notably the Registered Disability Savings Plan (RDSP), which allows up to $200,000 of after-tax funds to grow on a tax-sheltered basis, subject to conditions. The RDSP offers the opportunity for $3,500 in federal matching grants annually, to a lifetime maximum of $70,000, depending on the beneficiary's family income and amount contributed. The DTC may help to access other federal and provincial/territorial benefits and programs. It can also support the creation of a qualified disability trust, a valuable estate planning tool, to permit income to be taxed at graduated rates.

A Case Study: Planning a Child's Future

A mother has a six-year-old daughter who has been diagnosed with ADHD and developmental coordination disorder. After the father passed away, they were encouraged to apply for the DTC to help set up a qualified disability trust — a Henson trust — so that income used to support her will be taxed at marginal tax rates, instead of at the highest tax rates applicable to most trusts. She was recently approved by the CRA, including retroactive disability tax credits for the past six years that resulted in a tax refund totaling over $11,000. We will use these funds to contribute to the RDSP as we plan financially to support her future.

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