Investment Focus

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The Enduring Human Spirit

An article published by the *Wall Street Journal* shared some fitting advice from endurance athletes, suggesting that those who endure adversity can emerge stronger and more resilient in what is termed "post-traumatic growth."[1] Over the past 20 months, we've each had to endure adversity in our own ways; the pandemic has forced many of us to confront uncomfortable and tragic situations. However, as we enter another year, the hope is that we will be able to move forward, perhaps a little bit more resilient than before.

These hard-earned lessons in endurance may also help guide us through the investing journey. Some observers have pointed to the current outlook for the financial markets as being uncertain: highly indebted governments globally, ongoing supply chain issues, persistent inflation and imminent rate increases are just some of the recent themes to dominate the financial headlines. Without a clear path forward, these can raise worry and can drive short-term market behaviour.

However, uncertainties will always be with us and, often, the near-term path may not easily be predicted. One such example is the price of oil. Do you remember last year's outlook? A year ago, few would have suggested that prices would appreciate by over 60 percent within the year.[2] Just eight months prior, when futures prices fell to negative for the first time in history,[3] one energy analyst dejectedly proclaimed: "I'm really not optimistic about the prospects for oil companies or prices."[4]

We should also never underestimate the endurance of companies, economies and the markets. The impressive performance seen this past earnings season is just one such example. Many corporations have continued to adapt to the challenges — economic shutdowns, labour shortages, supply chain issues and rising input costs — to report continued earnings strength, some with record levels of profitability.

Indeed, the human condition is one characterized by perseverance, advancement and growth. Market strategist Ed Yardeni recently published a series of data that shows how the world has generated unimaginable wealth since the 1940s.[5] Of particular interest is the tremendous growth in corporate profits — an upward trajectory over time, regardless of many short-term happenings. Even during the global financial crisis of 2008-09 when the U.S. financial industry suffered significant losses, while there was a notable deviation, this quickly reverted.

Last year's equity market performance should remind us that sitting on the sidelines is not a prescription for growth. If we are to prepare for the financial future we want, we must continue to participate. As we look to 2022, let's expect the best, knowing that we have a plan in place to guide the investing journey. Here's to much health, hope and prosperity for the year ahead.

1. "Hard Earned Lessons in Endurance," Bonds Bernstein, Wall Street Journal, May 5, 2021; 2. At time of writing, WTI crude oil spot price 11/25/21 = $78.31. 1/4/21 = $48.52. At its high, 10/26/21 = $84.65; 3. May 2020 WTI oil futures, at 4/20/20; 4. www.bbc.com/news/business-52350082; 5. www.yardeni.com/pub/sp500marginnipa.pdf

In this issue

For 2022: Why Not Resolve to Review Your Estate Plan?

Happy New Year! As we look forward to another year, why not resolve to review your estate plan? Within this review, four basic elements should be considered. Do you have these in place? If so, when was the last time you reviewed them?

1. Power of Attorney* — Do you have a plan in place to support you in the event you are unable to speak for yourself or make your own decisions? This important legal document allows the chosen individual(s) to make financial or healthcare decisions on your behalf if you cannot act for yourself. While the name, terms and conditions may vary by province, there are generally two separate documents for financial and medical powers of attorney. Under a financial power of attorney, the individual(s) will make financial decisions and manage your property on your behalf. Under a medical power of attorney, they will make healthcare decisions in the event you become incapacitated.

2. Living Will/Advanced Directive — What kind of care would you wish to receive if you are unable to communicate? In provinces where applicable, a living will/advanced directive allows you to specify certain medical or lifestyle decisions should you become unable. It may be useful to indicate your wishes and provide guidance to caregivers, such as instructions for pain relief and palliative care, life-prolonging preferences, artificial life support and do-not-resuscitate orders.

3. Will — How will you pass along your assets to your intended beneficiaries? A will helps to direct this distribution in accordance with your personal wishes. If you have minor children, the will should also appoint a guardian. The will is the cornerstone of any estate plan. Without it, you will be considered to die "intestate" and assets will be divided according to rules laid out in the legislation of your province of residence. Provincial laws vary, such as differences in the amount of preferential share of the estate to be received by a spouse or how much must be held in trust by a provincial trustee for minor children.

An executor must be appointed within the will: the person(s)/institution to oversee the estate's administration and carry out instructions within the will. The duties can be significant and may need to be carried out during a time of grief, such as arranging the funeral, finding, itemizing or managing estate assets, arranging probate (where applicable), calling financial institutions to notify them of the death, managing income tax returns, liquidating or distributing assets and more. As such, it's not only important to carefully choose the executor, but also ensure they are willing to take on the role.

As you consider your estate assets, planning ahead may help to better pass them along in the future. For instance, the future tax liability of certain appreciated assets, such as a business or cottage, may be so significant that some estates need to liquidate them to cover the expense. Planning today may help address the liability, such as by using life insurance or other tax-planning strategies.

4. Testamentary Trust — If something were to happen to you, would family members need ongoing financial security or support? Establishing a testamentary trust can help to provide asset protection, preservation and growth by limiting access and specifying the timing and amount of distributions to beneficiaries. Other benefits include protecting assets from creditors, planning to defer capital gains taxes for spouses or safeguarding assets from changes in family matrimony.

If you would like an introduction to legal and estate planning professionals to assist with your estate plan, please call the office.

*There are differing names for the power of attorney depending on province of residence. For instance, in Quebec, this is termed a "mandate." Please consult legal and estate planning professionals.

The Psychology of Investing: How Cognitive Bias Can Affect Investors

Why do investors sometimes fall into the trap of buying high or selling low? Why do many of us procrastinate in saving for retirement, despite knowing its importance? Behavioural economists have shown that cognitive biases can prevent us from making the best decisions. Our brains operate in two cognitive states: automatic and reflective. Our automatic system is uncontrolled, fast and unconscious. Our reflective system is controlled, effortful and deductive. Cognitive biases occur when the automatic system, often influenced by the current environment, dominates the reflective system.

In investing, we may succumb to these behavioural biases. "Herd behaviour," the tendency to follow the actions of a larger group, can cause investors to buy or sell due to pressure from others who are doing the same. "Recency bias" causes investors to believe that recent patterns or events in the markets will continue into the future. According to scientists there are 188 known cognitive biases that can lead us astray. The visual shows just a handful. See the full infographic at: www.visualcapitalist.com/every-single-cognitive-bias/

The good news? With a bit of effort, we can learn to control these behaviours. Some of the most seasoned investors have trained themselves to avoid emotional impulses. We can also integrate techniques into our investing programs, like regularly rebalancing portfolios, using managed products to put buy and sell decisions in the hands of experts, or incorporating systematic saving or investing programs to avoid market timing.

The Cognitive Bias Codex: An Excerpt

Source: Visual Capitalist, attributed to designhacks.co; www.visualcapitalist.com/every-single-cognitive-bias/

Most importantly, don't forget the influence these biases can have on investing and plan ahead before they can have an impact. This may include sticking to your wealth plan during volatile times or avoiding the urge to react to social and media pressure. We are also here to help as we work with you towards achieving longer-term success.

Avoid These Five RRSP Pitfalls

It is Registered Retirement Savings Plan (RRSP) season once again! Beyond the importance of contributing to the RRSP to grow funds for retirement, avoiding certain practices can also help to save tax or create a bigger nest egg for the future.

Withdrawing Funds to Pay Down Debt — 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 from the RRSP, you won't be able to get back the valuable contribution room — unlike the TFSA, where contribution room resets itself in the following calendar year.

Contributing Losers In-Kind — In order to fund the RRSP, some investors may choose to move investments from non-registered accounts. If you are considering making in-kind contributions to the RRSP, be careful not to transfer investments that have declined in value. You will be deemed to have sold these investments at fair market value when transferring them to the RRSP, yet any capital loss will be denied. Instead, consider selling them on the open market and contribute cash to the RRSP so you can claim the capital loss (and be aware of the superficial loss rules if you plan on repurchasing them).

Claiming the Deduction in the Wrong Year — 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 that the RRSP contribution is made. You may 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.

Neglecting to Update Beneficiary Designations — It may be beneficial to review account beneficiaries on a periodic basis, 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.

Withdrawing from a Spousal RRSP — For couples in which one spouse will earn a high level of income in retirement while the other may have little retirement income, a spousal RRSP can potentially be a valuable income-splitting tool. However, don't forget that the attribution rules generally apply to a spousal RRSP. If the higher-income spouse has made contributions to the spousal RRSP in the year or in the immediate two preceding years and if funds are withdrawn from the plan, they may be taxed to the higher-income spouse, as opposed to the lower-income spousal RRSP owner.

RRSP Season Reminders

Contribute — The deadline for RRSP contributions for the 2021 tax year is **Tuesday March 1, 2022**. Contributions are limited to 18 percent of the previous year's earned income, to a maximum of $27,830 for the 2021 tax year. Consider an automatic monthly contribution plan to avoid missing the deadline.

Consolidate — If you hold multiple RRSP accounts at different financial institutions, consider consolidating for improved administration, convenience and potential cost savings.

Collapse — If you are turning 71 years old in 2022, please get in touch to discuss options for closing your RRSP by year end.

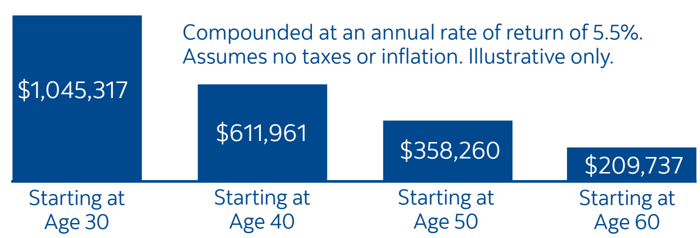
Looking Forward: Keep Time on Your Side

> *"Greatness is not in where we stand, but in what direction we are moving. We must sail sometimes with the wind, and sometimes against it — but sail we must, and not drift, nor lie at anchor."*
> — Oliver Wendell Holmes

Being invested can be one of the best ways to grow wealth over the longer term. Yet, after an extended period of gains, some investors may feel hesitant to put money to work in equity markets. While volatility was muted for most of 2021, let's not forget that it is a normal part of equity markets. It is the price paid for the upside potential.

Remember that time can be one of the investor's best allies. If you have (grand)children learning about finances, the accompanying chart may be a worthwhile share. Even with modest returns, starting early and staying invested can yield significant wealth down the road. How about you? Do you have funds sitting idle that can be put to work for your future? The best investment opportunity is valueless unless we actually make use of it. Keep time on your side!

How Much Could You Have by Age 85?
The Impact of Investing a Lump Sum of $55,000 at Various Ages



Source: Based on $55,000 invested at a 5.5% compounded annual rate, for 55, 45, 35, and 25 years, respectively.

2022 TFSA Contribution Limit

The 2022 TFSA dollar limit is $6,000. This brings the total lifetime contribution limit to $81,500 for those eligible. Do you have unused contribution room?

Accessing the Cash Value: The Immediate Financing Arrangement

Life insurance is often viewed as a pure risk management tool. Yet, consider that a permanent life insurance policy with a cash value component, such as universal life or whole life, may also act as a flexible planning tool to support tax planning, fund liquidity needs or facilitate business succession planning.

As the cash value component grows, it may be accessed while the policy continues to provide protection. Generally, this can be done in three ways: i) Withdraw the cash value; ii) Borrow from the insurance company based on the policy's terms; or iii) Use the cash value as collateral for a third-party loan, through an immediate financing arrangement (IFA) strategy.

For high-net-worth individuals and business owners who are comfortable using leverage, an IFA has the potential to be a flexible financial planning tool. The IFA assigns the policy to a lender, such as a bank, as security for the loan, which typically can be between 50 and 100 percent of the cash value. The individual or business pays loan interest to the lender going forward. While the loan can be repaid at any time, the intent is often for it to be repaid upon the death of the insured. Upon death, the life insurance death benefit proceeds would be used to repay the bank loan. Any insurance proceeds remaining after the loan repayment would be paid tax-free to a named beneficiary.

An IFA arrangement may provide various benefits, including:

Tax Planning — Compared to other ways of accessing a policy's cash value, with an IFA income tax is not generally payable by the policyholder and loan proceeds are not considered as income for tax purposes. When the funds from the loan are invested in a business, investment or other income-producing activities, the loan interest may be tax deductible. Assuming the loan interest is deductible, an annual tax deduction is received for the interest paid and the collateral insurance deduction.

Funding Liquidity Needs — The bank loan replenishes the funds used to pay for the life insurance allowing the proceeds from the loan to be used for investment purposes or reinvested into a business. This can reduce net after-tax cash flow by allowing the business to claim tax deductions and keep more funds working within the business while still maintaining insurance protection for the insured.

Business Owner Succession Planning — Generally, when a life insurance policy is held within a corporation, the death benefit amount received less the policy's adjusted cost-basis may be credited to the corporation's capital dividend account (CDA), often allowing a tax-free dividend to be paid to the shareholders of the corporation. With an IFA, the corporation receives a credit to the CDA on the same basis, regardless of the loan amount, even when the death benefit is paid directly to the creditor. This may facilitate business succession planning by providing significant tax savings when distributing assets to shareholders.

Alongside the benefits, there are financial and tax risks associated with any planning strategy when leverage is involved. Depending on the arrangement, there may be tax consequences when the IFA is held within a corporate structure. Typically, proceeds from the loan are received by the policyowner; however, if the loan is made directly to the shareholder, instead of the policyowner, which would be the corporation, there may be additional tax risks. Due to current low borrowing rates, the IFA may appear favourable; yet, IFAs are intended to be long-term arrangements and future increases in interest rates can impact the arrangement. If the spread between the loan interest rate and policy interest rate widens and the accumulated loan balance increases faster than projected, the borrower may need to provide additional collateral, partially repay the loan or surrender the policy. Other risks include potential changes to debt servicing requirements, tax rules, loan requirements due to mortality risk, overall performance of the life insurance policy and the lending institution's practices.

When considering this planning, seek legal and tax advice from professional advisors relating to your own particular situation.

Note: The terms and conditions noted in this article may not apply within the province of Quebec. In Quebec, the use of a life insurance policy as collateral involves the use of a movable hypothec.

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