The Despas Advisory Group
Investment Focus

Winter 2022

In this edition

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] As we enter another year, may we continue to have hope that brighter days lie ahead and we will return to a world not bound by the dominance of the pandemic. Over the past 20 months, we've each had to endure adversity in our own ways. However, the hope is that we will be able to move forward, perhaps a little bit more resilient than before.

These lessons in resilience may be helpful in supporting the investing journey. The pandemic has created new challenges for economies and financial markets: growing levels of government debt, ongoing supply chain issues, the likelihood of rate increases by central banks and persistent inflation. Keeping balanced expectations may be made more difficult given the uncertainties.

It is instructive that even in the face of such unprecedented times, last year's equity market performance was strong. This 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 move forward.

We should also never underestimate the capacity of companies, economies and the markets to persist and advance. This past earnings season is one such reminder. Many companies continued to post strong earnings despite unprecedented conditions—partial economic shutdowns, labour shortages, supply chain issues and rising input costs—and some at record levels.

As a testament to this endurance, market strategist Ed Yardeni recently published a series of data that shows how the world has generated unimaginable wealth since the 1940s.[2] Of particular note is the tremendous growth in corporate profits—an upward trajectory over time, despite many short-term setbacks. Even during the global financial crisis of 2008–09, when a deviation occurred, it is notable how quickly this reverted to continue to climb higher.

Market uncertainties will always be with us in some form or another. However, portfolios built on a solid foundation, using securities selected with quality, diversification, strategic asset allocation and individual needs in mind, will often prove to be enduring within the ever-changing investing landscape.

In looking forward, let's expect the best, knowing that we have this plan in place to guide our investing. Here's to much hope, health, happiness and prosperity for 2022 and beyond!

1. "Hard Earned Lessons in Endurance," Bonds Bernstein, Wall Street Journal, May 5, 2021. • 2. www.yardeni.com/pub/sp500marginnipa.pdf

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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.

Withdrawals 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.

Be Aware: Use the TFSA for Longer-Term Investing

Perhaps as a result of a confluence of factors—buoyant markets, social media influence and today's ease of investing—we have been receiving more questions about young investors who want to open up a Tax-Free Savings Account (TFSA) for investing purposes.

While we encourage the use of the TFSA for investing to build wealth on a tax-free basis for the future, we caution about its use for frequent trading purposes. All investors should be aware that there may be tax consequences associated with frequent trading within a TFSA, as prescribed by the Canada Revenue Agency (CRA).

According to the CRA, the TFSA is intended for an individual "to set money aside tax-free throughout their lifetime." If investments are bought and sold frequently inside the TFSA, the CRA may consider you to be "carrying on a business." While there are no defined limits on trading within a TFSA that constitute carrying on a business by the CRA, one way that the CRA has previously assessed this practice is when a TFSA owner holds securities for only a short period of time.

Prior to the pandemic, the CRA had ramped up its audits of the TFSA, looking specifically at accounts that held large balances. Between 2009 and 2017, it assessed more than $110 million in taxes owing. While the bulk of this amount was related to taxes payable on tax advantages, over $6 million was due for day trading within a TFSA.[1]

1. https://www.investmentexecutive.com/newspaper_/news-newspaper/tfsas-setback-for-the-cra/

TFSA: Do You Have Unused Contribution Room?

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?

Year	Annual Dollar Amount	Cumulative Amount
2009 to 2012	$5,000	$20,000
2013 & 2014	$5,500	$31,000
2015	$10,000	$41,000
2016 to 2018	$5,500	$57,500
2019 to 2022	$6,000	$81,500

The Timeless Wisdom of Warren Buffett

We may all benefit from some investing perspective as we enter into 2022. Who better to draw on for that wisdom than one of the most successful investors of our time, Warren Buffett. Many of Buffett's messages are timeless. In fact, a more recent academic study analyzed years of Buffett's shareholder meetings, which have attracted tens of thousands of investors from around the world, and confirmed that the Oracle of Omaha's key messages have recurring themes.[1] Here are four:

Don't overlook the power of patience in investing. After a year of strong performance in the equity markets, it may be easy to forget that success in investing can often take time. Consider that even though Buffett has been investing since he was young, over 90 percent of his wealth was made after the age of 65.[2] Time and the power of compounding continue to be the key drivers of wealth creation.

"The nature of compound interest is it behaves like a snowball of sticky snow. And the trick is to have a very long hill."

Invest with a view for the longer term. When Buffett invests in a company, he views himself as an owner and takes a thoughtful and longer-term view of its prospects. He worries less about what happens in the short term, and focuses on businesses that continue to have a competitive advantage over the longer term.

"Nobody buys a farm based on whether they think it's going to rain next year. They buy it because they think it's a good investment over 10 or 20 years."

Maintain self-discipline. Buffett has always said that temperament is key to investing. In this digital age, where we are constantly being fed news and opinion, Buffett reminds us that investing requires the ability to detach from the views of others and make decisions based on the facts.

"You need to be able to look at the facts about a business, about an industry, and evaluate a business unaffected by what other people think. That is very difficult for most people... Don't do anything in life where the answer is, "everybody else is doing it." If you cancel that as a rationale for doing an activity in life, you'll live a better life whether it's in the stock market or any place else."

Have a plan in place... and stick to it during good times and bad. Buffett has always emphasized the importance of having a plan in place to drive the investment process to prevent emotions from influencing decision making. In strong market times, such as those experienced this past year, it can help to prevent investors from taking undue risks due to the fear of missing out. Risk controls remain an important part of every investor's wealth plan. In down-market times, adhering to an investment plan can help investors avoid the urge to sell investments because of the pressure from others doing the same.

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

During the height of the pandemic, Buffett offered his views on overcoming the challenges, with a continued view of optimism for the future. These words may be worth reflecting on as we begin another year, with the hope that the worst of the pandemic is now behind us:

"This is a terrible event. But there will be other things that happen in the world in the next 5, 10, or 20 years. That's how the world works; it's not a totally even course. The progress of mankind has been incredible and that won't stop... there will be interruptions, but I also know that we'll come out better on the other end."

Thank you to Warren Buffett for allowing us permission to share his timeless wisdom. Please note that the material is copyrighted and has been used with permission of the author. 1. https://markets.businessinsider.com/news/stocks/warren-buffett-key-investing-tips-holding-cash-patience-shares-business-2020-10-1029698894 • 2. Based on shares of Berkshire Hathaway (BRK-A), 8/30/95: $25,300; 11/23/21: $434,921.

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."

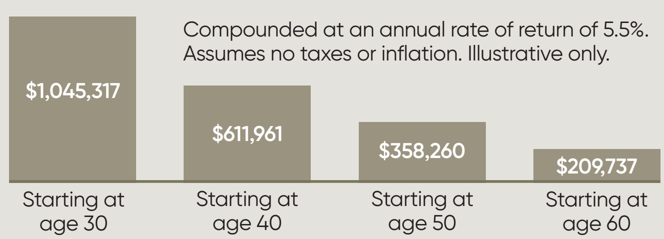
– Oliver Wendell Holmes

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

Compounded at an annual rate of return of 5.5%. Assumes no taxes or inflation. Illustrative only.



"Letters" to a Young Investor: Three Tenets for Successful Investing

In his new book, *Letters to a Young Athlete*, former Toronto Raptors star, Chris Bosh, provides invaluable lessons to the next generation about the value of sweat, the importance of humility and how to tame your inner voice to become your ally. Bosh is seemingly a polymath: he spent his off-seasons learning computer coding, taking guitar lessons and practicing Spanish. His book, he says, is meant for anyone who aspires to greatness in any field: "it takes hard work to achieve your goals."[1]

It is good advice that may be relevant to young investors just starting out. Successful investing is a culmination of many elements—wealth comes from choices, not chances: choosing to save wisely, using time to your advantage and eventually putting in place an investment plan that encourages value, quality, and diversification. Most importantly, and perhaps somewhat lost in today's rapidly ascending markets, investing is also about training your inner voice to have the patience and understanding that building wealth often occurs over the longer term.

Here are three tenets of successful investing that may be worth passing along:

1 Saving can be one of your best investments.

It doesn't matter how skilled you are when it comes to the markets, if you do not have savings to deploy you cannot generate wealth. Wealth is the accumulated difference between what you bring in and what you spend. You can build wealth without a high income but you have no chance without a high savings rate. More importantly, individuals with just modest pay and steady jobs have been able to amass a tidy fortune—all because of saving. Fostering good savings habits at a young age and before you make a lot of money is important: If you can't manage a little, you likely won't be able to manage a lot.

2 Markets will not always be this easy.

Markets don't always go in one direction. Making money over recent times has been easy, but as the saying goes, "never confuse brains with a bull market." While we didn't see significant volatility for most of 2021, volatility is the norm. Markets are cyclical by nature and this means accepting that, sometimes, risk assets will significantly decline in value. Increased potential returns of an investment go hand-in-hand with increased risk. You have to be willing to live through losses in the short term to experience gains over the long term. At the same time, down markets can provide opportunity—to buy in at lower valuations, higher dividend yields and better price points, all of which help to generate better overall wealth years down the road.

3 Time is the ultimate equalizer... and can be a significant asset!

While short-term periods of volatility will be commonplace, over longer time horizons this volatility smooths out. Younger folk have one of the greatest assets available: time. Add in the power of compounding and this provides the significant opportunity to grow wealth into the future. Consider the benefits of starting early: As a 25-year old, if you saved and invested $500 each month for 20 years, and left this amount to compound until the age of 65, you would end up with around $545,000, based on a compounded annual rate of return of 5 percent. If you started later at age 45, you would need to save almost 2.7 times more per month, or $1,327, to end up with the same amount by age 65. Starting early means you'd need less capital to achieve the same outcome: at age 25, this would require $120,000 over 20 years, compared to around $318,000 if you started 20 years later.

1. www.wsj.com/articles/chris-bosh-on-the-sudden-surreal-end-of-his-nba-career-11621528351

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