MacDougall Wealth Management Group Newsletter

Winter 2023

In this edition

Look Forward, Not Back

One of the weaknesses of human nature is our tendency to focus on what is most recent in our memories. Our minds are naturally influenced by things that have just happened, and this can impact the way we make decisions. In investing, this can be amplified. The market pendulum can sometimes swing from one extreme to the other, with prices often overshooting underlying "fair values" in both directions during the course of a cycle. As renowned investor Benjamin Graham once said, "*In the short run, the market is a voting machine. But in the long run, it is a weighing machine.*"

The year that has passed was no exception. Financial markets were largely challenged by the aggressive actions of central banks as they raised rates to combat high inflation. As a result, there was a significant reversal from the excessive exuberance that characterized 2021. While it's never easy to see asset prices under pressure, it has led to a more healthy outlook for how risk assets are viewed and, perhaps, more thoughtful consideration of how capital is deployed.

Yet, many of the same issues we faced in 2022 persist, including geopolitical tensions, lingering inflation, higher interest rates and continuing central bank tightening policies intended to slow economies. While these are important issues not to be trivialized, we shouldn't allow them to obstruct our view as we look forward.

This is because the investing journey can be a long one – depending on our objectives, sometimes as long as our lifetimes. For most investors, investing involves building wealth for down the road, and not tomorrow. We can often forget that short-term performance may have little impact on longer-term results.

Veteran investors recognize that market downturns are a normal part of the cycle and allow for them, often using them to build investment positions for the future. Despite the volatility of 2022, it is instructive that Warren Buffett continued on his buying spree, adding a record amount of purchases to his portfolio throughout the year.[1] He knows that interruptions will occur from time to time, and uses these periods to seek opportunity, strong in his conviction that better days lie ahead.

Likewise, we can all benefit from continuing to position ourselves for the years to come. Indeed, the opportunity to build significant wealth remains within reach for both young and old investors alike. We often use the "Rule of 72" as a simple way to estimate how many years it will take funds to double at various rates of return — and it's worth a reminder. By dividing 72 by an average rate of return of 5 percent, it shows that funds can double in around 14 years (72÷5=14.4). So, even if you've achieved the respected age of 70, chances are you can still live to see your funds double – and, twice still if you become a centenarian![2]

As we begin another year, don't lose sight of the importance of planning for the future. After a challenging year, we would like to express our gratitude for your continued confidence in our services. May 2023 bring brighter days and better markets. Continue to look forward, not back.

1. https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-60-billion-record-stock-purchases-portfolio-2022-8; 2. Assuming average life expectancy in Canada of age 84 (females) and 80 (males); https://data.worldbank.org/

Welcome to the team, Kellsey Leckie!

Kellsey joined the team in September 2022.

Please join us in welcoming her to the MacDougall team.

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NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

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RRSP Checkup: How Well Are You Managing Your RRSP?

It is once again Registered Retirement Savings Plan (RRSP) season. How well do you manage your RRSP? Here are some questions to ask:

Do you consider the timing of RRSP deductions? 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 the RRSP contribution is made. You can 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.

When do you make contributions? By making contributions at the beginning of the tax year or throughout the year, instead of waiting until March 1 for a deduction from the previous year, you may benefit from the longer time for tax-deferred growth. Due to the power of compounding, over time this can make a noticeable difference.

When was the last time you updated beneficiary designations? It may be beneficial to review account beneficiaries (in provinces where applicable), 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.

Have you considered a spousal RRSP? For couples in which one spouse will earn a high level of income in retirement, while the other will have little retirement income, a spousal RRSP may potentially be a valuable income-splitting tool. If you are working past age 71 and have a younger spouse, you can no longer hold your own RRSP after the year you turn 71, but you can still make a contribution to a spousal RRSP as long as your spouse is age 71 or less at year end and you have RRSP contribution room. This may be a good way to get a deduction and shift income to a spouse.

Have you planned for your RRSP's eventual maturing? There may be benefit in gradually drawing down RRSP funds as you approach retirement. This may be useful if an individual is currently in a lower tax bracket than they expect in future years. Others may seek to limit future sources of taxable income in order to minimize the possible clawback of income-tested government benefits such as Old Age Security. One strategy may be to use RRSP withdrawals to fund Tax-Free Savings Account (TFSA) contributions (subject to available room). As the TFSA grows, there may be greater flexibility to receive tax-free income that can augment or replace Registered Retirement Income Fund (RRIF) withdrawals later. At death, TFSA funds can pass tax-free to heirs, unlike residual RRSP/RRIF funds that are subject to tax, potentially at high marginal tax rates.

Do you allow your RRSP to grow uninterrupted? 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, you won't be able to get back valuable RRSP contribution room. There may be better options, such as a TFSA in which contribution room resets itself in the following calendar year.

Always seek assistance from tax professionals regarding your situation.

RRSP Contribution Deadline: March 1, 2023 for the 2022 tax year, limited to 18 percent of the previous year's earned income, to a maximum of $29,210 (for the 2022 tax year).

2023 TFSA Dollar Limit: As a result of adjustments for inflation, the 2023 TFSA annual dollar limit will increase to $6,500, bringing the eligible lifetime amount to $88,000. The annual dollar limit hasn't increased since 2019. Don't overlook the opportunity for tax-free growth!

Investing Resolutions for 2023

A recent article in the *Washington Post* offered a different perspective to the view that kids these days are getting too much screen time. In fact, there's another demographic struggling to put down their devices: baby boomers. As one man put it: "*My 75-year-old dad's phone may as well be an implant; he lives with it like a teenager*!"[1] Of course, this has implications for our investing ways. With easy access at our fingertips, we may all be guilty of checking investment accounts too frequently.

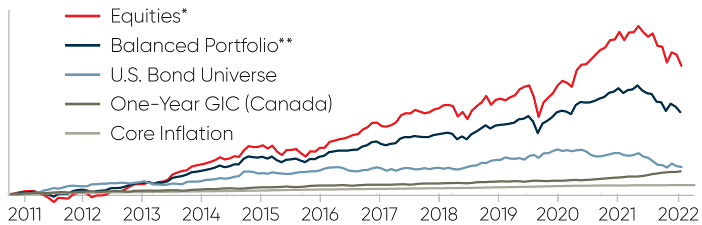
In this regard, and as we begin a new year, here are three resolutions that can help to make better investors:

Pay less attention to investment accounts. It's worth a reminder: Emotions can impact our investing decisions. When we are threatened by the possibility of losses, our brains take control to avoid these losses and we may not make the best investing decisions. In 2022, excessive pessimism dominated the markets. As one market pundit noted, perception swung from "flawless to hopeless," and, for many, the urge to react may have felt overwhelming. One important variable for investing success is how long you are able to stay invested. As such, consider checking accounts less frequently.

Look beyond annual returns. As we saw in 2022, markets will go down, just as they go up, and returns can vary quite significantly from year to year. While we commonly discuss "average" returns, it's worth repeating that annual returns often do not fall close to this average. Consider the wide dispersion of S&P/TSX Composite Index annual returns since 1981 in the chart. In 19 of 41 years, returns were less than the average of 6.7 percent. Almost one-third of the time, they were negative. Yet, average returns compounded over time can lead to superior results. Consider that an investment of $55,000 would yield about $209,000 in 25 years at a compounded annual average rate of return of 5.5 percent; yet, in 55 years, it would yield over $1 million.

Remember that equities continue to be one of the best wealth generators of asset classes. Given the market volatility in 2022 and with yields on low-risk, fixed income alternatives at levels not seen in over a decade, products like guaranteed investment certificates may look appealing. While this may be a good opportunity for cash on the sidelines, equities continue to be one of the best asset classes in which to generate wealth and beat inflation over time.

Cumulative Returns by Investment Strategy, 2011 to Nov. 2022



*35% S&P 500, 35% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM;
**60% Equities, 40% Fixed Income

A well-constructed portfolio has been put in place to meet your goals over the longer term. Have confidence that your plan continues to work for you.

1. https://www.washingtonpost.com/technology/2022/11/12/boomers-screentime/

S&P/TSX Composite Index Annual Returns, 1981 to 2021

Average Return = 6.7%

<-20%	-15 to -20%	-10 to -15%	-5 to -10%	0 to -5%	0 to 5%	5 to 10%	10 to 15%	15 to 20%	20%+
									2021 / 21.7%
						2017 / 6.0%			**2009** / 30.7%
						2014 / 7.4%			**2005** / 21.9%
		2018 / -11.6%				**2013** / 9.6%			**2003** / 24.3%
		2015 / -11.1%				**2007** / 7.2%	**2010** / 14.5%		**1999** / 29.7%
		2011 / -11.1%			**2020** / 2.2%	**2000** / 6.2%	**2006** / 14.5%		**1996** / 25.7%
		2002 / -14.0%		**1998** / -3.2%	**2012** / 4.0%	**1991** / 7.9%	**2004** / 12.5%	**2019** / 19.1%	**1993** / 29.0%
		2001 / -13.9%		**1994** / -2.5%	**1987** / 3.1%	**1988** / 7.3%	**1997** / 13.0%	**2016** / 17.5%	**1985** / 20.9%
2008 / -35.0%	**1990** / -18.0%	**1981** / -13.9%	**1984** / -5.9%	**1992** / -4.6%	**1982** / 0.3%	**1986** / 5.8%	**1995** / 11.9%	**1989** / 17.1%	**1983** / 30.4%

Christmas Giving

The MacDougall Team was proud to support the Red Deer Food Bank and Christmas Bureau this 2022 giving season. Did you know the number of hungry Central Albertans has nearly doubled this year, of these 40% are children.

Box app®

New Secure Exchange Functionality

National Bank Financial (NBF) will now offer a simple, fast and secure solution to share confidential documents with your Advisor and their team.

The Box app explained in 7 steps:

1 Create your Box account

- Choose your package (we recommend the free individual package).

2 Enter the information requested

- Fill in the form with the information requested.

3 Create a strong password

- Your password should be at least 12 characters long, alphanumeric, plus upper case and special characters.
- Use a sentence or words that are easy for you to remember, but don't make sense (e.g., ParisUnicornApril14).

Also, since your Box space will be used to exchange confidential information with NBF, do not share your password or your Box space with anyone else. This space is for your personal use only[1].

4 Validate your email address

- A confirmation email was sent to you by Box. Simply click on the **"Verify Email"** button to validate your account.

5 Once you have confirmed your email, please inform your Advisor, who will then set up a personalized folder for you. After, you will receive an email from noreply@box.com asking you to work on a shared Box folder

- Click on **"Go to folder"** in the email.

6 Congratulations! You have created a Box account!

- Once your Box space has been created, your Advisor will contact you by phone to ensure that you have completed the creation process and that everything is functional.
- Don't forget, neither your Advisor nor any National Bank employee will contact you to obtain your password.

7 Access your shared folder

An invitation from noreply@box.com will be sent to you by a member of your investment Advisor's team. Simply click on the link.

- Didn't receive it? Check your junk mail folder (spam), it may be there!

1 Visit **nbc.ca/security** for more information on how to protect your personal information.

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Upcoming Events – 3rd Annual Agriculture Excellence Seminar