

# MacDougall Wealth Management Group Newsletter



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## Fiscal Update: Canada's Debt Position.

### What Comes After a Trillion?

In the effort to combat the pandemic, the sheer amount of stimulus pledged by governments globally has been staggering. In July, then Finance Minister Bill Morneau delivered Canada's economic update, which replaced the regular spring budget. It was an economic tally of the measures taken to date. The 2020-21 deficit is expected to be \$343.2 billion, largely attributed to pandemic relief programs.<sup>1</sup>

At latest count, \$212 billion will have funded the government's four major initiatives: the Canada Emergency Business Account and Canada Emergency Wage Subsidy, supporting businesses; the Canada Emergency Response Benefit, supporting workers; and the Canada Emergency Student Benefit, supporting students.

### What is a Trillion?

The crisis is expected to increase Canada's national debt by over 30 percent. Prior to the pandemic, Canada held \$1.083 trillion of debt on its balance sheet.<sup>2</sup> In 2020-21, this will rise in excess of \$1.4 trillion. However, this pales in comparison to the U.S., which had national debt of over US\$23 trillion at the start of the year,<sup>3</sup> and is expected to add trillions of dollars in fiscal stimulus to combat the crisis.<sup>4</sup>

Just how much is a trillion? To put the magnitude of the jump from one billion to one trillion into context, if we were to travel back in time by a billion seconds, we would be in 1989. However, to go back a trillion seconds would take us to around 30,000 B.C. What comes after a trillion? A "quadrillion." At the start of 2020, it was estimated that global debt totalled \$257,600 trillion, or \$0.26 quadrillion.<sup>5</sup>

### Is There Need to Worry?

Current national debt levels do not indicate any risk of imminent default, so long as economies and fiscal institutions continue to function and taxation continues. Canada also entered the crisis with one of the lowest government debt-to-GDP ratios of the major developed countries.<sup>6</sup> With interest rates at historical lows, the cost of borrowing has gone down, so it's not a terrible time to be adding debt. According to Morneau, "the government will save over \$4 billion in public debt charges in 2020-21 compared to the forecast presented in 2019" due to lower interest rates.<sup>2</sup>

### How Will We Pay for This Stimulus?

Given these daunting figures, how we will pay for these efforts? Even prior to the pandemic, there were concerns about our high debt levels. Governments can reduce national debt in three main ways: cut spending, raise taxes, or grow the economy faster than debt – faster growth can produce more revenue and also increases the economy's capacity to carry debt.

Few would dispute the need for stimulus – crisis times are precisely when government spending should occur. However, down the road there may be a significant economic cost for the generations to come who will likely shoulder our continuing debt.

1. [cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115](https://www.cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115); 2. [canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html](https://www.canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html); 3. [cnbc.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html](https://www.cnbc.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html); 4. [ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3](https://www.ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3); 5. [reuters.com/article/us-global-debt-iif/global-debt-shattering-records-iif-idUSKBN1ZC1VQ#:~:text=%E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion](https://www.reuters.com/article/us-global-debt-iif/global-debt-shattering-records-iif-idUSKBN1ZC1VQ#:~:text=%E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion); 6. [investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/](https://www.investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/)

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## Estate Planning: What Have You Told Adult Children?

In our work with clients, it isn't uncommon to find parents who haven't had any discussions with their adult children about their estate plans. Estate planning may be a difficult topic to approach: not many people like to talk about death, and the intensely private subject of finances can further complicate matters.

However, excessive secrecy can make a potentially difficult situation even worse. How will anyone know how to deal with your assets in the case of death? Or, in the situation where you are alive but unable to act for yourself, how can those appointed to act on your behalf ensure your wishes are carried out as intended?

The health-related consequences of Covid-19 have been a stark reminder of the value in having end-of-life planning discussions with family members. It isn't necessary to divulge any detailed information about your finances or your will in advance, but it may make sense to inform family members of your intentions.

In some cases, parents have appointed adult children as executors but haven't made them aware. Others may be aware, but have not been provided with information on where Power of Attorney (POA), will and other important documentation is stored. It is important for an attorney (the person appointed under a POA document\*) or next-of-kin to know where to find these documents in an emergency situation. This can help prevent a needless search or avoid other complications, such as incorrectly assuming a will does not exist.

Communicating what is important to you, how you would like to be remembered and your desired legacy may also be important to family members. Without any instruction, survivors may struggle with doubt about whether they made the right decisions. This can be especially difficult during a time of grief. Some individuals plan their funeral arrangements in advance; others may wish to make loved ones aware of causes or charities important to them. Having a dialogue with adult children may also provide an opportunity to pass along family values.

If you own a business and wish to see it continue within the family, it is important to have discussions with family members in advance. Planning today can not only provide clarity over your intention for the business' succession, but it can also help provide tax and other financial benefits down the road.

While these discussions can be difficult, having them while you are alive and well may provide comfort to you and your adult children that you continue to support them, even after you are gone.

\*The name, terms and conditions of the POA document vary by province (e.g. known as a mandataire in Quebec).

### Does Your Estate Plan Require a Review?

Here are some questions that may prompt a review:

1. Is my plan structured in a way that promotes efficient administration and limits expense?
2. Will my plan minimize family effort or even controversy?
3. Are my assets structured to limit exposure to potential liability (i.e., former spouses, creditors)?
4. Do I have protection in place to allow my family to make financial and health care decisions in the event I am unable?
5. Can my family maintain their current lifestyle if I am no longer able to contribute?

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## Joint Accounts - Keeping your intentions clear

Have you considered adding a trusted family member as a joint owner on an investment account? If so, careful consideration needs to be made to determine the intent of ownership during your lifetime and on death.

Joint accounts are typically done to facilitate management of an account to provide safekeeping of the funds, and to possibly avoid probate. A recent court case in Ontario sheds light on whether the joint account holder is granted rights of survivorship, similar to a beneficiary, or if the funds are considered to be held "in trust for" the estate. Currently, the courts operate on the presumption that "a transfer of property to joint ownership with an adult child is presumed to be held "in trust for" the estate (Mezzetta, 2020). Here is an example.

Sandra has two children, Max and Joe. Her son Max lives nearby and was put on joint account to assist with her bank accounts. In this scenario her intent appears to be an "in trust for" account, and the assets may revert back to the estate on Sandra's death. If she wishes for the account to go directly, and wholly, to Max on her death, Sandra should include a separate letter of intent, and a declaration in the will clearly stating this. The key is to have documentation of intent. In this way, you provide additional certainty that your wishes are accurately fulfilled. Talk with us if this situation applies to you and needs to be reviewed.

As the legal landscape is always changing it is always changing, we encourage our clients to receive legal advice regarding their wills and beneficiaries.

-Kit Richmond



## Business Owners: The Estate Freeze

Many business owners continue to be challenged by current economic conditions. During these difficult times, there may be a potential opportunity if you are looking to plan for your business' eventual succession. If the current market situation has temporarily caused the value of your business to decrease, it may be an appropriate time to consider an estate freeze.

An estate freeze locks in ("freezes") the value of your current interest of your business today, allowing you to pass along any future growth in the business' value to another party.

### How is this done?

There are various ways to freeze an estate. A common situation is where a business owner owns all of the shares in an incorporated business, such as common shares with voting rights. The owner identifies a successor(s) for the business, often the next generation. To complete the freeze, the owner has the company redeem his/her shares and, in exchange, the company issues new preferred shares with voting rights. These preferred shares have a fixed redemption value equal to the common shares that were just redeemed. Therefore, there are no immediate capital gains tax consequences from this exchange.

At the same time, the company issues new common shares to the successor(s) with no value. Any future growth in the company's value would then be associated with the common shares and not the preferred shares. In order for the owner to remain in control, the common shares could have voting rights, but not enough to outvote the preferred shares.

An estate freeze can also be done through a holding company or a trust, which may be used if beneficiaries are minors.

### What are the benefits?

**Facilitates better planning** – By freezing the value of the business, the owner freezes potential capital gains upon the sale of the business. The business owner may then be able to better plan for the tax liability, knowing that it won't grow over time.

**Locks in the business' sale price** – During the freeze, the owner may also set the price that the future owners will have to pay for the business. Future owners may then be able to better plan for the purchase.

**Provides potential tax-saving opportunities** – If successor(s) have a lower marginal tax rate, an estate freeze may offer income-splitting opportunities with adult children. If beneficiaries decide to sell their own common shares in the company for a gain, they may potentially be able to use the lifetime capital gains exemption (LCGE), currently \$883,384 for 2020 (if the business is considered a qualified small business corporation). A freeze also "locks in" the amount of assets subject to probate (in provinces where applicable), if the business may eventually be transferred at death.

Despite the benefits, there may be good reasons to avoid an estate freeze. If a business is not ready to identify its successors, there may be risks associated with this arrangement. As well, if a business' growth potential is significant, locking in a sale price today may not be the best strategy.

As always, please consult with legal and tax specialists for support as you consider your business' succession plan.

## The Ongoing Importance of Diversification

Uncertainty has always played a common role in the financial markets, but due to Covid-19 the path forward may feel particularly uncertain. In these times, diversification remains an important element of portfolio construction. The chart (right) shows the performance of select asset classes/geographies over the past decade (in C\$). Here are some observations, which provide the case for diversification:

- › No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- › As we have seen with Covid-19, industries, sectors and even entire asset classes can fall out of favour, and sometimes with little warning. Diversification can help to protect from the downturns that may affect asset classes at different times.
- › There is often a large gap in performance between the best and worst performing asset class. Diversification helps to smooth out performance returns within a portfolio.
- › Markets change, and so does your portfolio. This is why rebalancing on a periodic basis is important, to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes, Best to Worst: 2010 to 2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canadian Equities 17.61%	U.S. Bonds 10.59%	EM Equities 15.61%	U.S. Equities 41.27%	U.S. Equities 23.93%	U.S. Equities 21.59%	Canadian Equities 21.08%	EM Equities 28.26%	U.S. Bonds 8.92%	U.S. Equities 24.84%
EM Equities 12.67%	Canadian Bonds 9.67%	Int'l Equities 14.72%	Int'l Equities 31.02%	U.S. Bonds 15.39%	U.S. Bonds 20.46%	U.S. Equities 8.09%	Int'l Equities 16.82%	Global Bonds 7.70%	Canadian Equities 22.88%
U.S. Equities 9.06%	Global Bonds 8.26%	U.S. Equities 13.43%	Canadian Equities 12.99%	Canadian Equities 10.55%	Int'l Equities 18.95%	EM Equities 7.34%	U.S. Equities 13.83%	U.S. Equities 4.23%	Int'l Equities 15.85%
Canadian Bonds 6.74%	U.S. Equities 4.64%	Canadian Equities 7.19%	U.S. Bonds 4.60%	Global Bonds 9.65%	Global Bonds 16.15%	Canadian Bonds 1.66%	Canadian Equities 9.10%	Canadian Bonds 1.41%	EM Equities 12.43%
Int'l Equities 2.13%	Canadian Equities -8.71%	Canadian Bonds 3.60%	Global Bonds 3.94%	Canadian Bonds 8.79%	Canadian Bonds 3.52%	U.S. Bonds -0.80%	Canadian Bonds 2.52%	Int'l Equities -6.03%	U.S. Bonds 3.37%
U.S. Bonds 1.24%	Int'l Equities -9.97%	Global Bonds 2.01%	EM Equities 3.93%	EM Equities 6.63%	EM Equities 2.04%	Global Bonds -1.45%	Global Bonds 0.34%	EM Equities -6.87%	Canadian Bonds 2.81%
Global Bonds 0.04%	EM Equities -16.40%	U.S. Bonds 2.01%	Canadian Bonds -1.19%	Int'l Equities 3.67%	Canadian Equities -8.32%	Int'l Equities -2.00%	U.S. Bonds -3.18%	Canadian Equities -8.89%	Global Bonds 1.44%

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GRI; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMX Canada Universe Bond Index; US Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; US Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.

## What we did this Summer



Samantha – Riding and checking cattle near the Ram River Falls



Shay – Teaching an old dog new tricks



Iain – Sunsets at the cabin



Kit – Restoring a family heirloom



Dianne – Exploring Milk River with great company

## Fall's recipe

The fall season calls for comfort food – we tried this delicious recipe and it has the power to warm hearts. Try this wonder for yourself!

**Oma's Rhubarb Cake** – Oma always makes this for her grand kids after she picks through her garden. Probably not good for the thighs but Oma's cooking is always good for the taste buds.



**Prep:** 30 mins  
**Cook:** 45 mins  
**Total:** 1 hr 15 mins  
**Servings:** 12  
**Yield:** 1 - 9x13 inch cake

### Ingredients

1¼ cups white sugar  
1 teaspoon baking soda  
½ teaspoon salt  
2 cups all-purpose flour  
2 large eggs, beaten  
1 cup sour cream  
3 cups diced rhubarb  
1 cup white sugar  
¼ cup butter, softened  
¼ cup all-purpose flour  
ground cinnamon, for dusting

### Directions

#### Step 1

Preheat the oven to 350 degrees F (175 degrees C). Grease and flour a 9x13 inch baking dish.

#### Step 2

In a large bowl, stir together 1 1/4 cups sugar, baking soda, salt and 2 cups flour. Stir in the eggs and sour cream until smooth, then fold in the rhubarb. Pour into the prepared dish and spread evenly. In a smaller bowl, stir together the remaining 1 cup sugar and butter until smooth. Stir in 1/4 cup flour until the mixture is crumbly. Sprinkle the mixture on top of the cake then dust lightly with cinnamon.

#### Step 3

Bake in the preheated oven until a toothpick inserted in the center comes out clean, about 45 minutes.

### Nutrition Facts

#### Per Serving

323.9 calories; protein 4.4g 9% DV; carbohydrates 57.7g 19% DV; fat 9g 14% DV; cholesterol 49.6mg 17% DV; sodium 252.5mg 10% DV.

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