June 2023

McMillan Goode Beer Newsletter

QUICK TAKES

- Canada rolls out the new First Home Savings Account (FHSA)
- See who is eligible to take advantage of the new FHSA's benefits, what happens if you don't use the money to buy a house, and more
- Learn about one strategy investors use to make asset allocation decisions
- National Bank offers Philantra to help you make the most out of charitable giving

INTRODUCING THE NEW FIRST HOME SAVINGS ACCOUNT (FHSA)

The Government of Canada has rolled out a new type of savings account for first-time home buyers. It combines some of the tax advantages of RRSPs and TFSAs, subject to a few key differences.

Important Facts

1. **Maximum Annual Contributions**

 The annual contribution limit is $8,000 with a lifetime limit of $40,000. You can carry forward your unused FHSA participation room at the end of the year, up to a maximum of $8,000 to use in the following year.

2. **Tax Advantages**

 Your FHSA contributions are tax-deductible and will allow you to reduce your taxable income in the year you contribute. Investment income is also tax-exempt. Qualifying withdrawals are not taxable and do not need to be repaid.

3. **Eligible Products**

 Through your Wealth Advisor, you can invest in a wide range of investment solutions. Generally the same as those eligible for TFSAs and RRSPs.

4. **Age Limit**

 You must be between the ages of 18 and 71 to contribute.

(continued on next page)

Buy your first home

Combine the FHSA & HBP

Save More

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Who is eligible to open an account?

Persons who are eligible to open a FHSA include any resident of Canada aged between 18 and 71 years who did not, at any prior time in the calendar year or in the preceding four calendar years, inhabit an eligible home in Canada or elsewhere, owned or co-owned by them or their spouse or common law partner.

What happens if you don't buy a home?

If you decide not to use the funds to buy a house, then you can transfer the money directly into an RRSP or a RRIF with no tax penalty. The FHSA can stay open for a maximum of 15 years.

How does it compare to the RRSP Home Buyers' Program?

There are three important differences. First, HBP withdrawals must be paid back into your RRSP; FHSA withdrawals do not. Second, the lifetime FHSA contribution limit is greater than the maximum HBP withdrawal limit ($40,000 vs $35,000). Finally, after you pay the HBP back into your RRSP, withdrawals are ultimately taxed as you draw income in retirement. Qualifying FHSA withdrawals are tax free.

EDUCATION CORNER

How do investors make decisions about investment allocation? Here is one strategy they use:

Sector rotation is the movement of money invested in stocks from one industry to another as investors anticipate the next stage of the **economic cycle**. Economic cycles can be briefly broken down into four phases.

1. Early Recession. The economy looks bad, consumer expectations are at their worst, production is falling, and interest rates are high. The yield curve is flat or inverted and stock prices generally contract.

Sectors that perform well here include services and utilities. Near the end of this stage, cyclical and transportation stocks begin to turn around.

2. Full Recession. Businesses and job seekers are having a hard time, GDP is falling quarter over quarter, interest rates begin to fall, and consumer expectations have hit a bottom. The yield curve usually re-normalizes and the overall market makes a bottom.

In this phase, cyclical and transportation stocks continue to push higher. Technology begins to rally back, and by the end of the phase industrial focused stocks usually begin to perform well.

3. Early Recovery. Consumer expectations begin to rise, production grows, interest rates have bottomed, and the yield curve gets steeper. Things generally look good and stocks are in a bull market.

Now we usually begin to see base material companies moving up, and nearing the end of the stage energy tends to rally. Industrials continue to perform well in the beginning before tailing off towards the end.

4. Late Recovery. Interest rates rise to slow inflation, the yield curve gets flatter, consumer expectations peak, and production is flat.

As the economy nears a peak, energy continues to outperform and consumer staples make it into investors' crosshairs. To come full circle, service companies' stock prices begin to appreciate into the early recession phase.

CHARITABLE GIVING WITH NBF

National Bank has created the Philantra Foundation, a public foundation whose purpose is to encourage the development of philanthropy through the creation of charitable funds that will allow you to provide long-term support for causes or organizations that are important to you.

While a private foundation is generally established by a single donor with a substantial donation, a public foundation brings together several donors. With Philantra, you can create your own personalized charitable fund within this public foundation without having to worry about the costs, delays and administrative complexity associated with creating and managing a private foundation.

Philantra can be useful for you if you make regular donations, would like to consolidate multiple regular donations into one fund, or are interested in the immediate tax benefits of a donation.

Reach out to your Wealth Advisor for more details.

CLOSING REMARKS

Thank you for reading our June newsletter! We hope you have been enjoying the sunny local weather. If you would like to review your investment objectives, or discuss new goals or significant life changes with your Wealth Advisor, schedule a meeting online by clicking the red button, or reach out to your advisor directly.

SCHEDULE A MEETING

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