Investment Insights

Winter 2022

The Indomitable Human Spirit

While "one never knows quite what the future holds," anthropologist Dr. Jane Goodall recently suggested that there is still much hope given "the amazing human intellect, the resilience of nature...and the indomitable human spirit."[1]

Best known for her studies on animal behaviour with chimpanzees, the now 87-year old appeared on the cover of this past fall's *Time Magazine* upon the release of her new book, *The Book of Hope: A Survival Guide for Trying Times*. Her reflections of hope are likely appropriately timed, as the world seeks to move forward from the challenges of the ongoing pandemic.

It is, perhaps, a message that we can bring to our own investing perspectives as we look to the year ahead. Some observers have pointed to the current outlook for financial markets as being uncertain: highly indebted governments globally, 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. Just eight months prior, when futures prices fell to negative for the first time in history,[2] one energy analyst dejectedly proclaimed: "I'm really not optimistic about the prospects for oil companies or prices."[3]

We also should never underestimate the tenacity 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 earnings strength, some with record levels of profitability.

As a testament to the indomitable human spirit, market strategist Ed Yardeni recently published a series of data that shows how the world has generated unimaginable wealth since the 1940s.[4] Of particular interest is the tremendous growth in corporate profits — an upward trajectory over time, despite many short-term setbacks. After the global financial crisis of 2008-09 when the U.S. financial industry suffered significant losses, there was a notable deviation; yet, this quickly reverted. It is a good reminder of the human condition to continuously advance, progress and grow.

The *Time Magazine* article reminds us: "Hope isn't a denial of reality...it's more of a choice."[1] As we move into 2022, let's expect the best. At the same time, maintain confidence knowing that we have a plan in place to guide us through the times to come. Here's to a prosperous 2022 and beyond!

1. time.com/6102640/jane-goodall-environment-hope/; 2. Based on WTI oil spot price. At time of writing, 11/25/21 = $78.31; 1/4/21 = $48.52. At its high, 10/26/21 = $84.65. May 2020 WTI oil futures, at 4/20/20; 3. bbc.com/news/business-52350082; 4. yardeni.com/pub/sp500marginnipa.pdf

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As we look to the year ahead, this may be the first time that we can visualize a world in which the worst of the pandemic is behind us. For more than 20 months, we've had to endure adversity in our own ways; it has forced many to confront uncomfortable and tragic situations. However, our hope is that we will be able to move forward, perhaps a little bit more resilient.

We would like to take this opportunity to send our appreciation for your confidence in our services as we adjusted and adapted over the past year (and more!). We are looking forward to meeting in person once again. Wishing you an abundance of health, happiness, hope and prosperity for the coming year.

Elias Bonnie

In This Issue

Don't Need Excess Funds? RRIF Minimum Withdrawal Planning

As you think about retirement, maximizing your retirement income is an important part of this exciting transition. Ultimately, it's your after-tax income that counts: paying the least amount of tax on your income can help you keep more of your hard-earned dollars.

Carefully consider and plan for all sources of income, including pension income, non-registered assets, and Tax-Free Savings Accounts (TFSA). If you have sufficient funds through pension income and non-registered assets to meet your retirement expenses, it may make sense to only withdraw the mandatory minimum amount from your Registered Retirement Income Fund (RRIF) or locked-in plans, such as a Locked-in Fund (LIF), Locked-in Retirement Income Fund (LRIF) or Prescribed Retirement Income Fund (PRIF), each year. This allows for continued tax-deferred growth within the plan. Here are some additional strategies to help keep funds invested for longer:

Base the withdrawal rate on a younger spouse's age — If you have a younger spouse, consider basing your withdrawal rate on their age to lower the amount of the required annual withdrawal. This will help to keep more assets within the plan to potentially grow on a tax-deferred basis.[1]

Make the first withdrawal at the end of the year in which you turn 72 — You are required to convert your Registered Retirement Savings Plan (RRSP) or Locked-in Retirement Account (LIRA) into a RRIF/LIF/LRIF/PRIF by the end of the year in which you turn age 71, but don't need to make the first withdrawal until the end of the year in which you turn age 72.

Time annual withdrawals at the end of each year — Timing your withdrawals can make a difference over time. If you take your withdrawal at the end of each year, instead of the beginning, you allow for greater time and potential compounding of funds within the plan. For example, consider a 71-year-old with a marginal tax bracket of 40 percent and an RRIF worth $500,000 that has an annual rate of return of five percent. If this individual withdraws the minimum from the RRIF at the end of the year in which they turn 72, the after-tax income from age 72 to age 90 will be higher than if payments were made at the start of the year. As well, by the age of 90, $315,970 would be remaining in the RRIF, as opposed to $293,177, if payments were made at the start of every year.[2]

Plan Ahead

While these strategies involve minimum withdrawals from your RRIF, consider that, in some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. Every situation is different. As such, please get in touch if you require support as you think ahead.

1. Provincial locked-in plan legislation for LIF/LRIF/PRIF allows for the use of a younger spouse's age, with the exception of New Brunswick; 2. Based on current prescribed RRIF withdrawal factors.

Reminder: Registered Retirement Savings Plan Season is Here Again!

RRSP Contribution Deadline for the 2021 Tax Year: March 1, 2022.

RRSP Contribution Limit: 18 percent of the previous year's earned income, to a maximum of $27,830 for the 2021 tax year.

Please call the office for assistance with any RRSP matters.

Investing at Market Highs? Time is the Great Equalizer

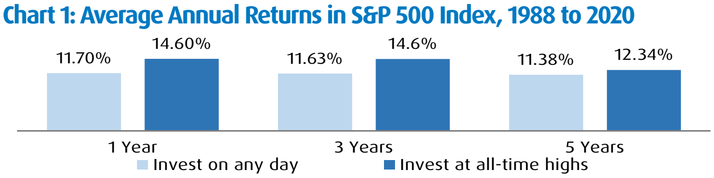
When is the best time to put new money to work in the markets? After an extended period of gains, some investors may feel hesitant. Here are some perspectives.

A recent *Forbes* article attempted to debunk the belief that investing at market highs is likely to lead to lower returns. Using historical S&P 500 Index data, it suggests that the returns for investing at all-time highs have been close to the average (chart 1). Of course, we should never discount the opportunity to invest at lower prices: lower valuations, higher dividend yields and better price points can help to enhance overall wealth. This is why many investors embrace market corrections when they occur.

Yet, over the short term, there's often no way of predicting what lies ahead in terms of market direction. For investors concerned about buying at highs and then seeing a decline, it's worth repeating that history tends to favour long-term investors. The likelihood of negative returns reduces significantly as a holding period increases (chart 2). Time is the great equalizer!

Systematic investing programs can also help to take emotion out of the investing decision. After all, being invested can be one of the best ways to generate wealth over the longer term.

Chart 1: Average Annual Returns in S&P 500 Index, 1988 to 2020



Source: S&P 500 TR Index, based on www.forbes.com/sites/kristinmckenna/2021/03/05/should-i-invest-when-the-market-is-high-dispelling-the-buy-low-sell-high-myth/

Chart 2: % of Positive Returns, Diversified Portfolio 1980 to 2020

Source: Based on 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index, 40% FTSE Canada Universe Bond Index. Rolling periods from Dec. 1979 to Dec. 2020.

For the New Year: Investing Rules to Live By

As we begin another year, consider these investing rules that can help to make better investors.

Keep time on your side. When you combine a longer time horizon with the power of compounding investments, the odds of investing success fall in your favour. Even average returns, compounded over a long time period, can lead to superior overall results. For instance, a one-time, lump-sum investment of $55,000 would yield around $209,000 in 25 years at a compounded annual rate of return of 5.5 percent. However, in 55 years, it would yield over $1 million. Time can be one of your greatest assets.

Remember that markets are inherently volatile. While volatility appeared to be tempered for much of 2021, don't forget that it is a permanent fixture in equity markets. Volatility is what allows equities to be one of the greatest generators of returns of any asset class over the longer term. As markets are cyclical by nature, over time there will be incredible up years, such as the one recently experienced, but also difficult down years.

Maintain discipline, through good times and bad. Maintaining discipline often means having the patience to stay invested through the inevitable ups and downs. It's all about time in the markets, not timing the markets. Missing out on just a handful of the best days in the markets can significantly erode an investor's longer-term performance.

Pay less attention to the noise. It's never been easier to access information, through the internet, on social media and via smartphones. In good times, everyone can sound like an expert and we may fear missing out. In difficult times, the media can magnify economic misery and instill fear. At the end of the day, thoughtful analysis should drive decision-making, not any peripheral noise.

Don't abandon risk controls. During buoyant market times, it can be easy to get caught up in the excitement and forget that various guidelines have been established to control risk within a portfolio, including strategic diversification, rebalancing to a certain asset mix, limiting the size of any holding and maintaining quality criteria for holdings. These help to guard against being caught in the prevailing momentum by identifying potential risks that may not be overly apparent.

Consider saving more. Saving is one of the few aspects of investing that we *can* control, unlike many others such as stock market performance, interest rates or the timing of recessions. It is also one of the cornerstones of building wealth. You can build wealth without a high income, but you have no chance without a high savings rate.

Rely on our support. As advisors, we are here to provide support at every stage of the investment journey to help you achieve your goals. This may include helping to instill discipline, through saving or investing, or supporting your total wealth management, through retirement-planning, tax-planning or estate-planning support. Studies continue to show that advised clients have greater assets — more than 3.9 times the assets than non-advised investors after 15 years — and greater discipline through volatile times.[1]

1. IFIC, www.cirano.qc.ca/files/publications/2016s-35.pdf

You Asked: Does My 19-Year Old Grandchild Need a Will?

As advisors, we are sometimes asked to support family meetings about finances. In a recent discussion, a question was asked about the need for an adult child to create a Will.

As a reminder, generally there are various triggering events which signal that it may be time to organize or revisit a Will and estate plan:

- **Marriage or divorce** — Significant changes to personal relationships may change the beneficiaries named in a Will. Second marriages may also present unique estate planning challenges.
- **Having children** — The Will can help to ensure children are properly provided for in case something were to happen to you. For children under the age of majority, this includes appointing a guardian.
- **Starting a business** — In some provinces, a secondary or corporate Will may be an important estate planning tool.
- **Buying a home or large asset** — Planning can help these assets to be distributed as intended; tax planning opportunities may be available.

Many (grand)parents may not see the need for a Will for a child who has turned the age of majority, since most young adults haven't amassed much wealth. Yet, consider that some younger folk may have accumulated significant assets, such as intellectual property, digital assets or digital currencies. However, it isn't just about the money — there are various reasons why having a simple Will in place may be beneficial. It makes key appointments, such as who will be the executor, and can provide direct instructions about the care of important valuables such as pets.

It also helps to avoid the administrative burden that can result if no Will is in place. Without a Will, you are considered to have died "intestate," and assets will be distributed according to the rules of your province of residence, which may not be what was intended. As well, there will likely be costs to the estate, and potential delays in settling the estate. As such, even those who lack substantial assets may benefit from the use of a Will kit or online site to create a Will in a cost-effective way.

If you have (grand)children who have turned the age of majority, consider the value of discussing estate planning at your next family meeting. At a minimum, talking about its importance can help to instill good habits from a young age. Let's not forget that around half of Canadian adults still don't have a valid Will and it isn't uncommon to procrastinate, even to an old age, in setting up proper estate planning documentation.

Outlook 2022: Let the Bulls Continue to Run

Given strong market performance in 2021, some are asking if further upside can be had as we look ahead to 2022. Here are some reasons for optimism for the equity markets.

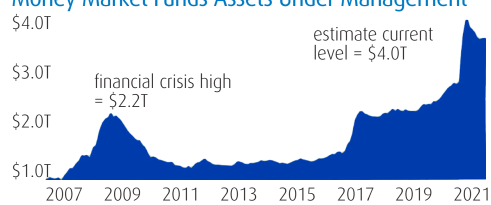
While it's never possible to predict the near-term direction of the markets, there may be reasons to support a continued upward climb:

Still room for growth! Let's not forget that in 2021, Canada's economy struggled through recovery mode and remained shut down much longer than the U.S. Growth has recently been hindered by factors including supply chain bottlenecks, labour supply issues and ongoing pressures from new variants. These are expected to normalize — there is still room for growth as full economic recovery takes course!

An accommodative Federal Reserve. Central banks have been highly accommodative and expressed patience with their policies. While increasing rates are on the horizon, we suggest that rates are not likely to rapidly rise. Monetary policy is likely to play an ongoing role as nations grapple with higher debt-to-GDP ratios due to stimulus — they still need to service this debt and as rates rise the cost of carrying debt becomes larger. As markets are forward looking, expectations for rate increases in 2022 have been largely priced in. Remember also that the timing is still uncertain: when the Fed started to taper in 2013 after the financial crisis, investors expected the first rate increase about a full year before it actually happened.[1]

Significant cash on the sidelines. Many companies built substantial cash reserves for insurance throughout the pandemic; the largest non-financial companies have a record $7 trillion of cash on their balance sheets.[2] Given continued strength in earnings, these companies may look to unwind their reserves to fund activities that will drive growth. Similarly, households are sitting on record amounts of cash, giving confidence that consumer spending will be unleashed as supply constraints are resolved.[3] The amount of assets in money market funds remains at highs, suggesting potential for this to be injected into higher-return equity markets.

Significant Cash On the Sidelines
Money Market Funds Assets Under Management



Sources: Office of Financial Research, Morningstar Direct, 01/01/2007 to 03/31/2021.

Inflation: deflate your concerns. While many pandemic-related headwinds have pushed inflation higher, they are expected to moderate in 2022. Yet, even if more persistent inflation is here to stay longer, there is no clear risk to equity markets. History shows that there isn't a distinct pattern between high inflation and equity market returns. As one market analyst recently suggested: "deflate your inflation concerns!"[4]

Stock Market Returns During High Inflation Years

Inflation	S&P 500 Returns	Year	Inflation	S&P 500 Returns	Year
14.4%	5.2%	1947	8.5%	-8.4%	1946
13.6%	31.7%	1980	7.9%	23.7%	1951
11.3%	18.5%	1979	7.7%	5.7%	1948
11.1%	-25.9%	1974	7.6%	6.5%	1978
10.9%	19.2%	1942	6.5%	-7.0%	1977
10.3%	-4.7%	1981	6.2%	-14.3%	1973
9.1%	37.0%	1975	6.1%	20.4%	1982

Source: awealthofcommonsense.com/2021/10/inflation-vs-stock-market-returns/

There are challenges ahead, but the eventual outcomes on the markets are often difficult to predict. Don't let them stop you from staying the course. Look forward with confidence!

1. www.wsj.com/articles/narrowing-yield-gap-in-treasurys-signals-worries-over-fed-growth-11635586201; 2. www.cnn.com/2021/08/17/investing/cash-companies-balance-sheet/index.html; 3. www.wsj.com/amp/articles/americas-cash-might-stay-on-the-sidelines-11632423163; 4. www.wsj.com/articles/deflating-your-inflation-investing-fears-11635519805

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