

Investment Insights

The Power of Perspective

Winter 2023

Why are we more likely to choose a bowl of pasta over a healthy salad when we're hungry? Neuroeconomics suggests that we often make different choices when overtaken by emotional impulses, and this can impact our investment decisions.

Much of economic theory has been based on the notion that individuals act in rational ways. After "Black Monday" (1987), when the markets fell more than 20 percent with no apparent economic driver, the field of behavioural economics — the study of how human emotion affects economic decision making — gained traction. As it turns out, we are not biologically wired to make the best decisions because the part of our brain that tells us to act rationally can easily be overtaken by emotional impulses. We tend to be in one of two emotional states, hot or cold, and less rational decisions are often made in the hot state. So, when we're not hungry (cold), we may opt for a healthy salad, but when hungry (hot), we're likely to choose the pasta instead.

Likewise, our brains react similarly in investing. When we are threatened by the possibility of losses, fear can take over often impairing a balanced perspective and our ability to think positively about the future. This was prevalent in 2022, when 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. How about you? Do you allow emotions to impact the way you invest?

As we enter 2023, many of the challenges faced in 2022 remain, including persistent inflation, higher interest rates and continuing central bank tightening policies in their pursuit to slow economies and rein in inflation. While this has prompted new worries over what a slowdown might look like, let's not forget that uncertainties will always be with us. Our challenge as investors is to keep perspective.

While economies need to slow for inflation to moderate, we may be well positioned to endure these times. Our financial systems continue to be healthy; most companies and individuals are not heavily indebted, a previous driver of more serious downturns. Labour markets have been strong, though this has complicated central bank efforts to slow inflation. And, after a difficult year, consider also that the markets can discount the direction of the economy well ahead of time. Most important, corporate profits and economies continue to grow over the long term, and this isn't likely to change.

In the short term, there will always be down months, quarters or even years in the financial markets. During these times, keeping perspective and not being swayed by emotion is important. Behavioural economists suggest that some of the best investors have mastered the art of treating their feelings as reverse indicators: Excitement is a cue to consider selling; fear indicates it might be time to buy. Others choose to focus less on the financial news or checking portfolios, leaving day-to-day investing to those of us who are here to manage it. Remember, we are here to provide support to keep you on course.

In this season of resolutions, why not resolve to be aware of the effects that emotions can have on our investing ways? Use the power of perspective to your benefit.

In This Issue

Avoid These Five RRSP Pitfalls ... 2

In Brief: Upcoming Changes for Investors ... 2

Preserving Wealth Across Generations ... 3

Five Estate Executor Mistakes ... 4



Doug Jones Bill Szego Richard Lawrence Terri Szego

To Our Clients:

After a difficult year for the financial markets, we look forward to a better 2023. The year that has passed reminds us that building wealth doesn't always follow a steady course. While it's never easy to endure down-market periods, as we show on page 3, they are a normal part of investing. It has also been a return to more reasonable fair market valuations, which should be seen as healthy.

As we begin another year, don't overlook the importance of continuing to position assets to benefit the future. A new year brings opportunities to contribute to tax-advantaged accounts like the TFSA and RRSP, and this may be an opportune time.

We would like to express our gratitude for entrusting us with your financial matters. May the year ahead be filled with health and happiness.

Bill, Doug, Terri and Richard

Avoid These Five RRSP Pitfalls

Registered Retirement Savings Plan (RRSP) season is just around the corner. Given equity market performance in 2022, it may be an opportune time to contribute to your RRSP.

Beyond the importance of growing funds for retirement, avoiding certain practices can help to save tax or create a bigger nest egg for the future.

1. 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.

2. 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 is not deductible. Instead, consider selling them on the open market and contributing 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).

3. 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 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.



4. Neglecting to update

beneficiary designations — It may be beneficial to review account beneficiaries (in provinces where applicable) 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.

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

In Brief: Upcoming Changes for Investors

Change is imminent! Here are a few upcoming changes to be aware of for the year ahead:

2023 TFSA dollar limit: \$6,500. As a result of increasing inflation, the 2023 Tax-Free Savings Account (TFSA) dollar limit will rise to \$6,500, bringing the eligible lifetime amount to \$88,000. The annual dollar limit hasn't increased since 2019, so don't overlook the opportunity for tax-free growth.

Adjustments for inflation. If there is any good news that can come with high inflation rates, it may be the adjustment that will increase many government income tax and benefit amounts. This is the largest increase in many years due to higher inflation rates. Many adjustments will take effect on January 1, such as the TFSA dollar limit (see above). However, others, such as income-tested benefits like the GST/HST tax credit or the child disability benefit, will take effect on July 1, as this coincides with the beginning of the program year for these benefits.

Indexation Increase Per Year, 2019 to Current

2019	2020	2021	2022	2023
2.2%	1.9%	1.0%	2.4%	6.3%

It will also increase our tax brackets. If the thresholds are not indexed to

inflation, an increase in income would mean higher taxes paid and a loss of purchasing power. This was evident when Alberta de-indexed its tax brackets in 2019, effectively forcing Albertans to pay \$646 million more in taxes from 2020 to 2022.¹ Alberta will resume indexing for the 2022 tax year.



For more information on the indexation adjustment, please see: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html>

Trusts: Delay in reporting requirements. If you hold a trust, it was expected that new reporting requirements would be put in place this year, requiring most trusts to file a tax return. In the federal government's 2022 Fall Economic Update, the effective date was pushed back to taxation years that end after December 30, 2023. As such, reporting will not be required for the 2022 year. This is the second time that the date has been changed since the proposal was introduced.

1. <https://www.cbc.ca/news/canada/calgary/alberta-taxes-indexation-inflation-1.6510978>

Preserving the Longevity of Wealth Across Generations

While intergenerational wealth planning may not be for everyone, consider that creating a lasting legacy can be one of the greatest gifts you leave behind.

Many of us have heard the statistic: Family wealth is often lost within three generations (the “shirtsleeves curse”). Studies suggest that it takes the average recipient of an inheritance just 19 days before they buy a new car.¹ What are high-net-worth families doing to help prevent this loss? There has been an increasing focus on intergenerational wealth planning, with the objective of supporting wealth longevity. This involves getting existing generations to meet about their finances, to align them with your financial goals and values so that they can be passed along to the generations to come. Here are some steps that you can take as part of this planning process:

Start with a plan and document it. Start by thinking about your vision for your wealth for the generations to come. The plan should set out goals and provisions for how you wish the funds to be used, accessed and replenished. For instance, you may wish for family members to invest in themselves to gain the experience needed to create and grow wealth, using funds for higher education or a business’ start-up or expansion. Others may wish to leave endowments to a charity. Once you determine your goals and provisions, it is important to formally record them as this document will be passed along to future generations.

Communicate your plan. Once the plan has been documented, it should be communicated to family members. Often, parents keep their finances and related values to themselves, missing the opportunity to pass along their ideals to children. While specific financial details need not be disclosed, sharing your vision is intended to be a catalyst for meaningful discussions. Some families use this plan to form a family constitution that can help future generations carry forward your intentions.

Engage in regular meetings.

Regular family meetings are intended to help cultivate family values based on your vision for your wealth. If wealth has been carefully built up through the generations, it may involve exploring family history. Or, meetings may be used to educate children about finances or managing money, or introduce high-level strategies to carry out the intergenerational plan, such as teaching about a family business or giving strategy. These meetings may also identify gaps where planning may be needed to ensure your vision can be carried forward.



Consider protection tools. You may determine through family meetings that beneficiaries need support. Certain tools can support beneficiaries in meeting your goals, or protect future wealth in situations in which beneficiaries may not be capable. For example, a trust can put assets under the control of a responsible trustee, with the terms of the trust specifying the conditions, timing and amount of distributions to be made to heirs. Other tools, such as life insurance, can protect and grow assets while also providing access to cash. Having a support system of trusted professionals may help to ensure a successful generational wealth transfer, especially when heirs may not have the skill set to independently manage funds.

Monitor the plan’s success. By having ongoing meetings with family members, you will be able to identify and address any concerns as they arise. You can also continue to define and refine family roles to ensure that your plan has a greater chance of being successfully fulfilled.

If you need help exploring this, or other estate planning options, please call.

1. <https://financialpost.com/personal-finance/retirement/inheritance/how-to-help-prevent-your-heirs-from-blowing-through-the-family-fortune>

Markets Go Up & Down: There’s Nothing “Average” About Returns

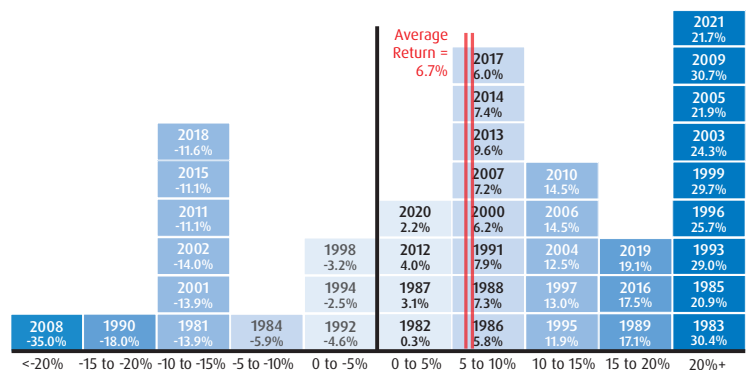
“In the short run, the market is a voting machine. But in the long run, it is a weighing machine.” — Benjamin Graham¹

2022 was a difficult year for the markets: a reminder that the markets can go down just as they go up. Yet, this is a normal part of the investing cycle. As the chart (right) shows, in the short term, investors should expect a wide range of outcomes, including negative annual performance.

While we often talk about “average” returns for the market, it’s worth repeating that annual returns often do not fall close to this average. Consider the wide dispersion of annual returns of the S&P/TSX Composite Index since 1981. Annual returns were less than the long-term average return of 6.7 percent (red line) in 19 out of 41 years. And, 29 percent of the time, annual returns were negative.

Given the variability of returns from year to year, it’s worth remembering that time in the markets, not timing, plays an important part in investing.

S&P/TSX Composite Index Annual Returns Since 1981



Source: S&P/TSX Composite Index Annual Returns (not including dividends reinvested), 1981 to 2021.

1. This is to suggest that in the short term, market returns are much more a reflection of our human nature. However, over the longer term, they are correlated to fundamentals like corporate earnings and economic growth.

Estate Planning: Five Estate Executor Mistakes

If you have been appointed to administer an estate, being aware of these potential pitfalls may help as you contemplate the role. As you plan for your own estate, carefully choosing your potential executor is important to prevent these and other mistakes.

Administering an estate can be a time consuming and complex task, often challenged by what may be an emotionally difficult time. All too often, executors can make mistakes which have the potential to lead to increased tax liabilities, conflict with or between beneficiaries or, worse yet, escalation to potential litigation. Equally concerning, the executor risks personal liability for these mistakes. Here are five common errors:

1. Overlooking directives in the Will. Estate lawyers say that executors can sometimes ignore parts of the Will, such as forgiving loans that were to be collected, perhaps due to lack of knowledge or because it is easy or convenient. Others may choose to distribute assets differently than directed within the Will, under the belief that they have a more 'fair' idea for this distribution.¹ However, neither situation is within an executor's authority, exposing them to potential liability.

2. Failing to communicate. Sometimes executors become so involved in the process that they neglect to communicate. One of the executor's duties is to respond to reasonable enquiries from beneficiaries. Silence can often be misinterpreted as being secretive or suspicious, which can prompt estate disputes. Maintaining transparency and ongoing communication can go a long way in helping to prevent conflict.

3. Making distributions too early. If distributions are made too early, such as before taxes or other liabilities are paid, the executor may be held personally responsible. This can often happen when the executor succumbs to pressure from beneficiaries for distributions. However, any outstanding debts of the deceased must be paid before estate assets can be distributed to beneficiaries — and it is the job of the executor to identify these debts. Sometimes the executor overlooks the importance of determining whether there are unknown creditors, which often involves a time-consuming process of creating a public notice. Advertising for creditors can protect the executor should a creditor make a claim after the estate has been distributed.

4. Trying to keep costs low. Some executors may act too prudently in trying to limit estate expenses. However, this may lead to higher eventual costs. For example, if an executor decides to do the tax returns without the help of an accountant, they may miss eligible tax credits or deductions. In the past, advertising for creditors in the newspapers of multiple cities was very costly, so some executors avoided this process to save money, only to be caught by surprise when creditors eventually made claims.

5. Treating estate funds as their own. Given the assets often available within an estate, some executors may wrongly use estate funds for their own purposes, such as to make loans to themselves or family members. Others may make more honest mistakes, such as using funds to cover travel costs for family members to attend a funeral. If estate funds are used incorrectly, the executor may be held personally liable. As well, if the executor acts unreasonably or in their own self-interest, they may not be entitled to compensation from the estate.²

For more perspectives, or for an introduction to an estate planning specialist who can provide greater information, please call the office.

1. <http://estatelawcanada.blogspot.com/2010/07/top-five-mistakes-made-by-executors.html>; 2. <https://www.canlii.org/en/on/onca/doc/2016/2016onca521/2016onca521.html>



L to R: Glen Breglia, Hill Su, Ann McCarron, Mario Glavas, Bianca Creanga

Ann is an Associate Investment Advisor bringing over 25 years of experience in coordinating and communicating investment ideas to clients. Hill is an Investment Associate and holds a CPA, CA, CFA & CFP. He is an expert in wealth planning for high-net-worth clients. Glen, Mario and Bianca are responsible for the administrative aspects of your account. For general inquiries, please call them directly.

Ann McCarron: 416-359-7668
Hill Su: 416-359-7608
Glen Breglia: 416-359-7049
Mario Glavas: 416-359-4008
Bianca Creanga: 416-359-7069

William A. Szego, CIM
Senior Portfolio Manager,
Senior Investment Advisor
416-359-7666

Douglas M. Jones, CIM
Senior Portfolio Manager,
Senior Investment Advisor,
Senior Wealth Advisor
416-359-7667

Terri A. Szego, MBA, CFA
Senior Portfolio Manager,
Senior Investment Advisor,
Senior Wealth Advisor
416-359-7677

Richard Lawrence, CFA
Portfolio Manager,
Senior Investment Advisor
416-359-5377

BMO Nesbitt Burns Inc.
One First Canadian Place
P.O. Box 150, 40th Floor
Toronto, Ontario M5X 1H3
Toll Free: 1-800-227-9842
Fax: 416-359-7669
www.szegojoneszegolawrence.com



Szego Jones Szego Lawrence
Wealth Management
BMO Nesbitt Burns

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Nesbitt Burns Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. © Registered trademark of Bank of Montreal, used under license.

This publication is for informational purposes only and is not and should not be construed as professional advice to any individual. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. This newsletter was produced by J. Hirasawa & Associates, an independent third party for the individual Investment Advisor noted. The calculation of performance data set forth herein has been prepared by the author as of the date hereof and is subject to change without notice. The author makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions, which are accurate and complete. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Private Wealth. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. Please note that past performance is not necessarily an indicator of future performance. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth. BMO Nesbitt Burns Inc. is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information.