Investment **Insight**

For 2020: Look Forward, with Confidence

The beginning of a new year is a period rife with predictions. But remember to keep perspective during prediction season.

Perhaps one of the more striking reminders of the dangers of predictions occurred 40 years ago when Businessweek Magazine declared the "Death of Equities." It warned the "death of equities as a near-permanent condition." While inflation was rampant and markets did perform poorly during this period, as Bloomberg recently noted in embarrassment, "the total return on the S&P 500 stock index since its 1982 low, with dividends reinvested, has been nearly 7,000 percent. Not bad for a corpse."[1]

These dramatic predictions haven't subsided over time, likely because the media thrives on this type of excitement. In 2016, the Royal Bank of Scotland warned of a "cataclysmic" year, advising investors to "sell everything except high quality bonds."[2] Investors who did so would have missed out on a gain of 27.6 percent since that time.[3]

While we shouldn't ignore the work of analysts, economists or researchers, we should be careful about making longer-term decisions based on any worry created by the media. Nobody can predict the course of near-term markets, except to say that fluctuations in both directions should always be expected.

What is the outlook for 2020? 2019 was a year of ongoing geopolitical concerns, slowing economies, global trade tensions, and another hard run for the resources sector at home. And yet, equity markets in Canada and the U.S. held their own quite well. The year ahead brings similar uncertainty. However, should the U.S. and China make progress towards reaching a partial trade deal, it could help to temper some trade tension uncertainty and support growth. We are also in a U.S. presidential election year, historically a time in which U.S. equity markets have performed well.

Regardless, portfolios should be positioned for the longer term, with the expectation that markets will experience ups and downs. Many techniques are used to manage portfolio risk, including maintaining diversification, rebalancing to a certain asset mix and upholding quality criteria, among others. For each investor, these depend on factors such as investment objectives, needs, stage of life and risk tolerance. These considerations will help weather the inevitable storms.

During this prediction season, continue to look forward with confidence. May the turn of the year bring much health, happiness and prosperity to you and your loved ones.

1. bloomberg.com/news/articles/2019-08-13/it-s-been-40-years-since-our-cover-story-declared-the-death-of-equities; 2. theguardian.com/business/2016/jan/12/sell-everything-ahead-of-stock-market-crash-say-rbs-economists; 3. Based on FTSE 100 at 1/3/16 & 9/1/19.

Quinn+Cardy Wealth Management
BMO Nesbitt Burns

Jelena Milivojevic, Geoffrey Cardy, Meredith Roberts, Joe Quinn

To Our Clients:

Happy New Year and welcome to the new decade! We hope that your holiday season was full of happiness and relaxation.

The start of a new year brings RRSP season. At latest count, over one trillion of total unused RRSP contribution room remains outstanding across Canada. Does any of that belong to you? Don't forego the opportunity for tax-deferred compounded growth. Also, consider contributing to a TFSA for the opportunity of tax-advantaged growth.

As always, we look forward to assisting you in the year ahead with any investment needs.

In This Issue

RRSP Season Again: Consider the Benefits of a Spousal RRSP

Over the years, the federal government has eliminated many income-splitting opportunities available to investors. However, if you have a spouse/common-law partner, a spousal Registered Retirement Savings Plan (RRSP) may provide a valuable opportunity if your spouse is expected to be in a lower tax bracket in retirement.

A Tax Break Now...A Tax Break Later

A spousal RRSP is a plan to which you contribute and receive tax deductions based on your available contribution room, similar to a traditional RRSP. However, the difference with a spousal RRSP is that your spouse is the annuitant, so any funds withdrawn are considered your spouse's income and must be included in their income tax return. As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you.

Be aware that income attribution rules apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last RRSP contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands.

Contribute to Tax-Advantaged Accounts

Deadline for RRSP Contributions for the 2019 Tax Year: **Monday March 2, 2020**, limited to 18 percent of previous year's earned income, to a maximum of **$26,500.**

TFSA Annual Dollar Amount for 2020: $6,000, making the total eligible lifetime Tax-Free Savings Account limit **$69,500.**

More Flexibility Than Pension Income Splitting?

A spousal RRSP may provide an enhanced opportunity when compared to pension income splitting. Pension income splitting can only be done after reaching the age of 65 and is limited to 50 percent of eligible pension income. A spousal RRSP can begin before age 65 and the full amount of RRSP income may be included in the spouse's tax return. However, RRSP contributions can only be made until age 71. If you have a younger spouse, you can contribute to a spousal RRSP until the spouse reaches age 71.

For assistance with this, or other RRSP matters, please call.

Don't Overlook the Value of Dividends

In the excitement of the rising markets of a bull run, dividends can often take a back seat to capital gains in terms of investor focus. But don't overlook the value of quality, dividend-paying securities or funds in supporting our investing programs.

An article recently published in The Globe & Mail highlighted one of the benefits of the dividend tax credit: the opportunity to earn up to $52,000 in tax-free income from eligible Canadian dividends in certain provinces. With no other sources of income, the dividend tax credit and the basic personal amount have the potential to reduce the taxes on eligible dividends to zero (see chart below).[1]

Eligible Dividend Amount That Can Be Received Tax Free: 2019[2]

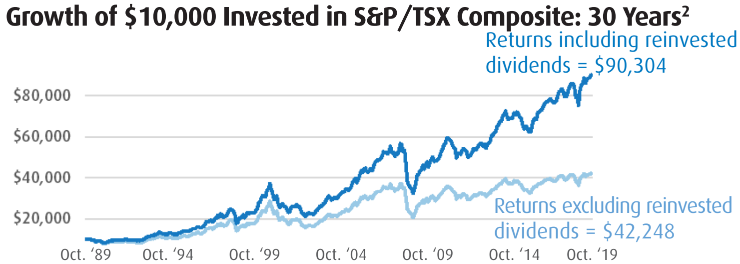
Province	Tax-Free Amount	Province	Tax-Free Amount
BC	$52,070	QC	$39,503
AB	$52,070	NB	$52,070
SK	$52,070	NS	$32,408
MB	$25,588	PE	$47,134
ON	$52,070	NL	$18,495

Note: Estimates assume no other sources of income, basic personal amount, dividend tax credits are applied.

While a neat idea in concept, most of us have employment or pension income that would get in the way. Also, assuming a 4 percent dividend rate, investors would require more than $1 million in non-registered, dividend-paying securities to generate $52,000 of eligible income.

But the article is a good reminder of one of the benefits of dividends. In an age when many of us feel as though we are being taxed to the bone, dividends can be a tax-efficient means of investing. Eligible dividends receive more favourable tax treatment in a non-registered account, compared to interest and regular income, since this type of income benefits from the federal dividend tax credit.

Growth of $10,000 Invested in S&P/TSX Composite: 30 Years[2]



It is also worthwhile to remember that dividends can play a significant role in generating longer-term returns for investors. Dividends have consistently and significantly contributed to total returns over time. This is evident when comparing the S&P/TSX Composite Index returns to total returns including reinvested dividends over the past 30 years (see graph above).

Dividend income can also help deliver consistent cash flow to investors, especially when finding income has become difficult in a low-interest rate environment. As such, this may play a critical role in generating income for many retirees. And many quality corporations continue to increase their dividends to investors over time.

As such, don't dismiss the power of quality, dividend-paying securities in supporting our investing programs.

1. "How to earn $52,000 tax free", Globe & Mail, 8/9/19; 2. As of August 9, 2019, Source: taxtips.ca/dtc/enhanceddtc/amt.htm; 3. S&P/TSX Composite 10/89 to 10/19.

Are You Practicing Good Digital Hygiene?

As technology advances, online crimes continue to improve in sophistication and our digital security is increasingly being challenged. If our choice of passwords is any indication, we may not be doing our best to stay secure. As an example, according to one report, 23.2 million people who had their online accounts hacked were still using the password "123456."[1]

Are there ways to improve our digital hygiene? Here are some basic tips. While these may be obvious, they can act as talking points for discussions with higher-risk individuals, like young adults or seniors.

Keep strong passwords — Strengthen your passwords. Avoid reusing the same userID/password across multiple sites. With the average person having over 90 online accounts,[2] this may be a challenge. Using a password manager can help to generate, store, encrypt and auto-fill passwords, and you'll just need to remember one password.

Patch devices — Ensure devices are patched or updated. Hackers can more easily access out-of-date software or operating systems.

Separate critical information — Consider isolating devices for different activities. For example, online gaming may be more susceptible to security breaches, so it may be wise to avoid storing confidential information on devices used for this activity.

Protect devices in public — Unsecure Wi-Fi hotspots, such as those offered at airports or in taxicabs, or public USB charging stations, are often targets for hackers. Consider using a Virtual Private Network for protection, which allows you to bypass location tracking and adds a layer of obfuscation to your traffic.

Avoid linking accounts — Some third-party websites allow you to link accounts, such as email or social media. However, linking multiple accounts can increase the potential damage that occurs if one account becomes compromised.

How Long Does It Take to Crack a Password?

Here is one estimate of how fast a hacker could crack different password configurations. (Note that processing speeds continue to increase!)

- **<0.01 seconds** — Common Passwords such as 123456, qwerty, iloveyou, password[1]
- **25 seconds** — 5-digit passwords[2]
- **11 hours** — 6-digit passwords[3]
- **46 days** — 8-digit password[3]
- **12 years** — 10-digit passwords[3]

Sources: 1. spycloud.com/how-long-would-it-take-to-crack-your-password/; 2. Consumer Protection BC; 3. nypost.com/2018/04/19/it-takes-next-to-no-time-to-crack-an-iphones-passcode/awareness/password-best-practices.

Don't share personal information — Remember that each time you click a website link or answer a seemingly innocuous survey, your data is being collected. Information broadcast on websites or social media may be accessible to unscrupulous individuals or hackers, even if privacy settings are enabled. Consider disguising personal data (i.e., posting an altered name/birthdate) to protect your identity.

Verify a source to prevent phishing — Criminals continue to improve the sophistication with which they masquerade as others. There may be subtle indications that a source is fake: an email/text doesn't address you directly ("dear customer") or contains spelling or grammatical errors. Remember that reputable institutions will never ask you to verify account information or sensitive personal data online. Take time to verify the source. When in doubt, call the organization directly using the phone number posted on their general website.

1. bbc.com/news/technology-47974583; 2. digitalguardian.com/blog/uncovering-password-habits-are-users-password-security-habits-improving-infographic

Resolutions for a New Year: Keep Time on Your Side

"You may delay, but time will not." - Benjamin Franklin

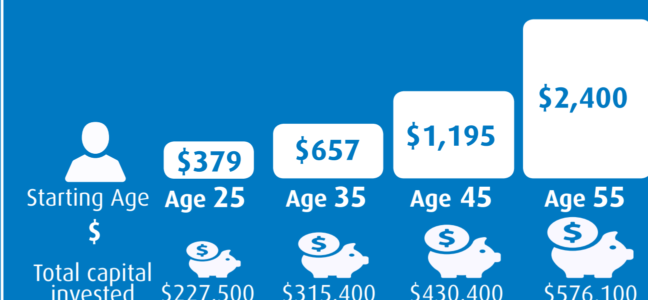
It has been said that procrastination is the thief of time. As we begin another year, don't let procrastination preclude you from using time wisely to generate wealth.

Perhaps there is an opportunity to put funds to work that are currently sitting on the sidelines. Or how about passing along some financial wisdom to younger generations, teaching them the value of time and compounded growth?

The chart to the right shows the impact that time can have on generating retirement savings. By starting early, an investor would need less capital in order to accumulate a $1 million nest egg by the age of 75 (based on the assumptions).

Remember that time can be one of an investor's greatest allies.

Estimated Monthly Amount Needed to Accumulate $1M by Age 75, 5% Compounded Annual Return



Note: Assumes 5% rate of return compounded annually, with taxes and expenses ignored. The estimate monthly amount equals the annual investment amount divided by 12. For illustrative purposes only.

How Often Do You Check Investments?

Technology continues to change the speed at which we process information. According to Netflix, it takes just 1.8 seconds for subscribers to consider each program title they encounter.[1] Studies show that online shoppers are more likely to make a purchase if they can retrieve product information more quickly. It was reported that for every 100 millisecond improvement in load time, Walmart experienced up to a one percent increase in online revenue.[2]

At the same time, we've conditioned ourselves to seek information more rapidly. In investing, we can quickly access our portfolios online to check performance. This often doesn't take much longer than selecting a show on Netflix.

However, frequent checking of investment performance may not provide the right feedback. The problem? The information we receive about short-term performance isn't usually indicative of what will happen over the longer term. Checking market performance more frequently increases the likelihood of seeing downward movements.

S&P/TSX Composite Returns: Oct. '84 to '19

Time Frame	Positive	Negative
Daily	54%	46%
Quarterly	64%	36%
One Year (Annually)	71%	29%
Every 5 Years	91%	9%
Every 10 Years	100%	0%

Source: S&P/TSX Composite Index Returns 10/01/84 to 10/29/19.

Two investors with the same investment performance could have different perspectives based on the frequency with which information is accessed. Checking the S&P/TSX Composite Index on a daily basis, instead of quarterly, would increase the odds of seeing a negative result by 10 percentage points (see chart). While some of us may have the mental fortitude to prevent negative performance from affecting our mood, the reality is that many of us do not.

When focusing on short-term performance, it is also easy to overlook the realities of longer-term investing:

1. Volatility is a normal part of equity markets. Since 1970, over 60 percent of annual S&P/TSX Composite Index total returns have been either greater than 20 percent or negative. Yet the market returned an average of around 6 percent annualized over this period. Simply put, there is a high likelihood of large movements in market returns, but this volatility smooths out over time.

2. Different investments, asset classes, or even investment accounts (based on asset location) may perform differently over time. A well-structured portfolio uses techniques such as asset allocation and diversification to help minimize risk by investing across areas that react differently to changes in the markets.

3. Markets and economies are cyclical by nature. Long-term investors will experience both up and down markets; a solid wealth plan builds in this expectation over time.

While it is easy to access investment performance details, checking performance less frequently may better align with the overall investment process. After all, the objective is likely not to liquidate your investments today or tomorrow, but instead to maximize your returns over the longer run.

1. forbes.com/sites/jiawertz/2017/03/17/how-to-compete-for-consumers-online-while-attention-spans-diminish/#1a4f97366679; 2. fastcompany.com/90309682/heres-what-happened-when-i-watched-everything-netflix-told-me-to-for-2-weeks

With the compliments of...

Joe Quinn
Vice President, Portfolio Manager
416-359-5812
joe.quinn@nbpcd.com

Geoffrey Cardy
Portfolio Manager
416-359-5599
geoffrey.cardy@nbpcd.com

Meredith Roberts
Associate Investment Advisor
416-359-4797
meredith.roberts@nbpcd.com

Jelena Milivojevic
Administrative Assistant
416-359-4456
jelena.milivojevic@nbpcd.com

BMO Nesbitt Burns Inc.
1 First Canadian Place
38th Floor, P.O. Box 150
Toronto, Ontario M5X 1H3
Toll Free: 1-800-263-2286
Fax: 416-359-5346
www.quinncardy.com

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BMO Nesbitt Burns

Quinn+Cardy Wealth Management