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WealthBUILDER

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Autumn signals the coming end to this unpredictable year. We will continue to monitor events and seek out the best information to guide our work on your behalf. Before the year end, let's check in on your progress and consider any financial opportunities that will expire before the new year.

Keep investing: these 3 tips help you stay committed to your plan

In this year of the pandemic, you may well be tempted to put your investing habits on hold. If you've lost income, that may be a prudent course of action. However, for many of us, fear of market volatility may be at play. But life goes on and our investment goals – like retirement – remain as relevant as ever. Here are three reasons to keep investing – even if in small amounts.

The power of compound growth. Small amounts today could have a big impact on reaching your goals in the long-term. That's because of the power of compound growth. Compounding is when your gains are re-invested, meaning you are now potentially earning on the re-invested amount as well as on your original investment.

Consider this example: If you saved $100 a month for 10 years and never invested it or earned any interest on it, you'd have $12,000 after 10 years. But if you invested $100 a month for 10 years and earned 5% each year on your investment, you would end up with about $15,693. The more time your money has to work for you, the more you'll benefit from the power of compound growth.

Dollar-cost averaging. If you are investing regularly, you can take advantage of dollar-cost averaging. This strategy involves investing a fixed amount at regular intervals, no matter how markets are performing. When markets dip and investment prices fall, the amount you regularly invest buys more shares or fund units. Over time, this can reduce your average cost and, in a rising market, increase your returns when you sell.

A regular investment plan. Putting large amounts of money – like a big Registered Retirement Savings Plan (RRSP) contribution, for example – into the markets may seem daunting just now. But, by investing smaller amounts more regularly, you may hardly notice the effect on your monthly budget. And, depending on how you invest these contributions, you may also be able to take advantage of the strategies above: compound growth and dollar-cost averaging.

With a regular investment plan, you can have a set amount, often as low as $50 a month, withdrawn from your bank account and invested right away. This "set it and forget it" approach can be a worry-free way to stay committed to meeting your long-term goals.

If you're not already investing regularly, let's talk about whether now is the right time to get started. If this year's market volatility has shaken your investing confidence, we're here to help. ◂

The shape of recoveries: V, W, U, L and what it could mean for your plans

It may be testament to the inherent optimism of the human species. Almost as soon as most major economies entered into recession earlier this year, we began speculating on what the recovery would look like and when it would take place. Perhaps because of the sudden shock of a global pandemic, with a steep drop in economic activity, the media was full of talk of a "V-shaped" recovery. Other pundits quickly joined the debate arguing for a W or a U or even the dreaded L. Confused? Here's what it 's all about and what it might mean for you.

The quick rebound of a V. As indicated by its shape, in a V-shaped recovery, the market experiences a sharp decline, but recovers strongly and relatively quickly, resuming its previous trend of either growth or consolidation. This is the most optimistic scenario coming out of a recession. In the first days of the pandemic, many economists were initially hopeful of such a recovery, especially if the virus outbreak was short-lived or treatments were found easily. While much of that optimism faded, as recently as July 20, the Chief Economist of the Bank of England argued that the U.K. economy was on track for such a recovery.[1]

For everyday consumers and investors, this is the best-case scenario, as things get "back to normal" relatively quickly. Because any disruptions are short lived, here is likely little damage to our long-term financial situation and investing plans.

The "double-dip" of the W. A W-shaped recovery is often called a "double-dip" recession. In this situation, the economy begins to recover rapidly but then experiences a second decline before returning to growth. Because of the unpredictability of the spread of a virus and the varied responses of individuals and governments, many U.S. experts say a W-shaped recovery is more likely.[2]

The "W" is a frustrating kind of recovery for consumers, not least because it may appear to be the more optimistic "V" at first. As the second dips bites, it may be difficult to have confidence in financial decisions as the direction of the economy seems unclear. Similarly, companies may be hesitant to rehire or make major investments until the recovery is firmly established.

Riding out the U. In the U-shaped recovery, the low point, or trough, lasts longer and the recovery is slower. The length of the trough is difficult to predict but by definition would last at least several quarters. In a poll of economists by Reuters in April, most predicted that the U.S. would experience a U-shaped recovery.[3]

A U-shaped recovery can be damaging for many households as it could entail a longer period of unemployment or lower business income. Savings and emergency funds can become depleted. Commitments to putting money aside for goals like further education or retirement might be put on pause. Once recovery takes hold, a review of investment plans may be in order to assess where you stand.

The unwanted L. The L-shaped recovery is the worst case scenario: a sharp decline in economic activity followed by no, or a very slow, recovery without a return to the previous growth trend. A well-known example would be the recession and slow recovery known as the "lost decade" caused by the property asset bubble burst in Japan in 1990.[4]

Such a significant disruption to the economy can lead to significant changes in our personal financial situations as well. It is the fear of such a disruption that led the governments of most major economies to intervene to prop up families, businesses, and the economy as a whole with income support and other programs.

What to do

When it comes to predicting the future, none of us has a crystal ball – even the professionals. In the meantime, reports suggest that many Canadians are acting prudently, lowering their consumer debt loads and revisiting their financial situation.[5,6] If you feel that a review of your investment plans is called for, we are here to help. ◀

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If you're close to retirement, this year calls for a review

During times of economic uncertainty and market volatility, investors with a long time horizon can take some solace in the fact that they have time to ride out current conditions. But what if you are looking to retire now, or in just a few years?

Test your assumptions

The good news is that any retirement plan has a number of variables that you can adjust to keep your strategy relevant under all kind of financial environments. Why not take some time this year to revisit those assumptions and make sure they still apply? But remember, focus on the retirement you want first, followed by the financial strategies that will get you there.

When do you want to retire? What is your target age for retiring? How firm is that? Is it related to tradition or company policy, such as age 65? If working just a little bit more, perhaps one year extra, could improve your financial situation in retirement, would you be willing to make the sacrifice? If you've decided that now is the time, then move on to other aspects of your plan to make it so.

Will you work in retirement? It may seem like a contradiction, but many Canadians want to work after they have formally retired. According to a survey in January of this year, 50% of Canadian pre-retirees say they plan to work in retirement. Why? Sixty-four per cent said it was to stay physically active and 43% said it was to generate income.[1] If your post-retirement work generates income, be sure to factor that into an updated plan. Be realistic: some retirement jobs are hobby businesses and won't make much of a difference to your retirement income projections.

Has your attitude towards risk changed? When investment markets experience a significant correction, as happened in March this year, we all get a "real world" test of our risk tolerance. How did it feel to experience this so close to your actual retirement? Do you recall the "expected rate of return" assumption in your retirement plans? If so, consider whether this still applies. Do you need to adjust it downward? Conversely, did you take the correction in stride? You may want to consider if a higher target return rate is appropriate, and what it could mean for other aspects of your plan, such as the target date or an upgrading of your retirement lifestyle goals.

How much income do you need? The traditional rule of thumb is to plan for 70% of your pre-retirement income after you retire. But this figure is too general to be of much use in your unique plan. Many retirees live on much less, but some require much more – especially if they have big plans in retirement such as extensive travel. Did living through the lockdown challenge some of your assumptions about your own lifestyle and the income you'll want to support it? If your income was decreased during lockdown, how did you feel about that? For some, a required adjustment to spending was easily adopted; for others less so.

Putting it all together

An effective retirement strategy is a bit like a puzzle that comes together to enable you to live the life you want. A change in one variable may affect the others. For instance, an increase in your targeted rate of investment return may allow a higher income which, in turn, may fund a more enjoyable lifestyle.

Only you can determine your desires and goals for retirement, but be sure to rely on professional advice to implement the investment strategies to make them happen. ◀

[1] Ipsos, RBC Retirement Myths and Realities Poll, published January 16, 2020. http://www.rbc.com/newsroom/news/2020/20200116-rrsp-poll.html

Before year end, check in with your financial self

The final months of the year contain some important deadlines for investors and taxpayers. Here are some things to consider:

Charitable donations. December 31 is the deadline for making a charitable donation that can be claimed for the 2020 tax year.

Tax deductions and credits. December 31 is also the final payment date in order to receive a 2020 tax deduction or credit for expenses such as childcare, medical and tuition tax credits.

Tax-loss selling. You have until late December to sell a security that settles in 2020. December 29 is the expected last buy or sell date for Canadian securities to settle in calendar year 2020, based on trade date plus two business days.

However, it is recommended to review your non-registered investment portfolio earlier to consider the sale of securities with accrued losses before the end of the year to offset capital gains realized in the year, or in the three previous taxation years, if the net capital loss was created in the current year.

RRSP Conversion. If you turned or are turning 71 this year, December 27 is the deadline for collapsing your Registered Retirement Savings Plan (RRSP). However, planning for this important financial change should be done well in advance of the December deadline. ◀

Bear in March, Bull in April: does it mean anything?

Much was made in the media on March 11 when the longest bull market in history (in Canadian and U.S. stocks) came to an end after 11 years. As the Covid-19 crisis took its toll on the global economy, stock markets around the world tumbled and most indexes entered "bear market" territory.

A bear market is declared when an asset or an index closes down at least 20% from its most recent 52-week highs.

That decline in the indexes was certainly newsworthy, and investors rightly continue to be concerned about the effects of the virus on the global economy and on asset prices. But, by the same definitions, the bear market was the shortest in history as major North American stock indexes entered a new bull market by mid-April after climbing more than 20%.[1]

For most investors, however, the numbers that really matter are those in your individual portfolio and the extent to which you remain on track to meet your financial goals. While the bulls and bears can provide a broad indication of the sentiments in the markets, they are just concepts. And as 2020 showed us they can be of limited value in telling us what is going on in the real world. ◀

[1] Nasdaq.com, *How To Trade The New Bull Market As The Economy Begins To Reopen*. April 24, 2020 https://www.nasdaq.com/articles/how-to-trade-the-new-bull-market-as-the-economy-begins-to-reopen-2020-04-24

November is National Make-a-Will Month: why not do it now!

November is the month when we draw attention to the importance of your will as a key part of your financial security plan. If you don't have a will – surveys suggest just half of us do – now is the time to get one. If you do, consider if it's time for an update.

Your will sets out how your assets are to be distributed after death, and names one or more executors (called estate trustees in Ontario; liquidators in Quebec) to wind up your affairs. If you die without a will, provincial law dictates the distribution of your wealth among your relatives without regard to need and with no provision for friends and relatives beyond your immediate family.

If you already have a will, think about when you created it and what may have changed since then. Is your executor still available and willing? Have there been births, deaths or other changes amongst your beneficiaries that need to be addressed? Has the amount or structure of your assets changed? Did you move from one province to another? Estate law is under provincial jurisdiction, so you should have a will that conforms to the laws of the province you currently reside in.

It's best to rely on professional legal advice to create or update your will to make sure that all "what-ifs" are covered and that your wishes conform to the laws of your province. ◀