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Ready for retirement? How to find out before you do it

When the time comes, will you be ready? The transition to retirement can be a real challenge for many of us. In fact, a 2019 poll by a major Canadian financial institution found that more than a quarter (27 percent) of retired Canadians regret retiring and an almost equal number (23 percent) have tried re-entering the labour market.¹

More than just money

Many of the financial aspects of retirement are well known. Preparing to handle the psychological and emotional aspects of retirement is something else we need to consider.

In the end, retirement is about much more than money; it's about making a major transition — from a life where work plays a major role to one for which you'll need to find different sources of contentment, self-worth, and social interaction. Some of us have developed interests, hobbies or goals that will provide much of the satisfaction we now get from work. Others are just not ready yet.

One way to ensure your decisions are the right ones is to take a phased-in approach to retirement.

Test drive?

A gradual approach to leaving the workplace can allow you to acclimatize to a new life and find interests and activities that will keep you occupied and satisfied.

Consider whether you can arrange with your employer to reduce working hours or to work part time. Increasingly, employers are open to this approach because it works to their benefit as well. Some have sabbatical programs or allow time off to pursue volunteer opportunities.

If that's not feasible, consider alternatives such as a part-time consultancy or working reduced hours for another employer. If you're self-employed, you can set your own retirement agenda.

Once you've made space for non-work activities, use it to explore how you might want to spend your full retirement. Perhaps volunteering can provide greater meaning while still giving you lots of social interaction. Maybe travel for a couple of months, or try living in a warmer climate to explore whether those types of retirements are right for you.

Test driving your retirement like this can involve many of the same financial issues as full retirement: evaluating potential sources of income, reviewing your investments and more. Let's talk soon so we can test drive your finances as well to help to find the right retirement vision for you. ◀

¹ The 2019 Retirement Income Poll, January 2019, Maru/Blue, MaruGroup.
<https://www.newswire.ca/news-releases/retire-or-re-hire-1-in-4-retired-canadians-regret-retiring-and-want-to-go-back-to-work-cibc-poll-829863812.html>

Is it time to shore up your core?

Every portfolio should have a nucleus of broadly diversified investments. This core is crucial to the strength of your portfolio because it provides stability. It can help your long-term investment returns grow and ease the anxiety caused by the kind of financial market volatility we've experienced over the past year.

Core holdings are long-term "buy and hold" investments of low to moderate risk for their asset class. They are generally less volatile while still offering the potential for attractive long-term investment returns within your risk tolerance. Just as your overall portfolio should be well diversified, so should your core holdings.

Equities. Equity core holdings consist of "large-cap" stocks or funds that invest in blue-chip companies, often with a good record of paying dividends to investors. These investments may not always post big gains, but they usually have good long-term track records, low volatility and may fare better in difficult times.

Fixed income. The fixed-income core of your portfolio should consist of moderate-risk, solid investments such as government bonds or bond funds. Consider focussing on intermediate bond maturities, since these are typically less volatile than longer-term bonds.

Global investments. With Canada representing only a small percentage of global equity and bond markets, foreign equity or

fixed-income investments may be good candidates for a portion of your core holdings. Often mutual funds are the easy way to achieve this. For instance, a Global Balanced Fund could be a typical core holding in a well-constructed portfolio.

How much is enough?

How much of your total portfolio your core should represent varies with factors such as individual financial objectives, your time horizon and risk tolerance. For many investors, 70% to 80% is not unrealistic.

The types of investments that constitute your core will depend on your personal investment characteristics. Investments that can be considered core holdings for one investor may not be suitable as a core for another investor.

Now may be an excellent time for a core assessment. Financial market volatility in recent months may have thrown your asset allocation percentages out of balance, including your core investments.

Let's get together to talk about a portfolio review. We'll ensure you have the right balance of core and non-core investments to meet your financial objectives. ◀

▶ ESTATE PLANNING

Why you need a digital estate plan now

Just a few years ago, the idea of a digital estate plan seemed like an issue for the far-off future. Now that's changed as we hear of those who have passed away with loved ones unable to cancel their social media pages, unlock their online photo libraries, or locate accounts for financial products purchased and managed only in the digital realm. The time to think about our digital estate has come. Here are a few things to consider:

Documents. Our financial "papers" are seldom on paper anymore. Are key documents like your Will stored on your computer? Could your loved ones or your executor find them, or are they hidden behind passwords only you know? Consider having paper back-ups stored in secure places like a home safe or a safety deposit box. If you used a lawyer, make sure they also have a copy of your most recent estate plan and Will.

Accounts and passwords. So much of our financial life now takes place online: online banking, online access to our investment accounts, and more. But also consider the number of financial commitments you have entered into online, everything from your Netflix or Spotify service to software subscriptions to auto club and other

memberships. Many of these payments will continue until cancelled or until the method of payment such as a credit card is shut down. A quick glance at your credit card statements may reveal just how many of these contracts you have. Consider maintaining an up-to-date list of your digital commitments.

However, don't include digital passwords on a list for the benefit of your executor. That exposes you to risk now and liability if you suffer a breach of security as you will have failed to adequately secure your passwords as most agreements require you to.

Digital assets. One of the most shocking cases of the loss of digital assets happened in early 2019 after Gerald Cotten, the 30-year-old CEO of Quadriga, Canada's biggest cryptocurrency exchange, died while traveling in India. His sudden death left the company unable to gain access to \$145 million of Bitcoin and other digital assets.

While Bitcoin ownership is limited to less than 5% of Canadians, almost all of us have digital assets of some kind. For instance, about 90% of Canadians have a loyalty program card and, on average, have four loyalty cards in their wallet.¹ Some of us have the equivalent of hundreds or thousands of dollars' worth of points. What happens to them if we die? Some programs allow for a transfer of points value; others do not.



Increasingly, expensive assets like seasons tickets to big league sports teams exist only within a digital app behind a password that only you know. Online photo libraries, with thousands of personal memories, are another digital asset that's easy to forget about. Again, the key here is to document the existence of these assets while protecting your identity and security.

Social media. With some social media sites, such as Facebook, you can take action now, choosing a permanent deletion of your account when you die or the continuation of a "legacy" page which stays active as a memorial. Create an inventory of your social media accounts, alter the settings now if applicable, and leave instructions for your executor as to your wishes.

Digital estate planning is a new and evolving area — and estate law has trouble keeping pace with our ever-evolving digital lives. As with all estate matters, follow these golden rules: don't procrastinate, document your assets, communicate your wishes and make sure the right people can find the information when they need to. ◀

¹ "Reward programs are shifting - here's what Canadians need to know", *The Globe and Mail*, March 21, 2018. <https://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/the-top-rewards-programs-canadians-are-using/article38318624/>

Retirement and debt – what you need to know

Not long ago, most Canadians wouldn't have considered carrying debt into retirement. That attitude has changed. One 2018 study from a major Canadian financial institution, for example, found that 25% of Canadians are living with debt in retirement. And 20% of retirees are making mortgage payments.

Is this a good idea? The answer is: it depends. Low interest rates mean that carrying debt into retirement is much less of a burden than it was when interest rates were sky-high. However, there is still a cost, which could increase if interest rates should rise.

Factors to consider

The decision that's right for you will depend on a number of factors.

What kind of debt are you carrying and what is the interest rate?

It's important to understand the difference between "good" debt and "bad" debt. Good debt includes borrowing for items that are likely to increase in value, such as your home, or borrowing when the interest is tax-deductible (for example, when you borrow to generate taxable investment income). Bad debt is usually high-rate consumer debt for items that have no long-term value — for example, using your credit card to pay for your retail therapy.

Are you a pre-retiree, semi-retired, or already retired? Sometimes, age matters. If you are still earning a salary, with the potential for increases, you are more likely to be able to focus on eliminating debt before you retire. If you are already retired, it becomes a question of managing your debt on a fixed income so that you can continue to live the lifestyle you want.

Do you want to leave an estate for your children or for charity?

If you have no children or grandchildren and no desire to support a particular charitable endeavour, you may be quite comfortable carrying debt in retirement. When you pass away, the value of your estate can be used to repay any remaining debt.



Are you planning to downsize to a smaller home at some point?

For many Canadian families, the largest debt they are ever likely to take on is the mortgage on their home. If you are carrying a mortgage and plan to stay in your home throughout your retirement, you'll need to make sure you have sufficient cash flow to cover the payments.

However, if you are planning to sell and perhaps move to a smaller home, you may realize a substantial capital gain, even after repaying the mortgage balance, which is tax-free if the home was your principal residence. You can reinvest your gain to help provide you with the income you need to achieve your retirement goals.

Each situation is different

In the end, there is no single solution that is right for everyone. There is a whole range of circumstances and many variables to take into consideration. Whatever your situation, we can help you find the solution that's best for you and your family. ◀

Source: *The Sun Life Financial Barometer survey*, conducted by Ipsos, released February, 2018.

https://www.sunlife.ca/ca/About+us/Newsroom/News+releases/Announcement/The+not+so+golden+years++1+in+4+Canadian+retirees+living+with+debt?vgnLocale=en_CA&id=123165



Last-minute RRSP tips

- 1. A different deadline.** March 2nd, 2020 is the deadline for contributions to your Registered Retirement Savings Plan (RRSP) for the 2019 tax year. (Although 2020 is a leap year, the expected February 29th deadline falls on a weekend, meaning the deadline moves to Monday, March 2nd.)
- 2. Know your limit.** Review your Notice of Assessment from 2018 to find out exactly how much you can contribute. If you can't find your Notice of Assessment, contact the Canada Revenue Agency (CRA). Also keep in mind that unused RRSP contribution amounts from previous years can be carried forward to the next year.
- 3. No cash? Consider in-kind contributions.** If you don't have a contribution at hand, you may be able to transfer a non-registered investment into your RRSP. Remember, there are tax implications, as it is considered a "deemed disposition" for tax purposes and you may have to pay tax as if you had sold the investment.
- 4. To borrow or not to borrow?** Is an RRSP loan a good idea? It depends on a number of factors and your individual situation. The best strategy if do you borrow is to use any tax refund to immediately pay off the loan to minimize your borrowing costs and maximize your retirement savings.
- 5. Contribute now, invest later.** Don't let deliberations about how to invest your contribution stop you from making that contribution. You can put the money in your RRSP now and make investment decisions later — ideally, as part of our next portfolio review, where you can take a holistic view of your options. ◀

Six ways to keep your cool when the markets don't

When the Dow Jones Industrial Average (DJIA) dropped 800 points in one day last August, it was a reality check for investors who spent much of 2019 enjoying the Dow and other indexes flirting with all-time highs. But a timely reminder that markets can go down as well as up does little to ease the anxiety we can all feel when the markets are behaving erratically. If you sometimes fall prey to a little investing anxiety, these six “coping mechanisms” may help.

1. Ignore the noise. In a competitive media environment, the 24-hour news cycle delivers the news full of drama and hyperbole. It makes for good ratings, but don't get drawn into it when it comes to your own portfolio. Investment decisions are best made in a less emotional environment. Panic selling, for instance, simply locks in any losses and takes you out of the market should an upturn be around the corner. As an example, it took less than five trading sessions for the Dow to recover that 800-point single-day loss.

2. Steer clear of predictions. Of all the media voices during volatile markets, the least helpful are those predicting the future. It's a skill few possess and not the basis for sound financial decisions. None of us has a crystal ball, so ignore someone in the media offering advice about the likely performance of tomorrow's markets.

3. Focus on goals, not investments. It's easy to become obsessed about an investment: what about that stock, what about this fund? Instead, turn your focus onto your goals. Remind yourself why you are investing in the first place. For most of us, that's a long-term proposition. If your goal is to retire successfully in 25

years, for instance, chances are the performance or activity of any one investment this week is not putting your goals at risk. Keep a long-term perspective.

4. Keep performance in perspective. The performance of an investment should always be viewed in its proper context. A high-flying growth stock that puts up big gains may have equally big downturns. Government bonds will rarely offer eye-popping returns. A poor quarterly performance in one of your mutual funds may be a blip in an impressive five- or 10-year return. Don't let just one number tell the whole story — keep your perspective.

5. Talk to your advisor. A research study has shown that Canadians who work with a financial advisor acquire a greater savings discipline, accumulate more assets, and the longer they get advice, the more their wealth grows.¹ In times of market turmoil, we can provide the “hand-holding” to help you focus on your goals and keep perspective. And if action is required, we can help to take it carefully and prudently.

6. Consider a portfolio review. Not because you need a change but maybe to remind yourself that you don't. In a portfolio review, we will revisit your goals and risk tolerance as well as determine where you stand in relation to your goals. In light of all this information, we can make any necessary adjustments. Knowing where you stand and that you are still on track can help relieve that investment anxiety. ◀

¹ Montmarquette, Claude. *An econometric analysis of the value of advice in Canada*. Montreal: CIRANO, 2012.

These cash-like options are essential

Cash, or cash-equivalent investments are perhaps an unexciting but nevertheless essential part of any portfolio. This asset class could include money-market investments such as Treasury Bills (T-Bills), Money Market Funds, a High-Interest Savings Accounts or even cash itself. Here's how they help:

Provide liquidity. Liquidity means that the investment can be converted to cash at a moment's notice, without any significant loss of value. If you have an unexpected obligation or opportunity, the liquid part of your portfolio will have the funds at the ready.

Short-term savings. If you set a very-short-term savings goal, these investments may be the best option to save your money with no or little risk.

As a 'parking lot'. In managing your portfolio, or in your financial matters in general, you may have money “in transition,” that is, in between two longer-term uses. These investments are a classic way to provide safety and perhaps a small gain while waiting.

Out of the market. In certain market conditions, it may make sense to take some money off the table and increase the cash portion of your asset mix.

Emergency savings. A prudent investment plan allows for emergencies, often a fund equivalent to three to six months' salary. Because we don't know when emergencies will happen, these cash-like, very liquid investments can be ideal. ◀

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