HollisWealth®

WealthBUILDER

Winter 2021

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Happy New Year! Please accept our best wishes for a year full of happiness and prosperity. Whatever the year ahead holds, we are grateful for your continued confidence and trust in our services. If you are setting goals for the year and they include financial ones, please let us help you achieve them. We're here for you!

New year, new normal: what's the best strategy?

As the new year begins, it's difficult to know what kind of financial and investing challenges await us. All indications are that we will continue to live with the effects of the pandemic for some time, but those effects may not be straightforward. Last year, the markets showed themselves to be surprisingly resilient while the "real" economy and job market faced substantial headwinds.

The way forward? Build financial resilience into your household balance sheet while maintaining your commitment to your long-term investing goals.

Assess your liabilities

A good place to start is to make a realistic assessment of how secure your income is that supports your family and household. Many of us live in two-income families. Are both incomes secure for the foreseeable future? If not, it makes sense to examine how to best get by without the income you are most worried about.

Have you reassessed your household budget or spending since the pandemic? You may be surprised at how it has changed. In 2020 we spent a lot less on travel and events, and a lot more on groceries, deliveries and in-house entertainment. Some "discretionary" spending like streaming services may seem more necessary during lockdowns and restrictions. Even if you don't keep a formal household budget, ask yourself where you would cut back if 2021 looks a lot like 2020.

If you are counting on available credit options like credit cards or a Home Equity Lines of Credit (HELOC) to see you through any difficulties, think carefully. While credit can be a useful financial tool, building up unnecessary debt can be toxic to your long-term financial goals. And, keep in mind that many credit arrangements like HELOCs can be lowered or ended by the lending institution at their discretion.

Assess your assets

The wisdom of an emergency fund to cover short-term financial bumps was really brought into focus when the pandemic hit. If you don't have one and your income is secure, it's a great time to establish yours. Aim to cover your essential expenses for about three months.

If you have been putting off contributing to your long-term investing goals, reconsider the wisdom of that strategy. By growing our wealth when we can, we are also building resilience into our overall economic situation. An assessment of your net worth can give you a comprehensive picture of where you stand.

Next steps: If short-term financial resilience is a key goal, let's make sure it's part of your investing strategy. And, let's assess where you are in meeting your long-term goals. An investment strategy review can help with both. ◂

RRSP tune-up: double down or change course?

With the new year comes the season we traditionally focus our financial attention on our Registered Retirement Savings Plans (RRSPs). However, in the current climate this may be the least anticipated RRSP season in some time.

Nevertheless, saving for retirement remains the key financial goal for most Canadians, and depending on your time horizon, even a little fine-tuning now can make a big difference to your long-term retirement plan. Consider the following three key aspects of any retirement strategy.

Contributions. Are you contributing the right amount to meet your goals? To find out, it may be time to rerun your retirement income projections. Given your savings to date, plus your current rate of contributions, what kind of an income stream might you expect in retirement? If you're falling short, consider how to turbocharge your savings strategy. Many Canadians have significant RRSP contribution room available to them from previous years. If you are one of them, consider a monthly contribution plan to help you catch up. If you are already on a plan, see what even a small increase in monthly contributions could mean for the ultimate projected value of your plan at retirement.

For some investors, borrowing to make a contribution for this year's limit or as a strategy to make up unused contribution room could be an option. If your contribution generates a significant tax refund and you use that refund to repay the loan, this strategy can be especially effective without compromising your household finances. Be sure to enlist professional advice when considering this strategy.

Investment returns. Does your retirement investment plan include a target return from your RRSP? This figure is a key variable in determining how much savings you are likely to have available at retirement. If you haven't revisited your strategy in a while, it makes sense to revisit this number. Is it still the right one? Would a small increase in your target performance make a difference to your plan? Or, if your portfolio has done better than expected in recent years, perhaps there's less pressure on performance in years ahead.

Before changing your performance target, consider your personal tolerance for risk. Aiming for higher returns usually comes with taking on more risk. Be sure that you are comfortable with this. Last year saw some big swings in the equity markets as the pandemic ebbed and flowed. Did that raise your anxiety levels? The right performance target for you is one that allows you to sleep at night.

TFSAs and other ways to save. There are other ways to save for retirement, including Tax-Free Savings Accounts (TFSAs) and non-registered investment accounts. While TFSAs have tax-free rather than tax-deferred growth, RRSP contributions can not only lower your taxable income this year but also help generate a tax refund. There is no immediate tax benefit to your TFSA contribution. On the other hand, withdrawals from TFSAs are not taxed, while withdrawals from RRSPs are taxed as income.

What is the right strategy for you? It depends. If you can generate significant tax savings through your RRSP contributions, that may be the best option. If you have already maxed out your RRSP room, TFSAs offer an attractive way to get tax-free growth beyond your RRSP. While there are some general rules common to retirement income planning, the best approach is to do the calculations using your own financial situation. Relying on professional advice here is recommended.

Any contribution to your RRSP is an investment towards a better retirement. But with a quick review and a few adjustments here and there, you can be confident that you are maximizing the benefits and on track for the best retirement possible for you. ◀

Your legacy: match your charitable giving to your values

Charitable giving can be an important part of your financial life, both now and in your estate plan. It gains in meaning when your gifts are connected to values and causes you care about. It sounds simple, but articulating our values and turning them into an effective charitable giving strategy can be difficult. Many of us simply default to giving to well-known organizations. Instead, consider developing a meaningful giving plan using these four steps.

1. Reflect on your values. Do you have a strong sense of your core values? Some of us have deep and abiding connections with our faith or ethnic communities. Some of us have a long history of volunteering or community involvement. Still others have strong political associations or engagement with social causes. As philanthropy experts advise, how we live our lives offers the strongest clues to what our core values are.

But others live quieter lives, and here it can still be instructive to look at how we live our lives. Do you have a cottage, like to camp or hike, or spend time outdoors? Maybe land conservation, wildlife protection or animal welfare mean a lot to you. Do you love to read, or read to your grandchildren? Maybe the arts, literacy, or supporting up-and-coming writers holds meaning for you. Were your college or university years a transformational experience for you intellectually, socially or in terms of the opportunities they provided? Perhaps education is a key value.

2. Consider your desired impact. Even if you have a clear sense of your values and the causes you might like to support, there is likely to be a wide variety of benefits that your support could bring about. Consider the above example of higher education. Within a university setting you could support primary research, a chair or award in teaching or the very direct support of students through scholarships, bursaries or emergency funding. While all are valued by the university, different priorities may be more meaningful to you based on your values or personal experience. If you have the means to do so, you may even be able to create a kind of impact that doesn't currently exist, which could add a new layer of meaning to your generosity.

3. Explore organizations that align. With a better sense of your values, and the causes and impacts you'd like to support, you are ready to find organizations that match your goals. Because this is your charitable giving plan, a fundamental requirement will be that the organization has charitable tax status. You may want to attach other criteria such as geographic reach (is it Canadian or international in scope?) or the percentage that the organization spends on administration versus programming.

While this step can seem daunting, you are not alone. Most large charitable organizations and universities have departments to assist donors and will be happy to help you find a meaningful way to give. Omnibus organizations like the United Way/Centraide, Imagine Canada, or the Community Foundations in large cities including Vancouver, Calgary and Toronto are set up to help donors find ways of supporting organizations that may align with their intentions but may be hard to find without assistance.. If using a Donor-Advised Fund is part of your plan, they also offer the ability to support a wide variety of charities through their structure.

4. Connect now, later, or both. Chances are that this process will inspire a sense of connection to the causes and groups that are aligned to your own values. You may even want to get involved offering your time or expertise. Now is also the stage to consider the financial practicalities. Do you want to start contributing now, or is this a part of your estate planning? A joined-up charitable giving strategy can encompass both. If you want to start now and hold off on the estate planning, be sure to seek professional financial and tax advice about adding charitable giving to your investment plans. If you are focusing on estate planning, it is especially important to bring all your legal and financial advisors together to ensure your plans are clear, consistent and co-ordinated. This is especially true if your plans will involve gifting assets like securities.

The ability to engage in philanthropy is one of the most satisfying aspects of financial success. To create a meaningful legacy for ourselves and our world provides one of the truly great rewards of our lives. If we can help you get there with the financial aspects of your plan, we'd be honoured to help. ◀

With the new year come new limits on your registered plans

When contributing to registered plans such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), you'll want to make sure you stay within the limits. Failure to do so could result in penalties and a bigger tax hit.

RRSP Contribution Limits. According to the Canada Revenue Agency (CRA) website, the RRSP Contribution Limit for income earned in 2020 will be $27,830, up from $27,230 the previous year. You can contribute up to 18% of your 2019 earned income or $27,830 – whichever is less.

Remember that unused contribution room carries over from previous years so, depending on your past contributions, you may have considerably more room available. To find out what your own limit is, consult your 2019 Notice of Assessment from the CRA or access it online via the CRA's MyAccount service.

TFSA Contribution Limits. The Canada Revenue Agency has announced that the limit for Tax-Free Savings Accounts for the year 2021 has been set at $6,000. The agency has maintained this annual amount since 2019. Like RRSPs, any unused contribution room is still available for use. In fact, if you were at least 18 years old in 2009 (the year TFSAs were introduced), a resident of Canada and have never contributed to a TFSA, you would have $75,500 in accumulated contribution room as of 2021.

You can find all the details of your past contributions and your current contribution room on the MyAccount service on the CRA website. ◄

Canadians want to know more about responsible investing

Responsible investing is increasingly catching the attention – and dollars – of Canadian investors, according to two recent surveys. However, these investors say they need to learn more and want to talk to their advisors about it.

According to a survey conducted for the Investment Funds Institute of Canada (IFIC), just 50% of mutual fund investors say they are either "very knowledgeable" or "somewhat knowledgeable" about responsible investing.[1] Another survey, for the Responsible Investment Association (RIA) found that 75% of respondents want their financial services provider to inform them about responsible investments that are aligned with their values.[2]

The IFIC survey defines responsible investing as a strategy to incorporate environmental, social and governance (ESG) criteria into investment decisions. Key issues identified by the RIA include climate change, executive compensation, water scarcity and health and safety in supply chains.

According to the IFIC survey, 61% of mutual fund and ETF investors who do not currently own responsible investments are "somewhat likely" or "likely" to include such investments in their portfolio in the next couple of years.

Assets in Canada being managed using one or more Responsible Investing strategies amounted to $2.1 trillion by the end of 2017, representing more than 50.6% of total Canadian assets under management, according to the RIA. ◄

[1] Investment Funds Institute of Canada. *2020 Canadian Mutual and Exchange Traded Fund Survey.* Conducted May-July 2020.
[2] Responsible Investment Association. *2020 RIA Investor Opinion Survey.* Conducted September 2020.

Canadians expect the pandemic to hurt the country but not themselves

Will COVID-19 pandemic wreak havoc on the Canadian economy and take your personal finances down too? According to a survey by McKinsey and Company, Canadians are more worried about the country than themselves.[1]

The survey, taken in Fall of last year, found that Canadians believe their own finances will not be impacted by the COVID-19 situation, with more consumers seeing their income, spending, and savings stay the same since earlier in the year. According to McKinsey, while spending on non-essentials remains below pre-COVID-19 levels, it had started to rebound by September. This positive view was reinforced by official figures on Canadians' consumer spending which, after a big drop in April at the height of the pandemic, rebounded and remained strong for the rest of the year (the only exception being spending on travel).[2]

But for Canada as a whole, we are much less optimistic. According to a study by Deloitte, 96% of respondents believe the Canadian economy will be negatively impacted as a result of COVID-19, and 78% expect that impact to be significant.[3] ◄

[1] McKinsey & Company. Survey: *Canadian consumer sentiment during the coronavirus crisis.* Sept. 17, 2020. https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-canadian-consumer-sentiment-during-the-coronavirus-crisis#
[2] RBC Economics, RBD Data & Analytics, COVID Consumer Spending Tracker. October 19, 2020. https://thoughtleadership.rbc.com/covid-consumer-spending-tracker/
[3] Deloitte. COVID-19 Voice of Canadians and impact to retailers. 2020. https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/finance/ca-en-covid-19-voice-of-canadians-and-impact-to-retailers-aoda.pdf