INVESTMENT FOCUS

From the Central Wealth Group of Raymond James Ltd.

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Central Wealth Group

Kenneth Stratton, CIM®
Senior Vice President
Portfolio Manager, PCG

Glen Hansen, CA
Senior Vice President
Financial Advisor, PCG

Alain Berube, CFA
Financial Advisor

Peter Vander Velde
CIM®, CMT
Associate Financial Advisor

Robyn Drummond
Licensed Assistant

Raymond James Ltd.
Suite 2300, Scotia Place Tower 1
10060 Jasper Avenue
Edmonton, AB T5J 3R8

Telephone: 780 414-2500
Toll Free: 1 888 414-2501
Fax: 780 414-2599

Investing Resolutions for 2019

The year 2018 will be remembered as a difficult one for the Canadian equity markets. Trade tensions and tariffs imposed by the U.S. created ongoing volatility at home and abroad. Concerns over Canada's competitiveness have been put under the spotlight, the result of falling foreign direct investment, slowing gross domestic product growth and problems in getting our deeply discounted oil to broader markets. While the federal government acknowledged the need to support business competitiveness in its late November fiscal update, it remains to be seen how the proposed measures will help to impart change.

Despite these challenges, it is worthwhile to remember that the financial markets have faced similar situations over time and have eventually recovered to reach new highs. Longer-term investors are often at the mercy of developments that take place over the short run. Most often, we can't do much about them or their impact on the markets. But, as investors, we can focus on the things within our control. In this time of new year resolutions, here are some ideas:

Trust your plan — This is a good reminder that portfolio guidelines have been put in place to help weather the inevitable periods of volatility. This may include diversification and asset allocation, rebalancing where necessary, limiting the size of any one holding and focusing on quality holdings.

Keep perspective — Portfolio gains do not always occur at a steady rate. Volatility in the markets remains one of the certainties of investing. While keeping expectations on an even keel may be difficult, try and focus on your longer-term objectives and keep building your investment portfolio with them in mind.

Put time on your side — Don't overlook the opportunity to continue saving for the future. Put time on your side and contribute to tax-advantaged accounts such as your TFSA and RRSP. A great way to build portfolios may be to turn lower prices to your advantage.

Invest in yourself — Follow through with your new year's pledge to eat better or get to the gym. Taking care of yourself can pay dividends to your financial well-being down the road. Consider that you may be able to work longer or reduce future health care expenditures if you stay healthy until a ripe old age. In the words of renowned investor Warren Buffett: *"anything you invest in yourself, you get back tenfold, and nobody can tax it away or steal it from you."*

As we look forward, we hope that the year ahead will be full of happiness and success for you and your loved ones.

In This Issue

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It's RRSP Season Again!

Spousal RRSPs: Split Income, Save Tax

Over the years, the 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 be a good income-splitting opportunity for a situation in which you would earn a higher level of income in retirement, while your spouse will have little or no source of retirement income.

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

Be aware that income attribution rules may apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands. To potentially avoid these rules, you could instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP will be made.

While pension income-splitting rules allow you to allocate income drawn from a RRIF to your spouse for tax purposes, consider

that this can only be done after reaching the age of 65. Pension income splitting is also limited to 50 percent of eligible pension income, which includes RRIF withdrawals once you are at least age 65. A spousal RRSP can provide income splitting at any age and can enhance the opportunity, since the full amount of the RRSP income may be included in the tax return of your spouse, who may have a lower tax rate than you. If you are over age 71 and have a younger spouse, it can delay the taxation of retirement income as the spousal RRSP can continue, without any minimum withdrawals being required, until your spouse reaches age 71.

RRSP Reminders

- 2018 Contribution Deadline: **Friday March 1, 2019.**
- **Turning 71 years old this year?** Please get in touch to discuss options for converting your RRSP.

Saving for the Future

Dispelling the RRSP/RRIF Myths

Participation rates for the RRSP have been declining over recent years. In fact, some Canadians believe there is "no point" in investing in the RRSP because of the taxes due in retirement. But the RRSP can provide a substantial tax advantage. Let's look at a couple of the myths:

Myth: There is no point in investing in an RRSP as you pay all the savings back in taxes when you retire.

While you do pay tax on RRSP withdrawals, don't forget that you received a tax deduction at contribution. This is often overlooked: people confuse pre-tax with after-tax dollars. A $4,000 RRSP contribution is equivalent to a $2,800 after-tax contribution to a non-registered account at a 30 percent marginal tax rate.

Myth: The RRSP is disadvantaged as investment earnings are subject to higher taxes, since withdrawals incur tax at regular rates, whereas capital gains realized in a non-registered account are taxed at a lower rate.

If you assume a constant marginal tax rate and adjust for pre-tax and after-tax amounts, the RRSP will generally outperform a non-registered account that holds identical investments. The chart below demonstrates this outcome, whereby a pre-tax contribution of $4,000 has been made for 20 years. The example assumes a 30 percent marginal tax rate and growth of capital at 5 percent over a 20-year period.

	RRSP Account	Non-Registered Account
Pre-tax annual contribution	$4,000	$4,000
After-tax contribution: 30% tax rate	n/a	$2,800
Total contribution over 20 years	$80,000	$56,000
Cumulative growth: 20 years at 5%	**$138,877**	**$97,214**
Tax at withdrawal at 30%	$41,663	$6,182[1]
Net after-tax amount	$97,214	$91,032
Difference	***+6.8%***	

1. Realized capital gain of $97,214 - $56,000 = $41,214 taxed at 50% inclusion rate.

The benefit is even greater if the individual has a lower marginal tax rate in retirement.

As such, don't overlook the tax-deferral benefits of compounding over time using the RRSP.

Keeping Perspective

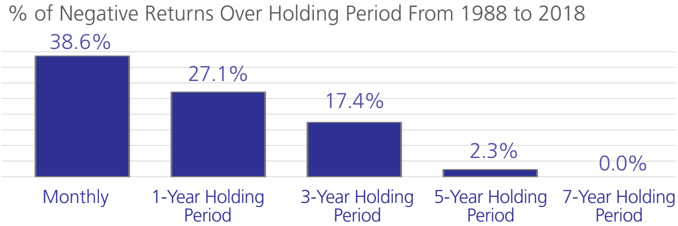
Volatility: More Common Than We May Think

For the Canadian equity markets, 2018 was a turbulent year — one that saw poor performance and increased volatility. While volatility in the equity markets may be a source of discomfort, did you know that it is more common than we may think? Here are some perspectives:

Volatility plays a common role in the equity markets. Consider this historical perspective on volatility: since 1970, almost 60 percent of the annual returns of the S&P/TSX Composite Index* have been year-over-year changes (either gains or losses) of greater than 10 percent. Almost 30 percent of the annual returns have been year-over-year changes of greater than 20 percent. Yet, even with these swings in both directions, over this period the index has had an annualized return of 5.9 percent (not including the impact of dividends).

The impact of volatility smooths out over time. On a monthly basis, the likelihood of the S&P/TSX Composite Total Return Index experiencing a negative return is 38 percent during the past 30 years. Yet, the probability of negative returns decreases as the time horizon increases. Over a three-year rolling holding period, the probability of a negative return is 17 percent and this drops to 0 percent when considering seven-year rolling holding periods and beyond.

% of Negative Returns Over Holding Period From 1988 to 2018



Source: S&P/TSX Composite Total Return Index from 9/30/88 to 9/28/18.

Volatility can provide opportunity. During temporary periods of downward volatility, the resulting price movements of many quality securities often do not reflect their long-term performance potential. This may provide a short-term opportunity to purchase good investments at a lower price. At the same time, remember that any decision to sell securities should not be based on an emotional reaction to volatile markets, as this can mean falling into the trap of selling securities at a low point.

As difficult as it may be in practice, try and keep perspective during periods of volatility. Fluctuations in the equity markets are a normal part of investing, and techniques such as diversification and asset allocation are meant to help minimize risk in portfolios during these inevitable times. Continue to stay the course and please call if you have any concerns.

Notes:*Uses S&P/TSX Composite Index returns from 31/12/1969 to 28/09/2018. Annual returns have been calculated from 31/12/1969 to 31/12/2017.

Fact or Fantasy: What's Your Retirement Plan?

Last fall, the U.S. Mega Millions lottery made history when it became the largest jackpot of all time at a whopping US$1.6 billion. Reportedly, at one point before the draw, lottery tickets were selling at a rate of 550 tickets per second!

The odds are that you won't win the lottery, yet surprisingly surveys continue to show that some Canadians plan on funding their retirement with a lottery jackpot.[1] Yet, the average Canadian has a much better chance of being struck by lightning:

Estimated odds of certain events:

Winning U.S. Mega Millions Lottery:	1 in 302,575,350[2]
Winning Canada's Lotto Max:	1 in 28,633,528[3]
Being hit by lightning:	1 in 300,000[4]

A More Viable Option?

In reality, the path towards having a million dollars in retirement may be well within reach for disciplined investors who have the luxury of time. Consider the use of the Tax-Free Savings Account (TFSA). If a 25-year-old started a TFSA at inception (in 2009) and fully contributed each year, the TFSA could yield around $1 million just after reaching the age of 70, assuming a compounded annual rate of return of 5 percent and a continued TFSA contribution limit of $6,000 per year beyond 2019.

Your TFSA: Have You Fully Contributed?

- **2019 TFSA Dollar Limit:** $6,000
- **Lifetime Limit:** $63,500 (for eligible residents, at least 18 years of age in 2009, who have not yet contributed)

Source: 1. Canadian Business, "34% of Canadians plan to retire by winning the lottery", 1/30/14; 2, CNBC.com "Here's why your odds of winning the $1 billion Mega Millions jackpot are so slim", 10/18/18; 3. BC Lotto Corporation statistics on Lotto Max odds; 4. Government of Canada, "Lightning fatalities and injury statistics in Canada".

Update Your Will: A Checklist

One of the most important estate planning actions you can take is to make sure you have a valid will. To die without one (also known as "dying intestate") can have significant and perhaps undesired effects, including that your tax-planning or succession plans may be compromised as a result. This would be unfortunate, as a valid will is relatively inexpensive to put in place. It is also important that your will reflects your current circumstances, which requires periodic reviews.

Look over the accompanying checklist to see if any adjustments are needed to your final instructions. If you answer "no" or "don't know" to any of the questions, perhaps a review is in order. In this time of new year resolutions, why not resolve to make your estate plan a priority for 2019? If you need assistance, please call.

Estate Planning: You & Your Will - A Checklist	YES	NO	DON'T KNOW
Do you have a valid will in place?	☐	☐	☐
If yes, have you reviewed it since 2014? Many experts suggest a review every five years.	☐	☐	☐
There have been no major life events recently? This may include birth/deaths, marriage/divorce, a move to a new province.	☐	☐	☐
Are the named executors/estate trustees still appropriate?	☐	☐	☐
Are all of your assets covered by the terms of the will? For example, if you have started a new business does it require special treatment or mention in your will?	☐	☐	☐
Have you considered the impact of taxes? Upon death, some investment accounts may be fully taxable, such as RRSPs or RRIFs. Others may be taxable only on income or capital gains. There may be ways to plan for tax, such as using a spousal rollover to defer taxes or insurance to fund tax liabilities.	☐	☐	☐
Have you considered ways to reduce probate (estate admnistration) fees, if applicable to your province of residence? In some cases, this fee could amount to nearly 1.5 percent of the value of your estate.	☐	☐	☐
If needed, have you structured your will to help protect assets? This is often applicable to blended families or for business owners where potential creditors may be involved.	☐	☐	☐

Central Wealth Group

Ken Stratton | 780 414-2555
Glen Hansen | 780 414-2556
Alain Berube | 780 414-2530
Peter Vander Velde | 780 414-2557
Robyn Drummond | 780 414-2505

Raymond James Ltd.

Suite 2300, Scotia Place Tower 1
10060 Jasper Avenue
Edmonton, AB T5J 3R8
www.centralwealthgroup.ca

CENTRAL WEALTH GROUP | RAYMOND JAMES®