INVESTMENT FOCUS

From the Central Wealth Group of Raymond James Ltd.

SPRING 2022

Central Wealth Group

Kenneth Stratton, CIM®
Senior Portfolio Manager

Alain Berube, CFA
Senior Financial Advisor &
Associate Portfolio Manager

Peter Vander Velde, CIM®, CMT
Associate Portfolio Manager

Robyn Drummond, CEA, QAFP™
Licensed Assistant

Debbie Lewis
Licensed Assistant

Raymond James Ltd.
Rice Howard Place, Tower 1
#2300 – 10060 Jasper Ave. NW
Edmonton, AB T5J 3R8

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

Raymond James Ltd.,
Member - Canadian Investor Protection Fund

Maintaining Perspective in Volatile Times

Today it seems as though there is no shortage of new challenges to test our resolve. As we try and move forward from two difficult years of battling a pandemic, the world has been confronted with the Russia/Ukraine conflict.

For many, it may be difficult to detach from the current headlines. The geopolitical tensions in Europe have created new worries. From an investing perspective, it has added to the current market headwinds. With sweeping global sanctions put in place against Russia, there has been upward pressure on the price of oil and other commodities. At the time of writing, we continue to monitor the changing situation and its effects on the financial markets.

At the same time, we are faced with new challenges here at home as we try and navigate the path to "normal." Central banks are confronted with the difficult task of normalizing their accommodative policies that supported economies through the pandemic: raising interest rates and reducing the size of their balance sheets. This has been complicated by higher and more persistent levels of inflation.

Financial markets are often quick to respond to the uncertainties and the start of 2022 has been no exception. With these uncertainties, volatility has returned to the equity markets. For investors, this may feel particularly unsettling since extended periods of volatility haven't been seen for some time. Yet, we shouldn't forget that volatility plays a common role in the equity markets.

During these times, taking a longer-term view may help to maintain perspective. Not to belittle the current situation, but we have faced many challenges throughout time that have made it difficult to assess future prospects. And, yet, the equity markets have shown remarkable resilience over the longer term.

Over the past 30 years, we have overcome a pandemic, credit and debt crises, recessions, many changing policies by the central banks — and even war. And, yet, the markets, as measured by the S&P/TSX Composite Index, returned over six percent annually over this time, not including reinvested dividends.[1] The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of patience.

Indeed, investors have required a particular amount of mental fortitude as of late. However, even with these new challenges, it shouldn't be a time to act with haste or curtail investment programs that have been put in place to support your longer-term wealth goals. Patience, alongside careful monitoring and prudent adjustments through our support, should stand you in good stead. Continue to look forward and allow your assets to keep working hard for you.

Remember, we are here to help.

1. S&P/TSX Composite Index 1/3/92: 3,495.60; 1/5/22: 21,335.60.

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It's Tax Season Once Again: Ways to Be Tax Savvy

This time of year, income taxes are naturally on our minds. Many of us feel we pay too much tax. There are actions we can take to help minimize these liabilities, which may be even more important in these times of high inflation. Here are some ideas:

Consider the Support of a Tax Professional

The support of accounting or tax professionals may be beneficial to ensure your tax planning accounts for the most updated rules or to help prevent costly mistakes, such as incorrectly completing tax returns or neglecting to claim tax credits. It may also be helpful in more complicated situations, such as where a divorce is involved or if you hold a significant portfolio of foreign assets. As we grow older, it can provide continuity from year to year, which may be important in the event of health issues, incapacity or the death of a spouse.

Remember: The Tax Rules Continue to Evolve

The tax landscape continues to evolve. One example is the array of Covid-related benefits introduced over the past two years. Since the start of 2022, the Canada Revenue Agency (CRA) has announced tax changes that may impact certain tax positions. While these changes may not apply to personal income tax season, they are examples of the evolving landscape:

- **Work-from-Home Tax Credit** — As with the 2020 tax year, the CRA has again issued a simplified Form T2200 available to taxpayers for both the 2021 and 2022 tax years and has allowed a claim for up to $500 of home expenses.
- **Automobile Deduction Allowance** — For 2022, the limit on the deduction of tax-exempt allowances paid to employees who use personal vehicles for business purposes has increased by $0.02, to $0.61/km for the first 5,000 km driven and $0.55/km thereafter for all provinces. Mileage rates were last raised in 2020.[1]
- **Expanded Trust Reporting** — Expanded annual reporting requirements for trusts were anticipated for the 2021 tax year, but in the first quarter of this year the government confirmed that this was still pending. Draft legislation is expected to be passed for trusts with taxation years ending after Dec. 30, 2022.

- **A Pending Luxury Tax** — The 2021 federal budget proposed a luxury tax that did not come into effect starting 2022. Draft legislation was introduced in March and the tax is now expected to come into effect on September 1, 2022.[2] The proposed levy is either 10 percent of the purchase value above a certain threshold ($100,000 for new cars/aircraft; $250,000 for boats) or 20 percent of the full value, whichever is less.

Make Tax Planning a Year-Round Exercise

Year-round tax planning can start with maximizing tax-advantaged accounts like tax-free savings accounts (TFSAs) or registered retirement savings plans (RRSPs). It may include adjusting asset location as investment returns — bond interest, Canadian and foreign stock dividends, capital gains — may be taxed differently depending upon where they are held, i.e., RRSP, TFSA or non-registered accounts. When it comes to your wealth plan, we're here to discuss tax-planning opportunities to help you keep more of your hard-earned dollars.

Put Your Potential Refund to Work

If you receive a tax refund, what will you do with it? Each year, 19 million Canadians receive a refund averaging $1,801.[3] Yet, only 18 percent plan to invest it in a RRSP, RESP or TFSA.[4] Consider the potential upside: investing this amount each year for the next 25 years at an annual rate of return of 5.5 percent would yield almost $100,000 in that time.[5]

For assistance with any tax-related investing matters, please call the office.

1. CRA "Benefits & Allowances"; 2. www.canada.ca/en/department-finance/news/2022/03/government-releases-draft-legislative-proposals-to-implement-luxury-tax.html; 3. www.financialpost.com/personal-finance/taxes/canadians-are-stalling-on-their-taxes-in-this-unusually-complicated-pandemic-year; 4. www.newswire.ca/news-releases/confusion-dread-and-fear-of-owing-money-fuel-tax-filing-procrastination-in-canada-860977490.html; 5. Compounded annually at 5.5%, assumes no fees/taxes.

Plan Ahead: Four Things You May Not Know About the RRIF

While RRSP season may be over, if you have yet to reach retirement, consider the value in thinking ahead to the time when you will eventually access these funds. Here are four things you may not know about the registered retirement income fund (RRIF).

1. You can convert the RRSP to the RRIF earlier than age 71. The RRSP matures by the end of the calendar year in which the holder turns age 71 and is often converted to a RRIF at that time. However, you are able to open a RRIF earlier than this age. Minimum withdrawal payments will still be required, but not until the calendar year following the year that the RRIF account is opened.

2. You can hold the RRSP and RRIF at the same time. While the RRIF is usually used by an investor to transfer funds once the RRSP matures, there may be instances in which you may want both. If you need to generate pension income to take advantage of the federal pension income tax credit, you could consider opening a small RRIF at the age of 65. At the same time, you can still continue operating your RRSP to capture the ongoing tax deductions from your contributions. Consider also that you can notionally split up to 50 percent of your eligible pension income (which includes RRIF income from age 65) with a spouse (or common-law partner).

3. You are able to convert the RRIF back to the RRSP. If you've converted funds to the RRIF earlier than age 71 and realize that it's no longer to your benefit, you are able to convert it back. You may decide to do an early conversion if you retire early, take a sabbatical or have an extended leave from work, since the loss of income means you may be in a lower tax bracket or you may need funds. However, if you return to work, it may be beneficial to resume the RRSP.

4. You can base RRIF withdrawals on a spouse's age. If you have a younger spouse, it may be useful to use their age to result in a lower minimum withdrawal rate for your RRIF. Be aware that this must be done when first setting up the RRIF and before you have received any payments, so plan ahead.

Spring Cleaning? Start with Your Registered Plan Beneficiaries

When was the last time you reviewed your registered plan beneficiary designations? We often forget to revisit these designations after opening our accounts. However, failing to update beneficiaries is a common and potentially costly retirement and estate planning error that many investors make.

Here are some steps you can take to spring clean your beneficiary designations, as it relates to your registered plan accounts:

Create a list of your investment accounts. Then identify which accounts permit beneficiary designations, such as your RRSP, RRIF and TFSA, including any accounts through your employer.

List the beneficiaries you have named for each account.

Determine if the named beneficiary is still current. It is possible that a named beneficiary is no longer alive, or perhaps a major life event, like divorce, has changed the status of an existing beneficiary. Be sure to revisit beneficiary designations following major life changes.

Consider whether a beneficiary should even be named. If no beneficiary is named, assets will pass through your estate. In some cases, a beneficiary is named instead of the estate to avoid probate fees.[1] While this may be ideal for tax-planning purposes, it can inadvertently create other issues. For example, if an adult non-dependent child was named as the RRIF beneficiary, the value of the RRIF will be paid directly to them, but the tax burden will fall back to the deceased's estate, unless a provision has been made in the will. This may cause unintended estate equalization issues.

If a spouse (common-law partner) has been named, determine if there are additional considerations. If a spouse is named as beneficiary for a TFSA or RRIF, you also have the option of naming them as "successor holder" or "successor annuitant," respectively. Generally, the successor designation permits the continued operation of the account by the surviving spouse relatively seamlessly. For the TFSA, any income earned after your death would not be taxed. For the RRIF, there would be no tax consequences to your estate.

Seek assistance. We are here to assist with any changes to your beneficiary designations on your registered plan accounts. As you review these beneficiary designations, consider the support of estate planning and legal advisors to help ensure your estate planning objectives will be met.

1. Estate administration taxes. Note: This article does not apply to Quebec residents, as the rules surrounding beneficiary designations noted in this article are not applicable under Quebec law.

Helping to Protect Investors: The Trusted Contact Person (TCP)

Protecting the financial security of investors has never been more important. With a growing elderly population and our ever-increasing dependence on technology, there has been a rise in cybercrimes.

Fact: Over 46 percent of individuals who are 60 years and older have physical and mental disabilities.[1]

Fact: Each year, one in six seniors falls victim to elder abuse.[2]

Fact: Regardless of age, we remain vulnerable to financial fraud and economic abuse. Canadians lost $380M to fraud in 2021 alone.[3]

With these increasing challenges, the "trusted contact person" (TCP) has been introduced to provide an additional preventative layer of protection to support investors. The TCP is a person you choose, for which you have given us written consent to contact under certain circumstances, such as if there appears to be something amiss, if there is suspected financial exploitation or if there are concerns about decision making.

The TCP has no authority to make financial decisions or direct transactions and assumes no liability when it comes to your account(s). The TCP does not replace or assume the role of trading authority that may be authorized to an investment account. As well, the TCP is different from the power of attorney role that is put in place to provide support in the event of incapacity.

You are able to appoint anyone you wish to be your trusted contact person. It is recommended to select someone who is trusted, mature and knowledgeable about your personal situation and support network. The individual should be capable of speaking with you, and to us, about your well-being, including potentially sensitive topics such as your physical or mental health status.

You may also consider appointing multiple trusted contacts. The person(s) nominated can change and you are able to revoke designations entirely at any time.

While there may not be a current need for a TCP, implementing this safeguard in advance can help to provide protection down the road. Even if you have appointed a power of attorney, having a TCP adds an additional layer of protection to your account(s). If you would like to nominate a TCP for your existing accounts, or for more information, please get in touch.

1. www.un.org/development/desa/disabilities/disability-and-ageing.html; 2. www.who.int/news-room/fact-sheets/detail/elder-abuse; 3. www.antifraudcentre-centreantifraude.ca/index-eng.htm

A Rising Rate Environment: Should Investors Be Worried?

Central banks continue to tighten their monetary policies in the return to normal. For many months, the media has been hyping concerns over rising interest rates. As investors, should we be worried about interest rate hikes?

Here are some reasons to keep perspective in a rising rate environment:

Central banks: Good at communicating — While we may be used to the forward guidance given by central banks, it hasn't always been this way. In the past, decisions made by central bankers were often a surprise that could rattle the markets. Consider that in the 1990s, investors used to guess what the Fed would do based on the size of then-Chair Alan Greenspan's briefcase![1] The theory: if the Fed was going to change rates, Greenspan would be carrying a lot of documents so his briefcase would be wider. Today, we've been given ample warning by the central banks that rates will be rising, so much of this expectation continues to be built into the markets.

Interest rates need to normalize — Central banks have been highly accommodative for a very long time. Rates have been kept artificially low to help support economies during this challenging time. As we learn to manage the pandemic and return to normal, a natural unwinding needs to take place, which includes allowing rates to rise. However, let's not forget that even with multiple rate increases, interest rates will still continue to be very low by historical levels.

Wealth levels continue to be high — With excess liquidity in the markets, many analysts suggest that central banks can hike rates quite a bit without affecting credit conditions. Many businesses continue to be in good shape financially, with solid balance sheets and excess cash reserves, so defaults on business loans are expected to be low. Household wealth also increased at all income levels during the pandemic, and delinquency levels on consumer loans are still at record lows.[2]

Markets have historically performed well in rising rate times — Investing theory suggests that interest rates and stock prices move in opposite directions, as stock prices reflect the present value of future earnings: the higher the interest rate, the less future money is worth today. However, history has shown that markets can perform well during rising rates.[3] One market strategist determined that the S&P 500 Index returned five percent in the six months following the first rate hike of past recent cycles, despite initial volatility.[4] Other studies support positive equity market performance during rising interest rate environments (chart).

S&P 500 Performance When 10-Year Treasury Yield Rises By One Percent or More

Start	End	Starting Yield	Ending Yield	S&P 500
Jul '12	Oct '18	1.5%	3.2%	127.2%
Jun '03	May '06	3.3%	5.1%	39.1%
Oct '98	Jan '00	4.5%	6.7%	39.5%
Oct '93	Nov '94	5.3%	8.0%	2.2%
Jan '87	Oct '87	7.1%	9.5%	6.7%
May '83	Jun '84	10.4%	13.6%	−1.5%
Jun '80	Sep '81	9.8%	15.3%	11.4%

https://fortune.com/2021/03/08/stock-market-today-risks-interest-rates/

Slower economic growth — Recent economic data has been mixed to start the year. With the challenge of slower economic growth, and with emerging uncertainties from the geopolitical situation in Europe, it is likely that central bankers will be cautious in the pace of tightening, which may help to temper potential market volatility and may allow time for financial markets and economies to adjust.

1. www.money.cnn.com/1998/09/29/bizbuzz/briefcase/; 2. www.wsj.com/articles/u-s-households-took-on-1-trillion-in-new-debt-in-2021-11644342925; 3. www.bloomberg.com/news/articles/2022-01-23/u-s-stocks-historically-deliver-strong-gains-in-fed-hike-cycles; 4. www.ca.finance.yahoo.com/news/what-happens-to-the-stock-market-when-interest-rates-rise-115245445.html; www.forbes.com/sites/kristinmckenna/2022/01/24/how-do-stocks-perform-when-interest-rates-rise/

Central Wealth Group

Ken Stratton | 780-414-2555
Alain Berube | 780-414-2530
Peter Vander Velde | 780-414-2557
Robyn Drummond | 780-414-2505
Debbie Lewis | 780-414-2534

Raymond James Ltd.

Rice Howard Place, Tower 1
#2300 – 10060 Jasper Ave. NW
Edmonton, AB T5J 3R8
www.centralwealthgroup.ca

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