CI ASSANTE WEALTH MANAGEMENT

WELL-ADVISED

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WHEN'S THE BEST TIME TO INVEST?

The year just ended demonstrates how different investors can react to the same market conditions. Starting in early 2021 and well into the summer months, stock markets surged overall. Some people wondered if they should boost their investment amounts to capitalize on the booming markets. But others worried about buying into the market at all when prices are high.

Investors can also react in opposite ways when markets are in the midst of a severe or prolonged downturn. Some people want to increase their investment amounts, buying in the dip, to profit when markets recover. Others wonder about halting their contributions or even selling some investments.

A TRIED-AND-TRUE METHOD

Most long-term investors are best off by sticking to a schedule of investing regularly, regardless of market conditions. This practice ensures that you won't overinvest when prices are higher, and you'll take advantage of buying opportunities when prices are lower.

You also benefit in several other ways. Psychologically, you won't worry about how you're supposed to react to the market cycle and volatility. You avoid the temptation of trying to time the market – guessing the right time to buy or sell. Also, it matches up nicely with your paycheques or other regular income.

THEORY VERSUS REALITY

In theory, investing when prices are low offers more chance to profit the most. But the reality is that attempting to buy low presents a couple challenges. When prices fall, you never know if you should wait another day, week, month or longer. In a bear market, you could get caught waiting on the sidelines – and it's time in the market that matters in the long run. That's why investing the same amount regularly works in practice. You do buy low, and you benefit from time in the market. ■

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Is higher inflation on the way?

Inflation has been picking up lately. Whether it's here to stay or temporary, it shines a light on investments with low interest rates – such as money market funds, GICs and savings accounts. Inflation can erode the value of interest on these investments, putting a long-term goal in jeopardy. One solution is to hold fixed-income investments that are designed to outpace inflation, while staying within your risk tolerance. You can be confident that we plan for the effects of inflation on your investment program. But talk to us if you have savings elsewhere – perhaps through your bank or employer.

CONTROL THE INHERITANCE YOU LEAVE TO YOUR HEIRS

If you were to imagine someone establishing a trust, you may picture an individual leaving their hilltop mansion and being driven by their chauffeur to stately law offices visited only by the rich and famous. In reality, a trust can be used by just about anyone to meet a variety of estate planning needs. One of the most common uses is controlling how an heir or heirs will receive their inheritance.

TRUST BASICS

The person who establishes the trust is the settlor. The settlor appoints someone to manage the trust, called the trustee. This could be a friend, family member, professional or trust company. The beneficiary is the person who will ultimately receive income or capital according to the terms of the trust.

There are two basic types of trusts. An inter vivos trust, or living trust, takes effect during the settlor's lifetime. A testamentary trust comes into effect upon the settlor's passing. The following applications all use a testamentary trust.

BENEFICIARIES LACKING FINANCIAL EXPERTISE

It's an uneasy feeling to leave a large lump sum of hard-earned money in a will to someone you suspect will spend it quickly and unwisely. A trust allows you to give explicit instructions to the trustee to control the inheritance, including the distribution amounts and frequency.

A beneficiary may be trustworthy but require guidance in managing investments. By choosing a trustee with investment acumen, you can feel comfortable knowing the inheritance will be properly managed to meet income and growth needs.

PARENT IN A SECOND MARRIAGE

If someone is in a second marriage and has children from their first marriage, estate planning can be a little different. Say the individual wants to provide for their current spouse but also wishes to leave an inheritance for the children from their first marriage. Several solutions are available, and one uses a spousal trust. The spouse would receive income from the trust, and possibly some capital, during their lifetime. When the spouse passes away, the trust assets would go to the children.

CARING FOR A CHILD WITH SPECIAL NEEDS

Establishing a trust for a minor or adult child with special needs can help you be confident they'll always be cared for in the best manner. A tax professional can advise you on how a trust can be set up without affecting government benefits.

A TRUST FOR MINORS

If you have beneficiaries who haven't reached the age of majority, you can direct their inheritance to a trust. The trustee can manage the funds until each beneficiary reaches the age that you determine. At that point, a beneficiary can either receive a lump sum or periodic distributions according to the terms you establish.

FULFILL YOUR PERSONAL PREFERENCE

Trusts can be flexible. The terms and conditions you put in a trust are almost limitless and may primarily reflect your personal wishes. For example, a beneficiary may be financially reliable, but you might have their inheritance distributed periodically because you don't want to chance a lump sum inheritance disrupting their work ethic. Or perhaps a settlor will make college or university graduation a condition of receiving their inheritance. A trust gives you the ability to help ensure the inheritance enhances a beneficiary's life, rather than drastically changing it.

If you would like more information about trusts, contact us or talk with your lawyer or tax professional. ■

NEW REPORTING RULES

According to the Canada Revenue Agency (CRA), Budget 2018 proposes that trusts are required to report additional information beginning with the 2021 tax year, and more trusts must file a tax return.

Previously, trusts that didn't earn income or distribute income or capital to beneficiaries didn't have to file a tax return. With the changes, however, most trusts must file a T3 trust income tax return – even if they had no tax owing or activity during the tax year.

Also completely new, most trusts must now submit an information return that includes the name, address, date of birth, jurisdiction of residence and tax identification number of the settlors, trustees, beneficiaries and those who are able to influence certain trustee decisions.

Some trusts are exempt from the new reporting rules, including qualified disability trusts.

Please note: At the time of publication, the CRA outlined the new rules online, but these amendments had not yet been passed into law. For up-to-date information, go to canada.ca and search "Reporting requirements for trusts."

RESPONSIBLE INVESTING IS ALSO SMART INVESTING

Today, more and more investors have greater expectations from the companies they invest in. It's about more than companies turning a profit – it's about how they do it. Are they protecting or harming the environment? Are they respecting or disregarding human rights? Investors want to know that companies are good corporate citizens.

Investment management firms have reacted to investors' expectations, and the responsible investing movement is flourishing. There are several different types of responsible investing. Socially responsible investing, for example, typically involves including or excluding investments according to ethical guidelines. Impact investing helps companies and organizations develop specific social or environmental projects that benefit society. But the most common approach in Canada is environmental, social and governance (ESG) investing.

ESG INTEGRATION

ESG investing typically integrates environmental, social and governance factors into the traditional process of research, analysis and investment selection. The environmental screen looks for any practices or acts of negligence that harm the environment, including high carbon emissions, toxic chemical exposure and lack of habitat protection. The social category is all about respecting employees and suppliers, including issues such as labour rights, safety in the workplace and gender pay equity. Governance involves the responsibility of a corporation's leadership, including the independence of its board members, implementation of anti-corruption measures and managing of consumer relations.

Say, for example, that an environmental concern emerges when it's discovered that a manufacturing company has repeatedly paid fines for improperly storing and disposing of hazardous waste. Perhaps a social issue requires investigation if news circulates that a clothing company has outsourced production work overseas involving meagre pay and unsatisfactory working conditions. Or say a governance matter arises because the board of an energy firm may not have taken proper measures to prevent against cyber attacks. Any issues like these must be taken into consideration as potential investment risks.

ACTIVE OWNERSHIP

In addition to integrating ESG factors into investment selection, investment management firms monitor the ESG practices of companies they invest in and take action if improvements are called for. That's essential to ESG investing – holding companies accountable for the way they respect the environment, society and their shareholders.

Taking action often begins with seeking disclosure of specific ESG matters. When issues are evident, firms should communicate with management, using their influence as investors to affect change. They can also take advantage of shareholder voting rights when corporate decisions involve ESG measures.

BENEFITS OF ESG INVESTING

ESG investing gives investors the satisfaction of knowing they're helping to promote respect and care for the environment and society. It's also important to know that you don't have to compromise on performance. Numerous studies in Canada, the U.S. and internationally show that, overall, traditional investments and ESG investments have similar returns. In fact, according to the Responsible Investment Association, most Canadian responsible investing funds outperformed their average asset class returns over the 10-year period ending June 30, 2021.[1]

Also, ESG investing has the potential to offer downside protection and reduce portfolio risk. That's largely due to the extra layer of screening to identify environmental, social and governance risks in the investment selection process. Companies that experience ESG controversies can see their share prices suffer.

If you would like more information about responsible investing in general or how it relates to your portfolio, please get in touch. ■

[1] Responsible Investment Association, *Quarterly Responsible Investment Funds Report*, July 29, 2021

ESG INVESTING

ENVIRONMENTAL
Protecting our water, air, habitats and climate. Practising energy efficiency and sustainability.

SOCIAL
Supporting the rights of employees, customers and workers throughout the supply chain.

GOVERNANCE
Ensuring that leadership acts in accordance with the best interests of shareholders.

PREPARE FOR THE UNEXPECTED

One key outcome of the pandemic is the harsh reminder that anything can happen at any time. Many Canadians recognized the importance of having a financial cushion – especially business owners affected by COVID-19 shutdowns and those unable to work.

We can't predict if or when a challenge will arise, but we can prepare to manage the financial consequences. Here are examples of unexpected events and the solutions you can put in place in advance.

DURING WORKING YEARS

Julia is a civil engineer employed by a consultant firm. Last year she suffered a debilitating back injury in a skiing accident and is still in recovery. Financially, Julia is fine – she had purchased individual disability insurance to enhance her group plan coverage. The group plan capped the monthly benefit below her salary level and provided benefits for up to two years. With her individual policy, her total monthly benefits are about the same as her previous employment income, and she can continue receiving disability benefits beyond two years if needed.

Sohail and Zahra wanted to cover all of their child's education costs and ensured that their Registered Education Savings Plan (RESP) accounted for a bachelor's or graduate degree. But they supplemented their RESP by dedicating Zahra's Tax-Free Savings Account (TFSA) to cover potentially higher education costs. All of Zahra's TFSA was required as their university graduate decided to go to law school.

Curtis had always enjoyed good overall health. But then he developed cancer – a type of cancer that he believed was best treated in the U.S. Curtis has critical illness insurance and the lump-sum benefit enabled him to afford surgery across the border. The benefit also allowed his wife to take time off work to care for him during recovery.

IN RETIREMENT

Gordon retired at a time when inflation had remained low for many years. It would be easy to expect that inflation wouldn't be a factor in retirement. However, not only can inflation rise at any time, but even low-level inflation can devalue savings over two or three decades of retirement. With guidance from his advisor, Gordon has no worries, as his retirement savings objective and investments were designed to outpace inflation over the years.

Maia and Liam, a retired couple, have a young granddaughter with special needs. They now want to contribute to a Registered Disability Savings Plan (RDSP) so the contributions will have decades to grow and compound. Fortunately, the couple can fulfill their wish by using emergency funds they accumulated to meet any unexpected needs, separate from their savings for retirement income.

Creating an emergency fund for retirement can be used in a variety of ways, including covering the costs of long-term care. If the funds aren't needed, they can become estate assets for heirs or a charity. ■

RRIF, MEET JLTD

One of the tax breaks the government gives to couples takes place when the first spouse passes away. That person's Registered Retirement Income Fund (RRIF) can be taken over by the surviving spouse without taxes being payable at the time. So those funds continue to grow on a tax-deferred basis.

But what happens if the surviving spouse only takes the minimum required RRIF withdrawals throughout retirement? When this individual passes away, they could be left with a large RRIF, perhaps worth hundreds of thousands of dollars. At the highest marginal rate, the estate would owe tax equal to about half the value of RRIF assets. That leaves a lot less for heirs.

ENTER JLTD

A joint-last-to-die life insurance policy, often called "JLTD," is designed for couples and only pays out the insurance proceeds upon the passing of the second spouse. A JLTD policy is typically used to help offset taxes payable by an estate. The timing of the payout meets the tax need, and it's more economical than two individual policies.

A couple would purchase a JLTD policy when they recognize their estate will face a sizable tax liability. They choose an insurance amount that offsets the estimated tax so heirs can receive the estate's full value.

PLAN TOGETHER

This strategy is just one solution for one situation. Several methods are available to manage and use a large RRIF, and there are various ways to minimize the effect of taxation on estate assets. We always work with you to determine which strategy best suits your situation. ■

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