CI ASSANTE
WEALTH MANAGEMENT

WELL-ADVISED

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IN THE WORLD OF INVESTING, TIME IS YOUR FRIEND

When you think of how time helps you achieve investment objectives, the first thing that comes to mind may be compound growth. You make an investment, reinvest your returns year after year, and continue to earn returns on both your original contribution and all of the accumulated returns. Given enough time, the value of the growth can exceed that of your original investment.

But can time also be an investor's ally during periods when markets are down and a portfolio has lost value?

FOCUS ON YOUR INVESTMENT TIME HORIZON

After the exceptional performance of Canadian and U.S. stock markets in 2021, this year's market correction came as a shock. However, although past performance doesn't guarantee future results, it's reassuring to know that market corrections have inevitably been followed by recoveries. That means time is on your side when you're investing for a long-term goal, such as retirement.

Focus on the time you'll begin to access the funds, not on the ups and downs along the way. What matters is having the desired financial resources in place at the time they're needed. Patience may be required, because some recoveries take longer than others. However, markets have always rebounded, and investors have been able to get back on track.

A SILVER LINING

Meanwhile, a down market comes with a silver lining: a buying opportunity. You can purchase more shares or fund units while prices are lower, aiming to boost your portfolio value when stock prices recover. This is why it's important to continue making regular investments during a correction or bear market.

WE'RE ALWAYS HERE

It's natural for any investor to worry when they experience a decline in their portfolio value due to market volatility. If you have any concerns, please talk to us. We can help reassure you that you'll achieve your financial goals. ■

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Ever want a financial sounding board?

Whenever you face a decision involving anything financial, it often helps to talk it over. This way, you can share ideas and evaluate your options together. We want you to know that you can always discuss financial decisions with us—whether or not they're related to investments. If you're single, divorced or widowed, this can be especially helpful as you may feel uncomfortable sharing financial matters with a friend or relative. If you're married, our involvement can still be beneficial to add financial expertise or get help finding a compromise.

EVER GET EMOTIONAL ABOUT YOUR INVESTMENTS?

Often, it's wise to trust our emotions, but something strange happens when it comes to investing. When markets soar, our emotions try to sway us to buy high, and when markets fall, our emotional response is to want to sell—the opposite of the "buy low, sell high" investment ideal.

The chart shows the path of investment performance through a complete market cycle, noting the investor emotions commonly triggered at each stage. Letting our emotions get the best of us can spell trouble in both the upswing and downswing.

THE PERILS OF TEMPTATION DURING A BULL RUN

Even though history tells us markets always have their ups and downs, it's common in the midst of a long bull run to think, "this time, it's different." It can feel like we've reached a new era of ongoing economic growth, and our portfolio value will continue to climb—without the risk of a bear market or crash. Many investors experienced this emotional response in the prolonged bull run during the 2010s.

The danger is that an overly optimistic view can lead an investor to stray from their long-term plan. For example, a conservative investor could fall prey to the fear of missing out, load up on equities beyond their risk tolerance and become exposed to unnecessary anxiety and potential losses when markets become volatile. Someone nearing retirement, unable to resist the temptation of high-flying markets, might invest savings in equities that they'd normally commit to fixed-income investments—putting their planned retirement date at risk.

THE SETBACKS ARISING FROM ACTING ON WORRY OR FEAR

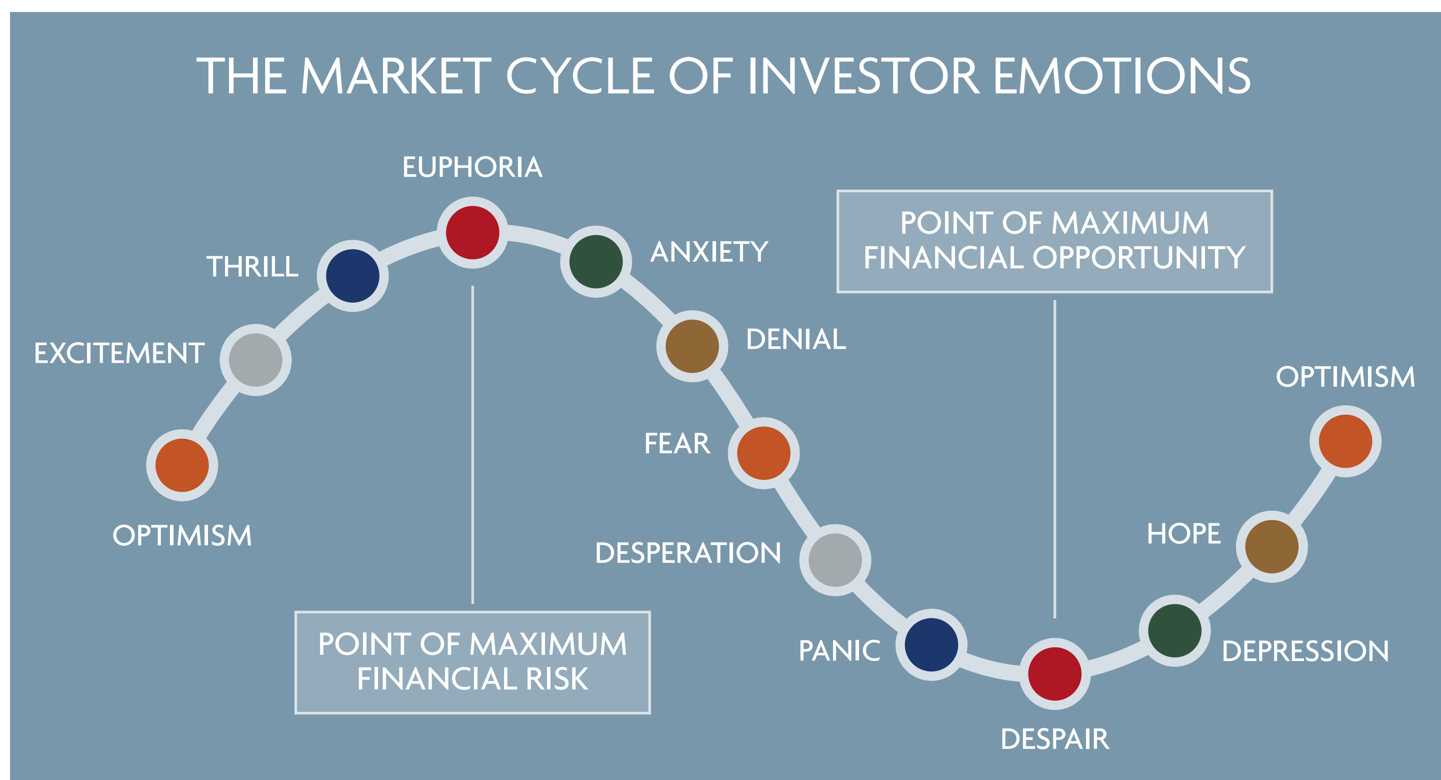
The feeling of "this time, it's different" can be just as powerful in down markets. When markets near or reach the bottom of the trough, investors may experience a sense of doom—that this time, markets won't rebound.

Behavioural economists say that the psychological pain of a significant financial loss is twice as impactful as the joy of a financial gain. Some investors may have felt this gloom in the 2020 pandemic market crash, though it was short-lived, or during the global financial crisis of 2008 to 2010. Investors who worry that their life savings won't ever recover to their former value can keep in mind that, even though past performance doesn't guarantee future results, every correction or bear market has been followed by a recovery and, eventually, a bull market.

Acting on worry can be harmful financially. Selling assets turns a paper loss into an actual loss. Directing new contributions formerly designated for equities to fixed-income investments instead can put long-term financial goals at risk. Temporarily halting contributions sacrifices the opportunity to purchase investments at a discount—and means accepting higher prices when eventually buying back in.

THE REMEDY FOR EMOTIONAL INVESTING

When markets enjoy an upswing, be content that you're prospering. When markets are in correction mode, be patient. It's always best to stick to your investment strategy throughout the market cycle. A fully diversified portfolio helps smooth out portfolio performance. Meanwhile, making regular contributions ensures that you won't over-invest when prices are higher, and you'll purchase investments at a discount when prices are lower. It's the tried-and-true principles that keep you on track to achieving your long-term financial objectives. ■



PREPARE YOUR CHILDREN FOR FINANCIAL RESPONSIBILITY

Financial literacy month—November, in Canada— is just around the corner. We have reason to be proud: Canadian youth rank among the top in the world for financial literacy. Every three years, the Programme for International Student Assessment (PISA) conducts a survey among 15-year-old students in 20 countries. In the most recent results, Canada tied for second place.

One key finding of the survey is that students who talked about finances with their parents scored higher. So, yes, parents can make a difference. You can help give your children the basic knowledge and skills to eventually make well-informed decisions about successfully managing their money. Here are some important financial principles and practices a child will find helpful once they leave home and start out.

KNOW INVESTING BASICS

Your teen doesn't need to become an investment expert, but it's helpful to know a few basics. After all, they can open their own Tax-Free Savings Account (TFSA) at age 18. It's valuable to understand the power of compound growth, and they can learn a lot just by using an online calculator. For example, based on a 5% annual rate of return, a single deposit of $500 in their TFSA at age 18 would grow to about $5,000 by age 65. This knowledge may encourage them to start saving early.

It's also important to grasp the different roles stocks and bonds play in a portfolio, and how asset allocation depends on their risk tolerance and when they expect to need the money. Their asset allocation could be quite different if the goal was an emergency fund, a down payment on their first home or retirement savings.

UNDERSTAND BUDGETING

The real test of budgeting will come when a child heads off to university or college or begins working. But there's a great lesson waiting to be learned under your own roof. Let your child know how a paycheque is divvied up. Tell them everything a paycheque covers, from the mortgage, water bill and education savings to car insurance, investments and charitable donations. Explain wants versus needs—that you contribute to your TFSA to save for a vacation after covering the groceries. Your child will get the picture that managing finances requires discipline, organization and responsibility.

DON'T SPEND MORE THAN YOU HAVE

Be sure your child understands the dangers of debt. First, paying interest on a credit card or bank loan is like paying more than the purchase price for everything you bought. Also, debt that isn't wisely managed can quickly spiral out of control. Interest builds on interest, requiring a bigger and bigger amount of the borrower's income. If you can instill in your child the importance of living within their means, you'll have done well.

SAVE FOR YOUR GOALS

Your child should know about the pay-yourself-first concept—that, eventually, they should commit a portion of each paycheque to savings. It's the best way to meet financial goals. Paying yourself first does take discipline, especially when you're young and may have the urge to splurge. But even a small amount invested regularly is enough to create a habit that will last their entire working life. ■

YOUR CHILD'S FIRST CREDIT CARD

Your child is eligible to have their own credit card at the age of majority, which is 18 or 19, depending on the province. Here's a list of do's and don'ts every new credit card owner should know.

DO'S

- Keep track of your purchases, making sure you can cover the monthly bill.
- Aim to pay your bill in full and on time each month, to avoid steep interest charges.
- Check each monthly statement for any unknown charge, and contact the card provider if such a charge appears.

DON'TS

- Don't view a credit card as found money or the credit limit as an allowable amount to use. A debit card accesses your money; a credit card accesses the bank's money.
- Don't fall into the trap of only making the minimum monthly payment. Interest continues to accrue until the debt may climb to an amount that's difficult to pay off.
- Don't use your credit card for a cash advance. You're charged interest from the day of the advance until the day you pay back the entire amount.

MANAGING YOUR RRIF WITHDRAWALS EFFECTIVELY

Each year, you're required to make a minimum Registered Retirement Income Fund (RRIF) withdrawal, calculated as a percentage of your RRIF assets. The percentage is based on your age, and it increases each year. Every withdrawal is taxed as regular income, but several strategies can help reduce the impact of the tax liability.

Use your younger spouse's age. When you establish your RRIF, you can have your required annual withdrawal based on the age of your spouse. If your spouse is younger, you lock in a lower minimum payment that reduces your annual tax bill.

Split RRIF income. RRIF income qualifies as eligible pension income for pension income splitting. If you're 65 or older, you can split up to 50% of your RRIF income with your lower-income spouse to reduce your combined tax bill.

Trigger the pension income tax credit. You can implement this strategy at age 65 when you don't actually need the RRIF income. To put it into practice, open a RRIF, but only transfer enough Registered Retirement Savings Plan (RRSP) funds to enable you to withdraw $2,000 from your RRIF each year from ages 65 to 71. The $2,000 withdrawal qualifies as pension income, triggering an annual 15% credit on your tax return.

Customize withdrawal amounts. Determining the amount of annual RRIF withdrawals that best suits your situation depends on your other income sources, age, marital status, tax situation and other factors. So it's important to work with your advisor to plan withdrawals. One person might withdraw only the minimum required amount to keep their annual tax bill lower. Another retiree may withdraw larger amounts because the tax on the payments is less than the tax their estate would pay on those RRIF assets.

Plan initial spousal RRIF withdrawals. Planning is essential if you withdraw funds from a spousal RRSP or RRIF when you have contributed to the spousal RRSP in the year of the withdrawal or during the previous two calendar years. Payments up to the minimum RRIF withdrawal amount are taxable to the lower-income spouse, but any payments exceeding this amount would be taxable to the contributor.

Use your Tax-Free Savings Account (TFSA). If you don't need the minimum RRIF amount to support your retirement right away, you can contribute the funds to your TFSA, provided you have contribution room. Although you pay tax on the withdrawal, the funds can now grow in a tax-free environment.

Make in-kind withdrawals. You also have another option beyond selling investments and withdrawing cash. You can take your withdrawal in kind, transferring the investments to a non-registered account or TFSA. This allows you to keep investments you believe hold promise. ■

DO YOU AND YOUR PARENTS HAVE POWERS OF ATTORNEY?

If someone suffers a cognitive decline and loses their ability to manage their financial affairs, it's a common misconception that a loved one can automatically step in and take over. That's only the case when the person in need has made a power of attorney for property.

The "power of attorney" is the legal document, and "attorney" refers to the spouse, sibling, adult child or other individual named to act on one's behalf. In Quebec, the document is a "mandate," and the individual providing support is a "mandatory."

AVOID COMPLICATIONS

Without a power of attorney, things can get complicated. If a spouse, sibling, adult child or another person wants to manage the individual's financial matters, they must apply to the provincial court to become the incapacitated person's representative, which can take time. This process sometimes leads to conflict if family members don't agree on who should assume responsibility. If no one steps in, a government representative would need to manage the person's finances.

SOONER IS BETTER THAN TOO LATE

It's important to find out if your parents have a power of attorney for property and that you also have a power of attorney for yourself. Some people put off getting a power of attorney while they're cognitively healthy because they believe dementia or cognitive impairment only happens at an older age. However, you must be mentally capable to sign the document, so continually putting it off risks being unable to sign. Also, cognitive impairment resulting from a stroke, illness or injury can occur at a younger age. ■

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