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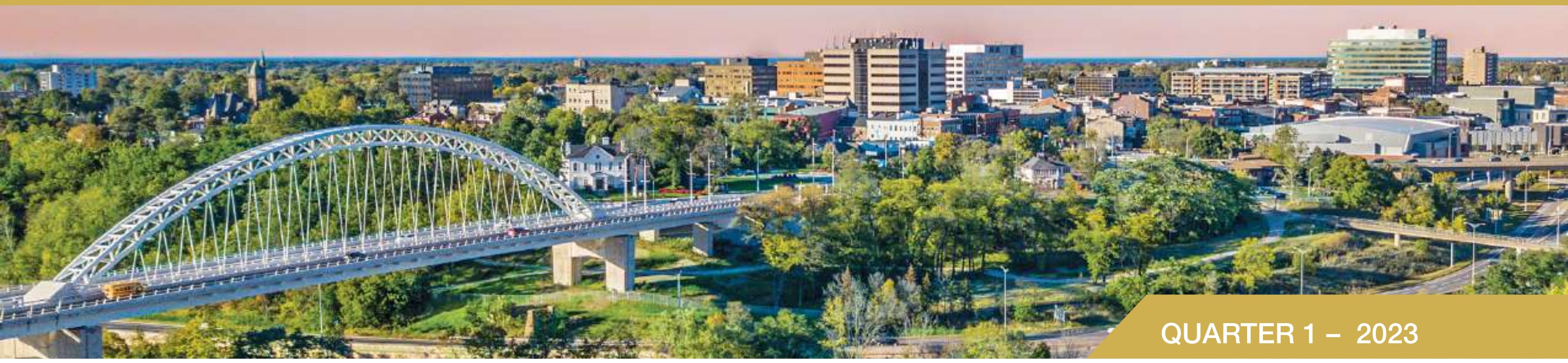

QUARTER 1 – 2023

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Our customized services include:

- Retirement Income Planning
- Investment Management
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- Risk Management
- Tax Planning

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Welcome to the first issue of In Touch for 2023. We hope this issue provides you with valuable information, which will allow you to make strong financial decisions.

What's Happening

We have some exciting news to share with you. Graeme Ross has announced his retirement date as May 31, 2023. As Graeme says *"I could have never made this decision without the quality team I have behind me. The team at Basic Financial have my total confidence in their ability and dedication to serve your financial needs. I have spent many hours thinking how to say 'Thank You' for the business and the trust you have placed in me over the years, but far more for the friendships that have grown over this time. Please accept my sincere and utmost gratitude. I wish you well in your business and personal life!"*
~ Graeme Ross

Graeme will be spending his retirement with his beautiful wife Debra and their 7 dogs. Please join us in congratulating Graeme for his many years of service and wish him all the best in his retirement years!

Market & Economic Update

Markets
The first quarter of 2023 has been a good start to most major markets (however, if you follow the news, you might not expect this to be the case). Since the start of the year, the Canadian market (TSX) is up 3.69% and the US Market (S&P 500) is up 7.34% as of March 31st. A far cry from how we started last year.

As mentioned in the previous newsletter, we feel most of the market downturn was baked in the first half of last year although 2023 will come with volatility (which year does not)? Here are some thoughts from a recent interview with one of the Fund Managers we use - Mark Schmehl. Mark and his team manage the Fidelity Global Innovators Class, Fidelity Canadian Growth Company, Fidelity Special Situations Fund.

Outlook for 2023

- I don't think this recession will be as bad as '08. I think it will be more similar to the 90's recession, more textbook. I don't think we'll hit a new low. We may retest the October low. I think the recession will be short.
- Now is not the time to be adding to defence. You should be thinking about what you want to own when things improve.
- It's too soon to be really bullish, but I am continuing to try to find

the bottom. It's more of a slow and steady shift. I think it will be at some point later this year or early next year. Overall, I see the market being in a much better place in 12-18 months and I want to get ahead of it.

- My funds are positioned to take advantage of the recovery. We're not quite at that point yet, but I'm confident my funds will do really well when we pivot to the recovery phase.
- I think different sectors will bottom at different times. Currently tech has gotten pulverized, and it will spill into other parts of the economy because Tech is one of the largest sectors in the US.
- I think we'll essentially have a series of recessions this year.

How are you investing for the current environment?

- I take the FIFO approach - first in, first out.
- For example, Facebook and Netflix are top positions. Both got pulverized last year but are doing better this year. Communication services companies bottomed last year and now are doing well.
    - Mark met with Facebook last year. He asked them flat out how are you making money, and the response was "we're making dreams". That was a huge red flag. They had their existential crisis, found religion and are now realizing they need to cut spending and cut employees. So now the stock is doing really well (+70% YTD).
- Even when we're in a recession, you don't want to be totally out of the market. Some stocks can double in the middle of a recession.
- I'm concentrated right now, because only a few parts of the economy have had their crisis/recession. So I have fewer names but bigger position sizes currently.

Where else are you finding opportunities?

- Left tail: Coinbase. It's a hated stock right now. Bitcoin is hated, so it's been destroyed. But Bitcoin and Ether are real and they have a lot of utility in the developing world. I think they are here to stay. Nobody wants to touch it right now, Coinbase could be the most hated stock in the universe. I am buying some every day.
- Right tail: Nvidia, Lilly, AMD, Roblox. Roblox is a big position. Analysts don't like it because it's expensive. But I like it. It's growing really quickly, the business
- I like to own things that other people don't. My top 10 will be very concentrated, and then the name count will explode as I buy up a whole bunch of the unloved (left tail) stuff. I manage risk by taking smaller positions in the riskier stocks. I have much more confidence in my larger positions.

Thoughts on…

- *Venture Capital:* It's blowing up, but there's still a ton of money out there waiting to be invested. It's not a funding crisis. SVB will clearly impact VC, but there's still a lot of liquidity. I think the cycle will bounce back if we see valuations reset. Entrepreneurs don't like to be told they have to get their spending in line, but that's what Mark is telling them. Facebook stock went up after they announced layoffs.
- *Tesla:* It was a good trade in January when they did their price cuts. I sold it since; I think autos will struggle.
- *Wearable Tech:* Apple has done a great job with the watches. The Apple headset could be good for Roblox as it's the only true metaverse out there right now.
- *Google:* Sell. People actually track where Google employees go after the leave Google, and then they short those companies. They no longer have the best people. They haven't innovated in years. The business model is toast and they know it.
- *Cloud:* I don't like it anymore. I think cloud exposure will be a big problem. It's a bad business, requires lots of capex, and has low margins. Customers of cloud businesses are firing their employees. The level of computing is collapsing. It will come back though, it's cyclical.
- *Housing:* I don't think it's an issue in the US. I'm buying homebuilders on the margin. It's an early cyclical so it should go bananas when the central bank cuts rates.
- *Gold:* It's a good place to be right now. Gold, Bitcoin, Homebuilders. This is the stuff that will work well when we start moving the other way.
- *Solar:* it's impossible to invest in.
- *Amazon:* don't like it because I don't like cloud. They are signing long-term deals with crappy software companies.
- *Pharma:* it's a bit over-owned because everyone is worried about a recession. I have been nibbling in biotech because nobody wants to buy it in a liquidity crisis.
- *Apple:* good company, but I didn't own it. It's done really well though.
- *Materials and resources:* I don't think we're in a world of scarcity anymore. I don't see a point in chasing materials or resources this year.

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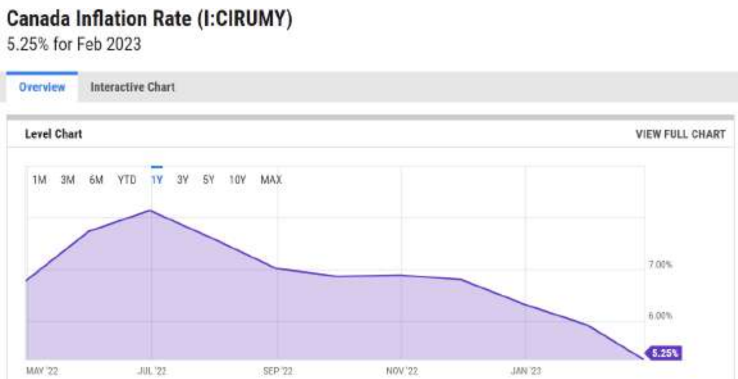
Inflation & Interest Rates

We have seen some good news the first quarter on the inflation front. Updated a few weeks back, the most recent inflation print inflation fell to 5.25%. This means the 8 major components which are tracked cost the average Canadian 5.25% more this year than last year at the same time. The components are – Food & Shelter, Household operations, Furnishings and Equipment, Clothing and Footwear, Transportation, Health and Personal Care, Recreation/Education/Reading, and Alcoholic beverages/Tobacco.



Energy prices were down 0.6% from a year ago as both Gasoline and Natural Gas prices dropped slightly. Unfortunately, food prices remain stubbornly high, up 10.6% compared to one year ago. Supply constrains and bad weather in food growing regions are a couple of the reasons to blame for the jump in prices.

The Bank of Canada (BOC) which is working to reduce overall inflation back to it's 2% target (although I feel they would be happy at 3%), has taken it's foot off the raising interest rate pedal for the moment. The BOC starting raising rates early in 2022 from 0.25% to 4.50% where it sits today. As the BOC catches it breath, hopefully bank Governor Tiff Macklem wrestles with the decision of keeping rates put for the remainder of 2023. If inflation continues to cool and household spending subsides, we might stay at current levels for a number of months. However, if circumstances change, the BOC has indicated more rate hikes might be in the cards.

Budget 2023

The federal government released it's much anticipated Budget 2023, which is proposing increased investment in health care, green energy, affordability and defence to name a few. Here is a list of some of the most significant funding initiatives in Budget 2023:

- $43B in net new spending over six years.
- 3 main priorities: health care/dental, affordability and clean economy.
- Doubling of GST rebate extended for lower income Canadians, up to $467 for a family "Grocery Rebate".
- $13B over five years to implement dental care plan for families earning less than $90K.
- $20B over six years for tax credits to promote investment in green technologies.
- $4B over seven years for an Indigenous housing strategy.
- $359 million over five years for programs addressing the opioid crisis.
- $158 million over three years for a suicide prevention hotline, launching November 30th.
- Creation of new agency to combat foreign interference.
- Deficit for 2022-23 expected to be $43B, higher than projected in the fall.
- Higher than expected deficits projected for next 5 years.
- Federal debt hits $1.18 trillion. Debt-to-GDP ratio will rise slightly over next 2 years.
- Time will tell how all this added spending will affect Canadians as a whole, but the spending will be happening.

Sources:
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https://www.cbc.ca/news/business/canada-inflation-february-2023-1.6785472
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https://www.cbc.ca/news/politics/highlights-from-2023-federal-budget-1.6792512

Articles of Interest

2022 Income Tax Guide for Canadians: Deadlines, tax tips and more

You don't need to work at the CRA to know about recent tax changes. Our handy guide demystifies taxes for 2022 and provides info to help you prep (and maybe even file) your return.

By Lisa Hannam

It's been quite a year for numbers, hasn't it? From rising interest rates to steep stock market drops, finances have been headline news throughout 2022. It's almost enough to make you forget about tax season. But with the tax deadline approaching, you have a few reminders (see the dates below), as well as this, our MoneySense 2022 Income Tax Guide for Canadians.

When are T4s due, tax deadline for 2022 and other important dates

April 30th may be burned into your brain as the date when taxes are due, but this year that is not the case—it falls on a Sunday in 2023. So, find out when to file your taxes, when T4s are due, and other important dates for your 2022 tax return.

Tax	Date
GST/HST for business owners	It varies. It is listed on your GST34-2 form, based on your reporting period.
Tax installment dates for 2022 (self-employed, rental or investment income, etc.)	March 15, 2022 June 15, 2022 Sept. 15, 2022 Dec. 15, 2022
Tax installment dates for 2022 for self-employed in farming/fishing	Dec. 31, 2022
Last day to contribute to RRSPs for those aged 71 in 2022	Dec. 31, 2022
Last day to open, contribute to and apply for grant-matching for an RDSP for 2022	Dec. 31, 2022
Netfile opens for filing 2022 taxes	Feb. 21, 2023
Deadline for employers to issue your T4	Feb. 28, 2023
Last day to contribute to RRSPs for 2022 for those up to 70 years of age in 2022	March 1, 2023
Last day to apply for a one-time top-up to the Canada Housing Benefit	**March 31, 2023**
Deadline to file your taxes (Canadians and non-residents, unless you and/or your spouse is self-employed)	**May 1, 2023**
Deadline to pay outstanding taxes	**May 1, 2023**
Deadline to file and pay taxes for someone who died, if they passed between January 1 and October 31, 2022	**May 1, 2023**
Deadline to file your taxes if you and/or your spouse are self-employed	**June 15, 2023**
Deadline to file and pay taxes for someone who died, if they passed between November 1 and December 31, 2022	**6 months after the date of death**

What if you miss the deadline to pay and file? You will be charged interest on your unpaid taxes. The interest rate for late payment of taxes is currently 7%. There is also a late-filing penalty of 5% of your balance owing, and you add another 1% for each full month you're late, to a maximum of 12 months. Those amounts are doubled to 10% and 2%, respectively, if you failed to file and pay on time in previous years, too.

Tax claims for Canadians: Changes to income taxes for 2022

You thought 2020 had tax changes due to lockdowns and work-from-home mandates—2022 comes a long and says "hold my beer." This was the year we first heard about the tax-free first home savings account, which will offer tax breaks on contributions and tax-free withdrawals, but it's not available until 2023. But there are other new tax credits you can start claiming now and MoneySense shares the 10 changes to claims that—if they apply to you—can help reduce how much income tax you pay.

For example: Is your income low enough to receive the Canada workers benefit? Did you buy a zero-emission vehicle in 2022? If you're a teacher, did you spend money on school supplies? Those are just some of the new federal credits. We also give you insights on provincial and territorial changes to tax claims, too. But what about tax claims that many Canadians and non-residents forget about? There are quite a few. So, read this before you gather your receipts and other documents.

Read: 2022 Income Tax: New tax credits for Canadians

Prepping your taxes, including the 2022 tax brackets

Even if someone else does your taxes, you still have some prep to do. You will have to gather your documents to file your 2022 taxes, and here is a list to consider:

- T-slips, including:
  - T4 (employment income);
  - T4A (self-employment/pension/annuity income);
  - T5013 (partnership income);
  - T4A-P (Canada Pension Plan);
  - T4E (employment insurance benefits);
  - T3, T5, T5008 (interest, dividends, capital gains);
  - T4A-OAS (Old Age Security);
  - T4RSP (RRSP income);
  - T4RIF (RRIF income);
- Other forms that you can use to summarize income and expenses for your taxes:
  - T2125 (statement of business or professional activities);
  - T776 (rental income and expenses);
  - T2200/T2200S (employment expenses)
- Log of other income, such as tips.

In addition to this list, you may also need receipts for the following: registered retirement savings plan (RRSP) contributions, school-related costs and income (such as tuition, scholarships, student loan interest, teaching supplies, etc.), childcare, medical expenses, charitable donations, digital news subscriptions, home buying expenses (Home Buyers' Plan, moving expenses, etc.), sale of assets (real estate, investments, etc.) and more.

Here is a handy list of all the tax brackets in Canada for every province and territory. They can help you estimate what you may owe by figuring out where you are income-wise, which may help to plan accordingly for last minute RRSP contributions.

Read: The 2022 tax brackets in Canada, based on annual income and broken down by province, too

RRSP contribution room

The deadline for RRSP contributions is March 1, 2023, for the 2022 tax year. One of the biggest benefits of putting money into an RRSP is that it lowers the amount of income tax you'll pay, both this tax year and in the long term. (It's a myth that RRSPs are considered risky.) Whatever you contribute (up to your RRSP contribution limit) is deducted from your taxable income, meaning you could owe less tax or receive a bigger refund. It's not until you withdraw from your RRSP that that amount is added to your taxable income. The ideal time is when you are retired and in a lower tax bracket than you were during your working years. So, you save in the long run, too.

Read: The best RRSP investments
Read: How much to take out of your RRSP in your 60s

TFSA contribution room

There actually isn't a deadline for contributing to your tax-free savings account (TFSA), but you cannot go over the contribution limit without penalty. What is the limit? For 2022, the limit is $6,000, and for 2023, it is $6,500. But try the MoneySense TFSA calculator to figure out your lifetime limit, which is based on your age.

It's important to note, though, that contributions to your TFSA in 2022 will not affect your taxable income like RRSP contributions. Instead, it is a registered account where any growth in your investments—including interest, dividends and capital gains—is not considered taxable income. You won't get a tax break for contributing, but you won't pay tax when you earn income or make a withdrawal, either. Consider making a resolution to contribute to your TFSA each year.

Read: TFSA vs RRSP: How to decide between the two
Read: What types of tax-free savings accounts (TFSAs) exist?

How GICs are taxed in Canada

Guaranteed investment certificates (GICs) earn income from interest, which you may need to report on your tax return each year, depending on the type of GICs you buy: registered or non-registered. Find out the types of GICs available to Canadian investors, where you can hold them and how to plan for tax time.

Read: What types of GICs are available in Canada?
Read: Why GICs are a good addition to an RRSP or a TFSARead: How GIC returns are taxed in Canada

Tax tips for Canadians

You may have heard the best tax tip from a friend of a friend, but there's no guarantee that it will work for you. Maybe that particular tax claim has expired, or maybe you don't qualify. And that's the exact reason we rounded up 17 tax tips that are worth bookmarking. Divorced? There's a tip for you. Have U.S. investments? We have a tip for that, too.

Read: 2022 tax season primer: Our roundup of the best tax tips for Canadians

How to get started doing your tax return

OK, OK. Doing your taxes isn't exactly exciting weekend plans. But, like all things that you need to do—exercising, having a medical checkup, writing a will, etc.—deciding to start is the first step. Plus, you don't want to be late on filing your tax returns, as it can cost you at least 5% of the 2022 balance you owe right away.
So, don't procrastinate. But if you do, make your only delay reading this: How to do your taxes and beat procrastination.

Complicated tax situations and more

Some tax situations are more complex than others. For example, if you invest in crypto, your earnings could be taxed as capital gains or business income, depending on the nature of your trading activities. Also, do you have withholding tax to claim? Have you received a W-8 BEN form? Canadians who hold U.S. investments (from stocks to real estate) will have to note this activity in their tax return, too. And if you've been named the executor of someone's estate, you'll need to prepare their final tax return—which is actually two returns, one for the person and one for their estate.

This is just a sample of tax return circumstances that aren't the everyday norm. These articles can help. (Read more about taxes.)
Read: The final tax return after death: How it gets done
Read: What you should know about cryptocurrency tax
Read: Tax planning for Canadians who invest in the U.S.

More helpful reading for filing your 2022 income tax return:

- The MoneySense Guide to Personal Income Tax 2021
- The MoneySense Guide to Personal Income Tax 2020
- Can you save tax by moving into your rental property?
- How spouses with joint accounts should claim capital losses
- Tax-efficient retirement strategy options for Canadians
- How it works: Capital gains tax on the sale of a property

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Tax-efficient retirement strategy options for Canadians

A Canadian couple wonders about winding down their taxable investments. A Certified Financial Planner looks at the options.

By Alan Norman

My husband and I have a modest portfolio of just under $700,000—no company pension. My husband is 79, and I am 66. We have only taken the minimum out of our RRIFs—my husband's amount has always been based on my age. Over the past few years we haven't had to pay taxes, as I am self-employed part-time and work from our home. I have been able to write off a portion of our carrying costs.

Shall we increase our RRIF payments while I am still working and since we are in a low/no tax bracket? Whatever we do not need, we would just reinvest into our TFSAs; we still have room. We would like to wind down our taxable investments in the most tax-efficient manner. Your thoughts?
—Carol

Withdrawal strategies and taxes for Canadian retirees

This is a layered question involving income, retirement, self-employment and savings. Carol, without additional information I'm not able to give you a proper answer. So, instead, let me give you a few things to think about as you work through this yourself or with a financial planner.

First, "to wind down our taxable investments in the most tax-efficient manner" can mean three things:
minimizing the final tax on your estate,
creating a tax-efficient retirement income,
and/or maximizing the wealth transfer to your children.

It is possible that one approach will accomplish all three objectives, but it's very unlikely. It's more likely that each objective requires a different wind-down strategy, with different consequences, which I'll illustrate with a few simple examples.

How to minimize tax on an estate

Minimizing or eliminating tax on your estate suggests a spending or gifting strategy. Taking it to the extreme, your only remaining investments at death should be in tax-free savings accounts (TFSAs) with a named beneficiary and possibly a life insurance policy. Everything else should be spent or gifted.

This strategy may mean paying more tax than necessary while living, and it may also mean losing out on some tax credits and government benefits.

Creating a tax-efficient retirement income strategy is easy

Don't start registered retirement income fund (RRIF) withdrawals until age 72. Only draw the minimum amount based on the younger spouse's age. Split your pension income, and put surplus RRIF income into a TFSA if there's room.

However, the problems with this (extreme) strategy are that you're in danger of dying with too much money and you risk letting tax dictate your lifestyle. So, you're not doing the things you want to do. Plus, when you die, your estate pays the largest tax bill of your lifetime.

Gifting children an estate when you're alive

Maximizing the wealth transfer to your children before you die sometimes means paying more taxes personally as you're drawing from taxable accounts and gifting to children. There's a risk of gifting too much, running out of money and reducing your lifestyle to quell those fears.

Registered investment taxes in retirement

Those were three extreme, broad examples of how to wind down taxable investments, but there's a missing piece.

Carol, you have to start by identifying the lifestyle you want, the income required to live that lifestyle and how much money is enough. With that you can construct a tax-efficient income and, doing as you suggest, make extra RRIF withdrawals to contribute to TFSAs.

Once your TFSAs are topped up, the question is what to do next, if you continue to draw extra from your RRIF. Gifting to children or investing in non-registered accounts? If you have more than enough money, then gifting to children or charities may be the best option, but does making extra RRIF withdrawals to contribute to non-registered investments make sense?

Think about the full investment life cycle when you draw money from a RRIF to make a non-registered investment.

The money comes out of the RRIF and is taxed, leaving less money to be reinvested in a non-registered account. Every year, you earn interest and/or dividends and pay capital gains tax, reducing your investment growth. Your taxable income may be higher, thereby reducing access to tax credits and benefits. And, upon your death, there are likely capital gains tax and probate fees to be paid. Leaving money in your RRIF means a larger amount to grow and compound, the distributions aren't taxed, and with a named beneficiary there is no probate.

Withdrawing from a RRIF for tax savings

The only way to really know whether you should draw extra from a RRIF to make non-registered investments or you should leave the money in your RRIF is to compare the after-tax value received by by your beneficiaries. The results will be influenced by marginal tax rates over time, investment types and your lifespan.

Carol, creating a tax-efficient withdrawal strategy involves in-depth calculations you may not be able to do yourself. The good news is that if you take the time to identify the lifestyle you want and its costs, that will point you in the right direction and probably provide you with at least 75% of your solution.