InTouch

Basic Financial Services Inc. | Sterling Mutuals Inc.
(905) 937-0204 | www.basic360.ca

QUARTER 4 – 2024

Table of Contents

Our customized services include:

- Retirement Income Planning
- Investment Management
- Asset Planning
- Wealth Protection
- Risk Management
- Tax Planning

BASIC
FINANCIAL SERVICES INC.

STERLING
MUTUALS INC.

Happy New Year and welcome to the first issue of 2025. It's contents will reflect Q4 of 2024. We hope this issue provides you with valuable information, which will allow you to make strong financial decisions.

What's Happening

We'd like to start off by wishing you, along with your family and loved ones and very Happy New Year! May it be filled with health, happiness, success and prosperity!

We had a great start to a busy fourth quarter with review meetings and a heavy focus on Tax Bracket Management. There was also a portfolio tweak to some client portfolios if your Advisor thought appropriate for your unique situation. 2024 wrapped up nicely with the holiday season. The team had spent some much-needed time with family, friends and loved ones – we hope the same for you as well!

With January here, TFSA & RRSP contribution season has begun. The deadline to contribute to your RRSP is March 1st, 2025.

A few new clients have joined us recently and we would like to thank you for providing referrals and introductions to your family, friends and co-workers. We love what we do and appreciate your trust and support.

In the Community

Giving back to our community is important to us with many inspiring causes and organizations to support. We have always felt particularly connected to Autism Ontario and that is why we donate a portion of our profits to this organization each and every year. Aside from enhancing awareness about autism in our community, the Niagara Chapter works diligently in holding various fundraising events, runs programs and events for individuals with ASD and their families to get involved, socialize and network. Their hard work helps create a better future for those with Autism and their families. Our clients feel we make an impact in their futures, so why not make an impact on the futures of those with special needs?

Market & Economic Update

2024 was an amazing year for the markets even if the news makes it out to be doom and gloom. Our clients were pleased with our portfolio performance again this year which surpassed many of our peers. The U.S. economy remained innovative and resilient, outgrowing other major developed countries.

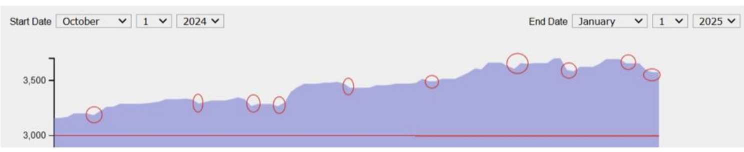
InTouch

Basic Financial Services Inc. | Sterling Mutuals Inc.
(905) 937-0204 | www.basic360.ca

The countries mega-cap tech stocks led the S&P 500 with the ‘Magnificent Seven’ stocks rising 48% while the other 493 stocks in the S&P 500 rose 10%. The S&P 500’s total return of 25% (36.4% in CAD), marked a second straight year of +20% returns – a feat that has only occurred seven times in the last 70 years. Canadian stocks lagged our U.S. peers by roughly 14.7% in CAD despite rising 21.7%.

While that performance is great, we have heard a lot of negative news out there stemming from the President-elect Donald Trump. So far, the market reaction to his election has been positive to date. That being said, we do anticipate some choppy waters in 2025 – still a positive year but some up and down stretches.

It’s important to filter out the noise and focus on your long-term goals, we are here to support you through that. Below is a graphic of a portfolio performance from October to January – this stretch in particular was up nearly 10% for this client with 10 dips or negative stretches. There always has been and always will be some volatile (up and down) stretches. They are normal and expected.

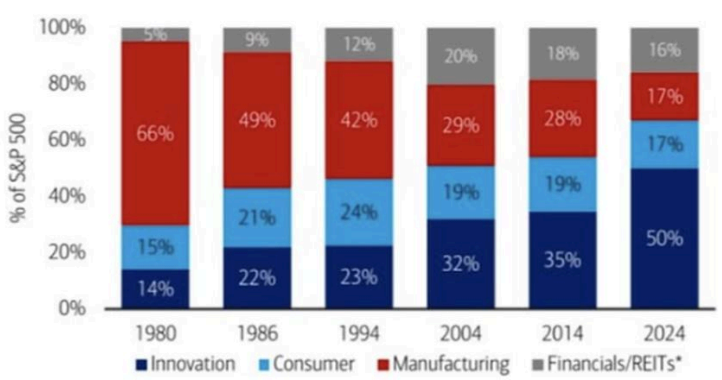


Central banks shift their focus

- The Bank of Canada (BoC) cut interest rates twice
  - The BoC cut interest rates by 0.50% at two meetings
  - The BoC’s policy interest rate now stands at 3.25%
  - The BoC made large rate cuts to support consumers and businesses (this could improve Canada’s economic growth)
- Republicans won the U.S. election
  - The Republican Party also secured the Senate and House of Representatives
  - Investors expect policy changes to be good for business (this helped push U.S. equity markets to new highs)
  - The President-elect said the U.S. may place tariffs on imports from Canada
  - This could drive down exports to the U.S. from Canada (these tariffs could also reduce the outlook for key sectors of Canada’s economy)
- China’s government will support its economy
  - The Chinese government said it would spend more and lower interest rates to support growth
  - The government also wants to prepare for a potential increase in tariffs from the U.S.

There are growing sentiments that the U.S. is entering a manufacturing and productivity period that will drive economic and corporate growth in coming years. President Trump has provided hopes of deregulation, lower taxes and the accelerated onshoring of manufacturing activity intended to stimulate growth with his America first mentality. AI, deregulation and the onshoring of manufacturing are very likely to drive productivity, efficiencies and innovation in coming years. It’s also true that the economy and the stock market have structurally changed in recent decades from manufacturing focused in the 1980’s to more innovative companies as shown in the chart below. What remains important are the timeless advice of diversifying portfolios and taking on enough risk that you are comfortable with... that is always top of mind for us in our review meetings and discussions with you.

The S&P 500 Market Composition has Changed



What this means for Basic Financial: Our funds view and outlook

We continue to monitor the markets and our portfolio. We are confident in our strategy of having a diversified portfolio with a mix of both active and passive managers which continues to outperform our peers. We have designed the portfolio to help ride out any potential future market volatility and are not making any major changes at this time.

If you have concerns or questions – call us! We love talking about the markets and better yet, we love talking to you… so that you understand what's going on with your portfolio.

Please feel free to reach out if you have any questions, comments or would like to meet. We offer both in person or electronic meetings via Zoom. If you feel the information above may be helpful to a family member or friend, feel free to share or visit our website www.basic360.ca.

Sincerely, your team!

Article of Interest

Moving money from RRSPs, RRIFs and TFSAs in retirement

By Allan Norman MSc, CFP, CIM

To have liquidity and reduce taxes, Canadians can move money between registered accounts. But what are the tax, contribution room and other implications?

Ask MoneySense
My husband and I are retired with $200,000 in our TFSAs, $230,000 in our RRSPs and RRIFs, and we have an emergency fund. Our household income is $85,000 a year.

My husband may need nursing home care at some point, so I have been moving assets from the RRSPs to our TFSAs for flexibility. My spouse, who is over age 71, has about $50,000 of RRSP contribution room left.

We would like to leave money to our only child and may soon open a non-registered investment account.

Should I move TFSA and other assets into a spousal RRSP before I turn 71, and continue to draw down our RIFs/RRSPs to our TFSAs? Or should I leave things be?

—Irene

I like your thinking, Irene. You're looking ahead to see how you can minimize taxes and create more options for you and your husband. Money withdrawn from a registered retirement savings plan (RRSP) and/or a registered retirement income fund (RRIF) is taxable, so why not move it to a tax-free savings account (TFSA)? That can mean tax-free growth and withdrawals.

You are also wondering if there is a way to use your husband's unused RRSP contribution room. As we work through these points, I think you will come up with a strategy that will work for you.

Withdrawing from RRIFs and RRSPs in retirement
Let's step back and look at the bigger picture, before focusing on a strategy for your registered accounts. You have an annual household income of $85,000, which I'm assuming is a pre-tax figure. If your combined Canada Pension Plan (CPP) and Old Age Security (OAS) is about $40,000 annually, indexed to inflation, you will need another $45,000 from your investments to bring you to the $85,000 income figure.

Drawing $45,000 from your RRSPs and RRIFs will deplete it in about seven years. Does that match with your plans? If your projections are showing that you will naturally deplete your RRIF over your lifetime, then it probably doesn't make sense to draw it down faster, pay tax and add it to a TFSA.

From a tax perspective drawing $45,000 from your RRSPs and RRIFs is OK. If you're in Ontario and are perfectly dividing your income through pension splitting and CPP sharing, then you will each have a marginal tax rate of 20% and an average tax rate of 9.4%.

That is not bad. At that income level, you are also under the individual income threshold of $44,325 (2024) when tax saved from the old age credit starts to reduce.

Withdrawing from registered accounts
When withdrawing from RRSPs and RRIFs to add to TFSAs, you must think about the tax consequences.

A RRIF withdrawal means you have less after-tax money to invest in a TFSA. If the rate of return earned in the RRIFs and TFSAs are the same, and your marginal tax rate remains, there should be no difference when the money is withdrawn. It may be that there's no value in moving from an RRSP or RRIF to a TFSA. It may make sense if you're looking to create alternative sources of income, as you are, or if you are going to carry a lot of RRIF money to your estate, which it doesn't appear you're doing.

Another reason for not drawing from your RRSPs and RRIFs to top up a TFSA is that the first two accounts are both tax-sheltered.

Withdrawing money from a TFSA in retirement
With a TFSA, though, you can withdraw money and put it back in the next year. You cannot do that with a RRIF. Once you withdraw money from it, you can't put it back in.

If you think you will need a tax sheltered account for a large sum of money in the not too distant future, for, say, a house sale or inheritance, it may be best not to use a RRIF to top up the TFSA.

Converting an RRSP to a RRIF at age 71
Have you converted your RRSP to a RRIF? If not, consider doing so. You will qualify for the $2,000 pension tax credit. Plus, which may be more important to you, you will be able to control the withholding tax on your minimum RRIF withdrawals. As a reminder, with RRSP withdrawals, the withholding tax on the first $5,000 is 10%, between $5,000 and $15,000 it is 20%, and over $15,000 it is 30%.

Converting your RRSP to a RRIF means no withholding tax on the minimum withdrawal after the first calendar year of opening the account, unless requested. I've heard it said that it doesn't matter if the withholding taxes are high because you will get the money back in the form of a tax refund when you complete your taxes in the spring. But, having too much withholding tax means drawing more than needed from your RRSP investments, pushing up your average tax rate, and possibly losing some future investment growth.

You also wondered about drawing from your TFSA to make RRSP contributions. It sounds like a good idea because you get a tax deduction when you add money to a RRSP and you free up TFSA room, which you can use to absorb some of the proceeds from a home sale or inheritance.

But there is one issue.

Drawing $10,000 from a TFSA, adding it to a RRSP, and then withdrawing the money will leave you with $10,000 minus the tax.

You just turned $10,000 into a smaller amount. You may think that the RRSP tax refund will make it even, but it won't. If your marginal tax rate is 20% and you make a $10,000 RRSP contribution, your tax refund will be $2,000. Sounds good, but how much did you have to earn before tax to have the original $10,000 to invest? Was it $12,000? No, because $12,000 minus 20% comes to $9,600. You had to earn $12,500 to have $10,000 to invest. So, if you don't want to have less money when you go from a TFSA to an RRSP, you could use the $10,000, borrow $2,500 and when you get your tax deduction of $2,500 pay back the loan.

Making money in retirement more tax efficient and more liquid
Irene, I think you have arranged things well. You have a good mix of TFSA and RRIF money. The RRIF money is for regular income, and the TFSA for health spending, and if it isn't used for that it's an ideal place to leave money for your child.

Sources:https://qvinvestors.com/q4-2024-market-commentary/#:~:text=The%20U.S.%20economy%20remained%20resilient,S%26P%20500%20rose%20just%2010%25.