Personally Speaking

This newsletter is produced for the friends and clients of Terry Kitching

Wealth Management Dominion Securities

December 2018

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The TFSA contribution limit for 2019 has been increased to $6,000!

A Tax-Free Savings Account (TFSA) is a flexible investment account that can help you meet both your short- and long-term goals. Starting January 1, 2019, you can contribute another $6,000 to your TFSA.

With the TFSA, your investment earnings (dividends, interest and capital gains) grow on a tax free basis, which means you never pay tax on them – not even at the time of withdrawal! TFSA contribution room starts accumulating at age 18 for all Canadian residents and carries forward indefinitely. To open a TFSA, you need to have a Social Insurance Number. You can withdraw as much as you want, whenever you want, for whatever reason you want and you pay no taxes on the withdrawal!

And come January 1, 2019 if you have never contributed to a TFSA, you can contribute up to $63,500.00!

Year-End Tax Planning

1. As we approach the end of the 2018 tax year, you may want to review your non-registered portfolio for tax loss selling opportunities. Tax loss selling allows you to identify any underperforming investments that may no longer meet your needs. You can consider selling them and then reinvest the proceeds in an investment that is better suited to your needs. Selling investments in your portfolio that are in a loss position may allow you to realize capital losses in the 2018 tax year. Subject to certain conditions, these capital losses can be used to reduce taxable capital gains, in the following order:

A. First, the capital losses must be applied against capital gains realized in the 2018 tax year.

B. Any remaining net capital loss can be applied against capital gains taxed in any of the three previous years (2015, 2016 or 2017), potentially resulting in a tax refund.

C. If you still have a net capital loss, you can carry it forward to apply against any future capital gains.

Planning for retirement in 10-15 years

- **Start with a financial plan.** If you have an existing financial plan that's due for an update, or if you've never had one created, this is the time. With a comprehensive financial plan, you'll have a better sense of the income you'll need in retirement and actionable strategies that can help bridge any gaps in your income.
- **Ride the RRSP bandwagon.**
Investment income in your RRSP is earned on a tax-deferred basis, so you don't pay any tax on it until you withdraw it. By that time, you'll be retired and likely in a lower tax bracket due to earning less income. The result? Greater potential investment growth compared to a regular taxable account.
- **Maximize your Tax-Free Savings Account (TFSA).** With a TFSA, you can make contributions that grow tax-free, and you can make withdrawals any time, for any reason, also tax-free. What's more, any amounts you withdraw are added back to your available contribution room the next year. In addition, TFSA income and withdrawals will not impact any federal income-tested benefits you may be entitled to, once retired, such as the Guaranteed Income Supplement (GIS) or Old Age Security (OAS). If you haven't yet opened up a TFSA, you can "catch up" on previous years' contribution room – a total of $57,500 for the years 2009-2018 – or gift funds to a lower-income spouse so they can maximize their own TFSA.
- **Consider an Individual Pension Plan (IPP).** An IPP is a defined benefit pension plan established by an incorporated business owner or professional that may enable you to make higher contributions compared to an RRSP, and enhance your retirement income. The contributions are tax deductible to your corporation, making it ideal for self-incorporated professionals and owner-managers.
- **The Retirement Compensation Agreement (RCA).** RCAs enable high-income earners such as senior executives to receive retirement benefits equivalent to what you would have received if you had not been subject to the contribution limits on registered plans. Contributions are 100% tax deductible by your employer and are not taxable to you until you receive the benefits, when you may be in a lower tax bracket.
- **Don't forget non-registered investments.** Even if you've contributed the maximum to your RRSP and TFSA, you might still need to save more to maintain your current lifestyle when you retire. By diversifying the stocks, fixed-income and cash investments in your savings plans, you can build in protection from the risk of losing income from poor investment performance in any one sector, region or company. Speak to us to help determine a suitable investment mix for the time you have to invest and your comfort level with risk.
- **Consider insurance to build wealth.** Instead of exposing your non-registered investments to a high tax rate, consider investing through a tax-exempt life insurance policy. The income generated by your assets accumulates tax deferred, as in a registered plan. For retirement income, simply use the insurance policy as collateral to secure a tax-free loan. When your estate is settled, the loan is repaid with the insurance proceeds, and the remainder goes to your beneficiaries, also tax-free.
- **Plan for business succession.** If you own a business that you plan to sell, speak to your tax advisor early in the process about restructuring the business ownership to minimize taxes on sale.

Talk to us today, and as your retirement plans evolve, to learn more about tailoring a retirement strategy appropriate for you.

Hindsight is 20-18

A butterfly flaps its wings and sets off an ice storm – or so The Butterfly Effect theory goes. Mathematician Edward Lorenz was studying weather patterns when his models revealed tiny changes to initial conditions dramatically altered the results. He used the flap of a butterfly's wings as a metaphor for the unpredictability of long-term weather events. But it's also the perfect metaphor for market downturns. Something seemingly benign and near impossible to predict was the beginning of the next decline.

2000 – Irrational exuberance

Popularized by Alan Greenspan, "Irrational exuberance" became the catchphrase explanation for the dot-com bust. It refers to late-'90s investors' confidence that dot-com stock prices would continue to rise despite non-supporting fundamentals. Hundreds of new internet companies reached valuations in the hundreds of millions, if not billions, having never made a profit only to soon crash into nothing. The easiest explanation for the dot-com crash was excitable investors, propping profitless tech companies so high it eventually became their own undoing. But the fuse was likely set three years before. Between 1997 and 1999, interest rates were low and Asia was in the midst of a financial crisis; money was cheap and in search of a home. Then on August 5, 1997, The Taxpayer Relief Act was signed into law in the U.S., thereby lowering the capital gains tax rate from 28% to 20% for securities held longer than 18 months. Non-dividend payers, often growth companies, became incredibly attractive. Tech companies were considered new, exciting and the ultimate growth stock opportunity. Over the course of 2000-2002, the NASDAQ Composite fell 78%, and tech companies lost trillions in value. Looking back, the investing environment in 1997 was the beginning of a perfect storm.

2008 – Subprime mortgages

The 2008 financial crisis was the worst recession in 80 years. Many point to lenders who peddled subprime mortgages to borrowers with poor credit histories and little hope of repaying. Risky loans certainly played a part, but weren't the catalyst. After all, subprime lenders needed an incentive to write loans they knew they couldn't recover.

Arguably, it began in 1999 when U.S. banks were allowed to invest in derivatives using traditional deposits. This ability to speculate, coupled with leaps in financial engineering, led to toxic mortgages being pooled together, sliced and diced, and sold as investment-grade financial products. Subprime lenders didn't have to worry about keeping toxic loans on their books because they could sell them to be repackaged. In hindsight, the 1999 legislative change may have set off a chain reaction that brought the global economy to the brink of collapse nine years later.

20XX?

Not unlike the weather, markets are influenced by millions of tiny changes. Technological innovation, legal reform, market sentiment, Presidential tweets – all have the potential to alter the course of the markets. There are three things we can reasonably predict: 1) There will always be forecasts calling for the next market hiccup; 2) You never truly know the cause of a downturn until it's too late; 3) Historically, U.S. and Canadian markets have always recovered.

Like planning a barbeque for two months from now and worrying about rain, the best course of action for weathering market fluctuations is to develop a plan, diversify your investments, and stick to the plan.

To learn more, please contact us today.

Four ways to avoid a scam

There's nothing new about scams, fraud or stealing personal information, but it does seem that for every new convenience technology provides, a new scam appears. Protecting yourself might not always seem easy, but with a few helpful tips, and occasional reminders about the latest or most common scams, you can reduce the risk significantly.

1. Don't get caught by "phishers"

"Phishing" is a common online scam designed to trick you into providing personal information that can be used to rip you off or steal your identity. Scammers send you an unsolicited email that, at first glance, may appear to legitimate. Typically, the email will say there's some "problem" that requires your "urgent attention" and provides a link to a fake website, which requests your personal information. Remember, you should never provide personal information such as credit card numbers, passwords, and date of birth or social insurance numbers, in response to an unsolicited email.

2. Practice safe surfing

Of course, not every email or website is a scam. For example, you may receive an email from a trusted service provider, reminding you to pay your bill online, and providing a link to their website.

If you're unsure whether the email or website is legitimate, reopen your browser and type in the company's website URL in the address bar yourself. Before entering any financial information, look for the lock icon on your browser and ensure the URL in the browser address starts with "https."

Avoid using public computers, keep your computer protection software up to date, and choose effective security questions, and change passwords and PINs on a regular basis. Remember, if you're unsure about a website, you can always phone a company to verify using a phone number you know is legitimate.

3. Don't buy under pressure

Someone with a clipboard is knocking on your door. Your first instinct may be to pretend no one's home. But if you do open the door (or pick up the phone) and find yourself being asked to buy something or donate to charity, be careful. It could be a scam. If you are interested, don't commit on the spot, or provide any financial information such as your credit card number, especially if you're being pressured. You can always take the time to make your decision and research a company or charitable organization to ensure it's legitimate.

4. Invest with care

There are no guaranteed get-rich quick schemes, and "secret" shortcuts to wealth or "hot tips" are also very likely scams. These scams are often about stealing money from you, or obtaining your personal information. Salespeople that pressure you to sign or invest immediately could be perpetrating a scam. When investing, it's best to work with someone you know who works for a reputable company.

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