Portfolio Advisor

Wealth Management
Dominion Securities

January 2017

Market commentary

While equity markets will at some point consolidate following the strong post-U.S. election rally, we believe most developed markets will deliver worthwhile returns in 2017. Economic indicators have been improving across regions, suggesting growth is on a firm footing.

We continue to recommend investors with a 12-month or longer time horizon maintain a full commitment to global equities.

Corporate profits should accelerate as bank earnings rise and the Energy sector flips into the black. Most markets are still reasonably valued, particularly given the low interest rate environment.

We continue to recommend investors with a 12-month or longer time horizon maintain a full commitment to global equities with "overweight" positions in the U.S. and Canada. Earnings growth is more durable and economic prospects are better in North America – even more so if the Trump administration's fiscal stimulus proposals are passed and sweeping regulatory reforms occur.

Fixed income

Bond market volatility will likely ease in the near term as lofty expectations about U.S. fiscal stimulus seem baked into Treasuries and the market has caught up to the improved economic fundamentals. Investors should, however, expect yields to drift moderately higher in 2017 driven by the fact that economic growth could accelerate later in the year and inflation is likely to trend higher for major economies. The Federal Reserve, for now, will likely stick to gradually raising interest rates, but we should expect continued monetary stimulus in Europe and Japan.

Even though yields could push somewhat higher (albeit while remaining low historically), we believe there are attractive opportunities for buy-and-hold investors, especially in the U.S. and Canada. We still prefer opportunities in corporate credit, but investors need to be selective.

To learn more, please ask us for the latest issue of Global Insight.

RBC Wealth Management
Global Portfolio Advisory Group

Two great ways to save for your retirement that work even better together

In the media, Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) can be presented as an either/or choice, leading investors to favour one over the other. However, both account types offer distinct benefits that can help you manage taxes and boost after-tax dollars. Further, by utilizing both accounts, you gain an additional layer of flexibility to help maximize the benefits of each account.

Let your RRSP tax savings build your TFSA

Your RRSP offers some well-known tax advantages, including the ability to claim your RRSP contributions as deductions on your income tax returns, and potentially receive tax refunds.

By choosing to put your savings into your RRSP first, and using your RRSP tax refunds to contribute to your TFSA, you can build more assets for your retirement. Plus, you can fund your TFSA without the need to find those extra dollars from your paycheque.

The flexibility of two accounts

When your tax rate is relatively high, and you require additional income, drawing savings from your TFSA can make a lot of sense.

That's because you can withdraw funds without paying taxes at your current high rate, and the amount you withdraw is added back to your available contribution room the following year. On the other hand, because RRSP/RRIF withdrawals are taxable, to maximize the benefits, withdrawals are ideally made when your income is relatively low and/or your tax-rate is lower than when you made your contributions.

By building assets in both your TFSA and RRSP, you have the flexibility to draw income from the account that best suits your current tax or income scenario.

Benefits before and during retirement

For most people, their retirement income will be lower than throughout their career, providing a natural time to take advantage of lower tax rates to withdraw from their RRSP, and eventually their RRIF.

However, employment and retirement income, or income needs are not always consistent over a lifetime. Pre-retirement, people take time off to take care of family, for education, sabbaticals or other personal reasons. Post-retirement, income can also vary significantly for those who retire prior to pensions kicking in, take on a new career, or have income needs that vary due to lifestyle.

Having assets in both your RRSP and TFSA through these periods not only helps provide income, it can also help you smooth your taxable income and maximize the tax benefits of these two accounts.

Everyone's income and tax situation is different and there can be several moving parts beyond your TFSA and RRSP. Contact us to review your personal situation and optimize a plan to suit your needs.

Why pay more tax today?

For retirees, sometimes it can make sense to pay a little more tax today to pay less tax in the long run.

It's often recommended that retirees draw income from low- or non-taxable income sources first, such as Tax-Free Savings Accounts (TFSAs), and minimize withdrawals from income sources taxed at their marginal rate, such as Registered Retirement Income Funds (RRIFs).

While this is often good advice, there is no definitive withdrawal sequence that applies to everyone. As a retiree, you need to consider your personal situation, your tax rates at various times and your upcoming financial needs.

You may have a retirement income gap

Many people retire prior to their employment pension or government pension kicking in. In these "gap years" your income may be lower than it will be in the future. In this instance, it may be worthwhile to draw retirement income from your RRSP, rather than your TFSA or via the sale of securities.

By making a RRSP withdrawal during a gap year, rather than from low or non-taxable sources, you may be unnecessarily triggering taxes. However, if your tax rate today is lower than it will be after you begin receiving your pension, you could generate more after-tax dollars.

Further down the road, after you convert your RRSP to a RRIF, because you made RRSP withdrawals earlier, all else equal, your RRIF assets will be lower and therefore your mandatory RRIF withdrawals will also be lower, which can further lower your tax bill.

You may have inconsistent retirement income

Not everyone's retirement income will be as smooth as a guaranteed pension. Taking on occasional work, or starting another career in retirement can result in relatively volatile year-over-year income. While planning ahead is not always easy, if a contract is coming up "next year" or a lump sum payment for a job will soon be paid out, consider smoothing your year-over-year income by coordinating uneven employment income with investment withdrawals.

Smoothing your income can help avoid one-off years with high income generation and higher taxes. While it may mean pulling income forward and paying more tax today, in the long run it can lower your overall taxes.

Your income needs may vary from year-to-year

Drawing income from your investments is often driven by your needs (or wants), rather than solely providing steady income to cover the bills. You may be planning to buy a cottage, take a long vacation or complete a big home renovation. You might also be looking to help out your children, or make a significant charitable donation. In these instances, withdrawing the funds over multiple years, rather than in one lump sum, could help lower your taxes.

Similar to coordinating retirement employment income with investment withdrawals, smoothing your year-over-year income to fund longer-term objectives can also help save taxes.

Contact us for more information about retirement income planning.

Smooth your income and save

It may seem counter-intuitive to unnecessarily trigger taxes today by pulling income forward through the sale of an investment, an early RRSP withdrawal, or withdrawing more than the minimum from your RRIF, but for many people the payoff could be significant.

Planning ahead is not always easy, but it's the key to navigating retirement if income generation and income needs could change significantly from year-to-year. Essentially, the basic goal is to look at smoothing your income, and whether paying a little more tax today can help avoid unnecessarily high future tax bills.

Know what you are paying for

There is a cost to investment advice and it's important to know what you're receiving – or could be receiving. With a recent regulatory reform known as "CRM2" – which requires Canadian investment firms to provide clients with more detailed cost reports – many investors are now asking themselves: "Am I getting value for my investment dollar?" To help answer that question, consider the following four questions:

1. Can your advisor provide access to a full range of investment solutions?

GICs and mutual funds are only the tip of iceberg when it comes to investment solutions. Access to individual stocks, bonds, preferred shares and ETFs can provide important diversification benefits, while "alternative investments" can play a key role in risk management for certain investors. Additionally, insurance solutions can offer more than just the security they're typically associated with, especially in retirement. The ability to employ a full range of investment solutions can benefit growth, income and wealth preservation strategies.

2. Does your advisor help manage your overall wealth?

Managing your investments is just one key part of managing your overall wealth. Can your advisor assist with your tax, retirement, estate, trust and insurance needs? Is there a team of accredited specialists backing up your advisor in these key areas? If you own a business, can your advisor help you take advantage of unique planning opportunities? If this expertise is available at your wealth management firm, it can add a lot of value in helping simplify and coordinate your finances.

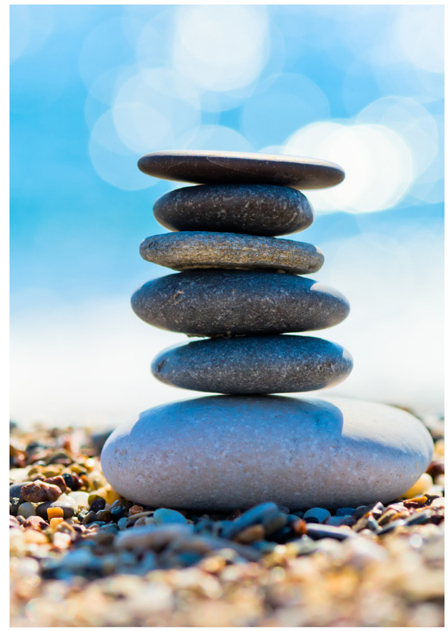
3. Can your advisor offer the flexibility to tailor investment solutions and advice to your objectives?

There can be a lot more to wealth management than simply determining your risk profile, then choosing the right asset mix. Your needs may be more complex from a risk management standpoint, or your asset level may be such that you can benefit from solutions that can be customized and tailored to very specific requirements. A firm that can meet this level of customization might be a better fit to help you meet your financial objectives.

4. Are you confident that your advisor is backed by a reputable company?

In addition to considering whether your investment firm offers the solutions you need, consider its financial stability. You should be confident that your advisor works for a company that's on solid ground financially, where your money is secure. After all, there's great value in peace of mind.

If you, or someone you know, have questions about CRM2, or the value we can provide to investors, we'd be pleased to talk.



Wealth Management
Dominion Securities