Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Winter 2023

Andrew Grimes, CIM
Senior Portfolio Manager
416-842-1008

Julie Handscomb, CIM
Senior Portfolio Manager
416-842-2502

Shelley Knox, CIM, FCSI
Associate Portfolio Manager
416-842-2503

Michael Cochrane
Associate Investment Advisor
416-842-5596

Aurelia Pompili
Senior Associate
416-842-2504

Laurie Christensen
Senior Associate
416-842-1009

Karen Murphy
Administrative Assistant
416-842-2446

Yonas Woldu
Administrative Assistant
416-842-2447

RBC Dominion Securities
Brookfield Place
Bay-Wellington Tower
181 Bay St., Suite 2350
Toronto, ON M5J 2T3
Fax: 416-842-2249
Toll-free: 1-855-889-1127

Why your art collection should be part of your estate planning

Art collections are an emotionally charged part of your estate. Here's how to prepare for a smooth transfer to the next generation.

As any art collector knows, the allure of art lies in how it makes you feel. However, feelings aren't easily passed between generations. A collection that has taken decades to build can be met with ambivalence by the next generation, and the personal significance of a particular work of art can easily fade with the death of its owner. This is why art is nuanced when viewed as an asset.

"Art is a tricky topic – unlike other parts of an estate, it can be a very personal and emotional asset," says Leanne Kaufman, president and CEO, RBC Royal Trust. That emotional connection can make it both an urgent and complicated part of a legacy to preserve, causing collectors to put off the conversation about where art belongs within an estate.

According to Deloitte's Art and Finance report 2021, only 31 percent of collectors who plan to leave art to their family say they've specifically discussed what they'll bequeath and allotted the resources to ensure the art is properly cared for. Just over one in 10 collectors surveyed say they've formalized their estate documents with advisors.

However, not considering art as part of your estate planning could be detrimental to your legacy. "If it isn't specifically addressed in the Will, or some other arrangement isn't made, then it just falls into the residue of the estate," says Kaufman. Residuary assets – the remainder of the estate after specific bequests of particular assets, as well as debts, fees and taxes are paid – are distributed to the residual beneficiaries, and if they are named as a class like "my children" or "my nieces and nephews" then a decision will need to be made about who will get the art. It's often difficult to equally divide art in this way.

If your art collection is meaningful, then the appropriate legacy-planning steps need to be taken to protect it for future generations.

Continued on page 2

Continued from page 1

Create a detailed archive of your art collection

The first step to preserving an art collection as part of your wealth and estate plan is compiling a clear inventory in an artwork archive database. "There are certain parameters that can be followed" says Sara Johnson, vice president, High-Net-Worth Planning Services, International Estate, Art and Digital Legacy Planning at RBC Wealth Management.

The Getty Object ID, one of several internationally recognized parameters in the art and antiquities market, has nine information categories, ranging from the type of object, title, and date or period, to materials and techniques, distinguishing features and measurements. "You need a very thoughtful, precise description that identifies the item as either fine art or collectible, and as much evidence as possible of provenance tracing it back to the artist," says Johnson. Knowing how a particular piece of art came to be within a collection is the first step in deciding where it will go next.

Discuss your art estate plan with your family

The raw data in an artwork archive is the bare minimum, says Johnson. Storytelling is an equally important part of preserving a collection, especially when convincing the next generation of what makes the work meaningful. "I had a collector who recorded himself talking about why he bought each piece and why it was significant," she says. "The family was astounded, because it added so much life to the collection."

The estate-planning process opens the door for candid conversations surrounding the artwork owner's intention and the intentions of the heirs it's expected to pass to upon death. In some cases, there's a chance the next generation isn't interested in maintaining the family art collection. Maybe the plan is to

pass the collection on to a museum, sell to another private collector or build a new museum to house the collection, says Johnson. "If you don't have informed conversations with these institutions, then you're left with having them apply their boilerplate template [rights] and that could lead to disappointment."

Discussing your art estate plan with your family lays the foundation for a formal strategy.

Leave no parameters overlooked

While art is subjective, there are some very specific considerations for handling an art collection within an estate. "As an executor or the person who's responsible for helping finalize the estate of the individual, you need to know what you're doing when it comes to art," says Kaufman.

Practical considerations include how the collection is being stored, insured and transported. "There's a lot of intricacies around just the practical side," she adds. "How do you value it for probate purposes? How do you value it for tax purposes? You need someone who you trust – an expert in the field who can do that appraisal piece of it as well."

Ownership is another big question. Kaufman says it's important to lay out in your estate plan whether the art is an outright gift for the individual to do whatever they want with it or part of a wider legacy plan. If it's the latter, a trust can be a useful tool for plotting the course of the collection and protecting it from creditors.

"There are tax implications people don't necessarily think about," says Kaufman. "It's an asset that has probably appreciated, so there could be a capital gain payable on it."

Johnson points out that knowing the value of the collection and its intended path can dictate whether it makes sense to gift the collection to family, a museum or charity while you're living or upon your death. But mostly, she says, estate planning is about legacy as opposed to tax implications. "You never know what the piece is going to be worth when you die."

Honour your collection in a way that makes sense to you

Like other assets, art requires stewardship and planning that stretch far beyond tax and legal considerations. For collectors, art can tell a story, and its meaning depends on preserving that story. But Johnson says there are cases in which the emotional value of a work can get overlooked when it comes time to distribute the estate to the next generation. That can lead to tension between family members who feel an estate is divided unevenly.

"So unless there's a really clear prologue and storytelling from the collectors to their family and to their children, it's all missed in accounting," says Johnson.

Putting your art collection in your wealth and estate plan can help alleviate any tension and bring the next generation into the discussion.

Continued on page 3

Status quo

by Jim Allworth

There is no change to the "challenged" outlook for global equity markets over the coming 12 months. Of primary concern is the growing certainty that a U.S. recession will arrive around midyear 2023. If it does, it would be very unusual for Canada not to suffer the same fate. High energy costs in Europe and the U.K. look set to produce a downturn there – new orders are already weak, and the knock-on effects of production slowdowns have not yet been fully felt.

Meanwhile, China brings a mixed message. The re-opening should add to domestic activity and to imports of foreign goods but may also produce a surge in commodity prices, exacerbating the inflation outlook for central banks.

Over the past 70 years, the U.S. Federal Reserve (the Fed) has usually stopped raising interest rates and begun cutting even before the associated recession started. However, given today's inflation concerns, the Fed and other central banks have made a point of emphasizing the dangers of cutting rates too soon. Improving inflation data has already allowed the Fed to dial down the size of individual rate hikes; further moderation of price increases, especially if accompanied by weaker labour market readings, may even persuade the Fed to pause. However, outright cutting, in our view, is unlikely to begin until there is some marked worsening in economic data, most likely not before H2 2023 with a recession underway.

Happily, bear markets typically end some months before the associated U.S. recession ends–but not before the recession has started and not before the Fed has started cutting. So it appears the necessary conditions for a sustained upturn in share prices are unlikely to be in place until later in the second half of this year. That said, the path from here to there for equity markets is unlikely to follow a straight line.

So far, markets have remained above their October lows although the price action of some has resembled "treading water" more than an uptrend. But investor sentiment in the U.S. remains resigned and depressed (usually a good contrary indicator) while tax-loss selling has ended. We think a rally, propelled by better inflation data, could extend the gains made since October for a number of weeks or months into the new year before the bearish forces of the coming recession take control again.

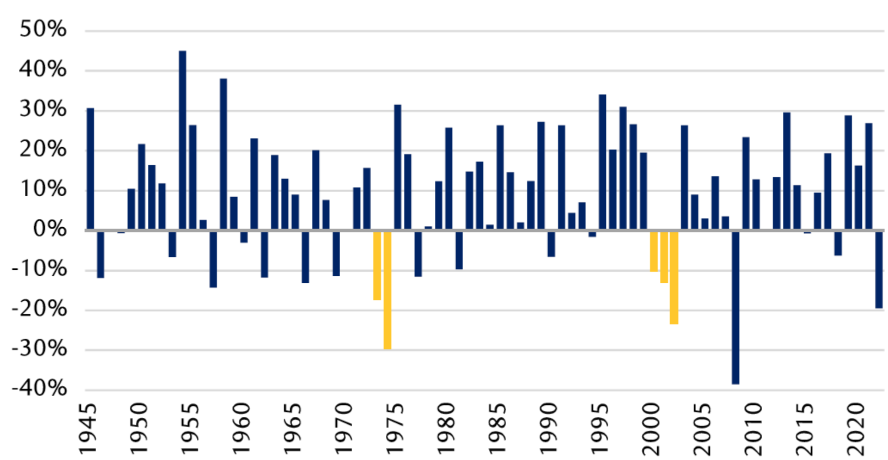
That being said, investors should not assume that 2023 will be a repeat of 2022. Importantly, the consensus earnings outlook is "less bad" than in previous periods of economic stress.

Even if a recession materializes, we think household spending and corporate earnings would be relatively more resilient than in recent economic contractions. Also, the market has already absorbed significant blows, including hefty Fed rate hikes. It would be rare for the S&P 500 to deliver back-to-back negative return years; that has occurred only twice in the post-WWII era.

On balance, we think leaning more heavily toward quality and sustainable dividends and away from specific individual company risks that may come home to roost in a recession looks to us like the right approach as 2023 gets underway.

Only two periods of back-to-back negative U.S. equity returns in the post WWII era

S&P 500 annual returns 1945-2022 (excluding dividends)



Source - RBC Wealth Management, Bloomberg; 2022 represents preliminary year-to-date data through 12/31/22

Administrative corner

Tips to streamline your tax reporting:

- Tax slips will be mailed beginning in early February 2023 until approximately the end of March. In addition to your tax slips, your tax package will include your fee summary, gain/ loss report and foreign property summary.
- Please provide the tax package in its entirety to your accountant. If you would like your accountant to receive a duplicate copy of your tax package, please let us know.
- For a more efficient and environmentally friendly option, consider switching to eTax. With electronic delivery, you'll receive your tax package securely via WM Online, saving time and paper. To learn more about this option, please contact us directly.

RBC Dominion Securities – Tax reporting schedule	
RBC DS completes all tax reporting by	March 31, 2023
Important personal tax deadlines	
Personal income tax installments	March 15, 2023 June 15, 2023 September 15, 2023 December 15, 2023
Personal income tax return filing	May 1, 2023
Self-employed income tax return filing	June 15, 2023
Balance owing for taxes payable	May 1, 2023

TFSA and RRSP information

TFSA information	
Maximum annual contribution limits	\$5,000 each year 2009 - 2012 \$5,500 each year 2013 - 2014 \$10,000 for 2015 \$5,500 for 2016 - 2018 \$6,000 for 2019 - 2022 \$6,500 for 2023
Maximum contribution limit since inception	\$88,000 from 2009-2023, if born in 1991 or earlier and eligible resident of Canada during those years
RRSP information	
RRSP maximum annual deduction limit	18% of the prior year's earned income to a maximum of: \$29,210 for 2022 – deadline March 1, 2023 \$30,780 for 2023 – deadline March 1, 2024

Benchmarks

Equity market 12-month trailing return (for month ending December 31, 2022)	
S&P/TSX composite total return index	-5.8%
S&P 500 total return (C$)	-12.2%
S&P 500 total return (U$)	-18.1%
DJIA total return (C$)	-0.1%
DJIA total return (U$)	-6.9%
Nasdaq composite price return (C$)	-28.3%
Nasdaq composite price return (U$)	-33.1%

RBC CM Canadian bond market indices 12-month trailing return (for month ending December 31, 2022)	
Short-term index	-3.9%
Intermediate-term	-10.1%
Three-month T-Bill (C$)	1.4%
Three-month T-Bill (U$)	1.1%

Wealth Management
Dominion Securities