Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

As summer draws to a close, I continue to be grateful to live in the beautiful city of Victoria. We have had amazing weather this summer and our city has hosted many visitors who are impressed with our little piece of paradise here on Vancouver Island.

In the markets, this year continues to be the story of U.S. President Donald Trump and his daily tweets and comments, most recently about tariffs and trade issues which we can neither predict nor control. There will always be headline risk. Reacting emotionally to short-term market events by making dramatic portfolio changes is generally not recommended as it becomes difficult to stay on course to achieve your investment goals. While many investors feel they have to do something during a market downturn, history shows that the disciplined, patient investor will often be the one rewarded when markets return to their upward path.

Investors should know that we could see increased market volatility as we head into the U.S. mid-term elections this fall. Clients with cash positions could see this period as a short-term buying opportunity while clients that are fully invested should look past any short-term market changes to achieve their long-term goals. History shows us that markets have responded positively after the mid-term elections so we are hopeful for strong markets to end 2018.

In my business, 2018 has been both the "Year of the Retiree" and the "Year of the Graduate". I have had over 15 of my clients hang up their working hats this year and transition into retirement life, while 10 more families are seeing a child move from high school to university life. As a Financial Planner, nothing is more exciting than seeing years of planning become reality. Savings strategies become income strategies to achieve the goal that was initiated so many years ago and it is great to see that the concept of "deferred gratification" is alive and well. This is an exciting time for these clients and I am grateful to be part of this new phase of life.

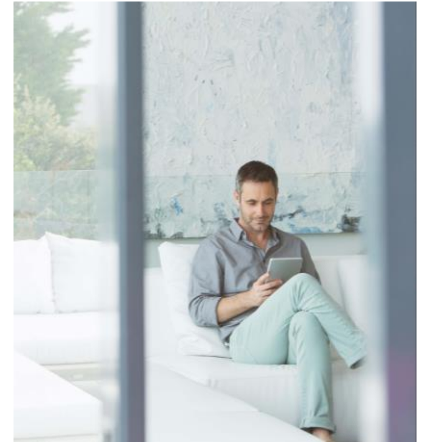
With September being back-to-school time, I am pleased to be offering an on-line investment education series starting later this fall. I have had many comments from clients indicating that they want to learn more about specific investments (which makes me very happy). If you are interested in being part of this on-line series and receiving regular learning emails and links, just send me an email and I will include you on the distribution list.

Best Regards,

Sandra

How to avoid emotional investing

Tips to help you stay focused on the big picture



A long-term investment plan is the key to a successful retirement. It requires a disciplined approach because when the value of your investments is in flux – and it almost always will be – it's hard not to let your emotional side take over.

When markets are falling and your investments decrease in value, you may become anxious, or worry about what impact it will have on your overall financial well-being (and consequently your retirement). And when markets take a turn the other way and start climbing, you may become a bit over-confident, willing to take on more risk to see your assets grow further.

These emotions are entirely understandable but acting on them in your investment portfolio can be detrimental.

So, how do I deal with this?

As difficult as it may be to watch the value of your portfolio decline, try to think of the long-term implications and remain calm. Here are a few suggestions:

1. Ask big picture questions

There are reasons why you began investing in the first place, which in turn helped determine how your portfolio is constructed. It may be helpful to revisit these goals when volatility picks up to see if anything has changed.

Consider asking yourself questions like:

- Are my goals the same now that my investments have declined?
- Is my investment time horizon the same as it was when we built my portfolio?
- Is my financial situation the same?
- Is my portfolio aligned with my risk tolerance?
- Does my portfolio have an appropriate level of diversification?

If the answer is yes to a majority of these questions, then ask yourself why you need to make any changes, particularly knowing that there are risks to getting it wrong. If the only thing that has changed is the short-term value of your portfolio, should this affect your long-term plan? These bigger picture questions can help shift the focus away from the short-term discomfort.

2. Tune out the headlines

During times of market volatility, watching the news and reading the headlines may only heighten your anxiety and increase the chance that you'll react emotionally. No forecaster can accurately predict where markets will go in the short term and no forecaster has insight into your unique situation. And, remember that the performance of any one market is not the same as the performance of your personal portfolio. If you've diversified your investments, your experience is bound to be different from the one you read and hear about. So take everything you watch and read with a grain of salt.

3. Stop checking your investments every day

Are you guilty of obsessively checking your portfolio? One way to reduce the emotional impact of market volatility is by simply applying a long-term lens and looking at your investments less often. When negative market performance is all you hear about, increasing the frequency with which you review your investments will only serve to increase anxiety. Despite many reasons not to invest, history has shown that over the long term, markets have charted a positive path out of those negative periods and investors who stayed the course have been rewarded. By not checking your portfolio balance each day, you increase the odds of staying the course and seeing the benefits of that approach over the long term.

Diversify your portfolio

It's important to spread your investments across different asset classes.

When it comes to investing, one of the easiest ways that you can manage risk and improve your probability of success is to take advantage of diversification opportunities through different asset classes, geographical markets and industries.

Financial markets do not move in concert with one another. And at various points in the market cycle, different types of investments or asset classes – such as cash, fixed income and equities – will have varying performance. This performance varies because asset classes can respond differently to changes in environmental factors, including inflation, the outlook for corporate earnings and changes in interest rates.

By holding a combination of different asset classes in your portfolio, you can take the guesswork out of predicting winning and losing investments in any given year.

2013	2014	2015	2016	2017
US Equities 41.6%	US Equities 24.4%	US Equities 20.8%	CDN Equities 21.1%	EM Equities 28.3%
INTL Equities 31.0%	Balanced 11.4%	INTL Equities 19.0%	US HY Bonds 14.3%	INTL Equities 16.8%
Balanced 14.2%	CDN Equities 10.6%	Balanced 6.5%	US Equities 8.6%	US Equities 14.1%
CDN Equities 13.0%	Global Bonds 9.4%	CDN Bonds 3.5%	EM Equities 7.3%	CDN Equities 9.1%
US HY Bonds 7.1%	CDN Bonds 8.8%	EM Equities 2.0%	Balanced 6.5%	Balanced 8.8%
EM Equities 3.9%	EM Equities 6.6%	Global Bonds 1.9%	Global Bonds 3.5%	US HY Bonds 6.4%
Cash 1.0%	US HY Bonds 4.3%	Cash 0.6%	CDN Bonds 1.7%	CDN Bonds 2.5%
Global Bonds 1.0%	INTL Equities 3.7%	US HY Bonds -2.7%	Cash 0.5%	Global Bonds 1.8%
CDN Bonds -1.2%	Cash 0.9%	CDN Equities -8.3%	INTL Equities -2.5%	Cash 0.6%

Equities

CDN Equities	US Equities	INTL Equities	EM Equities
Canadian Equities	U.S. Equities	International Equities	Emerging Market Equities
S&P/TSX Composite Total Return Index	S&P 500 Total Return Index	MSCI EAFE Total Return Index	MSCI Emerging Markets Total Return Index

Fixed income

CDN Bonds	US HY BONDS	Global Bonds
Canadian Bonds	U.S. High-Yield Bonds	Global Bonds
FTSE TMX Canada Universe Bond Index	ICE Bank of America Merrill Lynch US High-Yield BB-B TR Index	FTSE World Government Bond TR Index

Cash	Balanced
Cash	Balanced Portfolio
FTSE TMX Canada 30 Day T-Bill Index	55% Equity / 45% Fixed Income

All performance is in C$.
Source: RBC Global Asset Management Inc. as of December 31, 2017.

Should you gift money to your adult children?

Maybe, or maybe not. It really depends. Let's look at a few of the issues to consider:

- From a tax planning perspective, there are no restrictions whatsoever on the amount of cash you can give your adult children while you're alive because we do not have a gift tax in Canada.
- When looking at your own cash flow and income projections, you need to be sure that you won't require the funds for your own living expenses in the future. That means assuming "worst case scenario" that you will live longer than expected and perhaps have expensive care costs at the end of your life. Once you've accounted for this, then yes, it may make sense to gift funds so that you can see your kids enjoy the money when you're alive as opposed to never knowing what they do with it after you die. But only with money that you are 100% certain you will not need during your own life time.
- You should consider how to protect your cash gift in the event that your child gets divorced and 50% of your gift becomes part of the division of family assets. Some individuals will choose to lend money to their child, rather than gifting, in order to protect the amount from any future martial breakdown. This loan could be accompanied by a provision in your Will that would forgive the loan upon your death, after which time it would be up to the child to protect the gift from a division of family assets. To better protect the funds and as further evidence that it is a loan rather than a gift, you could register a mortgage against your child's home, or have your child sign a Promissory Note (either of which could be at 0% interest, with no payments, and due on demand) to be sure that in the event of a divorce, the loan gets paid back to you first, before the remaining equity is split between your child and their ex-spouse. There are many ways to ensure that money given to children is protected from divorce and clients should speak with a lawyer to determine how best to handle the situation.

What Happens If I Die Without A Will?

When a person dies without a Will it is called an “intestacy”. When the Wills Estates and Succession Act (“WESA”) came into force in British Columbia in 2014, it changed some of the rules around intestacy. One change is the establishment of a legislated order of priority of who may apply to be an Administrator of an intestate estate. The person willing to be appointed who ranks highest in the legislated priority would need to apply for a Grant of Administration. While procedurally it is a bit more complicated to apply for a Grant of Administration, once an Administrator is appointed, his or her authority is the same as an Executor’s. After the estate administration is complete, the intestate estate will be paid out to the beneficiaries according to the distribution scheme set out in WESA. This scheme is different, depending on which of the Deceased’s relatives have survived the Deceased.

If the Deceased dies leaving only a spouse, then the estate is paid to the spouse. If the Deceased dies leaving only children (note only natural and adopted children qualify), then the estate would be divided equally among the children. If the Deceased dies leaving a spouse and children, then the spouse receives the first $300,000 (or $150,000 if the surviving children are not children of the surviving spouse) and the balance is divided so that the surviving spouse receives one half and the surviving children share the other half equally.

If the Deceased leaves no spouse and no children, then WESA provides for a distribution scheme which is known as “Parentelec Distribution”. Parentelec Distribution is too complicated to explain in this brief article, but basically the estate is distributed by “parent root” to a maximum of four levels of relationship. It is only if no relative can be found within the four levels of relationship to the Deceased, that the estate transfers to the Government.

While in some cases an intestacy will result in a distribution scheme in line with the Deceased’s wishes, in many cases it will not, and in some it will result in catastrophic results (perhaps a topic for a future article). The benefits of having a Will, rather than relying on the rules of intestacy, include the ability to appoint an Executor of your choosing who will have immediate authority to seek information upon your death; whereas, without a will, your Administrator may turn out to be someone you would not have chosen. Also, in a Will you can provide specific gifts of real estate, personal property and specific cash bequests. You can also appoint a guardian of your choosing for your minor children, establish trusts for your minor beneficiaries, and delay the age at which your minor beneficiaries gain control of their inheritance.

Since the cost of preparing a Will is relatively low, it makes sense to do so and ease the burden on your family, while maintaining control over your estate.

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Wealth Management
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