Sandra Sparanese Financial Focus

Wealth Management Dominion Securities

Fall 2023

RBC Dominion Securities Inc.

Sandra Sparanese, FCSI, CFP, CIM
Senior Portfolio Manager &
Financial Planner
sandra.sparanese@rbc.com
250-356-4859

Heather Murdock, CFP
Associate Advisor & Financial Planner
250-356-3970
heather.murdock@rbc.com

Mary Howley
Senior Associate
250-356-4946
mary.howley@rbc.com

5th Floor, 730 View Street
Victoria, BC V8W 3Y7
www.sandrasparanese.com

Dear Clients and Friends,

I hope that you were able to enjoy the beautiful summer weather we have had this year. I continue to be very grateful to live in beautiful Victoria.

This year has been a year of recovery so far, as markets continue to recover from the lows of last year. The U.S. market has been the big winner so far with U.S. large-cap outperformance largely powered by a handful of surging Tech and tech-related stocks. The strong stock market and some better-than-forecast economic data have once again raised hopes that the U.S. economy could experience a “soft landing” without a recession. While such a benign outcome can’t be ruled out, several headwinds already suggest the going is about to get tougher as the full impact of the Fed’s historic series of rate increases is yet to be felt in the economy. The month of August has been challenging for stock markets as investors digest all of the daily information about inflation numbers and potential moves by the central banks. Notwithstanding all the above, we believe that we have already seen the lows of the current market cycle and long term investors should be rewarded for their patience.

RBC does believe that there is a probability that we have seen the last of interest rate increases by both the Bank of Canada and the U.S. Federal Reserve. However, things can change as inflation data is released on a monthly basis but we do see that the interest rate increases are now starting to be felt in Canada with the unemployment rate recently moving higher. The purpose of higher interest rates is to slow down the economy which means that there does need to be some element of pain in order to temper economic growth. The inflation rate in both Canada and the U.S. continues to gradually decline but we expect it will take a few more months before inflation is back down into the range where central banks want it to be. Therefore, we can expect that while interest rates have most likely plateaued at the current level, we might see the rates remain high for a few months before starting to drop either later in 2023 or early 2024.

Because of the higher interest rates, we have been creating longer term GIC ladders from 1-5 year terms in accounts where there is a future income requirement. We have a window of opportunity while interest rates remain high to take advantage of locking in these higher rates for longer terms. As inflation comes back down to the 2-3% range over the next year or two, GICs paying in the 4-5% range for a few more years will look very attractive with a higher yield with no risk. Adding GICs to an investment account is part of our “bucketing strategy” where we protect amounts in an investment account that we know will be required for income over the next 1-5 years. It provides clients with peace of mind knowing that they will not be at the mercy of the market when needing to sell investments to create cash for income.

As always, I continue to ask clients, “what are your larger spending plans in the next 12 months that we need to prepare for?” My job is never to tell you how to spend your money, but we need to factor in withdrawals for two reasons: first, to set aside the amount required in a protected cash or savings position in advance without market risk, and secondly to adjust any income projections to allow for the lower amount in the account after the withdrawal has been made. Please be sure to keep me in the loop with your plans!

Best regards,

Sandra

TFSA vs RRSP vs FHSA: Your Top Questions

Understanding the differences between registered investment plans can help you decide how they can help you meet your goals.

With the launch of the First Home Savings Account (FHSA), there's now one more registered investment plan to consider when determining which one – or which ones – can best help you meet your savings and retirement goals.

While the Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP) and FHSA all offer tax benefits, there are some key differences that can help you choose what's right for you.

Below, you'll find answers to some of the top questions about the features and tax treatments of each plan, plus contribution and withdrawal considerations.

Feature	**TFSA**	**RRSP**	**FHSA**
What is it?	A registered plan where your investment earnings and withdrawals are tax-free	A registered plan where your contributions are tax-deductible (up to your personal deduction limit) and investment earnings are tax-deferred (you are charged taxes when you withdraw funds)	A new registered plan designed to help first time homebuyers. Your contributions are tax-deductible and investment earnings and withdrawals are tax-free if used to purchase your first home
Who can open one?	Canadian residents with a Social Insurance Number (SIN) who are at least 18 or 19 (age of majority in your province)	Canadian residents with a Social Insurance Number (SIN) who are under age 71, have earned income and file a tax return in Canada	Canadian residents with a Social Insurance Number (SIN) who are at least age 18 or 19 (age of majority in your province) and under age 71, and you and/or your spouse or common-law partner have not owned a home where you lived in the current calendar year or at any time in the preceding four calendar years
Are contributions tax-deductible?	No	Yes (up to your personal deduction limit)	Yes (up to the annual and lifetime limits)
Do my savings grow tax-free or tax-deferred?	Tax-free	Tax-deferred (added to taxable income the year you take the money out; a withholding tax will also apply to early withdrawals)	Tax-free as long as you use funds for a qualifying first home
How much can I contribute each year?	$6,500 for 2023 plus your unused contribution room and any amounts you've withdrawn from previous years	18% of previous year's earned income, less any pension adjustment, up to maximum annual limit ($30,780 for 2023)	$8,000 annually, plus up to $8,000 of your unused contribution room, up to a maximum lifetime limit of $40,000

Recessions: A part of the cycle

Recessions are an ordinary phase of the broader economic cycle, but it is important to bear in mind that expansion is the normal state for the economy and downturns have typically been quite brief.

Recessions are a feature of the economic cycle

The business cycle refers to the recurrent cyclical patterns of the economy alternating between periods of expansion (growth) and recession (contraction). Technically defined as two consecutive quarters of negative GDP growth, recessions can be broadly described as sustained periods when economic activity falls and unemployment rises. All economic expansions eventually end with a downturn. Even though recessions can be unsettling, they are normal and relatively short-lived.

Expansions are the norm

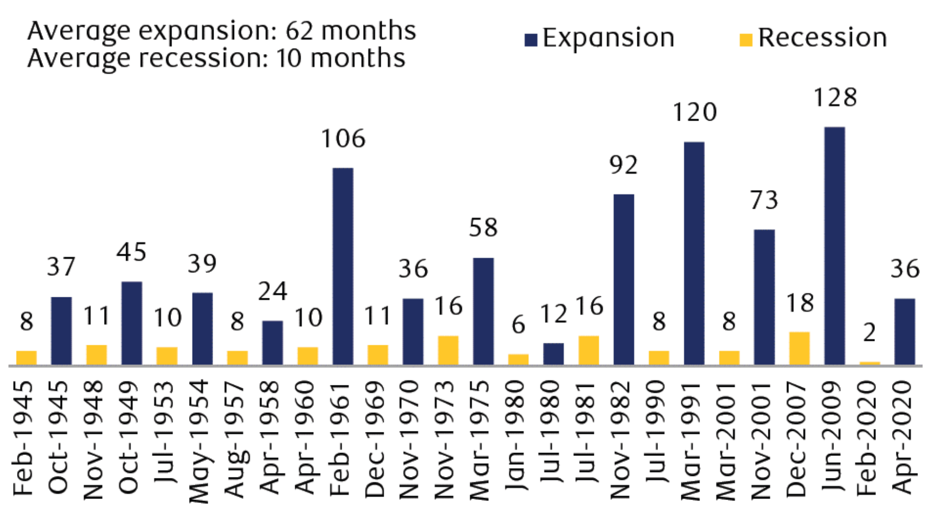
While recessions tend to capture ample media attention, the natural state of the economy is growth. Our analysis of U.S. business cycles since 1945 shows there have been 13 recessions. This means investors should expect to experience an economic contraction once every six to seven years and lasting between two and 18 months, with a 10-month average. On the flip side, U.S. expansions have endured far longer - 62 months on average. This implies over the past eight decades the U.S. economy has spent nearly 90 percent of the time in growth mode, which helps explain why over the long run corporate profits have trended upwards and equity markets have generated positive total returns in roughly 70 percent of calendar years.

“Benefits” of recessions

Reframing economic slumps through the lens of opportunities can be useful for investors in maintaining discipline. Recessions can play a useful role of unwinding “excesses” and “imbalances” that may build up in the economy during an expansion, revamping the foundations for the recovery. The turbulent environment that recessions bring about can stoke efficiency gains, catalyze innovation, and foster the emergence of new companies and industries. Crucially, recessions can also surface opportunities in financial markets. Fears over the negative but temporary impact on corporate earnings tend to provoke substantial price declines in stocks and corporate bonds in the early stages of a recession. Excessive pessimism often pushes valuations to depressed levels that can present attractive entry points for investors to deploy capital at discounted prices, enhancing the prospect of earning above-average returns, in anticipation of the eventual recovery.

Putting the economic cycle in context

Length of U.S. economic expansions and recessions since 1945



Source - RBC Wealth Management, National Bureau of Economic Research; data through 5/31/23

Powers of Attorney & Representation Agreements

There appears to be much confusion around the difference between Powers of Attorney and Representation Agreements. The following is a very brief summary of each type of document with its uses:

General Power of Attorney:
This is a document that can be used to appoint an attorney for general purposes or for one specific purpose, such as purchasing or selling land or dealing with one specific investment. It allows the appointed attorney to make legal and financial decisions only and cannot be used to make medical decisions. It may be granted to a single attorney, multiple attorneys (to act separately or unanimously) or a single attorney with alternates. A General Power of Attorney is only valid while you have mental capacity, and it ends upon you becoming mentally incapable.

Enduring Power of Attorney:
An Enduring Power of Attorney can also be general or specific (but is usually general), and may also be granted to a single attorney, multiple attorneys or provide for alternates. The benefit of an Enduring Power of Attorney is that it continues to be valid should you subsequently lose your mental capacity. It is a useful estate planning tool as it allows you to choose a trusted person to assist you with paying your bills and making other legal and financial decisions on your behalf, should you become incapable of doing so in the future.

Enhanced (Section 9) Representation Agreement:
This is a document that appoints another person to make medical decisions on your behalf, if you are unable to make them yourself, but does not allow the Representative to make legal or financial decisions. A Representation Agreement can include specific medical directives, if desired, and also generally includes directions around "end of life decisions", which are commonly known as Living Will provisions.

Living Will:
This is generally a simple, one page document that does not appoint anyone to do anything, but states that you would not wish extraordinary or heroic measures to be taken on your behalf in certain situations. It has limited effect in British Columbia, but is generally used to assist your family members or loved ones to make "end of life decisions", by making your wishes known to them.

Information provided by:

Mary Murrell* | Lawyer

Murrell & Ittah | Lawyers and Notaries
201 – 1006 Fort Street, Victoria, BC V8V 3K4
T: 250-382-9282 | F: 250-382-0366
W: www.viclawfirm.ca | E: mmurrell@viclawfirm.ca
*denotes Law Corporation

Wealth Management
Dominion Securities