Sandra Sparanese
Financial Focus

Wealth Management
Dominion Securities

Spring 2021

RBC Dominion Securities Inc.

Sandra Sparanese, FCSI, CFP, CIM
Vice-President
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,

When I reflect back to last year at this time, it reminds me of how my role as Portfolio Manager and Financial Planner requires a great deal of time and attention in both the good times and the bad times. Stock markets around the globe reached their low point last year on March 23, 2020 and quickly started an amazing recovery that was hard to imagine. Clients that stayed invested during the most difficult four week period in history were rewarded by participating in the recovery and ending 2020 with a positive rate of return.

While 2020 was the year of the pandemic, 2021 will be the year of the vaccine and a gradual return to a new “normal”. Mass inoculations lie ahead and there is little doubt that a large proportion of the population will be vaccinated by the fall of this year. We anticipate strong economic growth over the next year, driven by an improving jobs market and consumer spending. The stock market should be positive in 2021 as the recovery in the global economy continues and we expect stocks to offer better returns than bonds over the next year.

Governments around the world have adopted accommodating interest rate policies and we expect central banks to keep interest rates low over the next year to allow economies to continue to recover. Bond and fixed income rates of return are expected to be marginal over the next 12 months due to this continued low interest rate environment. For some clients, it will make sense to increase their equity exposure to improve the potential for an overall higher rate of return in 2021 (subject to each client’s risk tolerance level). Some accounts may not warrant increases to equity exposure (RRIF accounts or short-term cash accounts), while other accounts such as Tax Free Savings Accounts, will benefit from adding equity exposure this year if there are no income requirements from the account

One of the most rewarding aspects in my role as Portfolio Manager and Financial Planner is that of educator. I enjoy teaching people about the world of financial planning and investment management and this past year was a great example of “there are no dumb questions”. My primary intention is to create an experience that educates and empowers my clients to make the best financial decisions possible. It is an incredible feeling when you have educated someone to the point where they are now fully engaged in the process of their financial future. I look forward to more education and learning sessions with clients this year.

At this time, RBC Dominion Securities is still not yet permitted to have client meetings in our offices, but we are very hopeful that will change over the next few months. I am looking forward to seeing smiling faces in person again, hopefully later this year.

Best regards for a healthy and happy spring,

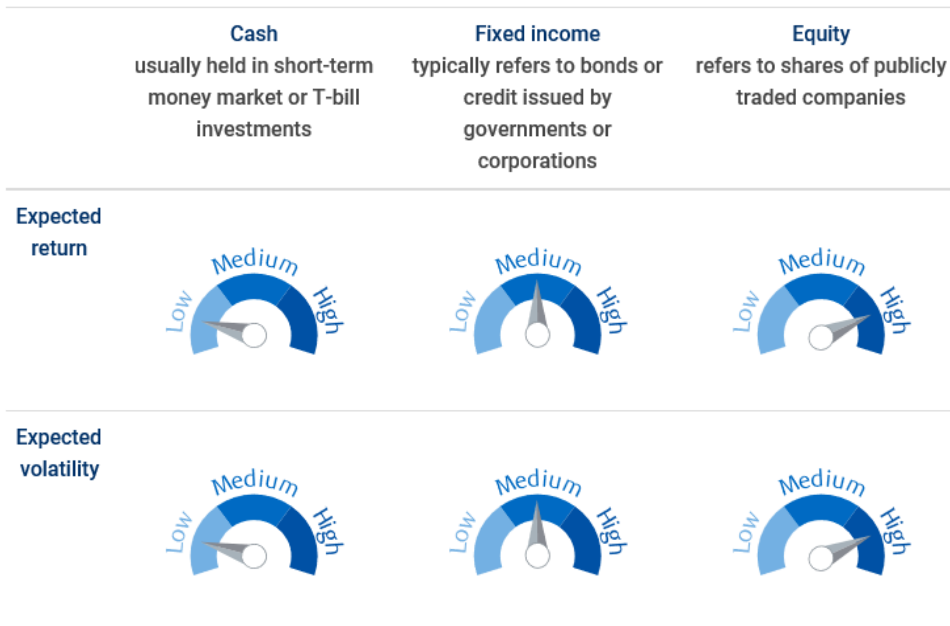
Sandra

Finding the right balance between volatility and returns

Understanding the interaction between volatility and returns can help improve your investment experience

What is volatility?

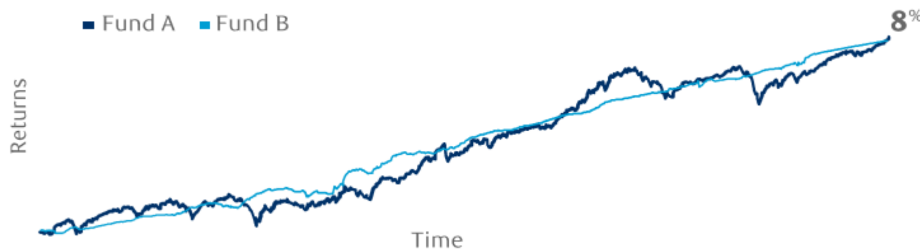
Volatility is defined as the price movement of an investment. The more the price changes, the greater the volatility. For example, an investment whose price shifts between +7% and -5% in one year is more volatile than an investment whose return fluctuates between +3% and -2% over a year. All investments, even cash, include some level of volatility. In general, cash is not very volatile while some stocks, or equities, can be quite volatile. Here's an example of where the three primary asset classes fall on the potential volatility and return spectrum. Notice that higher returns tend to go hand-in-hand with higher volatility.



Consider the ride

It's common for investors to focus solely on a fund's historical return when choosing funds for their portfolio. However, it is also important to look at the volatility the fund experienced over that time period. Two funds with the same total return may have taken two very different journeys to get there.

For example, funds A and B have both returned 8% over the past 5 years. As you can see, these funds had similar long-term returns, but investors in fund A had to endure more ups and downs (volatility) to achieve the same end result.



Moral of the story is: returns are only one aspect of the investing experience. Think about the amount of volatility you can handle, and choose the fund that best meets your needs. Investors need to balance their expected returns with the anticipated volatility in their portfolio, keeping in mind their comfort level with risk, time horizon and long-term goals.

Update on the TFSA:
Tax Free Savings Account

The tax-free savings account, known better as the TFSA, is a savings vehicle available to Canadians aged 18 and older who have a valid social insurance number (SIN). The TFSA was launched by the federal government in 2009 as a way to encourage Canadians to save.

The Federal Government has given us an amazing gift with the TFSA. Each year we can put money into a TFSA account and pay NO tax on any of income earned or capital growth of the account. I continue to say that I wish our federal politicians would have named the account using "investment" rather than "savings" to end up with the Tax Free Investment Account.

There are plenty of ways to use a Tax Free Savings Account. There is no "right" plan for everyone. It depends on how you want to use the account.

Here are the main two options:

1. As an emergency fund or short term savings vehicle

All families should have some cash in reserve in case of a crisis such as a serious illness or the loss of a job. Some individuals need a monthly savings plan to accumulate funds for annual expenses like property tax or travel costs. If a TFSA is to be used for these short term needs, a savings account plan is the best choice. The return will be minimal because interest rates are very low. The advantage is flexibility – you can get at the money quickly any time without any market fluctuation. If you see yourself using your TFSA account for spending in the next 2 years, then stick with the "savings" account option.

2. To maximize tax-free returns for long term growth

In this case, you will want to "invest" in the account, rather than just "save". Those investment options can include stocks, bonds, exchange-traded funds (ETFs), mutual funds, etc. If you are not planning to draw from your TFSA account, a growth strategy and longer-term perspective is recommended. If the government is going to allow us to earn income and growth and pay NO tax, then let's earn as much as we can (within each client's personal risk tolerance level). I remind clients that the TFSA should be considered part of their "long-term bucket" with regards to investment strategies and tax planning.

Historical TFSA Contribution Limits (per year) since inception of the plan:

$ 5,000 for the years 2009 to 2012
$ 5,500 for 2013 and 2014
$10,000 for 2015
$ 5,500 for 2016, 2017 and 2018
$ 6,000 for 2019, 2020 and 2021

If you've been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be **$75,500** as of January 1, 2021.

In addition, if you withdrew an amount from your TFSA in 2020, you can re-contribute this amount to your TFSA as of January 1, 2021. Any prior-year withdrawal (that is not a withdrawal of excess TFSA contributions) is added back to your TFSA contribution room for the following year. Be extra careful when calculating your room when recontributing to your TFSA, as the CRA can charge penalties for over-contributions.

Understanding the Tax Forms

You may be receiving some of these tax forms to be used with your 2020 tax return

T3	Statement of Trust Income if you have investment income from mutual funds in non-registered accounts and from certain trusts.
T5	Investment income including interest, dividends and certain foreign income.
Summary of Securities Dispositions (T5008)	This form sometimes looks more like a letter than a tax slip so be sure that you do not overlook it. This is a summary of the proceeds of any sale of securities and your capital gain or loss information.
RRSP Contribution Receipt	Reports the value of contributions made to an RRSP plan during the year and up to 60 days in the next year.
T4RSP / T4RIF	All payments made from RRSP, RRIF or LIF accounts are taxable in the year they are received. If tax has been withheld and sent to CRA, it will be reported on the tax slip.
T4A	Education Assistance Payments from a Registered Education Savings Plan (RESP) are taxable in the hands of the child in the year it was withdrawn. This is only the grant and/or income portion of the plan which is taxable as income.

The ABCs of ACBs for Investors

Knowing the adjusted cost base (ACB) of your non-registered investments and how it's calculated is a part of good tax planning

Canadian tax rules require an adjusted cost base (ACB) calculation of an investment's cost for tax purposes to establish capital gains and losses on property you own, which includes your investments in non-registered accounts. The difference between the ACB and the sale price of an investment is what will determine the capital gain or loss for tax reporting.

Purchase price

You may buy the same investment at different times. Each time you buy more of the same investment, an adjustment needs to be made with your ACB to come up with an average cost. The average cost is calculated as the total cost for all purchases of the same investment divided by the number of shares or units you own.

Year-end distributions and allocations

If you invest in mutual funds, it is common to receive distributions and a corresponding tax slip at year-end. If you reinvest the distribution, the amount must be added to your ACB. This is because you are already paying tax on the distribution with the year-end tax slip, so you won't have to pay tax on this amount again when you eventually sell the price. An increase in your ACB means that you will have a lower capital gain in the future when you redeem your units.

Wealth Management
Dominion Securities

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. Insurance products are offered through RBC Wealth Management Financial Services Inc. ("RBC WMFS"), a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WMFS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WMFS. RBC DS WMFS is licensed as a financial services firm in the province of Quebec. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2016 RBC Dominion Securities Inc. All rights reserved.