Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

The beginning of the year continues to be the busiest time in my business with TFSA contributions, RRSP contributions and income planning for 2022.

Volatility was the word of the day at the start of 2022. It's a good reminder that markets do not move in a straight line in either direction as we felt the "uncomfortable" stage of a long-term investment strategy. The continued Omicron variant, rising interest rates and geo-political tensions between Russia and Ukraine were on the list of what investors were worried about over the last two months. 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. Staying invested after the sharp declines in early January and again in later February should prove to be the correct strategy for long-term investors.

Volatility is a normal part of investing and is, in fact, always present to some degree. Long considered the "golden rule" of investing, diversification remains the best way you can reduce investment risk. Diversification in simple terms involves investing in a number of different investments – across different asset classes, industry sectors, geographic regions, investment styles, etc. This way, you can minimize the impact of poor performance, both from a single investment and groups of investments with similar characteristics.

I continue to remind clients to know what their own personal risk tolerance level is - your "sleep at night" factor. When markets drop, investors who feel significantly uncomfortable with the change in their values should re-evaluate their risk tolerance and perhaps consider reducing exposure to equities at a better time in the market. A long-term investor should be able to see past short-term losses and be accepting of both good and bad market conditions to achieve the long-term goal of investment success.

What is the outlook for 2022? While it is not possible to accurately predict the future, we are optimistic that investors will see positive stock market performance this year, although not at the same level that we saw in 2021. History has shown us that acts of war in modern times are rarely long-lasting and we expect the Russia-Ukraine situation to be resolved in the short-term. Interest rates will rise as central banks around the world gradually withdraw their stimulus programs to combat rising inflation. We expect the current phase to be good for equities for as long as a U.S. and global economic recession can be avoided. RBC continues to feel that there is no recession expected in the short-term based on the economic indicators that we follow on a weekly basis.

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

TAX SLIPS

Make sure you receive all required tax slips to file your income tax return.

T5 income related slips have been mailed out in February. All other tax slips will be mailed out during March.

To view our tax reporting guide, please visit www.rbcds.com.

RRSPs vs. TFSAs: At a Glance

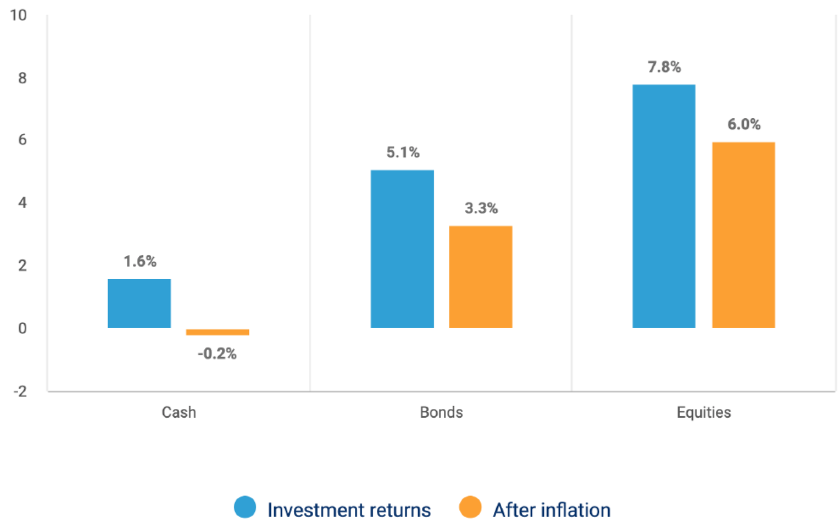
	RRSP	TFSA
'Tax-Deferred' vs. 'Tax-Free'	RRSPs are ***tax-deferred***. Your contribution reduces your current income tax and allows you to put off paying tax until you withdraw the funds. This is an advantage if you expect your income (and your marginal tax rate) to be lower when you retire.	TFSAs are ***tax-free***. Growth in your account is never taxed. You won't be taxed as your TFSA grows, and you won't be taxed when you withdraw. Unlike a tax deferral, you've already paid tax on the money you contribute.
Deadlines	You have **60 days after the end of the calendar year** to make your RRSP contribution for the previous year. For 2021, the RRSP deadline was March 1, 2022.	You have until **December 31** to contribute your annual limit to your TFSA.
Contribution Limits	Your annual contribution limit is the lesser of: • 18% of your total income claimed the previous year *or* • The annual 'maximum pensionable earnings' set by Canada Revenue Agency (CRA). If you are a member of a pension plan, a 'pension adjustment' will reduce your contribution room. RRSP contribution room accumulates and carries forward indefinitely. You can find your contribution limit on your CRA Notice of Assessment, by calling CRA, or by logging into CRA's *My Account.*	The annual contribution limit is $6,000. But there is also your lifetime contribution room. This can be a little trickier to calculate, since the annual limit has changed a few times since TFSAs were introduced in 2009. You can find your lifetime contribution limit on your CRA Notice of Assessment, by calling CRA, or by logging into CRA's *My Account*.
Over Contributions	You can exceed your RRSP contribution limit by $2,000 or less without penalty. However, you can't deduct your excess contributions from your taxable income. Over contributions *larger than* $2,000 are charged a penalty of 1% tax per month on the entire excess amount. If you file your taxes late, the penalty increases.	Over contributions are subject to a penalty of 1% per month (only on the over contribution amount).
Withdrawals	Generally, RRSP withdrawals are taxed as income. There are two exceptions: **Home Buyers' Plan (HBP):** you can borrow up to $35,000 tax-free from your RRSP to put towards your first home. You have 15 years to pay it back into your RRSP without penalty. **Lifelong Learning Plan (LLP):** you can borrow up to $10,000 a year ($20,000 in total per person) to help pay for your education or your spouse's education. You can't use it for your child's education. You have 10 years to pay it back into your RRSP without penalty.	TFSA withdrawals are not taxed. More good news: whatever you withdraw is simply added to your lifetime contribution room (even if your withdrawal includes investment income). If you withdraw $1,000 today, you can recontribute that $1,000 next January 1 without penalty.
Age & Conversion	In the year you turn 71, if you haven't already, you must close your RRSP and convert your savings into a Registered Retirement Income Fund (RRIF) or an annuity.	If you are at least 18 years old, you can invest in a TFSA for as long as you want.

Inflation conflagration

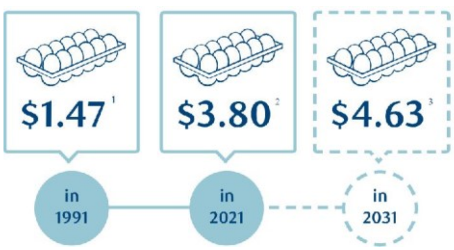
Inflation has flared up – how will it affect investors?

Inflation has risen sharply since 2020, largely due to explosive economic growth since the initial economic downturn following the onset of the COVID-19 pandemic. To add fuel to the inflationary fire, supply-chain issues are creating goods shortages that are persistently plaguing businesses trying to meet sharply increasing demand from consumers and businesses.

On a relative basis, inflation can have a bigger effect on cash and bond returns*



Cost of a dozen eggs over the years



1. Source: Statscan, Bank of Canada.
2. Source: Statscan, Bank of Canada.
3. Calculated using projected annual inflation of 2%

Recent data has shown that inflation rose sharply in 2021, reaching almost 5% in the final quarter of the year, a level not seen since the early 1990s. Understandably, rising prices are a serious concern for Canadians, as the cost of everything from gas to eggs to Internet services soars.

Inflation: The Great Deflator

Alongside inflation's impact on consumer prices is its impact on investors. Rising inflation will have different effects on different asset classes, but it generally tends to have a greater negative impact on fixed income and cash returns than equities, as follows:

- **Fixed income:** These investments generate "fixed" returns, so as inflation rises it erodes those fixed payments, eating up more and more of an investor's after-inflation real return. The double negative for fixed-income investments is that, as inflation rises, central banks tend to raise interest rates, which often ripples through to the bond market, raising yields. As rates and yields rise, the price of fixed income products falls (prices and yields are inverse), resulting in an even more negative impact to investors.

  Despite inflation, fixed-income investments play an important role in managing risk within a diversified portfolio over the long term, particularly as they can provide stability in volatile markets. As well, different bonds respond differently to various market conditions, so a well-diversified, risk-appropriate fixed-income portfolio that takes advantage of the many options available today, such as corporate bonds, can help mitigate the impact of rising interest rates.

- **Equities:** Historically, inflation occurs when there's strong consumer demand and business growth, which in turn drives up company revenue and profits, leading to generally positive equity returns. Equities (or stocks) of companies in financial, consumer staples and energy sectors often do particularly well during inflationary periods.

  The risk for equities is that central banks may raise interest rates too sharply in their efforts to limit inflation, inadvertently triggering an economic downturn. However, RBC investment strategists currently view that risk as low, and forecast continued economic growth. And again, diversification is key with equities, as different types of equities do better in different economic environments.

*Source for returns: Morningstar Direct, RBC GAM. 20-year investment returns data as of June 28, 2021. For illustrative purposes only. Cash: FTSE Canada 30 day T- Bill Index. Bonds: FTSE Canada Universe Bond Index. Equities: S&P/TSX Composite TR Index. The indicated rates of return are the historical annual compounded total returns for the periods indicated including changes in unit value and reinvestment of all distributions. Index returns do not reflect deduction of expenses associated with investments. If such expenses were reflected, returns would be lower. An investment cannot be made directly in an index. Source for inflation data: Bank of Canada for the average inflation figure of 1.8% (annualized) as of June 28, 2021. Inflation is approximated by the change in Consumer Price Index (CPI) each month.

Understanding the Tax Forms

You may be receiving some of these tax forms to be used with your 2021 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.

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