Sandra Sparanese
Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

Sandra Sparanese, FCSI, CFP, CIM
Vice President, Investment Advisor
& Financial Planner
sandra.sparanese@rbc.com
250-356-4859

Heather Murdock
Associate Advisor
250-356-3970
heather.murdock@rbc.com

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

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

Dear Clients and Friends,

Summer Greetings!

As we near the half-way mark of 2018, it is a good opportunity to reflect on the events that moved the markets. After a long and calm period of strong returns, global equity markets gave way to a jarring bout of volatility earlier this year. Additionally, the trade dispute between China and the United States has served as a reminder that markets can and will change. We did see a "quiet recovery" during the month of May as the S&P/TSX Canadian Index moved close to its all-time high level as the price of oil continued to advance. Our RBC analysts continue to feel that while there are certainly market risks in the short-term, there does not appear to be a risk of a U.S. recession in the next year or two.

As I continue to remind clients, it is important to keep a long-term perspective with your investment portfolio. Trying to figure out what the market is going to do today or even next week is an impossible task and one that is not helpful in creating long-term wealth. Volatility also reinforces the value of diversification and the role of fixed income investments in client portfolios. Even with low interest rates, the primary role of fixed income in a balanced portfolio is diversification and reduced volatility from equities.

I continue to remind clients of the "bucket approach" to portfolio construction. "Bucketing" refers to dividing a portfolio into three main investment time horizons: a short-term bucket that will hold cash and short term investments for income withdrawals over 1-3 years, a medium-term bucket that will hold income generating investments and lower volatility equities that are required for income in the next 4-7 years, and a long-term bucket that holds more growth oriented investments with a higher potential for capital growth for the later years of retirement. Some clients do not need a short-term bucket if they are not drawing income from their investment account and some clients prefer to not have a long-term bucket based on their age or low tolerance to risk and market fluctuation. The key is to determine your own comfort level with risk and have an investment portfolio that matches that specific risk level and time horizon.

I would like to thank existing clients and RBC colleagues that have introduced me to new clients this year. I sincerely appreciate the confidence that you have in my ability as Investment Advisor and Financial Planner.

Have a safe and happy summer,

Sandra

Raising money smart kids

Whether it's teaching them the value of a dollar or helping their future financial independence, many parents strive to teach their children how to make sound financial decisions. And it's never too late or too early to introduce positive spending, saving and borrowing habits that can help ensure a lifetime of financial confidence.

Get started early

Your involvement is key to starting your child on the right path to financial literacy. As early as age six, children can understand the basic principles of saving and spending, including the value of saving first, or for longer-term goals.

Many experts recommend a "save-spend-share" concept. This means that whenever children receive money, they put some aside for savings and charitable donations, and can spend the rest as they like. Opening a high-interest savings account can also help introduce bigger kids to budgeting, investing and borrowing.

Childhood is also an ideal time to instill a lifetime desire to give back. Consider talking to your children about causes they might like to support and incorporating their ideas into how your family gives back.

Preparing young adults to leave the nest

Whether they're planning for university, moving out, or starting a new career, money plays an important role as your children start the journey of "making it on their own."

Budgeting – Post-high school is a great opportunity to create a first "real" budget with your child. Encourage them to track spending, and list income sources and projected expenses. Adding these numbers up can help determine whether they'll run short or have a surplus.

If they're running short, they might want to look hard at "wants versus needs" or ways of increasing their income. If they have a surplus, introduce the idea of contributing to a Tax-Free Savings Account or Registered Retirement Savings Plan.

Credit – Young adults are often presented with easy access to credit. Teach them to be aware of anything that sounds too good to be true, stick to their budget and borrow only what they can afford to repay.

Grown-up children still have plenty to learn

Adult children eventually enter a world where they need to balance their financial goals, such as owning a home, with basic living expenses or the costs of raising children. This is an ideal time to pass on your own financial experiences, including the challenges you overcame to build wealth.

Preparing children to receive their inheritance is another key element of financial education, and helps perpetuate your family legacy. Consider talking to them about what they will inherit and how they can manage their inheritance, or passing on assets while you are alive to allow them to benefit from your guidance.

The value of advice

While informal family conversations and real-world learning are essential components of financial education, it can make sense to introduce your children to your financial, legal and tax advisors, who can help provide guidance that might be difficult for you to convey. Your trusted advisors can also provide education in many areas, or assist with getting your children's affairs in order.

For more information on raising money smart kids, please contact Sandra.

RRIF or Annuity:
Which one is right for you?

If you still have an RRSP when you turn age 71, you need to do something with your RRSP by December 31st of that year.

You can do one of 3 things:

1) Cash out your RRSP completely and add the full market value to your income for the year, paying tax on the full amount. This isn't a great option.

2) Convert your RRSP to a Registered Retirement Income Fund (RRIF) and start taking the required minimum withdrawals starting the following year.

3) Purchase an annuity from an insurance company with your RRSP funds and receive pre-determined payments for the rest of your life, beginning the following year.

If you convert your RRSP to a RRIF, there is a mandated minimum payment required in the following year of 5.28% of the market value as of December 31st of the previous year. As time goes on, the minimum RRIF withdrawal percentage continues to increase and if your RRIF is not generating a return in excess of the withdrawal rate, you will be drawing down on the capital in your account over time. You can choose to take more than the minimum amount either monthly or as an extra lump-sum payment. A RRIF can be transferred to your surviving spouse tax-free on your death, or if you are the second to die, it is taxable to your estate and added to the rest of your income for that year. The key is that if there is a value left in your RRIF when you die, it will be passed on to a beneficiary or your estate.

If you purchase an annuity, you should think of an annuity as a reverse life insurance policy. You give a lump sum to the insurance company and they promise to pay you a monthly income for the rest of your life. You are really buying insurance that you do not run out of money. You are trading your capital for guaranteed income with no residual value for your estate if you happen to die early – the insurance company would win in that scenario. And you can't change your mind if you decide to buy an annuity – you are locked in for life. Annuity payments are based on gender, age and the current level of interest rates. The best time to buy an annuity is when interest rates are high and the worst time is when interest rates are low.

When making the choice between a RRIF and an annuity, you need to consider the following:

1) The greater your desire for flexibility to change your level of income, you would be inclined to choose a RRIF.

2) The higher your investment risk tolerance and experience with investments, you would be inclined to choose a RRIF.

3) The more other sources of pension income you have beyond CPP or OAS, thereby providing a degree of longevity protection, you would be inclined to choose a RRIF.

4) The shorter you think your life expectancy will be, you would be inclined to choose a RRIF.

5) The higher your desire to provide for a spouse or other beneficiaries on your death, you would be inclined to choose a RRIF.

The vast majority of Canadians choose a RRIF over an annuity for their RRSP savings to have more flexibility to change payment amounts and to ensure that there is always a value to pass on to your beneficiary or estate.

Estate Planning

The Wills Variation Legislation and how it can affect your Estate Planning

A general principle of law is that a person who makes a Will has the freedom to dispose of his or her property as he or she wishes. However, like most general principles, there are exceptions.

The Wills Variation provisions of the Wills, Estates and Succession Act, permit a surviving spouse (including a common law spouse), or a natural or adopted child of the deceased to contest a Will on the basis that the Will did not make adequate provision for him or her. The Wills Variation provisions have sparked a great deal of controversy for those that believe that a parent's obligation ends once they have raised a child to independence. While initially the former, Wills Variation Act, was used primarily by disinherited children, it arises more commonly now as a result of the increase in "blended families".

To illustrate how a blended family can be influenced by the Wills Variation provisions, here is an example:

John and Joan are married, and both have adult children from previous relationships. All of their children are grown and independent, and John and Joan's primary estate planning goal is to ensure that they provide for each other, in the event of the death of just one of them. They wish to enter into simple reciprocal Wills which gift all of their estate to the surviving spouse, and upon the death of the surviving spouse, the estate is to be divided equally among the children of both of them.

Unfortunately, because of the principle of testamentary freedom, the surviving spouse is always free to change his or her Will at any time. Accordingly, if John dies first, Joan could change her Will at any time following his death cutting John's children out entirely. John's children may not be aware that this has been done until after Joan's death, but at that point, they would not have a right to bring a Wills Variation action, because they are not the natural or adopted children of Joan.

Since the limitation to bring such an action is six months from the date of probate, the time may have long since expired to bring an action to vary their father's Will, and thus, the end result is that John's children end up with nothing. John's children may be forced to bring a Wills Variation action when John dies, attempting to reapportion John's assets away from Joan and to John's children at that time. This could possibly leave Joan without sufficient funds for the balance of her lifetime, and John's estate planning goal will have failed.

This is just one example that illustrates the need for some professional estate planning advice, in the event that you wish to disinherit a child, treat your children unequally under your Will, or in the event you have a blended family.

Information provided by:

Mary Murrell | Lawyer

Randall & Murrell LLP | Lawyers
201 – 1006 Fort Street,
Victoria, BC V8V 3K4
T: 250-382-9282 | F: 250-382-0366
W: www.viclawfirm.ca |
E: mmurrell@viclawfirm.ca

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