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Financial Focus

Wealth Management
Dominion Securities

Summer 2024

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Dear Clients and Friends,

Welcome to the summer season! I always feel so fortunate to live in the beautiful city of Victoria at this time of year.

A lot of progress has been made since inflation peaked at 9.1% in the U.S. and 8.1% in Canada in June, 2022 and we are now in the 2-3% target range for inflation. Recent data has provided the Bank of Canada with clear evidence that its monetary tightening campaign (higher interest rates) has been dampening economic momentum and bringing the inflation rate down. Canada's unemployment rate now sits at 6.1% and markets have now priced in roughly three rate cuts for the Bank of Canada this year, two more than south of the border, with the first cut most likely in June or July.

Lower interest rates will be good for both the bond market and the stock market. With bonds, there is an inverse relationship between the price of bonds and the direction of interest rates. If interest rates start dropping, the price of existing bonds will move higher. For companies (and stocks), lower interest rates mean lower borrowing costs for companies which can improve profits and push stock prices higher.

Our federal government introduced a higher capital gains inclusion rate effective June 25th which means that for individuals, if you have more than $250,000 in realized capital gains in any one year, you may pay more tax. The majority of my investment clients are not planning to trigger large gains and pre-pay tax to the CRA because of this new rule. Longer term investors are still better off to continue to hold investments and allow the compounding effect to increase the value of their accounts and defer the tax payment for as long as possible.

Do you have plans to make any larger withdrawals that we have not already talked about? It is important to have amounts in your "short-term bucket" that are liquid and protected from market volatility. Please be sure to keep me in the loop with your spending plans!

July 2nd will mark my 24th year with RBC and I continue to be proud to work for such an amazing company. My team members, Mary Howley and Heather Murdock, continue to provide exceptional service to our clients and I am very grateful for their hard work and dedication.

Have a safe and happy summer,

Sandra

The Fake Four – four scams to watch out for

One of the most important ways to successfully combat cybercrime, whether for seniors or anyone else, is to be aware of how cybercriminals ply their nefarious trade. Awareness is key. So, if you or someone you love is vulnerable and needs help to avoid becoming a victim of cybercrime, here are four key scams to be on the watch for according to RBC cybersecurity experts:

1. Phishing: This is the most common online scam and is designed to trick the cybercriminals' targets into sharing personal and/or financial information for the purpose of financial fraud or identity theft.

The scam: The cybercriminals send an email that appears to be from a legitimate source—the government, a bank, a major corporation—and provide a link that will bring you to a fake website. There they will direct you to sign into an account using your user ID and password (this is a popular one when they are pretending to be your bank), or to divulge key information, such as credit card numbers, account numbers, passwords, date of birth, driver's license number, and social insurance numbers.

How to protect yourself:

- Never click on a link in an unsolicited email.
- If an email appears to be from someone you know but seems unusual in any way, try to reach the sender another way—such as by phone—to verify the email is legitimate.
- Before you enter confidential or financial information online, check for the lock icon on your browser. Ensure the URL in the browser address bar starts with "https".

2. Smishing: Smishing is very similar to phishing but uses SMS messaging (or text messages) to reach their victims—the term is actually a blend of "phishing" and "SMS". Attacks via smishing have become more common given the open and response rates to text messages. While only 20 per cent of emails are opened, and six per cent are replied to, those numbers rise to 90 per cent and 45 per cent for text/ SMS messages.3 Research suggests people are more likely to trust a message that comes in through text versus email and are largely unaware of smishing attacks.

How to protect yourself:

- Never click on a link in an unsolicited email.
- Call the (apparent) sender directly. Legitimate companies and financial institutions don't request account updates or login information via text. It's always a good idea to confirm any requests received by text by calling the organization's official number (i.e., the one on their official website, not the number contained in the message).
- Check the phone number. Odd-looking phone numbers, such as 4-digit ones, can be evidence of email-to-text services. This is one of many tactics a scammer can use to mask their true phone number.

3. Romance scams: As an increasing number of seniors use online apps to meet new people, they are running into romance scams. And these scams are on the rise. According to the Canadian Anti-Fraud Centre, in 2022 the romance scam was the number two most reported scam in Canada.

The scam: The cyber scammers target seniors, especially those recently divorced or widowed, due to their vulnerabilities and access to cash. Using dating, gaming, and social media websites, they pose as real people looking to connect. After striking up a relationship and establishing trust—and often after months of texting, emailing, or talking—scammers will request money.

For more on how to avoid a romance scam, check out the following article (https://www.rbcroyalbank.com/en-ca/my-money-matters/money-academy/cyber-security/understanding-cyber-security/5-ways-to-spot-a-romance-scam/).

4. Fake computer warnings: Cybercriminals take advantage of what they figure we don't know about our computers. So, if a warning message about a virus pops up on the screen, they rely on the fact that most people will want to take action to fix it. However, these warnings are fake, and for seniors with limited computer literacy, it can be especially easy to get tricked.

The scam: Fake virus warnings may appear on your screen as pop-ups (or even worse, voices or alarms), alerting you to a fake threat and encouraging you to act immediately — either by downloading a product or calling a tech support number to fix it.

If you call the number, you'll reach a scammer who intends to collect your credit card information so they can remove the virus. They may even pressure you into sharing your screen so they can access all the data on your computer.

How to protect yourself:

- Do not call a number or click a link that appears on your screen in an alert window.
- Close the browser, regardless of any warnings not to.
- Call someone — either a trusted friend or family member or the store where you bought your computer — for peace of mind that your device is OK.

2024 Federal Budget
Planning for the proposed increase to the capital gains inclusion rate

Canada's recently unveiled 2024 federal budget proposes to increase the capital gains inclusion rate to 66.67% from 50%.

History of the capital gains inclusion rate

You have a capital gain when you sell, or are considered to have sold, a capital property for more than the total of its adjusted cost base (ACB) and the outlays and expenses incurred to sell the property. Capital gains have preferential tax treatment, as only a portion of the gain is taxable. The capital gains inclusion rate is the percentage of taxability that's applied to a capital gain. The result, known as a taxable capital gain, is included in taxable income. Since tax on capital gains was introduced in 1972, this inclusion rate has changed several times.

The effects on individuals

Any capital gains realized prior to June 25, 2024, (Period 1) will have an inclusion rate of 50%. Any capital gains realized on or after June 25, 2024, (Period 2) will have an inclusion rate of 50% on the portion up to $250,000 (regardless of the amount of capital gains realized in Period 1) and an inclusion rate of 66.67% on any portion above $250,000.

The proposed higher inclusion rate on capital gains would effectively increase the average federal-provincial marginal tax rate on capital gains above $250,000 at the top marginal tax rate to 33.8% from 25.3%.

Capital gains inclusion rate changes over time[1]

Time period	inclusion rate
1972 to 1987	50%
1988 to 1989	66.67%
1990 to February 27, 2000	75%
February 28 to October 17, 2000	66.67%
After October 17, 2000	50%
On or after June 25, 2024 (proposed)	66.67%

1 Government of Canada website.
Inclusion rates for previous years -Canada.ca.
Accessed April 21, 2024.

The effects on corporations

The budget proposes that all capital gains realized in a corporation on or after June 25,2024, will have an inclusion rate of 66.67%, regardless of whether the corporation is an operating, holding or professional corporation. As further clarification, there is no 50% inclusion rate available to corporations for the first $250,000 of capital gains.

Before taking action: ask "big picture" questions

It's important to consider the power of tax deferral as one of the fundamental tools of tax planning. A tax deferral takes advantage of the time value of money. All else being equal, the longer your tax can be deferred, the less the discounted present value of your tax liability. For example, $25,000 in tax deferred for 20 years at an assumed 5% interest rate has a discounted present value of $9,422.

With a tax-deferred investment strategy, the money that might otherwise go to pay current taxes remains invested for greater long-term growth potential and benefits from the power of compounding. In other words, selling now will result in a pre-payment of tax and a smaller after-tax amount to reinvest.

Based on our research, if the individual expects to keep the securities for at least nine years, they will be better off not selling now and rather holding the investment.

What is correlation?

And why is it important when diversifying?

"Correlation" is a mutual relationship or connection between one or more things. In your portfolio, correlation measures how different investments move in relation to each other.

"Positive correlation" means that as one investment (such as a stock or bond) increases or decreases in value, the other will do the same. For example, stocks of a company that manufactures car parts are positively correlated with the stocks of a company that manufactures cars. If the car manufacturer is performing well and producing more cars to keep up with market demand, the manufacturer supplying car parts may also perform well.

"Negative correlation" is when two securities move in opposite directions. Using our car manufacturer as an example, let's say its stock is negatively correlated to a bus company's stock (because, if the market changes and consumers buy fewer new cars, they may take buses more often).

Ideally, your portfolio should include investments that have lower or negative correlation in order to benefit from the risk-reducing effect of diversification, i.e. as one investment goes down, another goes up to offset it. If you only hold investments that are positively correlated – that tend to go up or down at the same time – your portfolio is probably not properly diversified.

Asset class diversification

Striking an appropriate balance between growth and stability

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US Equities 24.4%	US Equities 20.8%	CDN Equities 21.1%	EM Equities 28.3%	US Equities 3.8%	US Equities 25.1%	EM Equities 16.6%	US Equities 27.9%	Cash 1.7%	US Equities 22.9%
Balanced Portfolio 11.9%	INTL Equities 19.0%	US HY Bonds 14.3%	INTL Equities 16.8%	Global Bonds 1.9%	CDN Equities 22.9%	US Equities 16.1%	CDN Equities 25.1%	CDN Equities -5.8%	INTL Equities 15.1%
CDN Equities 10.6%	Balanced Portfolio 8.2%	US Equities 8.6%	US Equities 14.1%	CDN Bonds 1.4%	INTL Equities 16.5%	Balanced Portfolio 10.0%	Balanced Portfolio 11.2%	INTL Equities -7.8%	Balanced Portfolio 12.8%
Global Bonds 9.4%	CDN Bonds 3.5%	EM Equities 7.3%	Balanced Portfolio 9.8%	Cash 1.3%	Balanced Portfolio 15.5%	CDN Bonds 8.7%	INTL Equities 10.8%	Balanced Portfolio -10.2%	US HY Bonds 12.5%
CDN Bonds 8.8%	EM Equities 2.0%	Balanced Portfolio 6.0%	CDN Equities 9.1%	Balanced Portfolio -1.1%	US HY Bonds 14.0%	INTL Equities 6.4%	US HY Bonds 4.6%	US HY Bonds -11.1%	CDN Equities 11.8%
EM Equities 6.6%	Global Bonds 1.9%	Global Bonds 3.5%	US HY Bonds 6.4%	US HY Bonds -2.9%	EM Equities 12.9%	Global Bonds 6.0%	Cash 0.1%	CDN Bonds -11.7%	EM Equities 6.9%
US HY Bonds 4.3%	Cash 0.6%	CDN Bonds 1.7%	CDN Bonds 2.5%	INTL Equities -6.0%	CDN Bonds 6.9%	CDN Equities 5.6%	Global Bonds -2.3%	US Equities -12.3%	CDN Bonds 6.7%
INTL Equities 3.7%	US HY Bonds -2.7%	Cash 0.5%	Global Bonds 1.8%	EM Equities -6.9%	Global Bonds 6.8%	US HY Bonds 5.1%	CDN Bonds -2.5%	Global Bonds -13.2%	Global Bonds 5.6%
Cash 0.9%	CDN Equities -8.3%	INTL Equities -2.5%	Cash 0.6%	CDN Equities -8.9%	Cash 1.7%	Cash 0.6%	EM Equities -3.1%	EM Equities -13.9%	Cash 4.8%

Note: All returns are total returns in Canadian dollars, unless otherwise noted.
Source: RBC Global Asset Management Inc.
Balanced Portfolio represented by 2% Cash, 38% Fixed Income (Canadian bonds), 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Market Equities.

Fixed income				Equities				
Cash Cash	Global Bonds Global Bonds	CDN Bonds Canadian Bonds	US HY Bonds U.S. High-Yield Bonds	CDN Equities Canadian Equities	US Equities U.S. Equities	INTL Equities International Equities	EM Equities Emerging Market Equities	Balanced Portfolio
FTSE Canada 30 Day TBill Index	FTSE World Government Bond Index (CAD Hedged)	FTSE Canada Universe Bond Index	ICE BofA US High-Yield BB-B Index (CAD Hedged)	S&P/TSX Composite Index	S&P 500 Index	MSCI EAFE Index	MSCI Emerging Markets Index	60% Equity / 40% Fixed Income