Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

Winter 2021

RBC Dominion Securities Inc.

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Dear Clients and Friends,

I would like to extend my warmest greetings and best wishes for a happy holiday season this year. I hope you have the opportunity to gather with friends and family to celebrate.

The end of a year is always a great time to reflect on the prior year and plan for the next year both personally and financially. The first step to planning out a successful year is to write down what you plan to achieve. Personally, that could be learning a new hobby, sport or skill, or perhaps exploring a new part of the world post-Covid. Financially, it is knowing what your plans are that have a price tag attached to them. Travel? Renovations? Vehicle? Charity? What is on your bucket list? What do you want to do when you have time, money and your health all at the same point in your life? A very important part of my role as Portfolio Manager and Financial Planner is to encourage clients to enjoy the wealth they have accumulated and I will continue to do that each and every year.

In my business, 2021 has been the “Year of the Retiree”. I have had over 15 of my clients hang up their working hats this year and transition into retirement life. As a Financial Planner, nothing is more exciting than seeing years of planning become reality. Savings strategies become income strategies to achieve the goal that was initiated so many years ago. I am happy to see that the concept of “deferred gratification” is alive and well. This is an exciting time for these clients and I am grateful to be part of this new phase of life.

I would like to thank my very loyal clients for their continued support and I sincerely appreciate the confidence that clients have in my abilities as Portfolio Manager and Financial Planner.

I also am very grateful to have two wonderful support staff, Mary Howley and Heather Murdock, who are both very important in providing exceptional service to my clients.

Best wishes for a safe and happy holiday season,

Sandra

Receive your Tax Documents Electronically

With tax season just around the corner, now is the time to sign up for online delivery of your tax documents from RBC Dominion Securities before December 31st. To receive the easy instructions on how to set this up online, please contact Heather Murdock at heather.murdock@rbc.com

Inside the mind of an investor

The human brain uses shortcuts and patterns to process information and make decisions quickly. This can be effective when learning a new language, picking up a new skill or making dinner plans. But it can lead to behavioural biases that can cause us to think and act in curious ways. Particularly when it comes to investing.

This quarter we explore five common investor biases and how they can influence investment decisions.

98% of investors exhibit at least one behavioural bias.[1]

How investor psychology can impact investment decisions

Biases can shape many of the investment decisions an investor makes. If left unchecked, these biases can lead to deviations from long-term plans – particularly when markets are moving dramatically.

An investor's thoughts during Feb-June 2020 market swings[2]

Understanding Investor Bias

Anchoring

What it is:

Fixating on a specific reference point, like the price paid for an investment or market index level, and basing decisions around that one number.

How it affects investors:

Can cause investors to overvalue, or undervalue, asset prices or market performance based on an arbitrary number drawn from past experience.

Guidance

Follow a disciplined investment process no matter where markets are headed.

Loss aversion

What it is:

Feeling losses much more intensely than feeling the reward from an equivalent gain.

How it affects investors:

By prioritizing the avoidance of short-term losses over long-term gains, investors may put the success of their long-term goals in jeopardy.

Guidance

Stay focused on long-term financial goals.

Recency

What it is:

Placing too much emphasis on experiences that are freshest in one's memory — even if they're not the most relevant or reliable.

How it affects investors:

Believing that short-term trends will continue into the future may lead investors to ignore new information and be slow to react to changes in investment markets.

Guidance

Tune out short-term market noise and focus on the bigger, long-term picture.

Familiarity

What it is:

Preferring to invest in what is familiar – especially from domestic markets. For instance, the average Canadian has 92% of their wealth in Canada.[4]

How it affects investors:

Leads to concentrated portfolios that hold only the most familiar investments. This can increase portfolio risk and lead to a bumpier investment experience.

Guidance

Invest globally to increase diversification and reduce risk.

Confirmation

What it is:

Seeking, or accepting, only information that supports what one already believes.

How it affects investors:

By ignoring information that doesn't support one's decisions, an investor can form unrealistic expectations that can lead to portfolio concentration and increased risk.

Guidance

Ask big picture questions and develop a more holistic view.

Source: RBC GAM report: RBC Portfolio Solutions Insights – Inside the mind of an investor

Client Focused Reforms - What you need to know

In October 2019, the Canadian Securities Administrators (CSA) released a series of new regulations called the Client Focused Reforms. These reforms require all registered investment firms across the country to demonstrate how we protect our clients' interests when recommending investments and services. **These changes are mandated for all investment management firms in Canada, not just RBC and will take effect on December 31, 2021.**

Summary of Client Focused Reforms:

Existing Guidelines

We will see enhanced guidelines and requirements in these areas:

- **Know your client** – ensuring suitability based on each specific client with regards to investment strategies and risk tolerance
- **Know your product** – ensuring training and compliance with regards to specific investment products
- **Conflicts of interest** – ensuring any conflicts of interest are disclosed and acknowledged

New Guidelines

Job Titles

Job titles at all registered firms within the Canadian investment industry are changing. Traditionally, it has been industry practice to recognize more senior advisors, who have achieved a certain amount of experience, with the additional title "Vice-President." After extensive consultations with investors across the country, the CSA determined that using a different title to recognize senior advisors, in place of Vice-President, would have two benefits:

1) help investors more clearly understand their advisors' roles – as advisors, and
2) reduce confusion that advisors are acting in a different role as "corporate officers" of a firm.

At RBC Dominion Securities, we will grant advisors who meet the required standards the following new title: **Senior Portfolio Manager**.

To receive the new title, an advisor must meet the same rigorous criteria as before when they had the VP title, including experience managing client assets, high-quality business practices and commitment to their communities. Again, this is a change that will affect all advisors with any securities firm across Canada, not just RBC.

Trusted Contact Person

The new rules require us to provide clients with the opportunity to name a "Trusted Contact Person" (TCP). A TCP is a person that RBC Dominion Securities would be able to speak with should we have any concerns regarding financial exploitation or diminished mental capacity, with respect to a client's account with us. It is important to highlight that the TCP is not the same as a power of attorney (POA) or trading authority (TA). For example, a POA has authority to make financial decisions on a client's behalf under certain circumstances, and a TA can provide trading instructions, while the TCP would not have any decision-making authority with respect to the client's finances or account. Instead, a TCP would be there to provide or confirm information to the advisor to help protect the client against possible financial abuse or address capacity concerns. We will be contacting all of our clients over the next few weeks to determine if they would like to name a TCP on their RBC Dominion Securities accounts. There is no obligation to do so as this is an option for clients and not a requirement.

2021 Year End Tax Tips

As year-end approaches, it is wise to take some time to review your financial affairs for any tax savings strategies. Here are a few strategies for your consideration, all of which should be reviewed with your qualified tax advisor to ensure they make sense for you.

Tax Loss Selling Opportunities

Year end is a great time to look for opportunities to make changes to your non-registered investment portfolio. It may be the time to move away from an investment that has not been performing well and potentially triggering a capital loss, which can be used to offset capital gains on other assets that you may have sold earlier this year, or may sell in future years. The capital loss that you realize on the sale of an investment (outside of RRSP, RRIF or TFSA) can be carried forward to offset capital gains in future years as well. The deadline to trigger a capital loss (or gain) for 2021 is December 29th to make sure the trade settles by December 31st. Capital losses can also be carried back 3 years to offset capital gains you have realized and already paid tax on (potentially resulting in a tax refund for you).

Superficial Loss

If you did sell a security to trigger a capital loss and are planning to repurchase that same security, beware of the "superficial loss" rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. Under the rules, your capital loss would be denied.

Defer Realizing Capital Gains

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2021, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2022 for the following reasons: your marginal tax rate may be lower in 2022 compared to 2021, and if you wait until 2022 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2023 (unless you are required to make tax installments).

Low-income year

If you expect to be in a low marginal tax bracket for 2021 and expect to be in a higher marginal tax bracket in retirement, you may want to consider making an early withdrawal from your RRSP before year-end. The advantage of this strategy is that you can avoid a higher tax rate on these RRSP funds if withdrawn in the future when your marginal tax rate may be higher.

TFSA Accounts

The Tax Free Savings Account allows you to earn tax-free investment income including interest, capital gains and dividends. You can make tax-free withdrawals any time, for any reason, and any amount you withdraw is added back to your available contribution room on January 1st of the following year. If you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31st. This will allow you to recontribute the amount withdrawn as early as January 1st of 2022, rather than having to wait until 2023. New TFSA contributions for 2022 can be made on the first business day in January. The annual TFSA contribution limit remains at $6,000 for 2022. With the TFSA contribution limit of $6,000 for 2022, the cumulative TFSA contribution limit in 2022 will be $81,500 for a Canadian who has never contributed to a TFSA, and who was 18 years old or older in 2009, the year in which the program was launched.

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