RBC Dominion Securities Inc.

Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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Dear Clients and Friends,

How quickly the year has flown by as we near the end of 2022! I would like to extend my warmest greetings and best wishes for a happy holiday season this year. Now that most of the pandemic restrictions have been eased, I hope that you have the opportunity to gather with friends and family to celebrate.

As the year draws to a close, we are seeing more “green shoots” to suggest that better financial markets may be ahead for 2023. Why are we feeling optimistic? Extreme levels of pessimism and volatility have resulted in the “over-sold” market conditions at the end of September and market have moved higher since the second low of 2022 (June and then September) and technical analysis indicates this is historically a positive sign.

Interest rates have dramatically increased in 2022 as central banks attempt to lower inflation by raising rates. I continue to remind clients that this “tightening” policy is like trying to have your foot on the gas and the brake at the same time and still move forward. After aggressive interest rate increases in both Canada and the U.S., we feel that there are more concrete signs that we are nearing a pause moving into 2023.

The US mid-term elections should remove some of the uncertainty in the US economic outlook which could provide relief to the downward pressure that equities have been facing in recent months. Historically, there has been a market rally following the US mid-term elections which were held in November.

As investors, it is important to keep in mind that global markets are forward looking and tend to reflect the future outlook in advance. Meanwhile, a shift to a more patient approach by central banks would still be very welcomed by investors. Whether that change is underway remains to be seen, but we believe that eventuality is not too far off into the future.

As always, there is no guarantee about what will happen in the short term, but we are seeing more positive signs lately and feel that there is a higher probability of upside rather than more downside. We continue to remind investors that the greatest opportunities are found during the most uncomfortable and unsettling times. Undeniably, bear markets represent periods of tremendous opportunity for prudent investors able to look beyond near-term uncertainties.

I am happy to be reconnecting with clients in-person now that we have the ability to do so and it reaffirms to me that the investment and financial planning business is about the people we help.

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

Best wishes for a safe and happy holiday season,

Sandra

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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. For assistance contact Heather Murdock at heather.murdock@rbc.com

Blind Spots

Combatting cognitive biases when investing

Volatile markets can tempt investors to follow their primal instincts and veer from their investment plans. Here are three typical investor behavioural traits to watch out for, and three ways to avoid falling prey to them.

We Homo sapiens have developed our brains over tens of thousands of years, and those brains are ideally designed to help us survive in what were very often hostile environments. For example, our instinct to fit in with "the tribe," which was essential to our survival 15,000 years ago, today can lead to "group think." This instinct works against us when investing, prompting us to blindly follow the "herd mentality" versus what is rational and appropriate given our investment goals.

It's not easy to control these deeply instinctive emotions that drive our behavior and form cognitive biases, or "blind spots." Ninety-eight per cent of investors exhibit at least one behavioural bias.[1] These biases can be helpful in our day-to-day lives, allowing us to use shortcuts and discern patterns that help us process information to make rapid decisions.[2] However, these same biases can lead us astray when it comes to investing.

Here are three common cognitive biases[2,3] to watch out for as an investor, and some ways to help correct for them:

1. Recency bias

Putting too much weight on recent experiences over historic ones. This "myopia" can lead investors to over- or under-estimate the probability of an outcome.

How to correct for it: Get the "big picture" — for example, look at the market's performance over the last 20 years versus the last 20 months. Recognizing that markets and investments evolve given changing circumstances over time helps us maintain a long-term view, and encourages us to stick with our investment plans regardless of short-term volatility.

2. Loss aversion bias

Emotionally, humans suffer more from a loss than enjoy an equivalent gain. This can lead to prioritizing the avoidance of short-term losses over the potential for long-term investment gains. No one enjoys a loss, but short-term downturns in markets are an inevitable part of the investment journey. Losing sight of this can compromise your ability to achieve the risk-appropriate, long-term potential returns of investments such as equities.

How to correct for it: Ensure your investment plan aligns with your investment risk profile and capacity, and that the goals that underpin your plan truly reflect what matters to you. This can help keep you on track to your goals, and to prioritize the long term over the sometimes-unpleasant experiences generated by short-term volatility.

3. Familiarity bias

Investors are instinctively drawn to what is familiar to them, such as their own domestic equity market. This can lead them to overlook opportunities in foreign markets to diversify their portfolios — potentially enhancing returns and reducing risk.

How to correct for it: Review your asset mix to ensure you are properly diversified based on your investment risk profile. This can help overcome "home bias" and overly concentrated portfolios.

Sources: 1 "Who's influenced by behavioural biases? Everyone." Morningstar, 2021. 2 "How to avoid behavioural bias as an investor." RBC Global Asset Management, 2021. 3 "The Evolving Role of Behavioral Finance in 2020." Cerulli Associates, 2020.

Building your retirement paycheque

Planning around the "what, when and how" of your retirement income can help maximize your after-tax cash flow.

The silvering Maple Leaf

The ageing Canadian population cohort—those 65 years of age and older — is growing rapidly, reaching 5.9 million people in 2016, according to the latest census data from Statistics Canada (StatCan). That's an increase from 4.9 million just five years earlier. More recent non-government data suggests that the number is now closer to seven million, and the group now represents nearly one in five Canadians.

With the vast majority of this cohort embracing retirement, generating income becomes increasingly important, and every dime matters. 58% of ageing Canadians' income is derived from what StatCan refers to as "market income"— investments and pensions. The pension portion of that income — or 44% of the total — includes the Canada Pension Plan (CPP) and Old Age Security (OAS). How that income is taxed, and what ageing Canadians actually net after taxes — or their cash flow — is critically important to how they live in their golden years.

What: Sourcing your retirement income

The first step to ensuring you are maximizing your retirement income is to establish its sources, how much from each of these sources will be paid out to you over time.

Canadians' key sources of retirement income include:

- **Government retirement benefits,** e.g., Old Age Security (OAS), the Canadian Pension Plan (CPP) or the Quebec Pension Plan (QPP), foreign government pension plans.
- **Employer pension plans,** e.g., company-administered defined-benefit (DB) and defined-contribution (DC) pension plans.
- **Registered retirement plans,** e.g., Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Plans (RRIFs), Tax-Free Savings Accounts (TFSAs).
- **Other personal savings and investments in non-registered accounts,** e.g., investments such as rental or income-producing properties.

When: Drawing your retirement income

The next step is to establish the best withdrawal structure from one's various retirement income sources. Consider drawing from the least flexible sources of income first, allowing you increasing flexibility as you age, and a degree of control over minimizing taxes. Depending on your age, and individual situation, the following drawdown process can help minimize your tax bite, while generating the greatest flexibility to meet your evolving cash flow needs:

How: Maximizing your retirement income

Here are just a few ideas to consider that may help enhance your after-tax retirement paycheque:

- You can start drawing on your CPP as early as age 60 and as late as age 70. If you are less concerned about cash flow in your early retirement years, consider drawing on your CPP later. Doing so can substantially increase your CPP payments.
- Assess when you can start receiving company pensions to maximize what you get, e.g. with employer Defined Benefit plans there is often a formula based on age or years of service where there may be an optimum time to start drawing.
- Consider leaving your registered funds to grow as long as possible to benefit from tax-deferred growth, i.e. waiting until you are 71 to convert your RRSP to a RRIF.

Drawing income in the right order to maximize tax efficiency

Age							
Age 60-71	Government benefits	> Pensions	> Distributions from non-registered accounts	> RSP or capital from non-registered accounts*	> TFSA		
Age 71+	Government benefits	> Pensions	> Locked-in accounts	> Minimum RIF withdrawal	> Distributions from non-registered accounts	> RIF or capital from non-registered accounts*	> TFSA

It's important to keep in mind that there is no set order that's right for everyone. The order you draw on your income sources can be important, so it's best to consult with your advisor on what's the best strategy for you.

The "what, when and how" of building your retirement paycheque is important to maximizing your after-tax retirement income — and enjoying your retirement years.

2022 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 2022 is December 28th 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 2022, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2023 for the following reasons: your marginal tax rate may be lower in 2023 compared to 2022, and if you wait until 2023 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2024 (unless you are required to make tax installments).

Low-income year

If you expect to be in a low marginal tax bracket for 2022 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 2023, rather than having to wait until 2024. New TFSA contributions for 2023 can be made on the first business day in January. The annual TFSA contribution limit has been increased to $6,500 for 2023. With the TFSA contribution limit of $6,500 for 2023, the cumulative TFSA contribution limit in 2023 will be $88,000 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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