RBC Dominion Securities Inc.

The Stanton Report

Fall 2023

Views and opinions for the friends and clients of Investment Advisor Richard Stanton

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If you know anyone who would like to receive a copy of this newsletter or be added to our mailing list, please contact Tracy Dykens at (250) 847-6680. Please contact Tracy if you would like secure internet access to your accounts. Use our toll-free number from anywhere in North America.

A Word from Richard

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Well, the summer of '23 is history, and I hope everyone had a safe and happy one. Here in beautiful B.C. there is a now a chill in the air, the leaves are changing and all of our favorite pumpkin flavored coffees and treats are back.

Both girls are doing well and live together in Kelowna now. Olivia graduated with a degree in Chemistry and has applied to the optometry program at the University of Waterloo for the September 2024 intake. Jenelle is pursuing a Business Administration degree program at Okanagan College and house and dog sits from time to time to make a few extra dollars.

This was a big year for Tracy's family as well. Both of her children graduated together this Spring. Her daughter, Kiera, started her science degree in Biomedical this Fall and her son, Mattias, is working full time to save up some money and will be starting his degree in Computer Science next Fall.

Thank you for reading and if you have any questions regarding your portfolio or if you simply want to discuss your investment goals and objectives for the coming year, give Tracy a call or send her an email to setup a telephone appointment.

Thanks for reading,
Richard

Here is what happened the first half of 2023;

- **S&P/TSX Composite Index 3.6%**
- **Dow Jones Industrial Average 1.6%**
- **MSCI World Index 11.6%**
- **Crude Oil 17.2%**
- **Gold 2.4%**
- **Silver -3.8%**
- **Copper -2.4%**

RBC Wealth Management
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Cold comfort: The real cost and risk of cash

As investment markets melted under the heat of sharp and seemingly relentless central bank interest rate increases over the last year, investors have taken shelter under the relative protection of cash and short-term investments. And while these instruments can be appropriate for an investor in the short-term, for the long-term investor cash often provides poor net returns, while also creating the risk of lost opportunity as markets turn higher.

Cash is king in the land of the blind(sided)

There is a general truism in investing that when markets are on the downswing and volatility is causing investors headaches, cash is king- or, in short, cash is the best place to take refuge and hideout until markets regain their footing.

As central banks have jacked up interest rates far beyond expectations in an effort to combat persistent inflation, the interest rates paid on cash deposits and short-term cash-equivalent instruments like T-bills, High Interest Savings Accounts (HISAs) and Money Market funds have soared to the 4%-5% range, providing a decent return for volatility scarred and jittery investors.

It's all about the net, not the netting

When we consider our returns on an investment, it is important to note that your return is more than what an asset has generated for you over a certain period. Your return is all about what you net after inflation and taxes - in short, what you net, not just what you seemingly netted or earned.

Real after-tax return = Nominal return - taxes - inflation

Assuming an investor is earning a nominal annualized return of 5% in their cash or cash-equivalent investments these days, if we then subtract the annualized inflation rate that stood in the month of April 2023 of 4.4%, the net after inflation annualized return would be 0.6% (5% - 4.4%).

Even worse, assuming the funds are held outside a tax-sheltered savings account such as an RRSP or a TFSA, that means paying taxes at the investor's top marginal tax rate on your nominal return (interest income is taxed at your top marginal tax rate). In short, this would cut down your 5% nominal return by as much as half, meaning an after-tax return of 2.5%; and, then accounting for inflation's impact, your return actually turns to a negative 1.9% (5% - 2.5% - 4.4%). Hardly a comforting return when you consider all these factors.

It's cold on the sidelines - staying on track to your investment plan

For a long-term, risk-appropriate investor whose investment plan's success is predicated on them remaining invested through all market conditions, another downside of moving to cash during volatile and difficult periods in the market is the danger of missing out when markets rebound and regain their forward momentum. Based on history, markets have always risen over time, so to move to the sidelines is to risk losing potential important returns.

This is particularly true these days. Interest rates have begun to peak, so it's important to note the historical reaction from markets and the impact on investors in the months that follow a peak in central bank hikes, as illustrated here:

	Fed Funds Rate	S&P 500 total return post final rate hike					
		3 mo.	6 mo.	12 mo.	18 mo.	24 mo.	36 mo.
05/01/74	11.3%	-11.2%	-16.2%	1.4%	5.6%	22.9%	24.0%
03/03/80	17.2%	-0.3%	15.3%	22.2%	16.4%	9.5%	60.2%
05/08/81	18.5%	1.3%	-4.3%	-4.1%	16.1%	40.6%	42.0%
01/04/82	13.2%	-4.8%	-9.6%	22.0%	49.0%	50.4%	54.7%
08/21/84	11.6%	-0.9%	9.8%	17.8%	42.7%	61.4%	124.1%
02/24/89	9.4%	12.2%	24.5%	16.8%	14.2%	36.5%	58.8%
02/01/95	5.9%	10.0%	20.5%	39.2%	43.3%	75.1%	122.2%
05/16/00	6.3%	1.2%	-5.9%	-11.3%	-20.9%	-23.2%	-32.7%
06/29/06	5.0%	5.4%	12.5%	20.3%	19.6%	4.5%	-22.2%
12/19/18	2.3%	13.6%	17.9%	30.4%	27.3%	53.7%	94.2%
Average		2.7%	6.5%	15.5%	21.3%	33.1%	52.5%
Median		1.3%	11.2%	19.0%	18.0%	38.5%	56.7%

Note that in eight of the last ten circumstances such as the one we face today, markets were sharply higher one-, two- and three-years after the final interest rate hike of a tightening cycle.

No better time than the present to get back on track- we can help

There are times when an investor may justifiably want to move to the sidelines and wait out volatile markets, even if it means just getting a good night's sleep. But the cold comfort of cash is historically something to do for - at most - very short periods of time.

If you have sought the seeming comfort of cash but want to get back on track, talk to us today-we can help bring you and your portfolio back in from the cold.

The First Homebuyers Savings Account (FHSA)

Did you know that...

Eight important tips to get the most from your FHSA savings

As the newest entry into the Canadian landscape of government-sponsored savings and investing vehicles, the recently launched First Homebuyers Savings Account, or FHSA, is an excellent addition to the fold that already includes the widely embraced Registered Retirement Savings Plan (RRSP), the Tax-Free Savings Account (TFSA) and the Registered Education Savings Plan (RESP).

When new savings programs like the FHSA or TFSA are introduced, it can be difficult to figure them out at first, including how they function, what their features are, and what they can do to help you reach your financial and life goals. Of course, the FHSA is, like its peers, focused on providing savers with a convenient and tax-effective way of saving and investing. But what's special about the FHSA is that it is specifically designed to help first-time homebuyers save for and grow those savings to achieve their goal of buying a home.

Important tips to help maximize your FHSA

To help ensure you are taking full advantage of the new FHSA, here are eight tips to consider:

Tip #1: You don't necessarily hove to be a first-time homebuyer to open on FHSA

Wait … you don't? No - to the surprise of many, for the purposes of the FHSA you are eligible if you or your partner have not owned a home where you lived this year or at any time in the preceding four calendar years. So, even if you or your spouse/common-law partner have purchased a home in the past, if it did not occur in the previous four years, technically, you can both open FHSAs. You must also be a Canadian resident over the age of majority, who will not be older than the age of 71 on December 31 of the year the account is opened.

Tip #2: Maximize tax benefits

What makes the FHSA so effective for savers? The new account combines the features of a RRSP and a TFSA. It works like an RRSP when contributing, and acts like a TFSA when making withdrawals. This means contributions are tax-deductible, while qualifying withdrawals are non-taxable. What's more, you can invest in the same sort of investments as your RRSP or TFSA, and the investment growth is tax-free. This means your money will have the opportunity to grow faster in an FHSA than it would in a traditional, taxable savings account.

#3: Don't wait to open an FHSA

As the old saying goes, sooner, rather than later, is better. You can contribute a maximum of $8,000 to your FHSA each year, up to a lifetime limit of $40,000. If you are not able to make contributions each year you can carry forward any unused contribution room to the next year, up to a maximum of $8,000. Contribution room only starts to accumulate once you open your FHSA, so consider opening one this year, even if you don't contribute right away.

If you contribute to your FHSA, you do not have to claim a deduction for that year. Instead, you can carry forward un-deducted contributions indefinitely and deduct them in a later year. This approach can be taken if you want access to tax-free growth immediately, but you expect to be in a higher tax bracket in a future tax year and would better benefit from a deduction then.

Tip #4: Set up automatic contributions to stay on track toward your home-owning goal

The easiest way to save is to set up a regular investment plan and … forget about it! By doing so, funds are withdrawn regularly and automatically from your account and deposited into your FHSA. Ideally, those funds are then used to purchase whatever investment solutions you have in your FHSA. This makes automatic contributions a smart way to save, but also avoids market timing by buying regularly, in turn taking advantage of market downturns to buy more, while buying less when prices are high. For more on the benefits of regular investing, check out this article: https://www. rbcwealthmanagement. com/en-ca/insights/setting-a-strategy-for-investing-regularly.

Tip #5: Help family members purchase their first home (parent/grandparent alert!)

Even if you already have a home, the FHSA may still benefit your family members. You can gift money

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otherwise exposed to your higher tax rate to your children's or grandchildren's FHSA to help them earn tax-free investment income. You can also gift funds to your spouse/common-law partner and normal attribution rates do not apply.

Tip #6: Use your FHSA in conjunction with your Home Buyers' Pion (HBP)

The FHSA can work together with the HBP through your RRSP to increase the amount you have available for a home down payment. Under the RRSP HBP, you can withdraw up to $35,000 from your RRSP to buy or build a home without triggering immediate tax consequences. You can make both FHSA and HBP withdrawals for the same qualifying home purchase, maximizing withdrawals up to $75,000, plus any growth in the FHSA.

Tip #7: Use your FHSA to boost your RRSP/RRIF

After 15 years of opening, or at age 71, you must close your FHSA. At this point, if you haven't purchased a home, you can transfer assets from your FHSA to your RRSP or Registered Retirement Income Fund (RRIF) tax-free. Essentially, you can gain additional RRSP contribution room. You can also transfer any unused FHSA savings taxfree to your RRSP/RRIF.

Tip #8: Consider designating your spouse/common-law partner as the successor account holder on your FHSA

If named as the successor, your surviving spouse/common-law partner would become the new holder of the FHSA immediately upon your death, provided they meet the eligibility criteria to open an FHSA. In this case, the FHSA can maintain its tax-exempt status.

If you name anyone other than your spouse/common-law partner as the beneficiary, the funds will need to be withdrawn following your death and paid to your named beneficiary. Amounts paid to your beneficiary will be included in their income, and thus, subject to withholding tax.

Want to learn more?

Ask us today how an FHSA con help you and your family achieve your home ownership dreams.

Report Card

Positive Developments ✓

- Some prior economic headwinds fade
- Credit market unconcerned
- Inflation should resume improving
- Economy still moving forward
- Consensus recession fears faded somewhat
- Nearing end of tightening cycle
- Technology boom ahead?

Negative Developments ✗

- New economic headwinds mount
- Business cycle advances further
- Rates rise further
- Higher interest rates impact economy with significant lag
- Housing market weakens again
- Hint of credit card trouble emerges
- Chinese economy soft
- Recession still likely across developed world

Interesting !

- Hawkish Fed
- Oil prices rising
- Bond valuations > equities
- U.S. 2024 election creeps into focus
- Canada population growth implications
- China today vs. Japan 1990