RBC Dominion Securities Inc.

The Stanton Report

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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 & Tracy

It's hard to believe, but the first half of the year has come to a close. With the summer here, I hope that each of you can take the opportunity to spend some much-needed time relaxing with family and friends. I'm personally looking forward to watching the Paris 2024 Olympic Games, where over 30 RBC Training Ground graduates are poised to compete for Team Canada.

Moving right along to news about the girls: Olivia is currently full time at an optometrists office in Kelowna and then working weekends for the BC Ambulance. Jenelle is on summer break from University and working remotely for AWG in a marketing position. They both live together in Kelowna with their boyfriends, cat and dog.

Kiera completed her first year of her Biomedical Science Degree at UNBC and she is now home for the summer working at the Aspen Riverhouse. Mattias is still working on courses online while he works at No Frills and plans to attend UNBC as well 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 if you want to setup an appointment.

Thanks for reading,
Richard

Here is what happened the first half of 2024;

- **S&P/TSX Composite Index 6.1%**
- **Dow Jones Industrial Average 3.9%**
- **MSCI World Index 12.3%**
- **Crude Oil 14.4%**
- **Gold 12.7%**
- **Silver 23.6%**
- **Copper 12.0%**

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Penny Wise, Loonie Rich:

Strategies to help you pay less tax and keep more in retirement

Over the last few years, Canadians have been feeling the pinch on their cashflow brought on by higher inflation and borrowing costs. In the spring of 2022, inflation surged to a four-decade high (eventually peaking at 8.1% in June of 2022). To help tame inflation, the Bank of Canada (BoC) implemented one of the most restrictive monetary policies of the last 40 years to dampen spending. Its primary tool to do so has been interest rates, which it has raised to 5% from their all-time low of 0.25%. The kicker for consumers and businesses has been the long lag effect between the peak of interest rates and when inflation cools enough that the BoC can start cutting interest rates.

As well, rising interest rates are generally negative for bonds and stocks, and particularly dividend- and distribution-paying stocks. That has had a further adverse impact on those who rely on the income generated from their portfolios, such as retirees. And while higher interest rates and bond and dividend yields can be helpful over the longer term, they don't do much for those who need the cashflow generated by their portfolios to live on today.

Hole in your pocket

Older Canadians, especially retirees, are particularly sensitive to the increase in the cost of living. With many Canadians 65 years of age and older living on fixed incomes, rising costs for essentials such as rent, food and utilities are particularly hard on their cashflow. So, anything they can do to reduce costs is particularly welcome, especially as interest rates and inflation are things that none of us can control.

Fortunately, it appears that the BoC is nearing the point where it will be comfortable in lowering interest rates in light of the inflation rate finally beginning to stabilize within its target range of 1% to 3% (it was 2.8% in February 2024). While speculation as to when those cuts will begin has been hotly debated, the good news is that we are headed in the right direction with a more normal pace of pricing increases returning.

Easing the burden – five tax-smart strategies for retirees

One thing we can do to reduce the pinch of rising costs is to take advantage of ways to plan around and save on taxes. Here are five strategies worth considering:

1. **Spousal RRSPs:** If you have a spouse and you anticipate that your income (and thus tax rate) will be higher than theirs, consider establishing and contributing to a spousal RRSP to help equalize your taxable income. While you are still using your RRSP contribution room when you contribute to a Spousal RRSP, the funds will be held in your spouse's name. This will help build up your spouse's registered savings, and when it comes time to withdraw the funds to support your retirement cashflow needs, it will be taxed at their lower tax rate.

1. **Order of asset withdrawal:** The sequence in which you receive funds from your various savings and income sources can have a meaningful impact not only on your after-tax cashflow but also your income flexibility. Private pension income, government pension programs, locked-in registered plans and Registered Retirement Income Funds (RRIFs) are generally the least flexible sources of income, as they are "turn on and can't turn off" sources with

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defined and often fixed amounts. In the case of accounts like RRIFs, a minimum amount must be withdrawn after age 71. Depending on your situation, they are often your best sources of income to work down first, followed by the increasingly more flexible sources such as your Tax-Free Savings Account (TFSA) and non-registered investments and the income they create, such as dividends and capital gains.

1. **Pension income splitting**: Another way you can work towards equalizing your higher income with that of your spouse – and in so doing reduce your tax bill – is by splitting your pension income. If the income is eligible, such as that from a private pension plan, you can allot up to 50% of your pension income to a lower-income spouse. This can also have the added benefit of reducing your income and thereby avoiding claw backs on income-tested programs such as Old Age Security (OAS).

1. **CPP/QPP sharing:** If you have a spouse who is at least 60 years of age and who has limited work history/minimal contributions to CPP/QPP, you may be able to benefit by sharing your CPP/QPP payments. The process involves combining the CPP/QPP entitlement you and your spouse earned during the time you lived together, and then allocating 50% to each of that combined amount.

1. **Tax-Free Savings Accounts (TFSAs):** Regardless of income, every Canadian who has attained the age of majority earns TFSA contribution room each new year (the 2024 contribution limit is $7,000), and can benefit from the accumulated amount from 2009 onwards (the lifetime contribution limit is $95,000 as of 2024). While you don't receive an income tax deduction for contributions the way you do for RRSPs, TFSAs are a great way to shelter investment growth and income from taxes, and you pay no tax on withdrawals. As well, withdrawals do not count as "income" when it comes to income-tested benefits such as OAS, nor do they limit entitlement to plans such as the Guaranteed Income Supplement (GIS) and Age Credit.

These are just some of the more common strategies you can use to reduce taxes and enhance your income. As always, it is important to discuss the above and any other tax-saving strategies with your tax and investment advisors. But taking the time to consider ways that you can save on taxes can go a long way to helping you be penny wise and even enhance your income in retirement – and keep your loonies in your pocket where they belong.

Around the world in 80 seconds

Canada

The economy continues to show clear signs of weakening. Negative per capita GDP growth for the last six quarters suggests the country is straining under the weight of significantly higher immigration-driven population growth and a sluggish global economy. Sharply higher interest rates and funding costs have had their desired effect, bringing down the raging inflation of 2022 and the first part of 2023 closer to the Bank of Canada's (BoC) target rate of 2%, but also working to cool the economy. While we anticipate a decreasing chance of a recession in the U.S. in 2024, demand from Canada's major trading partner is likely to keep the economy above water for the rest of the year. Plus, BoC rate cuts should help boost economic growth and Canadian investment assets in the months ahead.

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United States

Growth in the world's largest economy continues to defy expectations, although it has recently begun to show signs of fatigue, as job growth slows, and interest rates continue to take a bite out of companies' profitability and hurt business investment. The U.S. Federal Reserve has indicated an increasing willingness to cut rates in light of falling if still "sticky" inflation, and that three cuts are likely during the latter half of the year. With a presidential election looming, market volatility is expected to rise over the coming months, but to-date investment markets have soared in 2024, driven by optimism over the impact to companies' bottom lines from AI-driven efficiencies, and especially boosting technology shares.

Europe

Europe continues to struggle with sluggish growth, despite the ongoing post-pandemic travel boon to the region. Germany, France and Italy are all mired in recessions (or close). While the European Central Bank is expected to cut interest rates in the months ahead (and Switzerland's central bank surprised markets with a cut to its rates in March), in the meantime, high interest rates remain in place to be sure that inflation is truly quelled. This further hurts spending and business investment. Despite the negatives, Europe's macroeconomic signals appear to have stabilized, setting the stage for an upswing in the economy in the second half of the year. The region's stocks are relatively attractive based on valuations and earnings expectations are reasonable.

Emerging Markets

While growth in India, Latin America and several smaller Asian nations has dampened the fall, aggregate emerging markets (EM) economic growth has been dragged lower by China's sluggish economy. India is poised to become the world's third-largest economy by 2026 and is seeing a strong rise in affluence as the country's economic benefits spread to more and more of the country's massive population. Asian equities rose in the latest quarter given a solid global economic backdrop and as inflation continued to decline from uncomfortably high levels. Last year was a historic period for emerging-market fixed income: interest rates set by central banks were for the first time on a par with those in developed markets.

Report Card

Positive Themes ✓

- Economic growth persists
- Inflation falling again in April and May
- Central banks near rate cuts
- U.S. consumer is OK
- More Chinese housing stimulus delivered
- Mostly happy risk assets

Negative Themes ✗

- High rates proving painful for some
- Still a non-trivial risk of recession Sizeable geopolitical risks persist
- U.S. election is consequential and uncertain

Interesting !

- Economic convergence occurring between U.S. and rest of developed world
- U.S. 2024 fiscal impulse is neutral
- U.S. applies more China tariffs
- Canadian business bankruptcies now falling