The Greg Upson Wealth Management Team | RBC Dominion Securities

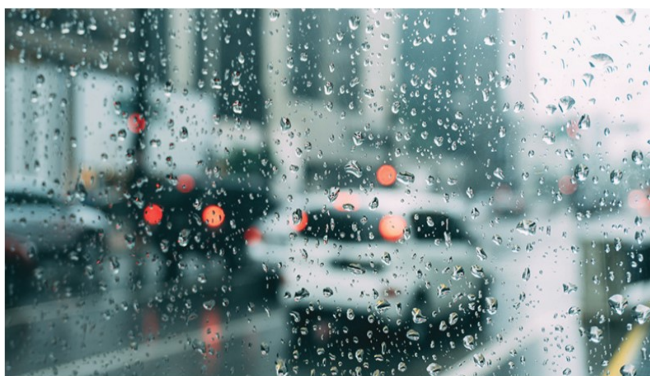
Upson's Update

Fall 2021

Four on the road – Building the all-season investment portfolio

The right portfolio for you is the one that reflects your personal investment plan. Following some fundamental principles of portfolio construction can help ensure that your portfolio weathers any conditions that the market might throw at it. Here are four "wheels" to help keep your portfolio on the road to achieving your goals:

1. Have a plan



Before you can build an effective all-weather portfolio, you should have a proper investment plan. Your investment plan should be personalized and unique to you. It should reflect your specific investment goals, and should accurately capture your risk profile.

Your risk profile is the mix of your risk tolerance, risk capacity and your time horizon, as well as any specific needs you may have, such as income, capital preservation or growth. Ultimately, your plan will determine where you fall on the risk scale: from very conservative to aggressive growth.

2. Establish and maintain an appropriate asset allocation

Once you have your investment plan in place and your risk profile established, you can determine your asset allocation across the three main asset classes: cash, fixed-income and equities. Generally, the more conservative your risk profile, the more fixed-income (such as bonds) your portfolio will hold; the more aggressive, the more equities (such as stocks).

Maintaining this asset allocation over time, rebalancing when necessary, helps ensure that your portfolio doesn't drift to an asset allocation that no longer reflects your risk profile. That way, it remains ready for volatility and/or periodic changes in market conditions.

3. Diversify your portfolio's holdings

Heard about not having all of your eggs in one basket? It's true for portfolio management, but in that case it's about more than not just concentrating your assets in one particular asset class. With a portfolio, it's important to diversify your investments over different sectors, industries and even geographical markets. How does this apply to your all-weather portfolio? Because different investments and markets move in different ways at the same time during a market cycle, and respond

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Special points of interest:

- *Following some fundamental principles of portfolio construction can help ensure that your portfolio can weather any ups and downs that may arise in the markets.*
- *When deciding whether to carry back capital losses or which years to apply the losses, you should consider your marginal tax rate in those previous taxation years and your expectations for the future.*
- *All of the major economic indicators that we monitor are indicating a positive, non-recessionary status.*

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differently to changes in economic factors (e.g., inflation, changes in monetary policy, the outlook for corporate earnings or the economy). So when you diversify, you benefit from the opportunities across different investments as they emerge, which in turn can smooth out volatility and generate a better investment experience.

4. Focus on quality assets to achieve your goals

An all-weather portfolio should be built with quality investments that generate long-term, sustainable returns. Picking stock and bond issuers with a solid track record of being sector and/or industry leaders, and that deliver quality earnings over time, are generally less volatile. While lower quality issuers and companies can provide higher potential returns, they also contain additional risk and are often more volatile than stalwart industry leaders.

- Greg

GUT CHECK– THREE KEY QUESTIONS TO ASK WHEN VOLATILITY HITS MARKETS

Market volatility can test your resolve as an investor. Asking yourself a few key questions can help keep you on track to your goals and avoid common investment pitfalls.

Volatility is a normal part of investing. The equity market's performance since the "COVID Crash" of February-March 2020 is a great example. Despite the unprecedented challenge of the pandemic, not only did equity markets quickly recover their losses, they went on to deliver strong gains. From February 2020 to October 2021, the S&P 500 Index generated a total return of almost 45%, or over 25% when annualized.*

Recently, however, the "wall of worry" is growing taller and volatility has returned. Some of the concerns include:

- fears that the ongoing pandemic will substantially slow the global economy,
- growing supply-chain-driven inflation,
- rising interest rates and bond yields,
- the eventual end of the extraordinary government fiscal and monetary support intended to cushion the economic damage of pandemic restrictions.

Climbing down the wall of worry

Any time volatility strikes markets, it's easy to climb a "wall of worry"– and make decisions that take you off-course from achieving your investment goals. To avoid making hasty decisions that might end up costing you, here are three questions to ask yourself:

1. Have my goals changed? Your investment goals are the most important part of your investment plan. They're the reason why you're investing in the first place. Still investing for your newborn's post-secondary education in 17 years? Or for your retirement in 30? If your goals haven't changed, it's likely that your plan wouldn't either.

2. Has my risk tolerance changed? It's normal to worry during times of market volatility. But it is important to consider that our risk tolerance is a gauge of our willingness to tolerate unpleasant negative emotions from time to time in order to achieve higher potential long-term returns.

3. Has my risk capacity changed? Risk capacity is a gauge of your ability to suffer investment losses – or, what risk you can afford to take. This reflects factors like your financial circumstances and how long you have to invest – in other words, your ability to wait out down periods in markets in order to capture higher long-term potential returns. If your financial circumstances haven't changed, it's likely your risk capacity hasn't either.

Every investor is unique, and your life and financial situation can change over time. That's why it is important to review your investment plan with us periodically or when a major life change occurs. This way, when volatility hits markets, your plan is there to help to guide you through difficult times and keep you on track to your goals.

*Source: Bloomberg. S&P 500 Index data from February 1, 2020, through to October 31, 2021, in U.S. dollars, before transaction costs, commissions and taxes. Note that past performance is not indicative of future returns and you cannot invest directly in an index.

Capital Losses and tax loss selling

Sometimes you may realize a capital loss on the sale of your securities or you may own securities in a loss position. This article summarizes the tax rules and opportunities surrounding capital losses you've realized or may realize in your non-registered investment portfolio. Any reference to spouse in this article also includes a common-law partner.

Capital losses on the sale of securities

When you realize a gain or a loss on the disposition of property, you must determine whether the gain or loss is on account of income (business income or loss) or capital (capital gain or loss). A gain or loss on account of income is fully included in or deducted from your taxable income. The current inclusion rate for a capital gain or loss is 50%, meaning that 50% of the gain or loss that's on account of capital is included in or deducted from your taxable income.

For most investors, gains and losses on the sale of their investments will likely be considered capital in nature. However, it is a question of fact in each particular situation, so you should speak to a tax advisor to discuss the appropriate tax treatment that applies to you. The rest of the article assumes that the gain or loss you realize on the sale of securities will be on account of capital.

When you sell a security at a loss that's on account of capital, this "allowable capital loss" (50% of the capital loss) is used to reduce any taxable capital gains (50% of the capital gains) you realize in the same year. Generally, capital losses cannot be used to reduce your other income, such as employment income, for the year. As well, your ability to use the allowable capital loss in the year can be affected by the superficial loss rules, which will be explained in more detail later in this article.

Why trigger capital losses?

While purposely selling securities to realize a capital loss may sound counterintuitive, you may wish to trigger capital losses in some circumstances.

For example:

- A particular security no longer meets your investment criteria. You wish to sell the security and use the proceeds for another investment or other uses.
- You've realized a capital gain in the current year, potentially from the sale of securities or your business, and you wish to reduce your tax liability for the current year.
- You realized taxable capital gains in any or all of the previous three taxation years and wish to recoup the taxes paid in those previous taxation years.

Different ways to realize capital losses

There are certain situations where you may realize a capital loss even if you did not sell the security in the market. You're considered to have disposed of a security or other capital property at fair market value (FMV) when:

- You transfer assets to an individual other than your spouse during your lifetime; for example, to an adult child, whether by gift or sale for consideration.
- You transfer assets to any person other than your spouse or a spousal trust upon your death.
- You transfer assets to a family trust. Please note that if you or your spouse are a beneficiary of this trust, the superficial loss rules may apply, which will affect the ability for you to claim the loss.
- You file an election with your tax return relating to a qualifying share or bad debt of a bankrupt corporation. If you own a security that you believe to be worthless, please ask us for an article on worthless securities and speak with a qualified tax advisor to determine if you can claim a capital loss.
- In some cases, the shares you own are redeemed by the corporation.

Net capital losses

Allowable capital losses realized in a given year must first be used to offset taxable capital gains realized in the same year. When you have no capital gains in the current year or your allowable capital losses in the year exceed your taxable capital gains, the remaining capital loss is referred to as a "net capital loss." Your net capital loss can be carried back to any of the three previous taxation years or carried forward indefinitely to offset future taxable capital gains.

In situations where you've realized a taxable capital gain in any of the three previous taxation years and you choose to carry back the net capital loss, you may receive a tax refund. For example, net capital losses realized in 20X4 could be applied against taxable capital gains realized in 20X1, 20X2 or 20X3. You can choose to carry the net capital loss back to any or all of the previous tax years. When deciding whether to carry back capital losses or which years to apply the losses, you should consider your marginal tax rate in those previous taxation years and your expectations for the future.

Beware of the superficial loss rules

In order to be able to claim a capital

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This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

loss on the sale of a security, it's important to ensure that the loss is not considered a superficial loss. Otherwise, you will not be able to use the capital loss to offset capital gains realized in the current taxation year or the previous three taxations years.

A capital loss is considered a superficial loss where:

During the period that begins 30 days before and ends 30 days after the settlement date of the transaction, you or a person affiliated with you acquires the same security or identical property that was sold at a loss.

Conclusion

This article provides an overview of capital losses and how you can use capital losses as a tax planning strategy. Speak to a qualified tax advisor and I'd be happy to determine if triggering capital losses before the end of the year makes sense for you.

Recession Scorecard

RBC Wealth Management monitors the major economic indicators and produces our recession scorecard, as follows:

Indicator	Status		
	Positive	*Neutral*	*Negative*
Yield curve (10-year to 1-year Treasuries)	X		
Unemployment claims	X		
Unemployment rate	X		
Conference Board Leading Index	X		
ISM New Orders minus Inventories	X		
Fed funds rate vs. nominal GDP growth	X		

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We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Naveed's Note: The RBC Dominion Securities experience is now available on the new RBC Mobile app. The updated app has all the same great features as RBC Wealth Management Online – but optimized for a smaller screen. If you already have the RBC Mobile app on your smartphone, first, make sure it's up-to-date. Then, tap the RBC Mobile icon and select "Dominion Securities" from the RBC Service drop-down menu. Or, if you're linked with RBC Personal and Business Banking, log in as usual and switch over. You can do everything on the RBC Mobile app that you can on RBC Wealth Management Online.

If you have any questions or would like help setting this up, please contact Naveed Azad at 604-257-7653 or naveed.azad@rbc.com.

Closing Quote:

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves"

-*Peter Lynch*

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