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Wealth Management
Dominion Securities

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Market commentary

Equity markets are weighing whether a recession is coming or whether the current weakening in certain economic indicators is nothing more than a "soft patch.".

While the business cycle is decidedly advanced, the U.S. economic growth rate is likely to settle closer to its five-year average after a stellar 2018. Leading indicators suggest the economic expansion is in its later stages. The risk, in our view, is market turmoil and policy risks on both sides of the Atlantic cause confidence to falter and consumers and businesses to rein in spending, but that is not our base case.

For now, with equities having had their worst December since 1931, we believe the recent correction may be overdone. We maintain our Market Weight positions in equities.

Fixed income

The interest rate environment has changed dramatically in recent weeks as uncertainty/confusion on a number of fronts—trade, central bank policy, economic growth, and politics—has led to increased volatility in financial markets. And with these issues likely to remain in play for the foreseeable future, continued volatility could be the "new normal." Sovereign yields should see diminished upward pressure and yield curves could experience continued flattening. As recession indicators, yield curves are nearing "cautionary" levels, in our view.

Selling pressure and the attendant spread widening in the credit space hasn't deterred us from viewing this as our favorite sector, but it has hardened our recommended focus on quality. Our current fixed income Underweight suggests that remaining selective and shortening portfolio duration are prudent strategies.

To learn more, please ask us for the latest issue of Global Insight.

RBC Wealth Management
Global Portfolio Advisory Group

A new horizon: planning for 100

Longer lives leading Canadians to rethink their investment plans

Have you ever asked yourself how long you will live? Call it superstition or just plain fear of death, many of us avoid the topic like the plague. When we are young, we imagine we'll live forever; as we age, the end seems all too possible.

Interestingly, more than 50% of Canadian adults don't have a Will, with one of the most pervasive reasons being that they don't like thinking about death. But to consider the question rationally – with all its implications – is more important than ever. That's because Canadians are living longer lives, driven by scientific, environmental, medical and lifestyle improvements.

A mixed blessing

While it's a blessing for most of us, a longer life also presents challenges. Outliving retirement savings is one – and it's the greatest fear of pre-retirees, according to a recent RBC poll[1]. Health problems are another: out-of-pocket medical costs after age 65 are estimated at $5,400 annually[2] – and are likely to keep rising. This means that aging Canadians require their investment portfolios to support longer lifespans while generating cash-flow to cover potentially increasingly higher living costs.

Rethinking investment time horizons

For many years, a key investment planning question was "When do you plan on retiring?" That timeframe – from today to the assumed year of retirement – became the standard investment time horizon for an investment portfolio. It largely determined the degree of risk you could prudently take: the longer your time horizon, the more risk you could take to ride out the ups and down of the markets and realize potentially higher growth over time.

Towards the end of your time horizon, you would gradually ratchet down risk, eventually transferring to assets with little to no risk, such as GICs and bonds. The presumption being, once you hit retirement, you couldn't afford to take any risk, as you would need your savings to fund your retirement.

This strategy made more sense when the average Canadian retired at 65 and was only likely to live for another 5-8 years. But a new approach is required with Canadians today retiring on average at 63[3] and living into their 80s and 90s (and an increasing number to 100 and beyond).

Planning to – and through – retirement

Today, your retirement portfolio should ideally focus on two things:

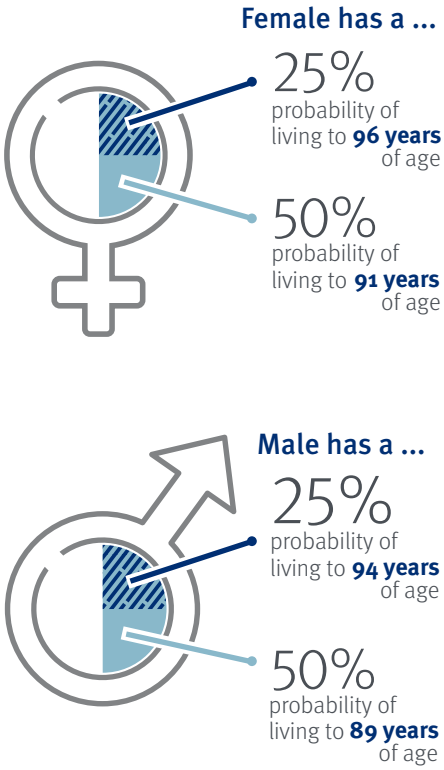
1. tax-efficient cash flow for a well-funded retirement lifestyle
2. a prudent combination of capital preservation and growth to maintain the long-term value of your portfolio through your golden years, while also offsetting the ravages of inflation.

Time is on your side

Fortunately, longer life spans mean longer investment time horizons, allowing today's retirees to take advantage of the long-term growth of equities to meet their preservation and income needs. Whether or not you live to 100, considering the odds and planning ahead can help ensure that your golden years are just that.

To learn more, please contact us today.

Today, a 60-year-old Canadian ...



Source: Financial Planning Standards Council (FPSC), Projection Assumption Guidelines (2018).

[1] RBC 2017 Financial Independence in Retirement poll.

[2] Anna Sharratt, Hidden health care costs can be a shock for retirees, The Globe and Mail, Nov. 18, 2015.

[3] Statistics Canada. 2015.

Time well spent

Planning for a successful retirement is about more than just saving – it's also about your state of mind

Will Rogers once said, "Half our life is spent trying to find something to do with the time we have rushed through life trying to save." While the famous humourist may have been exaggerating for effect, the fact is that Canadians today are retiring on average at 63* and yet are living longer than ever before – many into their 90s. This means retirees will increasingly experience a retirement life stage of 30+ years – often longer than many have worked.

The 2,000-hour conundrum

While longer lifespans can be a blessing, they can also be a challenge regarding physical and psychological well-being. Many retirees are thrilled to be ending their working years and have thoroughly planned for it from a financial standpoint. However, many do not plan for a new and very real challenge: with the average Canadian working approximately 2,000 hours a year, what will they do with all that suddenly free time?

Beating the retirement blues

Soon-to-be retirees often view their retirement as a permanent vacation from work. It's the chance to do the things they've always wanted to do but never had the time or opportunity to: hit the snooze button, travel the world, play endless rounds of golf, catch up on their reading list or tick the box on their various "bucket list" items.

However, after spending the initial years of retirement occupied by fun-filled activities, many retirees must adjust their lifestyles to address health constraints or mobility issues. What's more, many retirees begin to miss the engagement that their work life provided them, whether intellectual or social, or both. This letdown often leads to the retirement blues, or, more seriously, depression.

A different kind of bucket list

To beat the retirement blues, retirement experts recommend the following activities for retirees:

- **Working:** Working? Didn't we just put that behind us? Yes, as counter-intuitive as it may sound, many retirees choose to work – mostly on a limited basis – not because they have to but because they enjoy it. Almost half of Canadian retirees have done some sort of post-retirement work, reporting that it provided them with purpose, social interaction – and a little extra spending money.
- **Volunteering:** Giving back to their communities or important causes is another way retirees can meaningfully fill their time. Many retirees volunteer because they can be as active as their time or health permits, and balance their volunteer work with their other retirement pursuits.
- **Lifelong learning:** Going back to school to learn or complete a degree can provide retirees with a high level of engagement and mental stimulus, along with the joy of learning and the fulfillment of accomplishing a goal. New hobbies are another area of learning that can provide sustainable activity and engagement over time.

While a fulfilling life comes in many forms, retirees who plan for the non-financial aspects of retirement can avoid the retirement blues and discover that retirement, like age, is just state of mind.

To learn more, please contact us today.

* Statistics Canada, 2015.

Oh, CRA-p!

You lift open the mailbox only to spot that dreaded brown envelope – your Notice of Assessment has arrived. As you unseal the envelope, your hands begin to tremble. Your math differs from the Canada Revenue Agency's – it's significant, and not a refund. How could this have happened?

Three common reasons for a surprise tax bill

1. **Income not taxed at source**
   If you receive income for more than one year in which an insufficient amount of tax is withheld, or none at all, the Canada Revenue Agency (CRA) could request that you start paying tax in instalments. It's most common if you receive regular rental, interest or dividend income, capital gains or self-employment income. Even Registered Retirement Income Fund (RRIF) withdrawals and certain pension payments may trigger quarterly installment payments, since tax is generally not withheld on these types of income.

You'll have three options for calculating instalment payments:

1. No-calculation (pay what the CRA asks)
2. Prior-year (your return is similar to last year but different from two years ago)
3. Current-year (your return is very different from past two years)

Determining the optimum amount requires an analysis of your cash flow situation and income forecast for the year ahead.

Consider paying what the CRA asks for in their notice to avoid possible interest and penalties from underestimating the amount of tax you will owe next year.

2. **Human error**
   The late Stephen Hawking cautioned "that Artificial Intelligence (AI) may replace humans altogether." It's a frightening thought, though if AI were to take over the burden of filing our taxes, it may not be such a bad thing. Until then, April will continue to be "tax month" and our tax returns will be prone to human error.

Here are a few common administrative mistakes that lead to reassessment:

- Missing slips (e.g. T5s and other income slips)
- Filing too early (i.e. sometimes slips haven't arrived, or other material changes come to head after you've filed that then require amendments)
- Mathematical or calculation errors

3. **Putting information on the wrong line**
   Tax filing has grown more complex over the years. A common mistake by DIY'ers is to claim an item on one line of their tax return when it should be on another. For example, when you sell real estate, you won't always realize a capital gain – sometimes it is fully taxable income, or not taxed at all. Each type of income gets reported on a different line. Deductions can be equally confusing. Take the case of an eligible severance contributed to an RRSP. If claimed properly, it will not use RRSP room. Claim the deduction on the line for a regular RRSP contribution, and you could be over contributed to your RRSP. Mistakes like this are usually simple to correct or avoid but increasingly require experienced advice to eliminate in the first place.

For more information, please contact us today.

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